HYPO
VORARLBERG

ANNUAL REPORT 2018

PRUDENCE
CREATES STABILITY

KEYFIGURES 2018

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

TEUR	31.12.2018	31.12.2017 (adjusted)	Change in TEUR	Change in %
Total assets	13,754,610	13,182,520	572,090	4.3
Loans and advances to customers (across all categories)	9,652,675	9,405,453	247,222	2.6
Customer deposits (across all categories)	5,682,356	5,338,730	343,626	6.4
Securitised liabilities	5,257,582	4,698,952	558,630	11.9
Own funds	1,379,763	1,328,358	51,405	3.9
thereof Tier 1 capital	1,179,866	1,093,275	86,591	7.9
Total capital ratio	17.79 %	18.01 %	-0.22 %	-1.2

TEUR	2018	2017 (adjusted)	Change in TEUR	Change in %
Net interest income	167,428	158,185	9,243	5.8
Net fee and commission income	31,914	34,833	-2,919	-8.4
Administrative expenses	-97,734	-96,316	-1,418	1.5
Earnings before taxes	48,657	94,602	-45,945	-48.6

TEUR	2018	2017	Change absolut	Change in %
Cost-Income-Ratio (CIR)	61.22 %	55.98 %	5.24 %	9.4
Return on Equity (ROE)	4.43 %	8.60 %	-4.17 %	-48.5
Employees	727	737	-10	-1.4

The shareholders of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) as at 31 December 2018 are:

Shareholders	Voting rights
Vorarlberger Landesbank-Holding	76.8732 %
Austria Beteiligungsgesellschaft mbH	23.1268 %
- Landesbank Baden-Württemberg	15.4179 %
- Landeskreditbank Baden-Württemberg Förderbank	7.7089 %
Share capital	**100.0000 %**

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

*As of May 2018, 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 2018

PRUDENCE
CREATES STABILITY

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VISION GROWS ON TRUST.

HYPO VORARLBERG

WILFRIED AMANN
MEMBER OF THE
MANAGING BOARD

Doing business in a circumspect manner means that goals are not high, but far-reaching. They can be big, they should be ambitious, but they have to be chosen with a vision that guarantees stability and enables gradual progress to be made. This creates security. This creates trust. This creates sustainability.

MICHEL HALLER
CHAIRMAN OF THE
MANAGING BOARD

JOHANNES HEFEL
MEMBER OF THE MANAGING BOARD

A CLEAR LINE
FOREWORD

Thanks to its focus on customer business, 2018 was a successful year for operations at Hypo Vorarlberg. Even in a difficult regulatory environment, we succeeded in systemically going down our chosen path - and in keeping with our corporate motto we are achieving great things together with our customers, business partners and employees.

Dear customers, business partners,
shareholder representatives and employees,

The past financial year was characterised by negative and low interest rates, new regulations and advancing digitalisation of the banking business. Among other things, the global political developments resulted in a challenging year for investors on the capital markets. In this environment, Hypo Vorarlberg continued to concentrate on its core competencies - the financing and investment business - and thus concluded 2018 very successfully on an operating basis in line with the Austrian Corporate Code.

New accounting policies

However, on 1 January 2018, the "rules" for group accounting virtually changed overnight. The first-time application of the new IFRS requirements in the consolidated financial statements shows a somewhat different picture: IFRS 9 has an impact not only on the balance sheet structure and thus makes a comparison with the previous year almost impossible, but also now includes risk provisions for completely healthy loans. In addition, amortisation and impairment on investments were required in 2018. As a result IFRS earnings before taxes finally amounted to EUR 48.7 million (2017: EUR 94.6 million). However, the development of interest and commission income as the most important earnings basis of our business shows that we are very well positioned with our focus on the customer business and a risk-conscious business policy.

Personal consulting and digital services.

In line with our promise "the best consulting for those with purpose", we focus on continuing to provide comprehensive personal consulting to private and corporate customers and supplement the support at our locations with digital services where we consider it appropriate.

It is clear that many customers no longer go into a branch for standard transactions such as transfers etc., but handle these transactions conveniently and quickly from home or on the go. For this reason, we are aligning our branch structure even more on consulting and are focusing on bundling the many years of expertise of our consultants in competence centres. Especially

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

when it comes to complex issues such as investing assets or real estate financing, personal contact, dealing with customers' needs in a circumspect manner and mutual trust is important.

Circumspection connects
Not only us, but also many people and companies in our area of activity approach their projects in a circumspect manner. This also forms the basis for the motto for this year's annual report. A great example of forward-thinking, circumspective activity is the Schneider family: In their five-star superior hotel in the heart of Lech, their values are visible and tangible. We have chosen this special place as a backdrop for some of our images in this year's annual report, because similar to Hypo Vorarlberg, changes here are handled with the necessary circumspection and trust and personal contact between people is the basis for the success of the business.

In dialogue between architects, community representatives and citizens the "Georunde Rindberg" in Sibratsgfäll shows how not dealing with our environment in a circumspective way can be experienced. You can read the background information to these two very different stories in our VORHABEN #2 / 2018 magazine.

Achieving great things together
Our customers and business partners have placed their trust in us for another year and have been loyal to us for many years. Together we have succeeded in implementing many great projects. This works only with excellent employees and consultants. For this reason, we would like to give special thanks to the almost 900 people for their ambition and commitment. Thanks to the support of all these people, Hypo Vorarlberg is very well positioned and well equipped for the future – meaning we can achieve great things together again!

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

CREATING STABILITY
INTERVIEW WITH MICHEL HALLER

What is your summary for the 2018 financial year?
All in all, it was a successful year for Hypo Vorarlberg in operating terms. This is reflected in the positive development of interest and commission income in the annual financial statements in line with the Austrian Corporate Code. We further expanded our core segments - the financing and the investment business with private and corporate customers - and are thus a strong, reliable partner in our market areas. However, there was also extraordinary income due to the termination of fixed interest rate agreements in the Corporate Customers segment and early loan repayments. Given this positive economic development, it is unfortunate that the income statement and balance sheet in line with IFRS reflect a slightly different picture. Since our bonds are traded on the stock exchange and since we consolidate several companies as a Group, we are required to prepare our accounts in accordance with IFRS.

What impact does IFRS have on Hypo Vorarlberg?
On 1 January 2018, the rules changed virtually overnight and we have had to apply the new IFRS 9 standards since then. The biggest impact is certainly the significantly tightened risk provisioning, which was required for the first time this year. Compared to the previous financial year, we do not only have to provide for loans and advances to customers at the point of default, but also for healthy customers. As a result of the new accounting policies for financial assets, high fluctuations can be seen from year to year. Overall, the transition has a massive impact on the 2018 balance sheet. Not only did the balance sheet items change in some areas, but also there is only limited comparability to the previous year's figures. For this reason, our overall result looks significantly different this year.

Which factors influenced earnings the most in 2018?
The biggest impact came from high impairments on investments. This was reflected in the high impairment on non-financial assets at the end of the year. This is based on two factors. Firstly, the property portfolio of the Italian leasing companies had to be written down - the result of the new IFRS impairment methodology in line with IFRS 9 and lower market values in the commercial property segment in Italy. Secondly, the remeasurement of an associate of HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG), which was also due to delays in utilising the research results and the resulting financial impact, resulted in a write-down. The paradox here is that this relates to impairment losses that had to be included in the financial statements for 2018 - but which in all likelihood will result in a positive result next year. Thus, the risk for the future is only very low.

Were there any other regulations that had to be implemented?
MiFID II, GDPR and PSD 2 came into force in 2018. Not only major international banks, but also smaller regional banks are required to implement these guidelines smoothly. From our point of view, the general idea of MiFID II is correct in principle, but it makes it a change of the investment culture more difficult for private investors, something which would be particularly important in times of negative interest rates. The initial economic effects of the new regulations are also already noticeable. In the previous financial year, fee and commission income decreased as a result of factors including the introduction of MiFID II (Markets in Financial Instruments Directive) in January 2018. Nevertheless, owing to the ongoing lower interest rates, the significance of commission income for the economic success of Hypo Vorarlberg is growing.

And how about the Bank's own funds?
With the aim of higher resilience and resistance to crisis, more and "improved" own funds are being required from banks. Our capital adequacy, which exceeds statutory requirements, stands us in good stead in any comparison with other banks. Compared to the previous year own funds in the Hypo Vorarlberg Group increased by 3.9% to EUR 1.38 billion. Nevertheless, the total capital ratio deteriorated by 0.22%, partly due to the new provisions of IFRS 9 and credit growth and higher capital banking requirements for various business areas. As planned, Tier 2 capital has decreased somewhat due to repayments. Thanks to a total capital ratio of 17.79% (2017: 18.01%), we are a healthy, soundly positioned bank. This is also confirmed by rating agencies: With an A+ from Standard & Poor's and an A3 from Moody's, we are one of the best-rated banks in Austria.

Your outlook for 2019?
The initial months of the new year have been satisfactory in our core business, while we cannot yet estimate realistically the impact of new regulatory measures, such as MiFID II, PSD 2 or GDPR and as well as interest rate developments and political changes. Nevertheless, I am confident that with our ambitious employees and the customers who trust us, we have an excellent basis for achieving great things together in the new year.

Michel Haller (47) 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. Michel Haller 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.

"I am confident that our ambitious employees provide an excellent basis for achieving great things together again in the new year."

BUILDING ON COMPETENCE
INTERVIEW WITH JOHANNES HEFEL

2018 was a challenging year for investment - what impact did that have?
In 2018, our customers continued to look for returns. Every form of deposit bears a close to 0% interest rate, yet many investors still lack the courage to participate in manufacturing companies - i.e. shares. This may be one of the reasons why investments are still being made in real estate even if yield expectations have since decreased sharply. We received a total of EUR 500 million in new funds in the private and corporate customer segment - i.e. traditional deposits and securities portfolios. Total customer funds amounted to EUR 8.1 billion at the end of the year. The 7.6% increase in securities assets is pleasing despite lower prices for shares and bonds. The persistently high volume of deposits and securities deposits indicates that customers know their assets are in good hands with us.

How did the year go in terms of real estate financing?
In the area of financing residential construction, we are making a key contribution to the creation of housing. In 2018, we approved nearly 1,600 financing applications for real estate with a volume of around EUR 250 million in our market areas, 1,370 properties of which with a volume of around EUR 190 million are located in Vorarlberg. There continues to be strong demand for home ownership despite further increases in real estate prices last year, particularly in urban conurbations, even if we are gradually coming to the limits of what can be financed. In addition, real estate is still an important form of investment for investors. In fact, since the financial crisis in 2008, it is by far the most popular investment for high net worth individuals.

What is the impact of advancing digitalisation?
Digitalisation has become commonplace in the banking sector. This can be seen in the development of transaction figures in recent years. For some time now, many of our customers have not gone into a branch for standard transactions such as transfers, but make these transactions conveniently and quickly from home or on the go. We dealt with this development at an early stage and steadily expanded the digitisation of our services in recent years - where it is appropriate for our customers, i.e. easier or more efficient.

What are the latest digital developments?
In addition to the continuous further development in online banking including the Hypo app, multibanking has recently become available, also to private individuals. Our customers can currently access all accounts at other banks via Hypo online banking. From autumn, payment orders from third-party bank accounts can also be placed via Hypo online banking. Since March 2019, it has been possible to conclude asset management online ("Mein Anlagekonzept Online"). If so desired, customers can have another conversation with a consultant before concluding the transaction. After all, it is a question of person assets. In addition, there is also the possibility of online video legitimation for new customers if they conclude a service through the website.

Does this have an impact on the branch structure?
Owing to developments in digitisation and changed customer behaviour, it is clear that the function for the branches has started to change. In line with our market positioning and the promise to our customers "the best consulting for those with purpose", we are focussing our branch structure even more strongly on consulting. Thus, we focus on competence centres with at least 12 employees in the Private Customer segment, in which the many years of expertise of our consultants is bundled. From our point of view, personal consulting is always important when it comes to complex issues such investing assets or real estate financing. In addition, there is still access to the "traditional" branches in the regions to ensure customer proximity in the various valleys of Vorarlberg. The competence centre and the traditional branches are supplemented by several specialist branches with a strong service character. This year and next, we will invest in the construction of the Hohenems branch and the renovation of the Messepark branch.

What role does sustainability have at Hypo Vorarlberg?
It is not just for economic reasons that we are focusing more on this issue. In line with our brand core values, we intend to be "circumspect", i.e. conduct our business in a sustainable manner. This means that we have devised clear criteria for our future financing and investment business. Back in 2017, our asset management took its first major step towards sustainable asset management. Four of our own funds have since received a SRI seal of approval (socially responsible investment). The goal is to make asset management even more sustainable in the future. An important sign for the financial sector to pay even more attention to sustainability is the EU action plan for "financing sustainable growth" and the statutory requirements by the European Commission in 2018.

Johannes Hefel (61) 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.

"In the future, we will primarily focus on the competence centre, in which the many years of experience of our consultants is bundled."

INVESTING IN THE REGION
INTERVIEW WITH WILFRIED AMANN

How did Corporate Customer business develop at Hypo Vorarlberg in 2018?
We take our role as a corporate bank seriously and continue to invest in the Austrian economy. In 2018, loans and advances to customers and banks across all measurement categories increased by 2.9% against the previous year to a total of EUR 9.8 billion. Thus we have granted numerous new refinancing contracts. The low risk costs in the lending business indicate that Hypo Vorarlberg operates in healthy regions home to strong and successful companies. However, the positive development in this segment is based on long-term and stable customer relationships. After all, in line with our promise, "the consulting for those with purpose", personal contact and the highest quality of advice is the basis of every business relationship - whether in private or corporate banking. This will not change in the future.

How do you expect the economy to develop in the new year?
In our view, economic growth will be even better in 2019 than research institutes predict in their current forecasts. Owing to the corporate key figures available to us and the number of newly submitted financing applications, we have a positive view of the situation. The economy is very good, in particular in Austria, and companies are investing more again than in recent years. In Vorarlberg, we remain the clear market leader in the Corporate Customer business - and we also intend to consolidate this good position in the future.

What measures is the bank implementing to remain a strong financing partner?
Owing to the high regulatory effort and stricter requirements, we are constantly optimising our possibilities for financing Austrian companies. Back in 2017, we already implemented a project with the European Investment Bank and the European Investment Fund. This so-called synthetic securitisation is equivalent to an EIB guarantee for a defined credit portfolio, which has enabled us to successfully reduce the burden on our own funds and, in return, to grant new loans again. Last year, we also met the first intermediate target for granting loans for financing energy-efficient buildings agreed with the EIB/EIF Group on schedule. We also supported our leasing subsidiary in Bolzano to securitise Italian leasing receivables. In autumn 2018, despite a difficult market environment, a majority of the senior tranche was sold to international institutional investors at attractive conditions. In another project, preparations were made to including the mortgage receivables of the St. Gallen branch in the cover pool, thus further increasing the scope for cost-effective covered capital market refinancing.

Hypo Vorarlberg also refinances itself via the capital markets. How was the year from an issuer's point of view?
In 2018, a focus for investors was political issues such as Brexit and ECB's announced exit from its purchase programme and the potential impact on the capital market. The environment for issuers was very positive thanks to low credit spreads in the reporting year. Like many others, Hypo Vorarlberg also used the good market sentiment to place a large number of issues on the capital market. In the reporting year, we placed a total of 39 new issues with a total volume of more than EUR 900 million, with the aim of refinancing the volume due and the planned growth in total assets and pre-funding.

And how about the subsidiaries of Hypo Vorarlberg?
The Hypo Vorarlberg Group also includes our subsidiaries - the real estate and leasing company in Austria and the insurance brokerage - and a leasing subsidiary in South Tyrol. This additional service offering gives us the opportunity to round off our real estate, leasing and insurance banking services, providing our customers with even more extensive service and comprehensive advice. The companies in Austria performed well in the financial year and made an important contribution to consolidated net income.

Since 1 January 2017, Wilfried Amann (56) 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. He 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.

“The low risk costs in the lending business show that Hypo Vorarlberg operates in regions home to strong and successful companies.”

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

Human Resources
Egon Helbok

Communication
Sabine Nigsch

Data protection
Daniel Oberauer

Compliance
Reinhard Kaindl

Mid- und Backoffice Fonds, Securities and Derivatives
Johannes Tschanhenz

IT/Organisation
Johann Berchtold
Jörg Ruwe
- 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
- Funding & Investor Relations
- ALM & Investments
- Money, Foreign Exchange and Interest Derivatives Trading
- Securities Customer Trading

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
Roswitha Klein
- Vienna

Markus Felder
- 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

Vienna Branch Office
Roswitha Klein, RM
Roswitha Klein, HPB / HWM
Robert Glasner, BM
Hans-Jürgen Spitzer, HCC
Katharina Jantschgi, SPC

Graz Branch Office
Ernst Albegger, RM
Gerhard Vollmann, HPC PB

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

Data protection
Daniel Oberauer

Compliance
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

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
Stefan Ritter, BM

Höchst Branch Office
Helgar Helbok, 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

Corporate Customers Branch Office Germany
Markus Schmid

Bregenz Wealth Management
Stefan Schmitt, HPB

Egg Branch Office
Markus Kohler, 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

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: 7 February 2019

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 (until 29.05.2018)

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Dornbirn

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

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Birgit Sonnbichler
Entrepreneur, Dornbirn (from 30.05.2018)

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

Elmar Köck
Works Council delegate

Gerhard Köhle
Works Council delegate

Peter Niksic
Works Council delegate

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 (until 29.05.2018)
Eduard Fischer (from 30.5.2018)
Karl Fenkart
Michael Horn
Veronika Moosbrugger
Elmar Köck

Remuneration and nomination committee (until 30.05.2018)

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

Remuneration committee (from 30.05.2018)

Jodok Simma, Chairman
Birgit Sonnbichler, Deputy Chairperson
Karl Fenkart
Nicolas Stieger
Ulrich Theileis
Veronika Moosbrugger
Elmar Köck

Nomination committee (from 30.05.2018)

Jodok Simma, Chairman
Birgit Sonnbichler, Deputy Chairperson
Karl Fenkart
Nicolas Stieger
Ulrich Theileis
Veronika Moosbrugger
Elmar Köck

STATE COMMISSIONER

Gabriele Petschinger

Matthias Ofner
Deputy

ESCROW AGENTS

Heinz Bildstein
President of the State Court, Feldkirch

Helmut Schamp (until 30.9.2018)
Deputy, Federal Ministry of Finance, Vienna

Daniela Steffl (from 01.10.2018)
Deputy, Federal Ministry of Finance, Vienna

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

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

OPENNESS RESULTS IN VISION.

GROUP MANAGEMENT REPORT

Only those who open up provide their own perception with fresh impetus and create the basis for constant further development. They serve as a source of inspiration for new goals and in this way become trailblazers for future successes.

MACROECONOMIC
CONDITIONS

Global economy and euro zone
The optimism of 2017 was also reflected in the positive growth forecasts for 2018. Despite monthly fluctuations, the levels of US purchasing manager indices were significantly above the expansion threshold. Economic sentiment for Germany and the euro area had been improving on an ongoing basis. Coupled with the conditions for the global economy and monetary policy that are still favourable, the signs of a continuing upturn were good. At the start of March 2018, Italy took new political direction: Investors looked with some tension towards to the early parliamentary elections in Italy due to the strong eurosceptic parties.

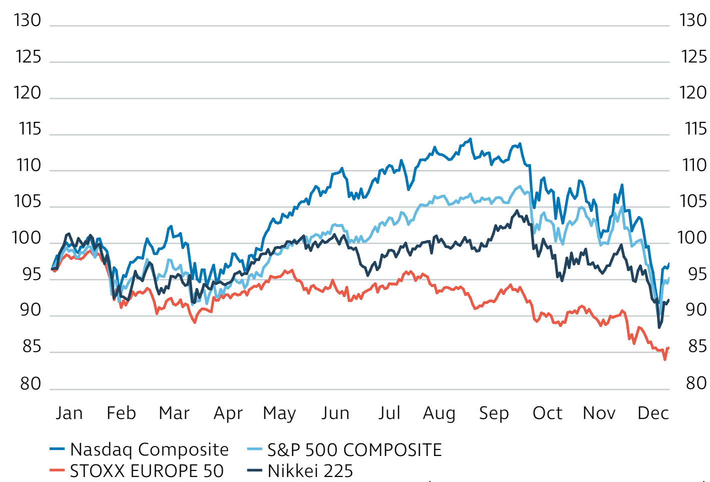
In the second quarter of 2018, various economic and sentiment indicators weakened somewhat in Europe and major economic research institutes lowered their growth forecasts. However, robust growth in the US was enough of a reason for the Federal Reserve Bank (Fed) to increase interest rates further, yet the US President was increasingly deploying confrontation and protectionism. The threat of a trade war between the US and China negatively impacted financial markets. There was also a showdown between US President Trump and Turkish President Erdogan. In addition, the sputtering economic engine in the euro area prevented further potential for recovery.

According to the ifo business climate index, sentiment of German top managers brightened in July. However, the political situation and the budget debate in Italy continued to fuel concerns about the financial stability of the euro area. As usual, the monetary policy of the central banks was under close scrutiny by market participants. In September, the US job market report was convincing and paved the way for further interest rate hikes in the US. Shortly before the end of the quarter, as a result of the positive economic outlook the Fed decided on the eighth rate rise since the interest rate turnaround at the end of 2015 or the third rate rise in the year. The Fed also reaffirmed the continuation of moderate rate increases. In October, the International Monetary Fund marginally revised its forecasts for global growth in 2018 and 2019. Things remained exciting in the US due to the mid-term elections at the start of November. In December, the European Central Bank (ECB) confirmed that key interest rates will remain unchanged until autumn 2019, thus continuing to provide the economy with cheap money. The bond purchase programme was discontinued as at the end of 2018.

In Europe, well-known issues weighed on the markets in the last few months of the year: The Italian government showed little to no willingness to compromise on its budget policy, France's budget plans received little approval in Brussels and there were additional negative impacts including concessions to representatives of the yellow vests. Brexit negotiations were an almost unsolvable challenge, with the vote scheduled for December finally being postponed by the British Prime Minister at the last minute; uncertainties continued in the first months of 2019.

Stock and bond markets
After a very positive start to the year on stock markets with new record levels, the rest of the 2018 stock market year was volatile and inconsistent. The looming trade tariffs triggered a potential negative spiral for global trade. The Chinese bond market was particularly under pressure. The financial stability of the euro zone which has constantly been put into question and Brexit negatively impacted European banking stocks in particular. Export-oriented European automotive stocks had to contend with the worsening environment and possible trade tariffs. As a result, the Frankfurt DAX suffered even more strongly than other indices, while the US markets showed a robust performance over long periods. Instead of the year-end rally, global stock markets knew only one direction - down - in December, posting heavy losses that month. Thus, the hope for a successful end to the year was lost and the shares asset class joined the many other asset classes with negative annual performance.

Global stock market development in 2018 (in EUR)



(Source: Thomson Reuters Datastream)

The alleged turnaround on the bond market at the beginning of 2018 did not last long. In addition to the concerns of an escalation in the trade dispute with the US, decreasing fears of rising inflation in the US were also responsible. In the wake of the impending trade dispute, yield spreads on corporate bonds increased, in some cases sharply. Some leading indicators also disappointed in Europe, which raised doubts about the further growth potential of the euro area. There were significant counter movements from spring 2018 after the new elections in Italy and the formation of a government. Bonds in developing countries developed in a disappointing fashion. The strong US dollar and attractive real US yields negatively impacted the local currencies in emerging markets. In the final quarter, the impending Brexit and anticipated economic fears had a negative impact on the markets.

On the bond market, there was significant spread widening for corporate bonds. In some cases, there were enormous price reductions in long-term money-market floaters of sound debtors. The need for security returned to the forefront again. Just before the end of the year, the Euro Bund Future posted a new annual high. There was a significant recovery in emerging market bonds during the second half of the year.

Commodities and currencies

In the first nine months of 2018, the price of crude oil from the North Sea brand Brent was on an upward trajectory. From October, a sudden downturn in prices set in until the end of the year. In the final quarter, the price of oil lost 40% on a USD basis. The decline in oil prices was attributable to gloomy economic prospects for 2019, US sanctions against Iranian oil exports which were suspended for half a year and the sharp increase in oil supply.

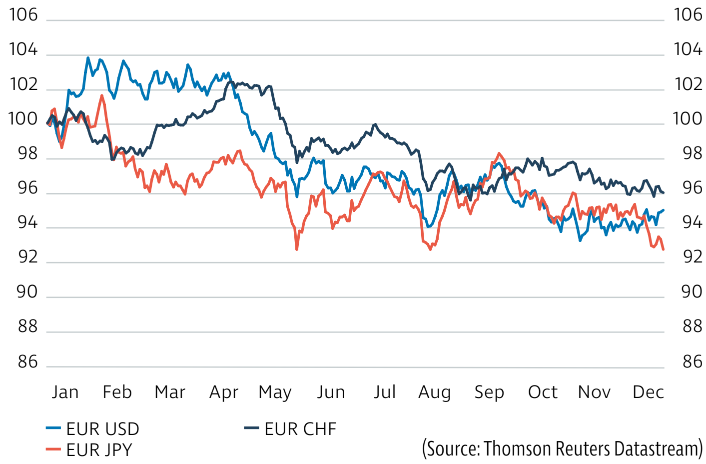
In the first few months of 2018, there was nothing conspicuous in the development in gold prices. Between the middle of June and the middle of August, there was an downward trend, leading to a low of less than USD 1,200 per ounce. Owing to the stronger US dollar and the ongoing upward trend in interest rates, there were also significant reductions in the positions at ETFs and speculators. The gold price recovered from October – supported by emerging economic pessimism.

Gold price development in 2018 (in USD)

(Source: Thomson Reuters Datastream)

On the currency side, many emerging markets came under massive pressure against the euro during the reporting year. On the other hand, the US dollar, the Japanese yen and the Swiss franc appreciated against the euro.

Currencies against the euro in 2018



(Source: Thomson Reuters Datastream)

Austria

In 2018, the Austrian economy experienced another boom year. According to a forecast by the Österreichische Nationalbank (OeNB) dated December 2018, real GDP growth was +2.7% as was the case in 2017. Driven by economic growth from industrial production, construction and related services also provided significant growth impulses. However, economic momentum slowed significantly over the course of the year. While real GDP growth was 0.8% in the first quarter of 2018 (adjusted for seasonal fluctuations and working-day variations, quarter-on-quarter), it declined to 0.4% in the third quarter.

The ongoing economic boom in Austria in the reporting year was accompanied by above-average employment growth - the highest since 1973. Employment increased across all major sub-categories (men/women, nationals/foreigners, employment of people of all ages). According to the Austrian Public Employment Service (AMS), the unemployment rate based on the national definition continued to fall, reaching 7.7% (2017: 8.5%).

At present, the Austrian economy is caught between the weakening economy in the euro area and persistent, relatively strong demand from European countries. However, at the beginning of 2019, both the key confidence indicators and the development of goods exports indicated that an economic slowdown was imminent A weakening was seen in the area of investments. Although solid wage increases and a reduction in taxes will boost household income and consumer demand, employment growth is slowing and thus the decline in unemployment.

Based on the Harmonised Index of Consumer Prices (HVPI), Austrian inflation remained broadly unchanged at 2.3% between August and November 2018, although this trend did not continue towards the end of the year. In December 2018, the rate of price increases fell to 1.7%. This was mainly due to the decline in crude oil prices and lower inflation in some service prices. The inflation rate in Austria (consumer price index calculated on a national basis) averaged 2.1% in 2018. For 2019, the OeNB is again expecting a HVPI inflation rate of 2.1%.

Since records began, public debt - with the exception of 1997 - steadily increased in absolute terms until the end of 2016. In 2017, the level of debt dropped again compared to the previous year for the first time, which was mainly due to non-recurring items in connection with the resolution of restructuring units, in particular HETA. From 2019, Austrian government budget surpluses are also expected to bring about a reduction in government debt for the first time. At the end of 2017, public debt amounted to EUR 289.7 billion or 83% of GDP. According to Statistik Austria it again declined in the reporting year. As at the end of the third quarter of 2018, the level of debt was EUR 288.7 billion or 75.6% of GDP.

Vorarlberg

Industry was still a strong driving force behind Vorarlberg's economic success. The results of the economic survey for the fourth quarter of 2018 showed that the current economy in Vorarlberg industry is still good, but uncertainty among companies about further developments is increasing due to geopolitical risks. The shortage of workers is also increasing and remains a central issue.

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 third quarter of 2018, increasing from 26.9% to 30.1%. Nevertheless, a gradual downward trend has been evident in the past two to three years.

65% of those surveyed rate their current business situation as good; only 3% spoke of a poor situation. This stable outlook is based on the strong export activities of Vorarlberger's industrial companies. 44% assessed their order situation as good and only 2% as poor.

The outlook for the number of employees was also positive. 20% of the companies surveyed intend to increase the number of staff if they find suitably qualified employees, 75% intend to keep the number as it is. The outlook for Vorarlberg companies was less positive for the next half of the year. At 8%, the business situation in six months' time was assessed as more favourable, 82% expect the situation to remain the same and 10% expect it to get worse.

The current earnings situation was assessed as satisfactory. Over 50% spoke of a good earnings situation, while 43% categorised earnings as average and 5% as poor. The outlook for the next half of the year is not as positive: 29% of companies think that their earnings situation will deteriorate.

More than 40 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 2018

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. Nevertheless, in the reporting year, structural issues were one of the challenges, in addition to continuing low or negative interest rates, while risk costs remained low thanks to a favourable economic environment. This was reflected in the persistently good profitability of the Austrian banking sector. In 2018, net profit or loss for the period of the banks (after taxes and minority interests) was again somewhat stronger than in the previous year amounting to EUR 5,453.4 million at the end of the third quarter (30 September 2017: EUR 5,144.6 million). This development is partly attributable to a slight increase in interest and commission income. Thus, according to the Austrian National Bank (OeNB), net interest income of Austrian-based banks amounted to EUR 11,363.8 million in the third quarter of 2018 (Q3 2017: EUR 10,937.6 million). This means that the earnings situation of the Austrian banks has recovered continuously since 2015.

At the end of the third quarter of 2018, Austrian banks reported consolidated total assets of EUR 981,438.7 million. This represents an increase of approximately 3.4% compared to the end of the fourth quarter of 2017 (2017: EUR 949,283.1 million).

Although the Austrian saving rate, that is the ratio between saving and disposable income, fell sharply following the financial crisis in 2008/2009, it has recovered again somewhat since 2015. According to the OeNB, the net saving rate of private households in the period from the fourth quarter of 2017 to the third quarter of 2018 was around 7.3% of nominal disposable household income (6.9% in the same period of the previous year).

Total deposits of Austrian non-banks (demand, term and saving deposits) further increased in the reporting year and amounted to EUR 369,418 million as at the end of 2018 (2017: EUR 351,151 million). The trend towards overnight deposits continued, as shown by the development of variable-term demand and savings deposits - the increase of EUR 221,015 million in the previous year to EUR 247,225 million as at 31 December 2018 is a plus of almost 12%. However, fixed-term deposits decreased by approximately 6%.

Loans and advances to Austrian non-banks have consistently followed a slight upward trend in recent years and amounted to EUR 348,511 million in the fourth quarter of 2018 (31 December 2018: EUR 333,829 million). The measures taken in the area of foreign currency loans continue to have a positive effect, as shown by the declining volume to private households and non-financial enterprises since 2008. The OeNB thus recommends that banks evaluate risk-bearing capacity together with borrowers and take steps to contain the risks where necessary. In the first quarter of 2018, loans to private households in foreign currencies (primarily in Swiss francs) totalled EUR 15,648 million (Q4 2017: EUR 16,065 million).

Enhancement of business models

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 still called upon to further develop their business models accordingly and to advance the digitalisation of their services as well to increase operational efficiency and subsequently strengthen capitalisation.

Solid 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. However, in the third quarter of 2018, the figures again deteriorated slightly compared to the previous year. As at 30 September 2018, the Austrian banking system reported a Common Equity Tier 1 (CET1) ratio of 14.8% (Q3 2017: 14.9%) and a total capital ratio of 18.0% (Q3 2017: 18.3%). Compared with the results of an EBA stress test at the end of 2018, it can be seen that the Austrian banks' consolidated CET1 ratio 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. The size of the buffers is evaluated on an annual basis and has amounted to up to 2% of risk-weighted assets since 1 January 2019.

New deposit protection

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 from 2019. For this reason, Austrian banks are required to build up their own deposit protection fund in good time. This fund will be paid into continuously and – unlike before – in advance.

Since 1 January 2019, the deposit guarantee scheme for Austrian Raiffeisen banks, equity banks, cooperative banks and mortgage banks is assumed by Einlagensicherung AUSTRIA Ges.m.b.H. Those banks, which fall under the bank-related protection system by Erste Bank and Sparkassen, are protected by S-Haftungs GmbH. Any bank headquartered in Austria which takes customer deposits or provides investment services requiring security must belong to one of these two protection systems.

Consolidated earnings situation of Austrian banks:

In EUR million	Q3/2018	Q3/2017	Q4/2017	Q3/2016	Q4/2016
Net interest income	11,364	10,938	14,536	10,979	14,604
Operating profit	6,207	6,143	8,087	4,824	5,723
Income after taxes	5,453	5,143	6,577	4,516	4,979

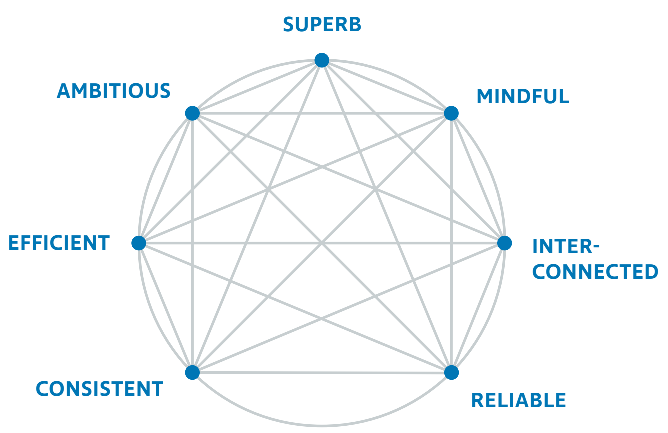
(Source: OeNB)

HYPO VORARLBERG
AS A STRONG BRAND

Stability, unity and reliability are values that Hypo Vorarlberg has always stood for. They are values that find expression in long-term and trustful customer relationships. In order to remain a successful regional bank and a strong 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 in cooperation with an external consulting agency.

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". Seven core brand values have been defined 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."

With the state deficiency guarantee for securities and customer deposits at Hypo Vorarlberg largely being discontinued, in the course of sharpening the brand's profile Hypo Vorarlberg's company name was changed for the third time in the bank's 120-year history. 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.

Together with its subsidiaries, Hypo Vorarlberg is a family that lives and shares its identity and values internally and externally. With a clear brand architecture and uniform design guidelines, it is expected that brand awareness in Vorarlberg and the other core markets will be strengthened and expanded.

STABLE BUSINESS PERFORMANCE
IN 2018

The persistently low interest rates are a big challenge for a bank that traditionally operates mainly in customer business. In a challenging economic and political environment that was also characterised by new regulations and advancing digitalisation, the Hypo Vorarlberg Group generated a good operating result in the 2018 financial year. The most important foundation for its sustained economic success is its risk-conscious lending and business policy. The development of customer deposits and the financing volume also conforms to the Managing Board's strategy, which puts profitability and stability ahead of growth.

New IFRS 9 measurement provisions
The section below analyses the business activities of the Hypo Vorarlberg Group, including the most important financial performance indicators for its business activities. Due to the first-time adoption of IFRS 9 in 2018, a new structure was defined for the balance sheet and income statement in conjunction with the changes in regulatory reporting. To account for the new measurement provisions and to maintain or improve the information content for the reader, both the structure of the balance sheet and the income statement have been adapted. The figures for the previous year are not necessarily appropriate for a comparison because their measurement and their allocation to a measurement category was in accordance with the provisions of IAS 39.

INCOME DEVELOPMENT
Persistently low and negative interest rates, new regulations and the ongoing digitalisation are putting the proven business model of Hypo Vorarlberg to the test. In this environment the banking industry is particularly challenged to develop and find alternative profitable areas of business. Companies and private customers have been benefiting from low financing costs for a long time now, as shown by stable demand for credit in 2018, even though credit growth at Hypo Vorarlberg was slightly below the Austrian market average. With regard to investments, more and more customers are interested in alternative forms of investment, in particular in the securities sector, but also for investments primarily in real estate, because conserving the value of their assets through traditional forms of saving (e.g. savings account) is not possible.

In this environment, net interest income within the Hypo Vorarlberg Group increased by almost 6% in 2018 due to non-recurring items. However, net fee and commission income fell by 8.4%. Owing in part to new IFRS 9 provisions, high impairments on investments were also required in the reporting year, resulting in a negative impact on earnings.

In 2018, earnings are characterised by high losses (impairments) in subsidiaries, partly due to the new IFRS 9 requirements. As at 31 December 2018, total earnings before taxes amounted to TEUR 48,657 and was thus significantly below net income for 2017 (TEUR 94,602). Consolidated net income after taxes amounted to TEUR 29,176 (2017: TEUR 66,613).

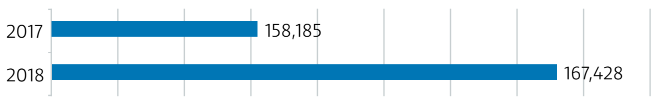
The individual items of the income statement in an annual comparison are as follows:

TEUR	2018	Change	2017
Net interest income	167,428	5.8 %	158,185
Net fee and commission income	31,914	-8.4 %	34,833
Administrative expenses	-97,734	1.5 %	-96,316
Loan loss provisions and impairment of financial assets	-4,181	>100 %	11,196
Earnings before taxes	48,657	-48.6 %	94,602
Consolidated net income	29,176	-56.2 %	66,613

*Adjustment of the figures for the previous year due to the first-time application of IFRS 9

Net interest income
While the persistently high level of liquidity in the 2018 financial year reflected the customers' full confidence, the ECB's interest rate policy had a notable effect on net interest income. Despite the low interest rates, interest-related business made a significant contribution to Hypo Vorarlberg's earnings in the reporting year. The increase in interest income is due in particular to extraordinary income due to the termination of fixed interest rate agreements in the Corporate Customers segment and early loan repayments. However, interest expenses also decreased, which, among other things, are due to the reimbursement of interest under the TLTRO II (ECB loan programme). Thus, net interest income increased by 5.8 % to TEUR 167,428 (2017: TEUR 158,185), although credit growth was below the Austrian market average. In 2017, net interest income was also still negatively impacted by the decision from the Austrian Supreme Court regarding passing on a negative indicator in the retail sector.

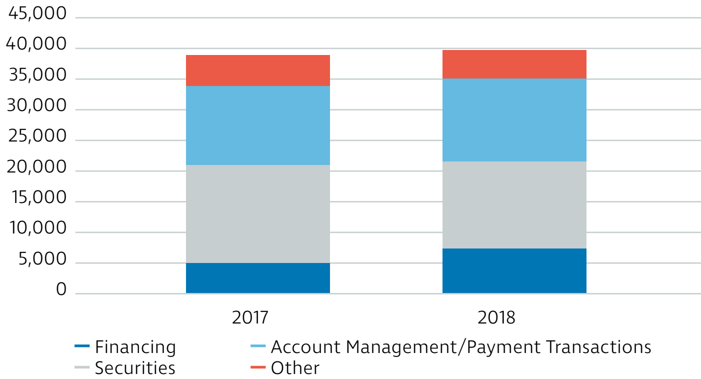
Net interest income
in TEUR



Net fee and commission income

Owing to the ongoing low interest rates, the significance of commission income for the economic success of Hypo Vorarlberg is growing. In particular, fee and commission income from payment transactions and securities business play an important role, although the latter decreased as a result of factors including the introduction of MiFID II (Markets in Financial Instruments Directive) in early 2018.

Structure/development in fee and commission income
in TEUR



Despite intensive efforts, Hypo Vorarlberg's net fee and commission income in the past financial year was 8.4 % weaker than in the previous year and amounted to TEUR 31,914 as at 31 December 2018 (2017: TEUR 34,833). This decline was caused by the fee and commission expenses more than doubling compared to 2017, the result largely of a synthetic securitisation.

Other income/expenses

Other income includes income from operating leases, operating cost income or gains on the disposal of non-financial assets. As at 31 December 2018, total other income amounted to TEUR 17,920 (2017: TEUR 29,365). Other expenses amounted to TEUR 34,822 (2017: TEUR 25,606) and include the stability fee of TEUR 2,427 (2017: TEUR 2,451).

Administrative expenses

The Managing Board pays great attention to keeping corporate structures as lean as possible in order to ensure that costs develop at a reasonably constant rate. Administrative expenses increased year-on-year at a moderate rate by 1.5% to TEUR 97,734 (2017: TEUR 96,316).

Material expenses decreased by 2.9 % year-on-year. By contrast, staff costs rose by 4.0 % to TEUR 62,892 in 2018 (2017: TEUR 60,448), with the included wages and salaries also increasing by 3.5% from TEUR 45,340 to TEUR 46,938. The increase is attributable to higher pension provisions, which are attributable to the new mortality tables published in 2018 ("Pension Tables AVÖ 2018-P"). The headcount in the group dropped from an annual average of 737 employees to 727 employees (full-time equivalent).

Structure / development in administrative expenses
in TEUR

As a result of the closure of the Hard branch office in November 2018, the number of branches in Austria fell to 19 as at the end of 2018. The employees from this branch were transferred to other locations. Details on the existing branches and subsidiaries of Hypo Vorarlberg can be found on the last page of the annual report.

Employees – a key foundation

Employees are the most valuable foundation of any company, which is why Hypo Vorarlberg owes its sustained economic success to the competence, commitment and motivation of its employees.

Hypo Vorarlberg is an advisory bank and stands out because of its high-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.

Key employee figures (Hypo Vorarlberg Group)

	2018	Change	2017
Average number of employees (weighted)	727	-1.4 %	737
of which apprentices	7	-12.5 %	8
of which part-time	97	4.3 %	93
Employees at year-end	880	-0.7 %	886
of which women	506	-0.4 %	508
of which men	374	-1.1 %	378
Proportion of women (incl. apprentices)	57.5 %	0.3 %	57.3 %
Proportion of men (incl. apprentices)	42.5 %	-0.4 %	42.7 %
Average period of employment in years	7,3	2.8 %	7,1
Average age in years	33,2	3.1 %	32,2

Depreciation and amortization

In 2018, at TEUR 6,773 depreciation and amortisation was up 16.7 % on the previous year (2017: TEUR 5,802). The increase is largely determined by higher depreciation of property, plant and equipment and intangible assets.

Loan loss provisions and impairment of financial assets
Hypo Vorarlberg concentrates on the business areas whose mechanisms and rules it understands and only takes risks that it can manage on its own. 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. The allocation for valuation allowances was even lower in 2018 than in the previous year, although significantly fewer allowances were reversed than in 2017.

In 2018, loan loss provisions were recognised for the first time in accordance with the accounting logic of IFRS 9, which requires an impairment of the credit portfolio even with good credit ratings.

Net loan loss provisions and impairment of financial assets amounted to TEUR -4,181 in 2018. In the previous year, a positive figure of TEUR 11,196 was reported, as more valuation allowances were reversed than recognised.

Impairment of non-financial assets
As at 31 December 2018, impairment of non-financial assets amounted to TEUR -42,371 (2017: TEUR -1,401). In the reporting year, the property portfolio of Italian leasing companies had to be written down by TEUR 10,580 due to new valuation allowances in accordance with IFRS 9 and lower market values in the commercial property segment.

Furthermore, the remeasurement of an associate of HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG), which was also due to delays in utilising the research results and the resulting financial impact, resulted in a write-down of TEUR 31,352. Hypo Vorarlberg holds 79.19% in HUBAG.

Income before/after taxes
Hypo Vorarlberg has successfully completed 2018, even though income was significantly lower than in the previous year due to the high losses of subsidiaries, down 48.6%. As at 31 December 2018, total earnings before taxes amounted to TEUR 48,657 (2017: TEUR 94,602), adjusted for taxes, earnings amounted to TEUR 29,176, representing a 56.2% year-on-year decrease (2017: TEUR 66,613).

In addition to the current tax expense for corporate income tax, the amounts reported under taxes on income primarily relate to the deferred income tax assets and liabilities to be recognised under IFRS. Tax expenses for 2018 amounted to TEUR 19,481, down 30.4% on the previous year (2017: TEUR 29,176).

Minority interests
Of the net income after taxes of TEUR 29,176, TEUR -13,121 is attributable to the minority shareholders of the Group subsidiaries. In 2018, Hypo Vorarlberg's earnings share in the biotechnology company amounts to TEUR -16,641, although comprehensive income of TEUR -29,775 is included in the income statement owing to the provisions for full consolidation.

Dividends of Hypo Vorarlberg Bank AG
Net profit according to UGB posted by Hypo Vorarlberg for the 2018 financial year amounted to TEUR 57,356 (2017: TEUR 49,726). After the allocation to reserves and by offsetting retained profit, accumulated profits available for appropriation totalled TEUR 3,167 (2017: TEUR 5,000). Subject to approval by the shareholders' meeting, a dividend of EUR 10.00 is proposed per entitled share based on the share capital of TEUR 162,152. Total distribution is therefore TEUR 3,167 (2017: TEUR 3,056) for 316,736 shares.

Key management indicators

	2018	Change	2017
Return on Equity (ROE)	4.43%	-48.4%	8.60%
Cost-Income-Ratio (CIR)	61.22%	9.4%	55.98%
Return on total assets	0.36%	-46.5%	0.68%
Tier 1 capital ratio	15.21%	2.6%	14.82%
Total capital ratio	17.79%	-1.2%	18.01%

Based on net profit, return on equity (RoE) changed from 8.60% in the previous year to 4.43% in 2018 due to high impairments in subsidiaries. For these reasons, the return on total assets also decreased from 0.68% in 2017 to 0.36% in the reporting year. The Cost-Income-Ratio (CIR) of Hypo Vorarlberg stood at 61.22% as at 31 December 2018 (2017: 55.98%). Among other things, the new provisions of IFRS 9 resulted in the Group's solvency ratio decreasing by 0.22 percentage points: As at 31 December 2018, this amounted to 17.79% (2017: 18.01%), the core capital ratio (T1) totalled 15.21% (2017: 14.82%).

BALANCE SHEET DEVELOPMENT

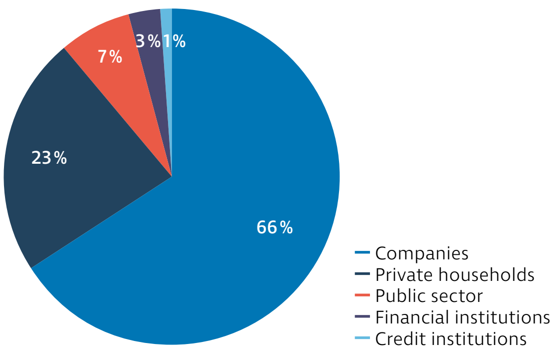
As a strong financing partner for the people and companies in its core markets, loans and advances to customers constituted the largest item of Hypo Vorarlberg's assets. In the 2018 financial year, Hypo Vorarlberg's total consolidated assets slightly increased again and amounted to TEUR 13,754,610 as at 31 December 2018, representing an increase of 4.3% compared to the previous year's reporting date (2017: TEUR 13,182,520). The slight expansion of the lending business in the 2018 financial year also contributed to this.

Changes in assets

Financial assets
As at 31 December 2018, loans and advances to customers across all measurement categories totalled TEUR 9,652,675 (2017: TEUR 9,405,453), of which the largest proportion was accounted for at cost.

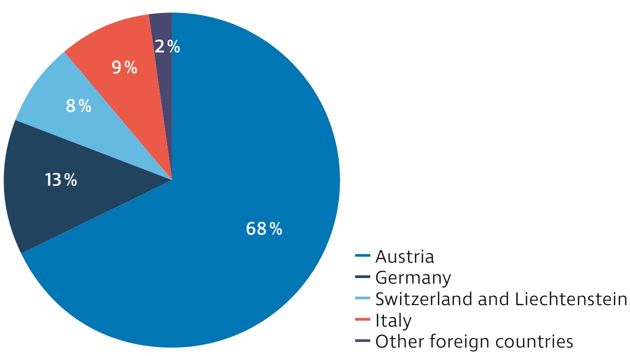
In the reporting year, loans and advances to banks increased by 24.1% to TEUR 132,408 (2017: TEUR 106,666). Financial assets also include bonds, whose volume amounted to TEUR 2,841,725 (2017: TEUR 2,727,278) as at 31 December 2018.

Loans and advances to customers and banks – by sector



This item totalling TEUR 9,785,083 across all measurement categories primarily includes loans and advances to companies and private households and is 2.9% higher than in the previous year (2017: TEUR 9,512,119). Public-sector loans and credits decreased slightly compared to 2017, while all other sectors saw an increase.

Loans and advances to customers and banks – by region



The largest part of the lending business of Hypo Vorarlberg is in Austria with a share of 68%, followed by Germany with 13%. The remaining loans and advances to customers are primarily aimed at customers from Switzerland and Italy.

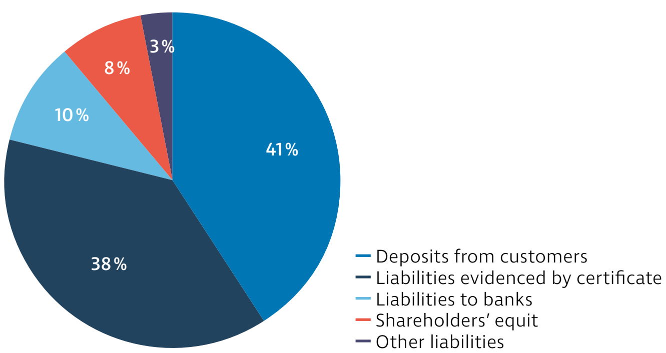
The issue of Swiss franc loans has been severely limited in recent years, primarily in the Private Customers segment. As at 31 December 2018, Hypo Vorarlberg Bank AG (not Group) reported loans and advances to customers in Swiss francs totalling TEUR 1,379,609 (2017: TEUR 1,412,461). Part of these loans and advances to customers relates to the St. Gallen branch and thus does not represent a foreign currency risk. The cross-border commuters in Vorarlberg are also to be taken into account, which further reduces the economic view of this risk. The remaining proportion of foreign currency financing (predominantly in CHF) in the Private Customers segment has declined since 2009 from around 60% to 23.0% at the end of 2018 (2017: 25.7%), the proportion of foreign currency financing in the Corporate Customers segment (not including loans and advances at the St. Gallen branch) fell from approximately 23% in 2009 to 5.4% at the end of the reporting year (2017: 6.7%).

Cash and balances
The cash reserve includes cash on hand and the balances with central banks. The item increased from TEUR 350,895 in the previous year to TEUR 589,720 in 2018, mainly due to a significantly higher balance with central banks.

Trading assets
In the reporting year, trading assets decreased from TEUR 190,940 to TEUR 152,840.

Changes in liabilities
There was an increase of 6.9% in financial liabilities at cost - which account for the largest part of the balance sheet liabilities - to TEUR 11,072,878 (2017: TEUR 10,355,435). This includes customer deposits, liabilities evidenced by certificates and amounts owed to banks.

Balance sheet structure/balance sheet liabilities



This graph shows the sustainably established and balanced refinancing structure of Hypo Vorarlberg. Of TEUR 13,754,610 balance sheet liabilities in total, TEUR 5,682,356 consisted of deposits from customers (savings, demand and term deposits) as at 31 December 2018. In the previous year, customer deposits increased by 6.4% from TEUR 5,338,730.

In 2018, a mortgage bond with a volume of TEUR 500,000 was issued. In the reporting year, liabilities evidenced by certificates which are primarily mortgage bonds and bonds therefore increased from TEUR 4,698,952 to TEUR 5,257,582.

For liquidity reasons, liabilities to banks declined significantly compared to the previous year and amounted to TEUR 1,305,809 as at 31 December 2018 (2017: TEUR 1,628,638).

Shareholders' equity increased year on year by 1.1% to TEUR 1,131,177 (2017: TEUR 1,118,579). Thus, the remaining share of balance sheet liabilities amounted to TEUR 377,686.

CHANGES IN OWN FUNDS

Composition of own funds according to CRR and capital ratios

in TEUR	2018	Change	2017
Total risk exposure amount	**7,755.706**	**5.1%**	**7,377.316**
Common equity Tier 1 capital (CET1)	1,129.859	4.3%	1,083.771
Additional Tier 1 capital (AT1)	50,007	> 100%	9,504
Tier 1 capital (T1)	**1,179.866**	**7.9%**	**1,093.275**
Tier 2 capital (T2)	199.897	-15.0%	235.083
Own funds	**1,379.763**	**3.9%**	**1,328.358**
CET1 capital ratio	14.57%	-0.8%	14.69%
Surplus of CET1 capital	780,852	3.9%	751,792
T1 capital ratio	15.21%	2.6%	14.82%
Surplus of T1 capital	714,523	9.8%	650,635
Total capital ratio	17.79%	-1.2%	18.01%
Surplus of total capital	759,307	2.9%	738,172

The Managing Board is ensuring a sound and sustainable capital structure at Hypo Vorarlberg through ongoing optimisation measures. In the reporting year, an additional Tier 1 bond with a volume of TEUR 40,000 was issued. At the end of 2018 the planned capital measures with the majority shareholder, the state of Vorarlberg, were also successfully completed. The existing participation capital was converted into core capital, thereby increasing the share capital of Hypo Vorarlberg. Thus, capital was strengthened as planned. As at 31 December 2018, the share capital of Hypo Vorarlberg amounted to TEUR 162,152. In the previous year, the subscribed capital amounted to TEUR 165,453 and consisted of share capital of TEUR 156,453 and participation capital of TEUR 9,000.

Overall, the core capital (T1) increased to TEUR 1,179,866 as at 31 December 2018 (2017: TEUR 1,093,275). The supplementary capital (T2) decreased, partly due to repayments, and was reported at TEUR 199,897 as at 31 December 2018 (2017: TEUR 235,083).

The new IFRS 9 provisions resulted in a change in the total capital ratio of -0.22 percentage points. Nevertheless, as at 31 December 2018, own funds of the Hypo Vorarlberg Group increased by 3.9% compared to the previous year to TEUR 1,379,763 and are well in excess of the minimum required by law (Basel III). Overall, Hypo Vorarlberg has a total capital ratio of 17.79% as at the end of 2018 (2017: 18.01%). The core capital ratio (T1) was raised to 15.21% as at the end of year (2017: 14.82%), the Common Equity Tier 1 (CET1) ratio slightly decreased from 14.69% to 14.57%.

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

With the entry resolution dated 28 December 2018, the planned capital measures with the majority shareholder, the state of Vorarlberg, were also successfully completed. The largest proportion of the existing participation capital was converted into core capital, thereby increasing the share capital of Hypo Vorarlberg. The subscribed capital of Hypo Vorarlberg consists of share capital of TEUR 162,152 (2017: TEUR 156,453). As at 31 December 2018, 316,736 no-par value shares were issued (2017: 305,605 no-par value shares).

Shareholder structure

The percentage of Hypo Vorarlberg's capital as at 31 December 2018 is as follows:

Shareholders	Total shareholding
Vorarlberger Landesbank-Holding	76.8732%
Austria Beteiligungsgesellschaft mbH	23.1268%
- Landesbank Baden-Württemberg	15.4179%
- Landeskreditbank Baden-Württemberg Förderbank	7.7089%
Share capital	100.0000%

Events of material importance after the reporting date

No particularly significant developments occurred during the period between the end of the 2018 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 reporting company.

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 16 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.

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, real estate 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 very well in the 2018 financial year. Companies' willingness to invest continued to be high, thus enabling the Group to increase its lending volume in this segment. Overall, loans and advances to customers increased to TEUR 6,295,260 (2017: TEUR 6,088,339). Risk costs remain low due to the excellent ratings of corporate customers in the core markets.

Overall, the Corporate Customers segment generated earnings before taxes of TEUR 75,204 (2017: TEUR 83,924) in 2018. Net interest income as at 31 December 2018 amounted to TEUR 102,355, thus up approximately 9.4 % compared to the previous year (2017: TEUR 93,597). Net fee and commission income improved to TEUR 13,545 (2017: TEUR 12,833) as against 2017, which was mainly attributable to higher commissions from loans and payment transactions.

"Hypo-Office-Banking" (HOB), which was launched in 2017, brings a significant simplification for the payment transactions of companies onto the market. HOB enables corporate customers to manage all their national and international accounts in one web-based system.

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. 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. Regular customer recommendations motivate the bank to continue on the path it has taken in the future, too.

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 make its branches fit for the future, thus enabling customers to benefit from optimum interaction between people and technology.

Customer demand in the area of residential construction financing remains high, although statutory provisions such as the Austrian Mortgage and Property Loans Act (HIKrG) are making lending difficult. Compared to the previous year, the total financing volume to private households increased by more than TEUR 40,000. In addition to the strong demand, price increases in properties also contributed owing partly to low interest rates and price increases. As interest rates are expected to rise in the medium term, Hypo Vorarlberg offers borrowers the opportunity to secure the interest rate on a longer term basis.

The historically low level of interest rates remains a central issue in the deposits business too, making it much harder for investors to find returns. Thus, 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. New laws (e.g. MiFID II) and their implementation made the investment business more difficult for the bank. The new regulations resulted in more work, higher costs and lower earnings. In addition, almost all asset classes were negative over the course of the year, which had a corresponding impact on customer securities accounts and the Asset Management result. 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. In the first quarter of 2019, the bank will also provide its customers with online services, such as the conclusion of asset management on the internet.

Owing to digitalisation, the continued intense competition between banks in deposits and financing business and low interest rates, pressure on conditions and margins remains high. In 2018, Hypo Vorarlberg generated net interest income of TEUR 30,198 in the Private Customers segment, which represented a slight increase against the previous year (2017: TEUR 29,586). In 2018, net fee and commission income was slightly lower than in the previous year at TEUR 16,557 (TEUR 17,523).

Overall, Hypo Vorarlberg generated earnings before taxes of TEUR 2,727 in the Private Customers segment (2017: TEUR 5,579) in 2018, thereby ahead of target. In recent years, the decline in earnings is attributable to higher expenses due to the implementation of new regulatory and supervisory requirements and 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 the reporting year. Overall, 2018 was a bad year for investments. Never before since 1928 have so many asset classes posted a negative performance at the same time. December was the worst month for shares in the US since 1931. The Dow Jones lost 8.7% in the final month of the year and the more broadly composed S&P 500 fell 9.2%.

Back in 2017, Hypo Vorarlberg developed the "Selection" strategy 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, greater returns are to be generated by rapid allocation adjustments through expansion of the investment spectrum and daily stock exchange meetings and active management decisions. Assessment of the asset classes is research-based and strengthened through the asset managers' many years of experience. This new strategy has been well received by customers.

In 2018, Asset Management at Hypo Vorarlberg generated a 1.2% increase at mandate customers (excluding special funds and public funds) before market change, although the entire asset management sector had high outflows towards real estate and withdrawals of non-residents. The Managing Board also considers that this is the result of introducing the Advisory Desk to improve servicing advisors and the new "Selection" strategy, which has seen strong growth.

Asset Management at Hypo Vorarlberg has taken key steps towards sustainable investment. Following targeted reallocations, the Hypo Weltportfolio Aktien umbrella fund received a sustainability label for the first time in 2017. As at the end of 2018, the CSSP (Center for Social and Sustainable Products) in Liechtenstein, an independent consulting and research company with a focus on sustainable investments, awarded the fund the SRI transparency seal (SRI = Socially Responsible Investment) for a further year based on its AA-rating. With a volume of approximately TEUR 147,260 as at 31 December 2018, Hypo Weltportfolio Aktien is one of the largest global umbrella funds in Austria and is deployed in almost all Hypo Vorarlberg's asset management mandates.

Recently, other Hypo Vorarlberg funds were subject to the same audit and may carry the transparency seal for one year. In 2019, at least one more fund will go through the transparency seal screening process.

At the end of 2018, total assets under management amounted to TEUR 682,198 (2017: TEUR 832,542). The year-on-year change is mainly attributable to significant declines in stock markets in the fourth quarter of 2018 (down by around 10% in the MSCI World Index in EUR, for example) and the announced discontinuation of two large investor mandates. As at 31 December 2018, the number of mandates managed decreased to 2,576 (2017: 2,842), which can be explained by combining customer securities accounts as part of consolidation measures (increasing transparency).

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 bank made appropriate investments in personnel in order to strengthen its presence and acquisition activities in the Vienna region. The Wealth Management segment manages the top segment of high net worth private customers, entrepreneurs and foundations.

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 2018, the Elite Report (Munich) thus awarded Hypo Vorarlberg the highest grade "summa cum laude" for the eighth time in a row. Of 354 tested banks and asset managers in the German-speaking region, 46 institutions received an award and were included in the Elite Report pyramid. The testers are real customers who want to change their asset manager and are accompanied by the Elite Report. Having achieved an excellent result of 666 points overall, Hypo Vorarlberg is one of the top 20 of all banks tested and is positioned in fifth place among Austrian banks.

This accolade is 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 economic outlook for Europe deteriorated in the course of 2018 due to political issues (Brexit, trade war with the US, Italian budget, etc.). A focus for investors and issuers was the ECB's exit from the purchase programme and the potential impact on the capital market. The environment for issuers was very positive thanks to low credit spreads in the reporting year. Like many other issuers, Hypo Vorarlberg used the positive market sentiment to place sufficient issues on the capital market.

Owing to the high volatility in the fourth quarter of 2018 and the poor performance of many asset classes, uncertainty regarding the further development on the capital markets has increased. In 2018, the Treasury/Financial Markets division made good use of market opportunities in terms of investment and issues to optimise the bank's asset/liability management.

Due to the negative interest rates on the money markets, the net interest spread in the Treasury/Financial Markets division remained under pressure. By contrast, the contribution from interest rate maturity transformation developed positively, slightly exceeding the annual target. Risk costs were lower than planned on account of positive economic and market developments. Overall, the division generated earnings before taxes of TEUR 2,165 (2017: TEUR -1,637) in 2018.

Asset/liability management and investments (ALM & Investments)

A net volume of approximately TEUR 415,633 was invested in bonds by the ALM & Investments unit in 2018. The weighted remaining term of these new investments is 6 years. The average asset-swap spread of the securities purchases was 37.09 basis points and the average rating of new purchases "A+".

The capital market environment was characterised by continuing tight credit margins and low capital market rates, although credit margins widened to the end of the year. Due to the low investment margins, volume estimates were deliberately undercut in 2018. Major decision-making criteria for new investments were 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.

Funding & Investor Relations

22 own bonds with a total volume of approximately TEUR 336,066 were due in the reporting year. To refinance the volume due and the planned growth in total assets and to carry out prefunding for 2019, a total of 39 new issues of close to TEUR 914,708 were issued in 2018.

In addition to public transactions, there were four retail issues and a large number of private placements. One of these issues was an additional Tier 1 bond (aT1) which was issued as part of a measure to strengthen capital with a volume of TEUR 40,000.

Money, foreign exchange and interest rate derivatives trading

In 2018, the readily accessible short-term liquidity was characterised by significant fluctuations typical in money market trading. Cash assets moved between TEUR 0 to more than TEUR 500,000. As at the end of the year, liquidity amounted to approximately TEUR 500,000. Furthermore, collateral of at least TEUR 550,000 was available to money market trading at all times for tender operations or repos, and for the most part it was significantly more. Money market trading managed Hypo Vorarlberg's readily accessible short-term liquidity with more than 1,250 transactions with a total volume of over TEUR 9,800,000.

The area of derivatives trading with customers was again very challenging in 2018. The regulatory environment contributed to this and discouraged many customers from using derivative transactions to hedge against currency or interest rate changes. Foreign exchange trading declined by over 10 % with regard to transaction numbers and income. However, slight increases were seen with regard to interest rate derivatives. A total of over 2,600 customer transactions were concluded in interest rate derivatives and foreign exchange trading in 2018 with a total volume of over TEUR 2,200,000.

Securities trading (non-proprietary)

2018 was characterised by the introduction of MiFID II. This resulted in an extensive adjustment of the processes in securities trading and meant that certain security products could no longer be offered. In addition, the positive sentiment on the stock exchanges deteriorated over the course of the year. Despite these negative conditions, trading volume of branch customers increased significantly. However, due to the low interest rates in the euro area interest in bond investments remained low.

Fund Service

Due to market turbulence, the volume under management in Fund Service decreased by about 6.3 % in the fourth quarter of 2018 compared to the previous quarter. However, as a whole, the volume under management increased from TEUR 7,260,000 to TEUR 7,507,000. This represents growth of 3.4 %. This increase is largely attributable to the acquisition of a new special fund customer and its funds.

Swap group

As at 31 December 2018, the Swap group managed a portfolio comprising 1,120 swaps, interest rate options and currency options with a nominal volume of around TEUR 10,200,000. In an annual comparison, this is an increase in nominal volume of TEUR 900,000. Due to the market development last year, the level of cash collateral fell from TEUR -52,400 to TEUR -75,900.

Contract negotiations with a second clearing broker were concluded in 2018. In a bank project the Swap group developed extensive arrangements for a hard Brexit.

EIB/EIF financial guarantee, HVL Bolzano 2015-1 and St. Gallen cover pool

The synthetic securitisation concluded at the end of 2017 in the form of a guarantee agreement with the EIB EIF Group was successfully managed in 2018. The objective of capital relief was thus successfully achieved. Also due to the good performance of the hedged portfolio, it was replenished again in line with the contractual agreement. In addition, the first intermediate target for granting loans for financing energy-efficient buildings agreed with the EIB/EIF Group was also met on schedule.

In mid 2018, with the support of the Treasury department, Hypo Vorarlberg Leasing AG in Bolzano increased its securitisation of Italian lease receivables to its original volume. In autumn 2018, despite a difficult market environment, approximately TEUR 220,000 of the senior tranche were sold to international institutional investors at attractive conditions.

In another project, preparations were made in 2018 to including the mortgage receivables of the St. Gallen branch in the cover pool, thus further increasing the scope for covered capital market refinancing.

CORPORATE CENTER

In addition to the business segments mentioned above, the Corporate Centre item includes the refinancing of holdings. In 2018, the earning contribution in this segment was negative and amounted to TEUR -31,439 (2017: TEUR 6,736) due to impairment in Italian subsidiaries and in the HUBAG subgroup.

SUBSIDIARIES
AND HOLDINGS

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 services within the Group and to its customers ranging from real estate brokerage through property valuations, 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 2018, Hypo Immobilien & Leasing GmbH had a headcount of 49 employees (2017: 49).

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 valualtions 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.

Over the course of the reporting year, the new brand was also implemented in the subsidiary and the company also complied with the new DSGVO regulations.

For 2018, Hypo Immobilien & Leasing GmbH reported earnings before taxes of TEUR 779 (2017: TEUR 1,059). 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 5,426 as at 31 December 2018 (2017: TEUR 4,715).

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 28 years. The subsidiary also has branches in Como and Treviso.

New business on the Italian leasing market grew by 5.3% to a total of EUR 29.7 billion in 2018 (2017: EUR 26.6 billion). As in previous years, increases were particularly notable in vehicle (+4.1%) and movable leasing (+5.8%). As much as a 10.1% increase was recorded in real estate leasing in the same period. Both construction leases and leases for completed properties performed positively (+5.7% and +13.5%, respectively).

In this context, Hypo Vorarlberg Leasing generated new volume of TEUR 89,463 which represented an increase of 31% in the 2018 financial year (2017: TEUR 68,288).

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.

In 2018, Hypo Vorarlberg Leasing again reported a positive result in net interest income of TEUR 13,211 (2017: TEUR 13,259). However, overall the company reported a loss after taxes of TEUR -17,929 (2017: TEUR 83), which was primarily due to the effects of the transition to IFRS 9 and write-downs on inventories. The main areas of focus continued to be on consistent management of existing portfolios and efficient realisation of recovered lease assets.

In 2018, the existing securitisation of lease receivables was increased by TEUR 108,000 and the majority of the senior tranche (TEUR 220,000) was placed with international investors. Towards the end of the year, a portfolio of performing leases (TEUR12,400) was acquired by TIPAL Immobilien GmbH in Liquidation, a subsidiary of Tiroler Sparkasse.

The implementation of a new IT software, which is expected to increase the automation and digitalisation of business processes, was continued intensively in 2018 and is expected to be completed in 2019.

In December 2018, the company's capital was increased by TEUR 35,000.

For 2019, Hypo Vorarlberg Leasing AG is aiming to achieve new volume of approximately TEUR 90,000 again, 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 (higher depreciation and Sabatini grants), especially in the Trentino/South Tyrol and Milan regions.

Hypo Vorarlberg Immo Italia GmbH offers technical services and is responsible for selling properties from terminated leases.

With a volume of commercial real estate sold of TEUR 10,600 in 2018, the positive development in recent years was continued. At the same time, the volume of recovered real estate (from terminated leases) declined sharply. In the case of leased properties, the rental yield has increased significantly compared to previous years. This data shows the ongoing easing on the Italian commercial property market. For the next few years, a further reduction of properties for sale is expected.

Compared to the leasing competitors, Hypo Vorarlberg Immo Italia GmbH is significantly faster and more flexible in the utilisation process. These benefits increase sales volume and improve relationships with the various sales channels.

For 2018, Hypo Vorarlberg Immo Italia GmbH reported earnings before taxes of TEUR 425 (2017: TEUR 368).

HYPO VERSICHERUNGSMAKLER GMBH

Overall the 2018 financial year was very encouraging for Hypo Versicherungsmakler. Both sales commissions and earnings were maintained at the high level of the previous year. The positive trend can be attributed to various factors:

The good general economic situation further boosted the high investment propensity of businesses in Vorarlberg. Due to the high investment costs, fee and commission income in property insurance was increased. A further factor behind this good performance was 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 and increasingly used it.

Furthermore, a pension provision initiative for private customers was launched in late summer 2018. 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 1,693 in 2018 (2017: TEUR 1,574). However, administrative expenses were significantly higher in the reporting year, resulting in a decrease in earnings before taxes to TEUR 251 (2017: TEUR 317).

The insurance market is still very turbulent. Due to the conversion and automation of processes - initially in the private customer segment - cost savings are expected to be achieved. Digitalisation is also looming. Furthermore, the implementation of the General Data Protection Regulation (GDPR) and the Insurance Distribution Directive (IDD) has posed major challenges across the entire industry. The IDD includes a further education obligation for employees, who participate in the insurance brokerage.

Hypo Versicherungsmakler has fully implemented these new regulations including developing a training plan for advisors. The consulting process which complies with the IDD involves significant additional expenses in sales. It is not yet possible to predict the extent to which this will influence sales results in the future. In particular, among insurance brokers the statutory requirements are greatly accelerating the trend towards mergers and cooperations. Hypo Versicherungsmakler will also continue to monitor this development closely and conduct exploratory talks with a selection of interesting insurance brokers.

In 2019 it will be important to stay on the ball regarding pension provision with particular focus on retaining the portfolio and acquiring new customers in the property business. A 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 concentrated on only a few investments. The intangible assets recognised in the previous year (2017: TEUR 31,352) were those of one associated company. Since at the time of the preparation of the balance sheet, contrary to the original expectations, the recoverability of these assets for existing shareholders was not evident, no positive value could be attributed to this position.

The 2018/19 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 2019 FINANCIAL YEAR

Positive economic environment
Since the beginning of 2019 the government shutdown in the US, the continuation of the US trade conflict with China and the consequences of a rejection of the Brexit deal negotiated between the EU and the UK are the dominating topics in an international context. These events increase political and economic uncertainty and thus have a dampening effect on the international economy.

Austria is caught between the weakening economy in the euro area and persistent, comparatively strong demand from CESEE countries. The Austrian domestic economy supported growth in the past year. The ongoing economic boom in 2018 was accompanied by above-average employment growth - the highest since 1973. However, at the beginning of 2019, in accordance with an analysis by the OeNB both the development of key confidence indicators and the development of goods exports indicated an impending economic slowdown. For 2019, the OeNB is forecasting a stable inflation rate of 2.1% (based on the Harmonised Index of Consumer Prices).

Hypo Vorarlberg's priorities for 2019
The Managing Board will continue to pursue Hypo Vorarlberg's proven, broad-based business model, although the ongoing low and negative interest rates, new legal requirements and ongoing digitalisation pose a large challenge for the industry. In order to remain a strong and successful banking partner for people and companies in its core markets Hypo Vorarlberg conducted a project to review its positioning and strengthened its brand for the future.

2019 will bring further major challenges for the banking industry. The regulations require building up equity on a continuous basis and securing a cost-optimal liquidity supply while costs will continue to rise further and income in the customer business is under pressure, for example due to negative interest rates. Digitalisation and changing customer requirements also call upon banks to adapt their services and products.

To ensure the profitability of Hypo Vorarlberg in the long term growth markets outside the home market Vorarlberg are to be increased. An internal "Digitalisation" department follows trends and new developments so that the bank adapts its services and processes to the new technological possibilities.

As the leading corporate bank in Vorarlberg, Hypo Vorarlberg will continue to supply financing to businesses in its core markets in the future. Credit demand grew again compared to the previous years. Increases are mainly expected in the markets outside Vorarlberg. Due to the good economic situation of companies in their market areas Hypo Vorarlberg again expects below-average risk costs in 2019. 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 continue to ensure high-quality advice, the bank is also investing heavily in education and training for its employees in 2019.

In investment, there is demand for innovative but still simple products. It will become apparent whether the guidelines introduced under MiFID II in 2018 will increase the level of consumer protection. The primary objective of Hypo Vorarlberg remains the conservation of its customers' wealth in real terms. 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, 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 called upon to find the best possible way to link personal consulting with digital services.

In private banking and asset management, Hypo Vorarlberg continues to focus on its asset management (in particular the selection strategies) which since 1 March 2019 can also be completed online by customers. In addition, cooperation between the advisors at the branches and the advisory desk installed at the start of 2018 will be further intensified.

Expected earnings development in 2019
Hypo Vorarlberg continues to pursue cautious risk and accounting policies. The Managing Board has also 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 a level slightly below that of the previous year. Interest-related business will remain a stable pillar of the bank's earnings development in 2019, although its contribution to earnings will remain under pressure owing to the persistently negative and low interest rates. Net fee and commission income will also make a key contribution to earnings.

Based on the assumption that the low interest rate policy will continue and economic growth will remain at a high - albeit declining - level low risk costs are still expected.

Material expenses as well as staff costs are expected to increase slightly in 2019.

Performance in the first few months of 2019 was satisfactory and the Managing Board is confident of achieving the anticipated earnings. Risk factors for the planned earnings development of Hypo Vorarlberg are changes in interest rates, new regulatory measures and geopolitical as well as global economic developments.

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 valuation allowances. The subsidiaries generally use the same rating tools as the parent company. This guarantees a consistent rating procedure group-wide. Valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria.

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 monthly average levels of up to TEUR 8,199 (2017: TEUR 11,644).

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 significant trading book. With regard to the use of financial instruments in accordance with Section 243 (3) No. 5 UGB, please refer to the disclosures in the Notes under item I. Accounting Policies.

Hypo Vorarlberg utilises the money market for refinancing only to a limited extent. The Bank participated in the ECB's medium-term refinancing operations.

Further explanations with regard to financial risks and risk management at Hypo Vorarlberg can be found in the Notes. The full disclosure on the organisational structure, risk management and the risk capital structure 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 the Austrian Banking Act (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 programmes 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.

Legal proceedings due to FMA investigation

Following the publication of the "Panama Papers" in early April 2016 the Austrian Financial Market Authority (FMA) examined the Hypo Vorarlberg's offshore business as part of a special investigation. 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 has therefore lodged 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. The appeal proceedings against the FMA's penal order have currently been suspended, as the Austrian Administrative High Court has been called upon in similar cases.

In recent years, Hypo Vorarlberg has been gradually reducing the number of accounts for non-operative offshore companies. 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 which was resolved by the Supervisory Board. In accordance with this strategy, existing business relationships with overseas offshore companies have been discontinued and no new business in this area will be concluded. 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.

DATA PROCESSING/IT

Like a large number of other Austrian banks Hypo Vorarlberg has outsourced its IT operations to ARZ (Allgemeines Rechenzentrum GmbH) in Innsbruck. As a competence centre for IT services in the banking industry ARZ supports key business processes of the participating banks and also is indirectly owned by them. 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. This enables the banks to reduce the complexity of their IT infrastructure and at the same time to concentrate more strongly 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.

In 2018, adjustments to the systems required to implement new requirements under IFRS 9, MiFID II and PSD2 were implemented in a timely manner. Other modules were added to the new rating software launched at Hypo Vorarlberg in 2017 and requirements for validation and calibration were created. Other priorities were the use of new software for managing and measuring non-performing loans, adjusting the IT to the new brand and preparing for the integration of standard CRM software. The increased security requirements were met by technical and procedural measures. Awareness training courses and regular information also raised employees' awareness of security issues.

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 and security concepts. Clear rules on responsibilities and access, the requirement of the dual-control principle and an internal monitoring system are in place. Hypo Vorarlberg also focuses on consistent use of standardisation, increasing cost efficiency and maintaining innovative capability.

As at 31 December 2018 Hypo Informatikgesellschaft m.b.H. – a wholly owned subsidiary of Hypo Vorarlberg – employed 38 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 if 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. Standard software systems are also used at HIL Dornbirn and the leasing company in Bolzano.

DISCLOSURE OF INFORMATION
ON REMUNERATION POLICY AND PRACTICES IN 2018

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 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 Committee. As requested by the Supervisory Board, the Remuneration and Nominating Committee of the Supervisory Board were separated in May 2018. In 2018, a total of two meetings were held regarding Hypo Vorarlberg's remuneration policy.

In addition to the Supervisory Board – specifically the Remuneration Committee headed by Jodok Simma – 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
- 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

Hypo Vorarlberg has successfully mastered the challenges of recent years 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 "Ethical and sustainable 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 ISS oekom 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 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 since 2017 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 2018 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.

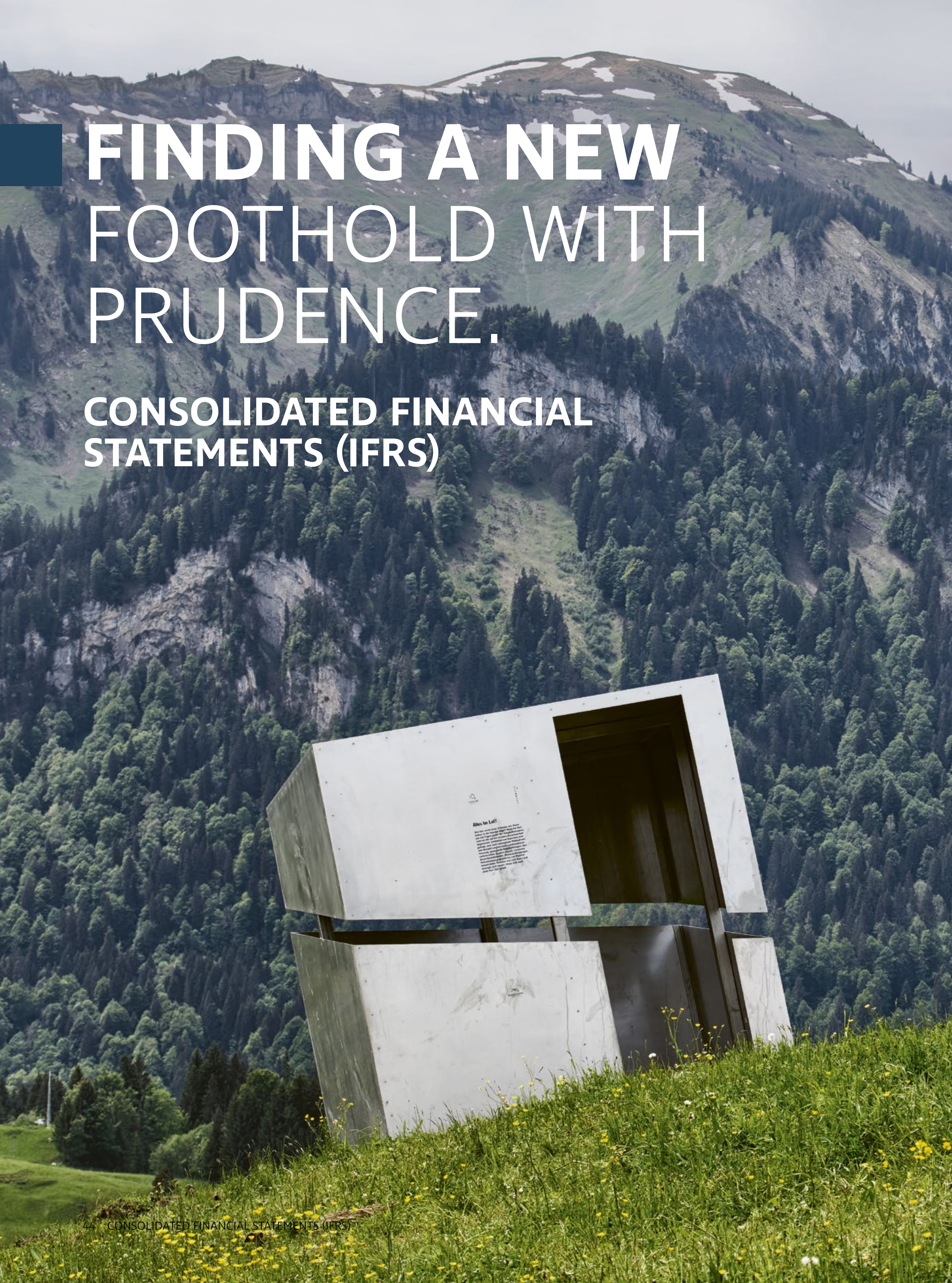
Research and development
Hypo Vorarlberg reviews the effects of economic and market developments on the development of its net assets, financial position and results of operations on an ongoing basis. To survive among the competition, it is not enough just to know the current market conditions; it is 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.

FINDING A NEW FOOTHOLD WITH PRUDENCE.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)



Be it on the way to the top or during a walk in the valley, those who go about it in a sensible manner, with a firm footing and taking regular breaks, reach their destination securely.

ENCOURAGING RESULTS

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I. STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

Income statement

TEUR	(Notes)	01.01.-31.12.2018	01.01.-31.12.2017 1*) adjusted	Change in TEUR	Change in %
Interest and similar income according to the effective interest method		212,209	216,896	-4,687	-2.2
Other interest and similar income		61,493	49,107	12,386	25.2
Interest and similar expenses according to the effective interest method		-60,842	-61,472	630	-1.0
Other interest and similar expenses		-45,432	-46,346	914	-2.0
Net interest income	(6)	**167,428**	**158,185**	**9,243**	**5.8**
Dividend income	(7)	1,397	1,075	322	30.0
Fee and commission income		39,511	38,513	998	2.6
Fee and commission expenses		-7,597	-3,680	-3,917	>100.0
Net fee and commission income	(8)	**31,914**	**34,833**	**-2,919**	**-8.4**
Net result from financial instruments at Cost and AFS	(9)	5,407	1,381	4,026	>100.0
Net result from financial instruments at Fair Value	(10)	10,208	10,476	-268	-2.6
Other income	(11)	17,920	29,365	-11,445	-39.0
Other expenses	(12)	-34,822	-25,606	-9,216	36.0
Administrative expenses	(13)	-97,734	-96,316	-1,418	1.5
Depreciation and amortization	(14)	-6,773	-5,802	-971	16.7
Loan loss provisions and impairment of financial assets	(15)	-4,181	11,196	-15,377	-
Impairment of non-financial assets	(16)	-42,371	-1,401	-40,970	>100.0
Result from equity consolidation		264	-17,661	17,925	-
Result from change in own credit risk		N.A.	-5,123	-	-
Earnings before taxes		**48,657**	**94,602**	**-45,945**	**-48.6**
Taxes on income	(17)	-19,481	-27,989	8,508	-30.4
Annual net income		**29,176**	**66,613**	**-37,437**	**-56.2**
Of which attributable to:					
attributable to owners of the parent company		42,297	66,123	-23,826	-36.0
attributable to non-controlling interests		-13,121	490	-13,611	-

Statement of comprehensive income

TEUR	01.01.-31.12.2018	01.01.-31.12.2017 1*) adjusted	Change in TEUR	Change in %
Annual net income	**29,176**	**66,613**	**-37,437**	**-56.2**
Other income (OCI)	**10,446**	**497**	**9,949**	**>100.0**
OCI w/o recycling	**10,400**	**992**	**9,408**	**>100.0**
Actuarial result IAS 19	-1,000	1,276	-2,276	-
Measurement of own credit risks for liabilities at Fair Value	14,888	N.A.	-	-
Income tax effects	-3,488	-284	-3,204	>100.0
OCI with Recyling	**46**	**-495**	**541**	**-**
Foreign currency translation	46	-124	170	-
Changes to AFS revaluation reserve IAS 39	N.A.	-494	-	-
Of wich valuation result recognised in equity	N.A.	-49	-	-
Of which reclassified in the income statement	N.A.	-445	-	-
Income tax effects	0	123	-123	-
Group statement of comprehensive income	**39,622**	**67,110**	**-27,488**	**-41.0**
attributable to owners of the parent company	52,743	66,620	-13,877	-20.8
attributable to non-controlling interests	-13,121	490	-13,611	-

1*) Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG - see note (5b) and due to IAS 8 in connection with IFRS 9 – see note (5a)

II. BALANCE SHEET
DATED 31 DECEMBER 2018

Assets

TEUR	(Notes)	31.12.2018	31.12.2017 2*) adjusted	01.01.2017 1*) adjusted	Change in TEUR	Change in %
Cash and balances with central banks	(18)	589,720	350,895	380,294	238,825	68.1
Trading assets	(19)	152,840	190,940	309,314	-38,100	-20.0
Financial assets at Fair Value (SPPI)	(20)	784,728	N.A.	N.A.	N.A.	-
of which equity instruments		85,959	N.A.	N.A.	N.A.	-
of which debt securities		282,219	N.A.	N.A.	N.A.	-
of which loans and advances to customers		416,550	N.A.	N.A.	N.A.	-
Financial assets at Fair Value (Option)	(21)	392,168	744,665	802,208	-352,497	-47.3
of which debt securities		67,119	348,767	347,029	-281,648	-80.8
of which loans and advances to customers		325,049	395,898	455,179	-70,849	-17.9
Financial assets - Available for Sale	(22)	N.A.	685,352	759,007	-	-
of which equity instruments		N.A.	37,671	118,357	-	-
of which debt securities		N.A.	647,681	640,650	-	-
Financial assets at Cost	(23)	11,535,871	10,847,051	10,687,105	688,820	6.4
of which debt securities		2,492,387	1,730,830	1,732,958	761,557	44.0
of which loans and advances to banks		132,408	106,666	225,932	25,742	24.1
of which loans and advances to customers		8,911,076	9,009,555	8,728,215	-98,479	-1.1
Positive market values of hedges	(24)	81,179	73,985	98,811	7,194	9.7
Affiliates		1,814	1,246	11,236	568	45.6
Shares in companies valued at equity	(25)	2,381	4,195	34,750	-1,814	-43.2
Property, plant and equipment	(26)	70,217	72,808	74,912	-2,591	-3.6
Investment property	(27)	58,184	64,219	59,158	-6,035	-9.4
Intangible assets	(28)	2,483	33,914	2,011	-31,431	-92.7
Income tax assets		2,163	1,037	824	1,126	>100.0
Deferred income tax assets	(29)	8,845	8,984	9,198	-139	-1.5
Other assets	(30)	72,017	103,229	96,709	-31,212	-30.2
Total assets		**13,754,610**	**13,182,520**	**13,325,537**	**572,090**	**4.3**

Liabilities and shareholder's equity

TEUR	(Notes)	31.12.2018	31.12.2017 2*) adjusted	01.01.2017 1*) adjusted	Change in TEUR	Change in %
Trading liabilities	(32)	167,132	163,621	233,043	3,511	2.1
Financial liabilities at Fair Value (Option)	(33)	1,172,869	1,310,885	2,826,384	-138,016	-10.5
of which amounts owed to banks		25,846	29,674	29,281	-3,828	-12.9
of which deposits from customers		140,669	151,237	149,303	-10,568	-7.0
of which securitised liabilities		1,006,354	1,129,974	2,647,800	-123,620	-10.9
Financial liabilities at Cost	(34)	11,072,878	10,355,435	8,923,456	717,443	6.9
of which amounts owed to banks		1,279,963	1,598,964	560,377	-319,001	-20.0
of which deposits from customers		5,541,687	5,187,493	5,291,797	354,194	6.8
of which securitised liabilities		4,251,228	3,568,978	3,071,282	682,250	19.1
Negative market values of hedges	(35)	110,116	119,041	146,847	-8,925	-7.5
Provisions	(36)	42,042	37,566	49,257	4,476	11.9
Income tax liabilities	(37)	9,318	9,804	19,809	-486	-5.0
Deferred income tax liabilities	(38)	3,098	8,841	2,678	-5,743	-65.0
Other liabilities	(39)	45,980	58,748	68,262	-12,768	-21.7
Shareholder's equity	(40)	1,131,177	1,118,579	1,055,801	12,598	1.1
Of which attributable to:						
attributable to owners of the parent company		1,133,737	1,108,017	1,055,763	25,720	2.3
attributable to non-controlling interests		-2,560	10,562	38	-13,122	-
Total Liabilities and shareholder's equity		**13,754,610**	**13,182,520**	**13,325,537**	**572,090**	**4.3**

1*) Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG - see note (5b) and due to IAS 8 in connection with IFRS 9 – see note (5a)
2*) Adjustment due to IAS 8 in connection with IFRS 9 – see note (5a)

III. STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY

Statement of changes in shareholder's equity

TEUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Accumulat-ed other income	Total parent company share-holders	Non-controlling interest	Total share-holder's equity
Balance 31 December 2016	**165,453**	**48,874**	**832,025**	**8,549**	**1,054,901**	**38**	**1,054,939**
Adjustment previous year 1*)	0	0	862	0	862	0	862
Balance 1 January 2017	**165,453**	**48,874**	**832,887**	**8,549**	**1,055,763**	**38**	**1,055,801**
Consolidated net income	0	0	66,123	0	66,123	490	66,613
Other income	0	0	0	497	497	0	497
Comprehensive income 2017	**0**	**0**	**66,123**	**497**	**66,620**	**490**	**67,110**
Addition to consolidation	0	0	0	0	0	-4,580	-4,580
Other changes	0	0	-254	0	-254	14,614	14,360
Dividends	0	0	-14,112	0	-14,112	0	-14,112
Balance 31 December 2017	**165,453**	**48,874**	**884,644**	**9,046**	**1,108,017**	**10,562**	**1,118,579**
Balance 31 December 2017	**165,453**	**48,874**	**884,644**	**9,046**	**1,108,017**	**10,562**	**1,118,579**
first time application IFRS 9 2*)	0	0	5,425	-21,121	-15,696	4	-15,692
Balance 1 January 2017	**165,453**	**48,874**	**890,069**	**-12,075**	**1,092,321**	**10,566**	**1,102,887**
Consolidated net income	0	0	42,297	0	42,297	-13,121	29,176
Other income	0	0	0	10,446	10,446	0	10,446
Comprehensive income 2018	**0**	**0**	**42,297**	**10,446**	**52,743**	**-13,121**	**39,622**
Capital adjustement	-3,301	-4,200	0	0	-7,501	0	-7,501
Reclassifications	0	0	-125	126	1	0	1
Dividends	0	0	-3,827	0	-3,827	-5	-3,832
Balance 31 December 2018	**162,152**	**44,674**	**928,414**	**-1,503**	**1,133,737**	**-2,560**	**1,131,177**

Further details on equity and the composition of capital components – in particular accumulated other comprehensive income – are given in Note (40).

1*) Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG - see note (5b)
2*) Adjustment due to IAS 8 in connection with IFRS 9 – see note (5a)

IV. CASH FLOW STATEMENT

Cash flows from operating activities

TEUR	01.01.-31.12.2018	01.01.-31.12.2017
Consolidated net income	29,176	67,476
Non-cash items included in consolidated net income		
Impairments/reversals on property, plant and equipment	39,969	7,210
Impairments/reversals on financial instruments	30,963	36,186
Allocations/reversals to/from reserves and loan loss provisions	16,020	-26,290
Change in other non-cash items	36,013	80,609
Reclassification of income from the sale of financial instruments and property, plant and equipment	0	-6,427
Other adjustments (interest and income taxes)	-211,458	-134,484
Change in assets from operating activities		
Trading assets	0	611
Loans and advances at Fair Value (SPPI)	-73,868	0
Loans and advances at Fair Value (Option)	20,160	0
Loans and advances at Cost	-257,238	-351,281
Income tax assets	-1,126	2,961
Deferred income tax assets	5,578	0
Other assets	31,212	-15,168
Change in liabilities from operating activities		
Trading liabilities	0	-1
Non-subordinated liabilities at Fair Value (Option)	-127,248	-1,386,790
Non-subordinated liabilities at Cost	726,476	1,565,671
Provisions	-3,234	0
Income tax liabilities	-10,110	-5,460
Other liabilities	-15,006	5,514
Interest received	220,272	233,097
Interest paid	-50,067	-106,623
Income tax paid	-13,819	-33,872
Cash flows from operating activities	**392,665**	**-67,061**

Cash flows from investing activities

TEUR	01.01.-31.12.2018	01.01.-31.12.2017
Cash inflow from the sale/repayment of		
Financial instruments	287,643	515,137
Property, plant and equipment and intangible assets	4,444	1,475
Subsidiaries	2,247	1,602
Cash outflows for investments in		
Financial instruments	-468,097	-366,915
Property, plant and equipment and intangible assets	-2,678	-12,633
Subsidiaries	-18	-4,475
Interest received	55,970	48,862
Dividends and profit distributions received	1,397	1,075
Cash flows from investing activities	**-119,092**	**184,128**

Cash flows from financing activities

TEUR	01.01.-31.12.2018	01.01.-31.12.2017
Cash changes in own shares and holdings	-30,000	0
Proceeds from capital increases	22,499	0
Cash changes subordinated and Tier 2 capital	-21,121	-114,749
Dividends	-3,830	-14,112
Interest paid	-11,717	-8,055
Cash flows from financing activities	**-44,169**	**-136,916**

Reconciliation to cash and balances with central banks

TEUR	01.01.-31.12.2018	01.01.-31.12.2017
Cash and balances with central banks as at 1 January	**350,895**	**380,294**
Cash flows from operating activities	392,665	-67,061
Cash flows from investing activities	-119,092	184,128
Cash flows from financing activities	-44,169	-136,916
Effects of changes in exchange rate	9,421	-9,550
Cash and balances with central banks as at 31. December	**589,720**	**350,895**

Further disclosures on the cash flow statement are shown under Note (43).

V. NOTES

A. ACCOUTING 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 (50). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

The consolidated financial statements for the 2018 financial year and the comparative figures for 2017 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 28 March 2019, 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 2018. 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 (2017: 42), 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 (2017: 37) and five in other countries (2017: 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.

3 (2017: 5) material Austrian associates are accounted for using the equity method.

The aggregated total assets of associated investments not measured at equity amounted to TEUR 20,181 in the past financial year (2017: TEUR 20,287). The aggregated equity of these investments amounted to TEUR 4,806 (2017: TEUR 4,115), and aftertax earnings totalled TEUR 313 (2017: TEUR 245). If these investments were included in our consolidated financial statements using the equity method and based on balance sheet data as of 31 December 2018, the measurement effect on the items "Shares in companies valued at equity" and "Equity" would be TEUR 471 (2017: TEUR 264). Likewise, inclusion in the income statement would have an effect of TEUR 94 (2017: TEUR 74) 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 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 and other Group subsidiaries (see Part VIII), which has a different reporting date of 30 September 2018 and prepared interim financial statements dated 30 December 2018.

As at 26 September 2018, VKL II Grundverwertungsgesellschaft m.b.H. has been liquidated. The company thus no longer forms part of the scope of consolidation in 2018. Deconsolidation effects amounting to TEUR -15 were recognised through profit or loss under the result from equity consolidation.

Silveretta-Center Leasing GmbH's consolidation obligation also ceased to apply as of 23 November 2018. The company went into liquidation and was removed from the commercial register. Deconsolidation effects amounting to TEUR 26 were recognised through profit or loss under the result from equity consolidation.

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 in accordance with the historical cost principle. Except for those financial instruments that must be measured 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 result from financial instruments at fair value. The translation differences from financial assets allocated to the category at fair value (AFV) and fair value option (FVO) are recognised through profit or loss in the income statement as gains or losses from changes under net result from other financial instruments at fair value.

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-Kurse	31.12.2018	31.12.2017
CHF	1,1269	1,1702
JPY	125,8500	135,0100
USD	1,1450	1,1993
PLN	4,3014	4,1770
CZK	25,7240	25,5350
GBP	0,8945	0,8872

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 and 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

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 IFRS 9, derivatives are also financial instruments. A financial instrument 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. 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.

Initial recognition and subsequent measurement

On initial recognition, financial instruments are measured at transaction price i.e. at fair value (= amortised cost) irrespective of the measurement category. Financial instruments are subsequently accounted for on the basis of the principles of categorisation and measurement stipulated by IFRS 9. With regard to the classification and valuation of financial instruments, IFRS distinguishes between debt instruments, equity instruments and derivatives. As in accordance with the provisions of IAS 39, IFRS 9 also requires a financial instrument to be categorised on initial recognition to a measurement category that determines subsequent measurement in the future. The table below shows the classifications of financial instruments.

Classifications of financial instruments	Abbreviation
Trading assets	HA
Financial assets at Fair Value (SPPI)	SPPI
Financial assets at Fair Value (Option)	FVO
Financial assets at Fair Value (OCI)	OCI
Financial assets - Available for Sale (Previous year)	AFS
Financial assets at Cost	AC
Trading liabilities	HP
Financial liabilities at Fair Value (Option)	LFVO
Financial liabilities at Cost	LAC

For allocation to the respective category, an allocation to the business models must be made for financial assets in advance depending on the intended business activity with this financial instrument. Determining and assessing the business model is based on portfolios. The portfolios cannot be freely allocated, but must be based on the management of the business activity. In addition, the allocation to the respective category depends on the cash flow criteria being met.

Hypo Vorarlberg's business model

- "Hold" business (hold to collect)
  The business model aims to hold the debt instrument to the end of its term, thereby generating contractual cash flows (i.e. interest income) and collecting the nominal value on maturity. However, it is possible to make sales from this business model to a certain extent. Thus, immaterial sales can generally be made in this business model, but also occasionally material transactions, but they are uncommon and occur rarely. Compliance with this regulation will be reviewed at regular ALM board meetings.
- "Trading book" business model
  The business model aims to generate cash flows by selling debt instruments. The acquisition takes place with the intention of generating short-term gains. The Bank maintains only a small trading book according to CRR for servicing the customer securities business. All debt securities that cannot be clearly assigned to one of the other business models must also be assigned to this business model.
- "Hold for sale" business model
  Debt instruments are held under a business model whose objective is to collect the contractual cash flows or sell the debt instruments. The Group does not use this business model.

Cash flow criteria of financial assets

In addition to the allocation of debt instruments to the business models, the contractual cash flow conditions also apply to the categorisation of financial instruments. If a contract of a financial instrument does not exclusively provide for the payment of interest and principal that is closely related to the underlying financial instrument, the payment criterion (SPPI - solely payment of principal and interest) will not be met and must subsequently be measured at fair value in accordance with IFRS 9.

The individual categories and their composition are outlined below.

Trading assets

This category recognises financial assets that have been allocated to the "trading book" business model. Derivative financial instruments of the banking book are also recognised in this category if they have a positive market value. The derivatives were mainly concluded to hedge market price risks of financial instruments of the banking book. Although there is therefore primarily no intention to trade, these derivatives must be recognised in this category in accordance with IFRS. 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 through profit or loss. Gains/losses on remeasurement and realised gains/losses are recognised in the net result from financial instruments at fair value. 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.

Financial assets – at fair value (SPPI)
Those financial instruments that have been allocated to the "hold" business model but which do not meet the IFRS 9 cash flow criteria (SPPI) are allocated to this category. These are generally debt instruments whose interest rate conditions include a lever or financing arrangements in which the Group significantly contributes to the project risk. Owing to the nature of equity instruments, the cash flow criteria cannot generally be met by them. Thus, those equity instruments are included in this category that have not been allocated to the "trading book" business model and that are not measured voluntarily through "other comprehensive income". They are measured at fair value through profit or loss. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are recognised through profit or loss in the net result from financial instruments at fair value. Impairment losses for the at fair value category (SPPI) are included implicitly in the fair value of the financial instrument and are therefore not dealt with separately.

Financial assets – at fair value (option)
This category includes those debt securities that have been allocated to the "hold" business model and that also meet the cash flow criteria, but which have been voluntarily designated at fair value. This option referred to as a fair value option may only be used if it eliminates or significantly reduces inconsistencies in the measurement. In our case, these are financial assets whose interest rate and currency risks have been hedged with an interest rate swap, currency swap or cross-currency swap and hedge accounting is not used for this economic hedge. They are measured at fair value through profit or loss. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are recognised through profit or loss in the net result from financial instruments at fair value. Impairment losses for the at fair value category (SPPI) are included implicitly in the fair value of the financial instrument and are therefore not dealt with separately.

Financial assets at fair value (OCI)
This category includes assets measured at fair value through other comprehensive income Debt securities of the "hold for sale" business model are allocated to this category. Equity instruments can be voluntarily allocated to this category. By utilising this irrevocable option, the subsequent measurement is directly carried out in profit or loss through "other comprehensive income". Dividends are recognised through profit or loss in dividend income. Even if the equity instrument is disposed of, gains/losses on remeasurement recognised in "other comprehensive income" remain. Impairment is recognised through profit or loss in the income statement. Reversals of impairment on debt securities are recognized in the income statement. If the financial asset is sold, the gains/losses on remeasurement accumulated in other comprehensive income are reversed and transferred to the net result from financial instruments at cost and other comprehensive income. In the consolidated financial statements 2018, no financial assets are allocated to this category.

Financial assets at cost
This category includes those debt securities that have been allocated to the "hold" business model and meet the cash flow criteria. The objective of these financial instruments is to collect contractual cash flows. They are measured at amortised cost. This 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.

Trading liabilities
Financial liabilities held for trading purposes are assigned to this category. Derivative financial instruments of the banking book are also recognised in this category if they have a negative market value. The derivatives were mainly concluded to hedge market price risks of financial instruments of the banking book. Although there is therefore primarily no intention to trade, these derivatives must be recognised in this category in accordance with IFRS. 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 through profit or loss. Gains/losses on remeasurement and realised gains/losses are recognised in net result from financial instruments at fair value. Interest expenses and interest income from trading liabilities and derivatives are recognised in net interest income.

Financial liabilities at fair value (option)
Those liabilities that were voluntarily designated at fair value are recognised in this category. This option referred to as a fair value option may only be used if it eliminates or significantly reduces inconsistencies in the measurement. 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. 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. They are measured at fair value through profit or loss in net result from financial instruments at fair value, whereby the portion of the fair value attributable to the change in own credit rating is recognised in other comprehensive income (OCI). The interest income and interest expenses are reported in net interest income.

Financial liabilities at cost
Those liabilities for which there is no intention to trade and for which the fair value option was not selected are recognised in this category. They are measured at amortised cost. This 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.

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.

The measurement criteria for the individual categories are described below.

Measurement of financial assets	Measurement
Trading assets	Fair value in the income statement
Financial assets at Fair Value (SPPI)	Fair value in the income statement
Financial assets at Fair Value (Option)	Fair value in the income statement
Financial assets at Fair Value (OCI)	Fair value changes in other comprehensive income
Financial assets - Available for Sale (Previous year)	Fair value changes in other comprehensive income
Financial assets at Cost	Amortised cost

Measurement of financial liabilities	Measurement
Trading liabilities	Fair value in the income statement
Financial liabilities at Fair Value (Option)	Fair value in the income statement
Financial liabilities at Cost	Amortised cost

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 Reutersprice 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

- **For derivatives,** fair value is determined using input factors observable on the market, such as yield curves and ex-change 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 ac-count when determining credit spreads. If no CDS spread is available for our counterparty, the credit spread is measured using internal probabilities of default.

d) Financial guarantees
According to IFRS 9, 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. Since IFRS 9, there is no longer any requirement to separate financial assets. Owing to the cash flow criteria, they are measured at fair value. Liabilities continue to be subject to separation and independent measurement of the embedded derivative if the host contract is not already measured at fair value. The Group 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

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 IFRS 9. 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 part of the counterparty. Settlement very often takes the form of a triparty repo agreement.

g) Impairment of financial assets

The impairment requirements of IFRS 9 comprise the following financial assets:

- Financial assets measured at amortised cost in accordance with IFRS 9
- Financial assets measured at fair value through OCI (that are not equity instruments)
- Lease receivables within the scope of IAS 17
- Loan commitments, with the exception of loan commitments recognised at fair value through profit or loss (FVTPL) in accordance with IFRS 9
- Financial guarantees within the scope of IFRS 9 that are not measured at fair value through profit or loss
- Contract assets in accordance with IFRS 15

Under IFRS 9, a loss provision shall be recognised at an amount equal to the expected losses over the remaining lifetime. For financial assets whose credit risk has not increased significantly since initial recognition (stage 1) and for financial assets whose credit risk is classified as low, the expected loss shall be recognised over the next 12 months. For financial assets whose credit risk has increased significantly since initial recognition (stage 2), the expected loss shall be recognised over the remaining lifetime. A loan loss provision shall be recognised based on estimated cash flows (estimated cash flow approach) for defaulted financial assets; expected losses can be recognised over the remaining lifetime for defaulted financial assets below the significance threshold.

The following formula is generally used to calculate the expected losses:

Exposure at default (EAD) x probability of default (PD) x loss given default (LGD)

The expected losses shall be recognised at the present value and discounted at the relevant effective interest rate for a financial instrument.

The EAD for off-balance sheet items (especially open commitments) is estimated using the credit conversion factor (CCF).

The LGD amount depends on whether it relates to the unsecured portion of the financing or what collateral has been used to secure the financing. Collateral is accounted for using the internal lending value – the LGD is calibrated to this value. The calculation involves breaking a financial instrument down into EAD layers based on collateral and the uncovered portion – the relevant applicable LGD is then applied for each layer.

Financial assets with a low credit risk exemption

The Group applies this exemption exclusively to securities with an external investment grade rating (BBB- / Baa3 or higher).

Allocation to stages

A financial instrument is allocated to stage 1, unless the credit quality has deteriorated significantly since initial recognition or there is a reason for default.

A significant increase in the credit risk is determined based on quantitative and qualitative factors.

The quantitative increase in the credit risk is ascertained by comparing the forward lifetime PD of the original rating with the lifetime PD of the current rating for the remaining lifetime of a financial instrument. When the quotient of the two values exceeds a certain level, the financial instrument is allocated to stage 2. This certain level is defined in such a way that the rating must have deteriorated by more than two notches on average since initial recognition. For information on the rating scale and the rating systems used, see section G. Financial risks and risk management, point V.

The Group uses the following qualitative indicators to determine a significant increase in the credit risk:

- No original rating available
- No current rating available
- 30 days or more in arrears
- Forbearance measure active
- 1 dunning level or more

The presumption that the credit risk has increased significantly since initial recognition if financial assets are more than 30 days past due is not rebutted.

Back transfer
When a financial instrument no longer exhibits a significant increase in credit risk, it is allocated to stage 1. In the event of a forbearance measure, there is a two-year good conduct period before the measure is erased. During this period, the customer remains in stage 2. There are no good conduct periods for transfers back from stage 2 to stage 1.

Original rating
The current rating when a financial instrument is initially recognised is recorded as the original rating of the financial instrument. This is normally the customer rating. Internal and external ratings are used. Issue ratings are also used for securities (for mortgage bonds, the issue rating may be better than the issuer's rating).

Losses incurred but not yet identified
The Bank uses various instruments to detect default characteristics and incurred losses early on. The corporate segment reassesses its significant customers every year based on up-to-date documents including customers' statements of account and budget calculations. Customer ratings have to be as up to date as possible. There are control processes in place to ensure that the number of old ratings is kept to a minimum.

The qualitative indicators used in the staging process are intended to ensure a prompt transfer to stage 2; the 30 days in arrears indicator is a particularly important one. The measures taken are designed to ensure that there are no significant losses that have not yet been identified.

Stage 3: Credit-impaired financial instruments
All loans with a default rating that matches the definition of default in Article 178 CRR are allocated to stage 3 financial instruments. The Group has decided to adopt the regulatory definition of default for the IFRS impairment model. This applies equally to all financial instruments.

The Group uses the following approaches and indicators to determine whether a financial asset has defaulted:
- Fourth unsuccessful reminder
- 90 days in arrears
- Insolvency – daily requests and comparisons of newly registered insolvency proceedings
- Economic deterioration – continuous credit assessment within the scope of the review and rating process through operating credit risk management and sales units
- Customer "unlikely to pay" – insufficient estimated cash flows – identification through credit risk management
- Significant financial difficulty of the issuer or the borrower (need for restructuring)
- Eroded economic equity in connection with losses

Monitoring is either automated or ensured through close cooperation between sales units, credit risk management and restructuring management.

Impairment / reversals of impairment of financial assets in stage 3 is calculated using either a general approach or the estimated cash flow (ECF) approach. Both approaches are based at individual customer level. The general approach is used for non-significant customers. These are customers whose total exposure is less than TEUR 150. The calculation is performed in the same way as for stage 2, with the difference that it is calculated solely on a monthly basis on account of the 100 % probability of default (PD).

The ECF approach is used for significant defaulted customers in stage 3. A customer is classified as significant if their total loans and off-balance sheet items exceed a customer exposure of TEUR 150. The amount of the loan loss provision equates to the difference between the carrying amount of the asset and the present value of estimated future cash flows (contractual cash flows and collateral cash flows). The scenario-weighted impairment requirement is calculated based on the expected returns including the expected collateral.

Different scenarios must be presented and weighted accordingly when calculating the requirement for loan loss provisions based on the customer's status.

The Group has defined the following scenarios:

Contractual cash flow scenario
In this scenario, only capital and interest rate cash flows arising from contractual arrangements are applied over the entire lifetime. Any potential proceeds from the realisation of collateral are not taken into account. When estimating cash flow amount, it is assumed that these cash flows will be completely fulfilled over the remaining lifetime of the item. This also applies to off-balance sheet items. This scenario only applies to customers who are in a good conduct period following recovery.

Going concern scenario
In the going concern scenario, it is assumed that the customer is making all its interest and/or capital payments and realisation of available collateral is not necessary.

Gone concern scenario
The gone concern scenario is based on the assumption that the customer is no longer meeting its low contractual cash flows and is therefore only able to cover its outstanding loans largely through proceeds generated from the realisation of furnished collateral.

Loan loss provisions based on status
The going concern and gone concern scenarios are weighted differently based on the status (still undergoing restructuring or already in realisation phase). The closer the realisation status is, the higher the weighting of the gone concern scenario. This weighting based on status approach has been set out in a work instruction. Any change to this defined weighting must be documented by the person responsible.

Recovery
Requirements for the repayment of an exposure within the normal range include adhering to a good conduct period of at least 6 months. Requirements for the commencement of the good conduct period include the customer's recovery and:

- No arrears on accounts
- No impairment (except for global valuation allowances)
- No active forbearance measures
- There have been no (partial) loan write-downs

If there are objections during the good conduct period (see definition of good conduct below), the good conduct period will be ended. For the duration of the good conduct period, the customer remains in default and retains its default rating (5e rating).

Definition of good conduct:

- Repayments are made as agreed
- No new forbearance measures
- No new impairment (except for global valuation allowances)
- No new default event
- No third-party executive measures
- No returns on the account

If the customer is still in the probationary phase on account of a legitimate forbearance measure, the good conduct period can end on no earlier than the expiration date of the minimum forbearance observation period. Once the good conduct period expires, the customer receives the rating grade "NR" (not rated) until a performing rating is issued.

Derecognition
Loans or parts of loans and securities that are no longer likely to be recoverable shall be derecognised. An unrecoverable loan exists, for example, if at least two execution runs have been unsuccessful, the customer does not earn any seizable income in the long term or there are other liabilities in an equally high amount, meaning there is no prospect of the loan or parts of the loan being recoverable. Loans and securities shall also be derecognised, in part or in their entirety, if a part of or the full amount outstanding has been waived. This can occur within the context of insolvency proceedings (restructuring plan, payment schedule, absorption proceedings) or an out-of-court settlement.

Forbearance
Forborne exposures are exposures for which concessions have been made towards borrowers who are in danger of no longer meeting their payment obligations on account of financial difficulties. A forborne exposure exists only if both the following elements are covered:

- The modified/refinanced contract includes a concession and
- Payment difficulties are identified

Forbearance concessions can be granted to borrowers in the performing category (rating 1A to 4E) and in the non-performing category (rating 5A to 5E). A borrower is continued to be classified as performing if the forbearance measure does not lead to non-performing status and the borrower was not non-performing at the time of the forbearance measure.

All the following conditions must be met for the forbearance status to be discontinued:

- An economic circumstances analysis leads us to believe that the borrower is able to meet its payment obligations.
- The loan is classified as performing.
- At least two years (probation period) has passed since the contract has been classified as performing.
- The borrower has met its payment obligations regularly to a significant extent and during at least half the probation period.
- All the borrower's exposures are less than 30 days past due during and at the end of the probation period.

Transactions involving forbearance measures that are not classified as non-performing are monitored continuously. Furthermore, transactions involving forbearance measures undergo special observation to check for overdrafts exceeding 30 days.

These measures ensure that a transaction involving a forbearance measure is classified as non-performing as soon as the following occur:

- The desired outcome of the forbearance measure (re-establishing proper loan management as per the contract) does not materialise or is no longer guaranteed.
- There is a payment default exceeding 30 days.
- Another forbearance measure was granted during the probation period.
- The customer fulfils another stipulated default criterion.

Generally, a loan loss provision in stage 2 is calculated for all transactions involving a forbearance measure that are not yet classified as non-performing. A loan loss provision in stage 3 is recognised for transactions involving a forbearance measure that are already classified as non-performing. Loans and advances with forbearance measures are shown in Note (61).

Determining parameters for calculating expected loss
The starting point for determining the parameters are the through-the-cycle (TTC) estimates for these parameters. A TTC estimate claims to be relatively stable over the business cycle.

TTC PD
PD is estimated on the basis of a history of the Bank's own defaults. The calculation takes into account portfolios of the Bank that are large enough for statistically stable assumptions and that have contained a sufficient number of defaults to estimate the default rates for the vast majority of current rating grades. This is the case for both private and corporate customers of the Bank. The curves produced by this calculation are also applied to other customer groups as they are the best form of estimate that can be obtained at reasonable cost. Furthermore, these other customer groups (i.e. public debtors) have a comparatively low significance and usually enjoy very good ratings. The process for estimating the PD for securities is an exception to this rule. The Bank's own portfolio of securities constitutes a mixed, global portfolio that has a focus on Western Europe and a very good average credit quality. The customer structure differs substantially from the Bank's core business. PDs are estimated using Moody's global default rates for the period from 1983 to the present.

LGD
For a description of the main types of collateral, see section G. Financial risks and risk management, point V.

LGD is defined as a workout LGD. The Group's LGD is calculated from the Bank's default data. It factors in proceeds and direct costs from realisation. The cash flows are discounted at the average interest of the defaulted non-current financial instruments. In order to calculate unsecured and secured LGDs, the proceeds are distributed according to the waterfall principle. They are first allocated to the collateral starting with the collateral with the lowest LGD. This means that proceeds are first allocated to cash collateral and guarantees, followed by mortgage-backed securities. For this purpose, collateral is calculated at the time of default to determine the estimated proceeds. Proceeds not yet distributed are subsequently allocated to the unsecured portion. Discounts are applied to the figure for identified data errors, missing historical summaries and the very low data basis.

The real estate LGD is calculated using the same method for the leasing portfolio in Bolzano. The direct costs are estimated.

Data gathering is also used for the Swiss portfolio and the Austrian leasing portfolio. However, the number of defaults and realisations are much too low to be able to make an assumption on this basis.

CCF
The Bank calculates the CCF of defaulted loans. The calculation measures the development of scope of use during the twelve months before a default. The results can vary greatly; the low data basis is a factor here. Hence the Bank uses the regulatory CCF (as does internal risk management). This currently represents the best form of estimate. No dependence on macroeconomic variables was identified.

Early repayments
Early repayments have little relevance over a twelve-month period in stage 1. It can be assumed that no significant early repayments are possible for stage 2 cases. Early repayment profiles are not taken into account.

Repayments of instruments with an indefinite term
For instruments with an indefinite term, maturity is estimated from the Bank's portfolio. The same maturity profiles are applied as for internal risk management. The estimated repayment profile is determined on the basis of an analysis of historic volume performance per relevant product.

Point-in-time (PIT) adjustment
PIT adjustment of parameters that were found to be dependent on macroeconomic variables is used to incorporate current and expected (forward looking information, FLI) on the macroeconomic situation and to estimate the impact of such on the expected loss.

An assessment was carried out to determine whether the parameters PD, LGD and CCF are dependent on independent variables. It was assumed from the outset based on its history that there are no dependencies for CCF. There are different and varying results based on CCF category and portfolio.

The following independent variables were used:
- Annual real change rate in GDP
- Unemployment
- Trend in residential real estate prices
- Leading indicators of the OENB:
  - Production index
  - Investment in machinery and equipment
  - Exports
  - Consumer spending intentions
  - Production expectations of the manufacturing industry
  - Selling price expectations

The first step was to eliminate variables with a high level of correlation. Statistical correlations to the Bank's parameters given above were calculated for the remaining variables. Finally, variables were eliminated for which the statistical analysis produced implausible correlations. Using the variable "annual real change rate in GDP" produced the best statistical explanation of the parameters and a reasonable economic context.

The following approach is taken for PIT adjustment of the parameters. An estimate is made of the normal distribution of the GDP change rate. This estimate is used as a basis to determine upper and lower limits for a normal scenario. Exceeding the upper limit represents a positive deviation; falling short of the lower limit represents a negative deviation. Expected GDP development for the coming year determines the probability of these limits being exceeded or undershot. Expected GDP development is calculated based on the average of recent estimates made by the OENB, WIFO and IHS. A historical analysis showed a high level of consistency between these forecasts and actual realised growth. The probabilities for the normal scenario and for positive/negative deviation are then applied to the parameters LGD and PD, historical data having also been used to determine upper and lower limits of a normal scenario for these parameters as well.

Purchased or originated credit-impaired (POCI) financial instruments
POCI financial instruments are financial assets that already show objective evidence of impairment when they are initially recognised (credit-impaired assets). POCI assets can arise in three cases:
Acquisition of POCI assets through the purchase of a significantly credit-impaired financial instrument (purchased credit impaired), such as acquiring a financial asset at a price that includes a significant credit discount. New transaction with a customer that has a default rating (fresh money and bridge loans). Additions that result in a significant increase in exposure of the uncovered portion and that are in the early phase of restructuring (recovery still uncertain).
Substantial modification of a financial asset in stage 3 due to credit rating, which results in the reclassification of the original financial instrument and to the new addition of a modified and impaired financial instrument (originated credit impaired).

Steps are taken to ensure that POCI instruments at least always include an estimated loan loss provision over the remaining lifetime.

Financial assets at 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 and impairment of financial assets. Interest income from impaired assets in stage 3 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 net interest 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. Reversals of impairment are reported in the income statement under the same item as the impairment loss itself.

Financial assets at fair value (OCI)
For debt instruments assigned to the "hold for sale" business model and thereby included in the financial assets at fair value (OCI) category, impairment shall be recognised in the same way as for financial assets at cost. Impairment and reversal of impairment is recognised through profit and loss under loan loss provisions and impairment of financial assets. For financial assets at fair value (OCI), the recognised impairment is not deducted from the asset's carrying value, but rather the impairment reduces accumulated other comprehensive income (OCI).

Off-balance sheet loans
Loan loss provisions for off-balance sheet items, such as warranties, guarantees and other loan commitments, are included under provisions; the associated expense is recognised through profit and loss under loan loss provisions and impairment of financial assets.

h) Hedge accounting
As part of risk management, Hypo Vorarlberg has identified risks that are hedged by derivative financial instruments. Old hedging relationships according to IAS 39 were continued following the transition to IFRS 9. New hedging relationships that comply with the provisions of IFRS 9 for hedge accounting are correspondingly accounted for as such in accordance with the guidelines. Derivative instruments that are concluded as part of the Group's hedging strategy but do not qualify for hedge accounting are recognised as held for trading in the financial statements. This is the case for customer derivatives and their offsetting hedge.

One of the main driving forces of fluctuations in the market value of fixed income financial instruments is the change in the relevant reference interest rate (LIBOR or EURIBOR). In the Group, this interest rate risk is kept within the defined limits by the conclusion of hedging transactions in accordance with the risk management strategy. The hedging instruments transfer the fixed rate of return into a variable interest rate linked to the reference interest rate and thus enable a transfer of the interest-induced market price risk. In addition, changes in exchange rates result in fluctuations in the market value of financial instruments in foreign currencies. In the Group, this currency risk is kept within the defined limits by the conclusion of hedging transactions in accordance with the risk management strategy. The hedging instruments transfer payments in foreign currencies into fixed payments in EUR, thereby enabling a transfer of the currency-induced market price risk.

Underlying transactions are categorised as financial assets at cost and financial liabilities at cost. The Group uses derivative instruments to hedge against currency and interest rate risks, such as interest rate swaps, currency swaps and cross-currency swaps. As a result of the course of the hedge accounting in accordance with IFRS, formal documentation is provided which describes, among other things, the type of hedge, the hedged risk, the economic relationship, the risk management goal of the hedge and the manner in which the effectiveness is assessed. The effectiveness of the hedge is an essential condition for the application of hedge accounting. In many cases, the economic relationship is shown in a qualitative and future-looking way by documenting the compliance of the most important risk-relevant parameters between the underlying transactions and the hedging transactions at the time of the documentation. This test is referred to as critical terms match (CTM). If the material business parameters are not or, in the case of changed contracts, no longer sufficiently aligned close enough to each other in the usual extent of a usual economic hedge, a purely qualitative assessment would entail high uncertainty. In these cases, the final assessment may be based on the results of quantitative methods. Quantitative effectiveness is assessed prospectively using the dollar offset method via linear regression analysis.

Only fair value hedges have been used in the Group so far. A hedge exists if one or more hedges can be clearly allocated to a hedged item.

Fair Value Hedges
In accordance with IFRS 9, the accounting logic for the fair value hedge is essentially unchanged from the old IAS 39 regulations. Only the cost of hedging and the treatment of equity instruments for which the OCI option has been exercised are new. For underlying transactions measured at amortised cost, the change in the fair value in the hedged item resulting from the hedged risk is recognised in the income statement as part of the carrying amount of the underlying transaction (basis adjustment). The change in the fair value of the corresponding hedge is also recognised in the income statement. Any ineffectiveness will thus take direct effect in the income statement. If equity instruments for which the OCI option has been exercised are designated as hedges under hedge accounting, the change in the fair value of the derivative, including any ineffectiveness, is recognised in accumulated other comprehensive income.

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 (56).

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 financial assets at cost (Note 23). 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 under Note (6). 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 under Note (27) 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 saleand-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 is reported under 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 Intangible assets are recognised at cost on initial recognition and subsequently carried at cost less cumulative amortisation and cumulative impairment. 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, but was fully amortised in 2018. 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). Since at the time of the preparation of the balance sheet, contrary to the original expectations, the recoverability of these assets for existing shareholders was not evident, no positive value could be attributed to this position.

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) Income tax assets

Current taxes
Current income 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 income 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 income 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 income 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 income tax assets are only recognised if there are sufficient deferred income 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 income tax assets on tax loss carryforwards.

Deferred income 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 and impairment of of financial assets. 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 (2017: 12) pensioners and their survivingdependants are entitled to a defined-benefit bank pension. This is a final salary plan based on a works agreement. 2 (2017: 5) 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 (2017: 18) 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. No significant negative interest from conventional financing and deposit products are incurred. 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.

Dividend income
Income from equity investments (dividends) is recognised in this item. Dividends are recognised in the income statement only after the legal right to receive payment of the dividend is established.

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 from financial instruments at cost and OCI
This item includes generated gains and losses of financial instruments measured at amortised cost or at fair value through other comprehensive income.

Net result from financial instruments at fair value
This item comprises several components.
- Trading results
- Result from the valuation of derivatives
- Result from financial assets and liabilities measured at fair value through profit or loss.
- Net result on hedge accounting

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. The net result from financial instruments at fair value also includes ineffective portions from hedging and currency gains and losses. The net result from financial instruments at fair value 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 directly recognised in equity from 1 January 2018.

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 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.

Administrative expenses
Administrative expenses include the following expenses accrued in the reporting period and comprises staff costs and material expenses.

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.

Depreciation and amortization
This item comprises depreciation and impairment of property, plant and equipment, intangible assets and investment property. Impairments from inventory write-downs are recognised in this item.

Loan loss provisions and impairment of financial assets
This item shows the recognition and reversal of valuation allowances and provisions in relation to financial instruments. Direct write-downs and amounts received on loans and advances are also reported in this item.

Impairment of non-financial assets
This item shows the recognition and reversal of valuation allowances in relation to non-financial assets. These impairments comprise the balance sheet items investment property, plant and equipment, investment property, goodwill, intangible assets and other assets.

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 result from financial instruments at fair value, 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. As at 1 January 2018, according to IFRS 9, such remeasurement effects must be directly recognised in equity.

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 of financial assets at cost
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 879 (2017: TEUR 898). A 1% reduction in the impairment ratio with respect to the underlying exposure would reduce the risk provision by TEUR 879 (2017: TEUR 898). The development of credit risk provisions is shown in Note (57). The effects on the income statement are shown in Note (15). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 11,535,872 (2017: TEUR 9,781,418).

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 (55) for information on the sensitivities of the measurement models used. With regard to the income statement, these assumptions and estimates affect the net result from financial instruments at fair value in Note (10). 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 311 (2017: TEUR 1,251) and was recorded in the net result from financial instruments at fair value. The effect from the approach of credit risk for financial liabilities amounted to TEUR 14,888 (2017: TEUR -14,223) and was recorded in the previous year in the result from change in own credit risk. In the 2018 financial year, this amount was recognised outside profit or loss in other comprehensive income. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 908,367 (2017: TEUR 290,187) and of the liabilities TEUR 765,974 (2017: TEUR 874,090).

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 (37). 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 income tax assets to be recognised based on the probable timing and amount of future taxable income and future tax planning strategies. Income 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 (29) and (38). The effects on the income statement are shown in Note (17) as well as those of the Other Result on Note (40). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 11,008 (2017: TEUR 10,021) and of the liabilities TEUR 12,416 (2017: TEUR 18,645).

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 (36).The effects on the income statement relating to liabilities and credit risks are shown under loan loss provisions in Note (15) and in other cases under administrative expenses in Note (13) and are recognised in other operating income and expenses in Note (11) and Note (12). The carrying amount of the provisions – not including social capital – underlying the judgements, assumptions and estimates amounts to TEUR 17,680 (2017: TEUR 14,353).

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“: Rechnungsgrundlagen für die Pensionsversicherung

Actuarial assumptions for the calculation of the present value of social capital	2018	2017
Interest rate/domestic	2.00%	1.90%
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	1.80%	2.00%

The actuarial gains and losses from the adjustment of actuarial assumptions were recognised in other comprehensive income at TEUR -1.000 (2017: TEUR 1,276). The deferred taxes resulting from the recognition were also recognised directly in other comprehensive income at TEUR 234 (2017: TEUR -284). For 2019, pension payments of TEUR 376 (2018: TEUR 363), severance payments of TEUR 423 (2018: TEUR 285) and anniversary bonuses of TEUR 72 (2018: TEUR 113) are expected.

The amount of social capital provisions is based on 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 1,381 (2017: TEUR 1,274), and a 0.5% increase in the discount factor would reduce staff costs by TEUR 1,261 (2017: TEUR 1,166). A 0.5% decline in the salary or pension trend would reduce staff costs by TEUR 1,241 (2017: TEUR 1,136), and a 0.5% increase in the salary or pension trend would increase staff costs by TEUR 1,343 (2017: TEUR 1,228). A 0.5% decline in employee turnover would increase staff costs by TEUR 92 (2017: TEUR 88), and a 0.5% increase in employee turnover would reduce staff costs by TEUR 92 (2017: TEUR 88). The carrying amounts of social capital are shown in Note (36). Effects on the income statement are reported in Note (13). The carrying amount of the social capital underlying the judgements, assumptions and estimates amounts to TEUR 24,362 (2017: TEUR 23,213).

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 1.104.133 (2017: TEUR 1.106.816).

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.

(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 2018. These rules must also be observed in the EU and concern the following areas:

Application 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. There were no material changes for the Group, as the standard is not applicable to leases and financial instruments – and therefore not applicable to the majority of our income. In other services, such as the customer custodian business, asset management and safe-keeping, we have no multi-year contracts with customers and other customer loyalty programmes. Income is recognised in the result only when we have met our performance obligation. This depends on the types of service and contracts, annually, twice a year, quarterly and monthly.

Application of IFRS 9 – Financial Instruments
In July 2014, the IASB published IFRS 9. The standard replaces 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 has an extensive impact on the classification and measurement of the Group's financial assets and liabilities. Hypo Vorarlberg Bank AG does not exercise the provisions of Article 473a CRR. The effects from the transition to IFRS 9 are shown in Note (5).

IAS 1 - Presentation of Financial Statements
As at 1 January 2018, in accordance with IAS 1.82(a), interest income calculated in accordance with the EIR method must be presented separately from other interest income in the statement of comprehensive income.

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. As the existing share option scheme expired at the end of November 2018, the Group has no effects from 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. This did not give rise to any effects for the Group.

IFRS 7 – Financial Instruments: Disclosures
The Group will apply the differences between IFRS 9 and IAS 39 given the revision of IFRS 7 in conjunction with IFRS 9 as at 1 January 2018. These differences include:
- The presentation of transition effects
- Qualitative and quantitative information concerning the determination of credit risk, such as input parameters and assumptions
- Additional and detailed information on hedge accounting

Amendments to IAS 40 – Investment Property
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 has observed the new provisions for future reclassifications. There were no effects for the Group resulting from the amendment.

Amendments to IFRS 1 and IAS 28 – Annual Improvements 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. This resulted in no significant effects for the Group.

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. 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 2018 financial year. Unless stated otherwise, the amendments apply to financial years beginning on or after 1 January 2019. The listed standards and revisions of standards and interpretations will only be applied once they have come into force.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation
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 analysis has shown that 22 leases within the Group, where the Group is the lessee, are affected by the new regulations. The value in use calculated is expected to amount to TEUR 10,462. The annual straight-line depreciation is expected to amount to TEUR 1,041 and the annual interest expense is expected to amount to TEUR 169.

Publication of IFRIC 23 – Uncertainty over Income Tax Treatments
IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 becomes effective for reporting periods beginning on or after 1 January 2019. The Group does not expect this to have any material effects.

Amendments to IFRS 3 – Definition of a Business
With the amendment, the IASB clarifies that a business comprises a set of activities and assets which, at a minimum, include an input and a substantive process that together significantly contribute to the ability to create outputs. Furthermore, in terms of output, the focus is now on the rendering of goods and services to customers; the reference to cost reductions is omitted. The new provisions also include an optional "concentration test" that should permit a simplified assessment of a business. The changed definition should be applied to business combinations occurring on or after 1 January 2020. The Group is not currently expecting any material effects on the Group.

Amendments to IAS 1 and IAS 8 – Definition of 'material'
On 31 October 2018, the IASB published amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments provide a uniform and more precise definition of the materiality of financial information in IFRS and supplement it with accompanying examples. In this context, the definitions in the framework, IAS 1, IAS 8 and the IFRS Practice Statement 2: Making Materiality Judgements are harmonised. An entity shall apply the amendments on or after 1 January 2020. The Group does not expect this to have any material effects.

Amendments to IAS 19 / IFRIC 14 – Remeasurement on a plan amendment, curtailment or settlement / Availability of a refund of a surplus from a defined benefit plan
Final amendments to IAS 19 relating to the calculation of the current service cost and net interest if a company reassesses the net liability (the net asset value) from a defined benefit plan when a plan is amended, realised or curtailed were published on 8 February 2018. A company applies the amendments to a plan amendment, curtailment or settlement that occur on or after the start of the first annual reporting period, which begins on or after 1 January 2019. The Group does not expect this to have any material effects.

Amendments to the reference to the Conceptual Framework in IFRS standards
Together with the revised conceptual framework, the IASB has also issued amendments to the reference to the Conceptual Framework in IFRS standards. This contains changes in various standards. Some pronouncements are only updated to indicate which version of the framework concept they relate to, or to point out that the definitions of the standard have not been updated in line with the new definitions developed in the revised framework. The amendments if they are actually updates are to be applied for financial years beginning on or after 1 January 2020. The associated changes in recognition and disclosures in the Notes are currently being analysed.

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 improvements 2015 - 2017 – diverse standards
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.

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 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.

(5) ADJUSTMENT TO PREVIOUS YEAR'S FIGURES
In these consolidated financial statements, the previous year's figures were restated due to two events. The Group has decided to adjust the structure of the balance sheet and income statement in line with the application of IFRS 9 and it was required to correct the previous year's figures as a result of an audit without particular cause in accordance with Section 2 (1) No. 2 RL-KG.

a) Amendment to the balance sheet and structure for the income statement
Hypo Vorarlberg has been applying the accounting provisions of IFRS 9 to its consolidated financial statements since 1 January 2018. To account for the new measurement provisions and to maintain or improve the information content for the reader, both the structure of the balance sheet and the income statement have been restated.

In the statement of comprehensive income, interest income and interest expenses are reported separately according to their method of calculation - using the effective interest method and others. Net fee and commission income is reported under "net result from financial instruments at cost and AFS" and "net result from financial instruments at fair value".

"Loan loss provisions" are no longer reported under "net interest income", but as net income from financial instruments at cost and AFS, at fair value, other income, other expenses, administrative expenses and depreciation and amortisation.

This adjustment has been implemented to generate synergies with regulatory requirements ("FINREP") and to facilitate the com-parability of published reports to regulatory authorities, competitors and Hypo Vorarlberg. "Other income" and "other expenses" were also recognised in accordance with the requirements of the regulatory requirements.

Items previously recognised as loans and advances to banks and loans and advances to customers are reported on the assets side as financial assets at fair value (SPPI), at fair value (option) and at cost.

In the same way as on the assets side, the amounts owed to banks and amounts owed to customers are reported as financial liabilities at fair value (option) and at cost on the liability side.

The analysis of the Hypo Vorarlberg Group below shows a reconciliation of the figures published in the 2017 Annual Report in accordance with IAS 39 to the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. Reconciliation takes place in two steps. The carrying amounts of the balance sheet as at 31 December 2017 and as at 31 December 2016 for each measurement category in accordance with IAS 39 are reconciled to the new structure of financial position and the income statement to the new balance sheet structure. (See tables below).

The order of the items in the adjusted income statement does not correspond to the final presentation of the items of the balance sheet and income statement according to Note I. and Note II. Due to clarity and comprehensibility, this was left as it is for the presentation in the reconciliation.

Reconciliation of balance sheet as at 31 December 2017 due to the changes in the structure of financial position

TEUR REPORTED BALANCE SHEET ITEMS Carrying amounts in accordance with IAS 39	31.12.2017 reported	Loans and advances to banks (payable on demand)	Receivables measured at amortised cost	Investments	31.12.2017 restated	TEUR RESTATED BALANCE SHEET ITEMS Carrying amounts in accordance with IAS 39 under new balance sheet structure
Assets						
Cash and balances	313,584	37,311	0	0	350,895	Cash and balances
Loans and advances to banks	450,897	-37,311	-413,586	0	0	
Loans and advances to customers	9,330,521	0	-9,330,521	0	0	
Positive market values of hedges	73,985	0	0	0	73,985	Positive market values of hedges
Trading assets and derivatives	190,940	0	0	0	190,940	Trading assets
Financial assets - designated at fair value	744,665	0	0	0	744,665	Financial assets - at fair value (option)
Financial assets - available for sale	686,598	0	0	-1,246	685,352	Financial assets - available for sale
Financial assets - held to maturity	1,101,503	0	-1,101,503	0	0	
	0	0	10,847,051	0	10,847,051	Financial assets at cost
	0	0	0	1,246	1,246	Investments
Shares in companies valued at equity	4,195	0	0	0	4,195	Shares in companies valued at equity
Investment property	64,219	0	0	0	64,219	Investment property
Intangible assets	33,914	0	0	0	33,914	Intangible assets
Property, plant and equipment	72,808	0	0	0	72,808	Property, plant and equipment
Income tax assets	1,037	0	0	0	1,037	Income tax assets
Deferred income tax assets	8,984	0	0	0	8,984	Deferred income tax assets
Other assets	104,670	0	-1,441	0	103,229	Other assets
Assets	**13,182,520**	**0**	**0**	**0**	**13,182,520**	**Assets**
Equity and liabilities						
Amounts owed to banks	1,598,964	0	-1,598,964	0	0	
Amounts owed to customers	5,175,661	0	-5,175,661	0	0	
Liabilities evidenced by certificates	3,296,773	0	7,058,662	0	10,355,435	Financial liabilities at cost
Negative market values of hedges	119,041	0	0	0	119,041	Negative market values of hedges
Trading liabilities and derivatives	163,621	0	0	0	163,621	Trading liabilities
Financial liabilities - designated at fair value	1,310,885	0	0	0	1,310,885	Financial liabilities - at fair value (option)
Provisions	37,566	0	0	0	37,566	Provisions
Income tax liabilities	9,804	0	0	0	9,804	Income tax liabilities
Deferred income tax liabilities	8,841	0	0	0	8,841	Deferred income tax liabilities
Other liabilities	70,581	0	-11,833	0	58,748	Other liabilities
Subordinated capital	272,204	0	-272,204	0	0	
Shareholders' equity	1,118,579	0	0	0	1,118,579	Shareholders' equity
Total	**13,182,520**	**0**	**0**	**0**	**13,182,520**	**Total**

Reconciliation of balance sheet as at 1 January 2017 due to the changes in the structure of financial position

TEUR REPORTED BALANCE SHEET ITEMS Carrying amounts in accordance with IAS 39	31.12.2016 reported	Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG	01.01.2017 restated *1)	Loans and advances to banks (payable on demand)	Receivables measured at amortised cost	Investments	01.01.2017 restated	TEUR RESTATED BALANCE SHEET ITEMS Carrying amounts in accordance with IAS 39 under new balance sheet structure
Assets								
Cash and balances	338,000	0	338,000	42,294	0	0	380,294	Cash and balances
Loans and advances to banks	575,289	0	575,289	-42,294	-532,995	0	0	
Loans and advances to customers	9,049,998	0	9,049,998	0	-9,049,998	0	0	
Positive market values of hedges	98,811	0	98,811	0	0	0	98,811	Positive market values of hedges
Trading assets and derivatives	309,314	0	309,314	0	0	0	309,314	Trading assets
Financial assets - designated at fair value	802,208	0	802,208	0	0	0	802,208	Financial assets - at fair value (option)
Financial assets - available for sale	769,093	1,150	770,243	0	0	-11,236	759,007	Financial assets - available for sale
Financial assets - held to maturity	1,103,893	0	1,103,893	0	-1,103,893	0	0	
	0	0	0	0	10,687,105	0	10,687,105	Financial assets at cost
	0	0	0	0	0	11,236	11,236	Investments
Shares in companies valued at equity	34,750	0	34,750	0	0	0	34,750	Shares in companies valued at equity
Investment property	59,158	0	59,158	0	0	0	59,158	Investment property
Intangible assets	2,011	0	2,011	0	0	0	2,011	Intangible assets
Property, plant and equipment	74,912	0	74,912	0	0	0	74,912	Property, plant and equipment
Income tax assets	824	0	824	0	0	0	824	Income tax assets
Deferred income tax assets	9,198	0	9,198	0	0	0	9,198	Deferred income tax assets
Other assets	96,928	0	96,928	0	-219	0	96,709	Other assets
Assets	**13,324,387**	**1,150**	**13,325,537**	**0**	**0**	**0**	**13,325,537**	**Assets**
Equity and liabilities								
Amounts owed to banks	560,377	0	560,377	0	-560,377	0	0	
Amounts owed to customers	5,282,097	0	5,282,097	0	-5,282,097	0	0	
Liabilities evidenced by certificates	2,682,267	0	2,682,267	0	6,241,189	0	8,923,456	Financial liabilities at cost
Negative market values of hedges	146,847	0	146,847	0	0	0	146,847	Negative market values of hedges
Trading liabilities and derivatives	233,043	0	233,043	0	0	0	233,043	Trading liabilities
Financial liabilities - designated at fair value	2,826,384	0	2,826,384	0	0	0	2,826,384	Financial liabilities - at fair value (option)
Provisions	49,257	0	49,257	0	0	0	49,257	Provisions
Income tax liabilities	19,521	288	19,809	0	0	0	19,809	Income tax liabilities
Deferred income tax liabilities	2,678	0	2,678	0	0	0	2,678	Deferred income tax liabilities
Other liabilities	77,962	0	77,962	0	-9,700	0	68,262	Other liabilities
Subordinated capital	389,015	0	389,015	0	-389,015	0	0	
Shareholders' equity	1,054,939	862	1,055,801	0	0	0	1,055,801	Shareholders' equity
Total	**13,324,387**	**1,150**	**13,325,537**	**0**	**0**	**0**	**13,325,537**	**Total**

1*) Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG (see note 5b)

Reconciliation of income statement for 2017 due to the changes in the structure of financial position

TEUR REPORTED INCOME STATEMENT ITEMS IN ACCORDANCE WITH IAS 39	2017 reported	Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG	2017 restated *1)	Net interest income	Dividend income
Interest and similar income	253,975	0	253,975	-36,004	-1,075
	0	0	0	49,107	0
Interest and similar expenses	-94,715	0	-94,715	33,243	0
	0	0	0	-46,346	0
Net interest income	**159,260**	**0**	**159,260**	**0**	**-1,075**
	0	0	0	0	1,075
Loan loss provisions	10,057	0	10,057	0	0
Net interest income after loan loss provisions	**169,317**	**0**	**169,317**	**0**	**0**
Fee and commission income	38,513	0	38,513	0	0
Fee and commission expenses	-3,680	0	-3,680	0	0
Net fee and commission income	**34,833**	**0**	**34,833**	**0**	**0**
Net result on hedge accounting	-458	0	-458	0	0
Net trading result (without change in own credit risk)	9,473	0	9,473	0	0
Net result from other financial instruments	5,130	-1,150	3,980	0	0
Administrative expenses	-99,952	0	-99,952	0	0
	0	0	0	0	0
Other income	29,371	0	29,371	0	0
Other expenses	-29,178	0	-29,178	0	0
	0	0	0	0	0
	0	0	0	0	0
Result from equity consolidation	-17,661	0	-17,661	0	0
Operating result before change in own credit risk	**100,875**	**-1,150**	**99,725**	**0**	**0**
Result from change in own credit risk	-5,123	0	-5,123	0	0
Earnings before taxes	**95,752**	**-1,150**	**94,602**	**0**	**0**
Taxes on income	-28,276	287	-27,989	0	0
Consolidated net income	**67,476**	**-863**	**66,613**	**0**	**0**

1*) Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG (see note 5b)

Loan loss provisions and impairment	Net result on hedge accounting	Impairment of non-financial assets	Realised gains and losses on investments	2017 restated	TEUR RESTATED INCOME STATEMENT ITEMS in accordance with IAS 39 under new structure
0	0	0	0	216,896	Interest and similar income according to the effective interest method
0	0	0	0	49,107	Interest and similar income other
0	0	0	0	-61,472	Interest and similar expenses according to the effective interest method
0	0	0	0	-46,346	Interest and similar expenses other
0	**0**	**0**	**0**	**158,185**	**Net interest income**
0	0	0	0	1,075	Dividend income
-10,057	0	0	0	0	
-10,057	**0**	**0**	**0**	**159,260**	
0	0	0	0	38,513	Fee and commission income
0	0	0	0	-3,680	Fee and commission expenses
0	**0**	**0**	**0**	**34,833**	**Net fee and commission income**
0	458	0	0	0	
0	-458	0	1,461	10,476	Net result from financial instruments at fair value
-1,139	0	1	-1,461	1,381	Net result from financial instruments at cost and AFS
0	0	3,636	0	-96,316	Administrative expenses
0	0	-5,802	0	-5,802	Depreciation and amortization
0	0	-6	0	29,365	Other income
0	0	3,572	0	-25,606	Other expenses
11,196	0	0	0	11,196	Loan loss provisions and impairment of financial assets
0	0	-1,401	0	-1,401	Impairment of non-financial assets
0	0	0	0	-17,661	Result from equity consolidation
0	**0**	**0**	**0**	**99,725**	
0	0	0	0	**-5,123**	Result from change in own credit risk
0	**0**	**0**	**0**	**94,602**	**Earnings before taxes**
0	0	0	0	**-27,989**	Taxes on income
0	**0**	**0**	**0**	**66,613**	**Consolidated net income**

The reclassification of the carrying amounts as at 31 December 2017 for each measurement category in accordance with IAS 39 is reported below in accordance with the new structure for the balance sheet in accordance with IFRS 9 ("reclassification" col-umn). Subsequently, each measurement category is remeasured in accordance with IFRS 9 (see "remeasurement according to IFRS 9") to obtain the carrying amounts according to IFRS 9 as of 1 January 2018.

Reconciliation of balance sheet from 31 December 2017 to 1 January 2018 due to the application of IFRS 9

TEUR	IAS 39 carrying amount under new balance sheet structure 31.12.2017	Reclassification	IFRS 9 remeasurement	Carrying amount IFRS 9 01.01.2018
Cash and balances with central banks	350,895	0	1	350,896
Trading assets	190,940	18	1	190,959
Financial assets at Fair Value (SPPI)	0	702,214	1,494	703,708
Financial assets at Fair Value (Option)	744,665	-309,454	-2,607	432,604
Financial assets - Available for Sale	685,352	-685,352	0	0
Financial assets at Cost	10,847,051	292,592	-21,427	11,118,216
Positive market values of hedges	73,985	-18	-1	73,966
Affiliates	1,246	0	0	1,246
Shares in companies valued at equity	4,195	0	0	4,195
Property, plant and equipment	72,808	0	0	72,808
Investment property	64,219	0	0	64,219
Intangible assets	33,914	0	0	33,914
Income tax assets	1,037	0	0	1,037
Deferred income tax assets	8,984	0	5,562	14,546
Other assets	103,229	0	0	103,229
Total Assets	**13,182,520**	**0**	**-16,977**	**13,165,543**

TEUR	IAS 39 carrying amount under new balance sheet structure 31.12.2017	Reclassification	IFRS 9 remeasurement	Carrying amount IFRS 9 01.01.2018
Trading liabilites		182	64	163,867
Financial liabilities at Fair Value (Option)	1,310,885	0	0	1,310,885
Financial liabilities at Cost	10,355,435	0	-1,326	10,354,109
Negative market values of hedges	119,041	-182	0	118,859
Provisions		0	-23	37,543
Income tax liabilities		0	0	9,804
Deferred income tax liabilities	8,841	0	0	8,841
Other liabilities		0	0	58,748
Shareholder's capital		0	-15,692	1,102,887
Of which attributable to:				
Attributable to owners of the parent	1,108,017	0	-15,692	1,092,325
Attributable to non-controlling interests	10,562	0	0	10,562
Total Liabilities and shareholder's equity	**13,182,520**	**0**	**-16,977**	**13,165,543**

The tables below show the changes between the measurement categories and the carrying amount of the financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at 1 January 2018.

Reconciliation of trading assets
The addition of TEUR 18 is attributable to the reversal of hedge accounting. This particular hedge does not meet the SPPI criteria. In this respect, the hedged item is reclassified to financial assets at fair value (SPPI).

IFRS 9 reconciliation Trading assets in TEUR	IAS 39 carrying amount 31.12.2017	Reclassifi-cation	Measure-ment	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other com-prehensive income
Derivatives	**190,890**	**18**	**1**	**190,909**	**1**	**0**
Additions						
from hedges		18	1		1	0
Equity instruments	**50**	**0**	**0**	**50**	**0**	**0**
Total trading assets	**190,940**	**18**	**1**	**190,959**	**1**	**0**

Reconciliation of financial assets at fair value (SPPI)
This measurement category essentially includes additions to loans and advances to customers that have contractual cash flows that are not solely payments of principal and interest and therefore must be measured at fair value. This concerns loans and cred-its which are covered by incongruent interest components and failed the required quantitative test. Another reason for the classification in this category results from the audit for non-recourse financing. These are financing of investments and projects where the return of the financing is solely from the financed investment and, in addition, there is no further possibility of recourse. Fur-thermore, the additions to this category are bonds whose interest component includes a non-SPPI-compliant component. We have already voluntarily measured the majority of these bonds at fair value in the past to avoid an accounting mismatch from the economic hedging of derivative financial instruments. Due to the unscheduled or undefined repayment term, equity instruments do not meet the SPPI criteria. As the Group has not exercised the option to measure equity instruments outside profit or loss through other comprehensive income, corresponding additions are measured in this category.

IFRS 9 reconciliation Financial assets – at fair value (SPPI) in TEUR	IAS 39 carrying amount 31.12.2017	Reclassifi-cation	Measure-ment	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other com-prehensive income
Debt securities	**0**	**260,858**	**188**	**261,046**	**141**	**0**
Additions						
of IAS 39 L&R		3,071	188		141	0
of IAS 39 AFS		39,401	0		0	0
of IAS 39 AFV (Option)		218,386	0		0	0
Loans and advances	**0**	**344,446**	**1,306**	**345,752**	**980**	**0**
Additions						
of IAS 39 L&R		333,989	1,229		922	0
of IAS 39 AFV (Option)		10,457	77		58	0
Equity instruments	**0**	**96,910**	**0**	**96,910**	**0**	**0**
Addidions						
of IAS 39 AFS		37,659	0		0	0
of IAS 39 AFV (Option)		59,251	0		0	0
Total assets at Fair Value (SPPI)	**0**	**702,214**	**1,494**	**703,708**	**1,121**	**0**

Reconciliation of financial assets at fair value (option)
Voluntary disposals of financial assets or those required in accordance with IFRS 9 were primarily due to the discontinuation of the fair value options under IAS 39 on equity instruments and bonds designated at fair value. Debt instruments in the amount of TEUR 250,203 and equity instruments in the amount of TEUR 59,251 were primarily reclassified. All resulting voluntary or manda-tory reclassifications in the form of additions and disposals from the former IAS 39 measurement categories are shown in the following table.

IFRS 9 reconciliation Financial assets – at fair value (option) in TEUR	IAS 39 carrying amount 31.12.2017	Reclassifi-cation	Measure-ment	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other com-prehensive income
Debt securities	289,516	-219,537	0	69,979	0	0
Disposals						
according to IFRS 9 at Cost		-1,151	0		0	0
according to IFRS 9 Fair Value (SPPI)		-218,386	0		0	0
Loans and advances	395,898	-30,666	-2,607	362,625	-1,955	0
Additions						
of IAS 39 L&R		980	18		14	0
Disposals						
according to IFRS 9 at Cost		-10,444	0		0	0
according to IFRS 9 Fair Value (SPPI)		-21,202	0		0	0
Revaluation			-2,625		-1,969	0
Equity instruments	59,251	-59,251	0	0	0	0
Disposals						
according to IFRS 9 Fair Value (SPPI)		-59,251	0		0	0
Total assets at Fair Value (Option)	744,665	-309,454	-2,607	432,604	-1,955	0

Reconciliation of financial assets at fair value (OCI) and financial assets available for sale (AFS)
A financial asset is subsequently measured outside profit or loss at fair value (OCI) if it is held within a business model whose objective is to collect contractual cash flows and sell financial assets. The contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI criteria). The Group does not have any financial instruments in the hold for sale business model. For this reason, there are no financial instruments in accordance with IFRS 9 in this category. The Group has also not exercised its option to measure equity instruments outside profit or loss via the statement of comprehensive income.

IFRS 9 reconciliation Financial assets available for sale in TEUR	IAS 39 carrying amount 31.12.2017	Reclassifi-cation	Measure-ment	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other com-prehensive income
Debt securities	647,681	-647,681	0	0	0	0
Disposals						
according to IFRS 9 at Cost		-608,280	0		0	0
according to IFRS 9 Fair Value (SPPI)		-39,401	0		0	0
Equity instruments	37,671	-37,671	0	0	0	0
Disposals						
according to IFRS 9 Fair Value (SPPI)		-37,659	0		0	0
according to IFRS 9 Beteiligungen		-12	0		0	0
Revaluation		0	0		0	0
Total assets Available for Sale	685,352	-685,352	0	0	0	0

Reconciliation financial assets at cost
The additions mainly relate to bonds that were measured in accordance with IAS 39 outside profit or loss via the statement of comprehensive income. These are fixed-interest securities whose interest rate risk has been hedged using derivative financial instruments. Under IAS 39, these financial instruments were not allocated to the HTM category as fair value hedges, which were required to hedge the interest rate risk, were not possible. The additions usually relate to loans and credits that do not meet the SPPI criteria. The SPPI criterion provides that cash flows may only include interest and principal payments on the principal amount outstanding. Another reason for the disposal of loans and credits is non-recourse financing. These are financing of investments and projects where the return of the financing is solely from the financed investment and, in addition, there is no further possibility of recourse.

IFRS 9 reconciliation Financial assets at cost in TEUR	IAS 39 carrying amount 31.12.2017	Reclassification	Measurement	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other comprehensive income
Debt securities	1,730,830	606,360	-17,137	2,320,053	-3,007	-9,846
Additions						
of IAS 39 AFS		608,280	-13,697		-427	-9,846
of IAS 39 AFV (Option)		1,151	-103		-77	0
Disposals						
according to IFRS 9 Fair Value (SPPI)		-3,071	0		0	0
Revaluation		0	-3,337		-2,503	0
Loans and advances	9,116,221	-313,767	-4,291	8,798,163	-3,218	0
Additions						
of IAS 39 AFV (Option)		21,202	-1,560		-1,170	0
Disposals						
according to IFRS 9 Fair Value (SPPI)		-333,989	0		0	0
according to IFRS 9 Fair Value (Option)		-980	0		0	0
Revaluation		0	-2,731		-2,048	0
Total assets at Cost	10,847,051	292,593	-21,379	11,118,216	-6,188	-9,846

Reconciliation of trading liabilities

The addition of TEUR 182 is attributable to the reversal of hedge accounting. This particular hedge does not meet the SPPI crite-ria. In this respect, the hedged item is reclassified to financial assets at fair value (SPPI)

IFRS 9 reconciliation Trading liabilities in TEUR	IAS 39 carrying amount 31.12.2017	Reclassification	Measurement	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other comprehensive income
Derivatives	163,621	182	64	163,867	-48	0
Additions						
from hedges		182	64		-48	0
Securitised liabilities	0	0	0	0	0	0
Total trading liabilities	163,621	182	64	163,867	-48	0

Reconciliation of financial liabilities at fair value (option)

IFRS 9 reconciliation Financial liabilities at fair value (option) in TEUR	IAS 39 carrying amount 31.12.2017	Reclassification	Measurement	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other comprehensive income
Deposits	180,911	0	0	180,911	0	0
Securitised liabilities	1,129,974	0	0	1,129,974	0	0
Total financial liabilities at Fair Value (Option)	1,310,885	0	0	1,310,885	0	0

Reconciliation of financial liabilities at cost

IFRS 9 reconciliation Financial liabilities at cost in TEUR	IAS 39 carrying amount 31.12.2017	Reclassification	Measurement	IFRS 9 Carrying amount 01.01.2018	Effects on retained earnings	Effect on other comprehensive income
Deposits	6,786,457	0	-1,326	6,785,131	995	0
Revaluation			-1,326		995	
Securitised liabilities	3,568,978	0	0	3,568,978	0	0
Total financial liabilities at Cost	10,355,435	0	-1,326	10,354,109	995	0

b) Errors due to an audit in accordance with Section 2 (1) No. 1 RL-KG
In 2017/2018, Hypo Vorarlberg Bank AG was audited without particular cause in accordance with Section 2 (1) 1 No. 1 RL-KG. The consolidated financial statements were audited as at 31 December 2016 and the half-year financial reports as at 30 June 2016 and 30 June 2017. By resolution on 26 July 2018, the FMA has determined that the interim consolidated financial statements as at 30 June 2016 and 30 June 2017 and the consolidated financial statements as at 31 December 2016 of Hypo Vorarlberg Bank AG are incorrect.

1) As at 30 June 2016, Hypo Vorarlberg Bank AG has classified the funds paid out to Pfandbriefstelle Verwaltungsgesellschaft AG i.A (previously: Pfandbriefbank (Österreich) AG) in the amount of EUR 49.8 million in the interim consolidated financial statements as "loans and receivables" and measured them at amortised cost. This breaches IAS 39.9, whereby only financial assets with fixed or determinable payments are eligible for classification as "loans and receivables". Subsequently, the measurement at amortised cost and the notes were incorrect. This determination did not have an impact on the consolidated financial statements as at 31 December 2018, including the figures from the previous year, as no claim has been made against Pfandbriefbank since 31 December 2016.

2) The current market conditions for determining the fair value of supplementary capital with a nominal value of EUR 10 million as at 30 June 2016, 31 December 2016 and 30 June 2017 were not sufficiently taken into account and were not measured in contrast to the information in the notes with the DCF model. One of the recalculations carried out by Hypo Vorarlberg Bank AG resulted in the following correction requirements:

Errors in supplementary capital in nominal val-ues of TEUR 10,000:

TEUR	01.01.2017	31.12.2017
Carrying amount of the bond		
reportet	8,500	10,000
adjusted	9,650	10,000
change	1,150	0
Result from other financial instruments / result from financial instruments at Cost and AFS		
reportet	0	1,500
adjusted	1,150	350
Change	1,150	-1,150
Taxes on income		
reportet	0	-376
adjusted	-288	-88
Change	-288	288
Income tax liabilities		
reportet	0	376
adjusted	288	376
Change	288	0

Errors in individual balance sheet and income statement items:

TEUR	01.01.2017	31.12.2017
Financial assets - Available for Sale		
reportet	769,093	686,598
adjusted	770,243	686,598
Change	1,150	0
Result from other financial instruments / result from financial instruments at Cost and AFS		
reportet		5,130
adjusted		3,980
Change		-1,150
Taxes on income		
reportet		-28,276
adjusted		-27,989
Change		287
Income tax liabilities		
reportet	19,521	9,804
adjusted	19,809	9,804
Change	288	0
Shareholder's equity		
reportet	1,054,939	1,118,579
adjusted	1,055,802	1,118,579
Change	863	0

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

TEUR	2018	2017
Interest income from cash and balances with central banks	22	0
Interest income from financial assets - Available for Sale	N.A.	36,185
Interest income from financial assets at Cost	207,237	169,071
Interest income from liabilities	4,950	11,640
Interest and similar income according to effective interest method	**212,209**	**216,896**
Interest income from trading assets	16,139	9,301
Interest income from hedging instruments	34,825	33,986
Interest income from financial assets at Fair Value (SPPI)	4,648	N.A.
Interest income from financial assets at Fair Value (Option)	5,881	5,820
Interest and similar income	**61,493**	**49,107**
Interest expense financial liabilities ten at Cost	-58,854	-60,009
Interest expense other liabilities	-1	0
Interest expense assets	-1,987	-1,463
Interest and similar expenses according to effective interest method	**-60,842**	**-61,472**
Interest expense trading liabilities	-1,257	-8,555
Interest expense hedging instruments	-37,947	-37,791
Interest expense financial liabilities at Fair Value (Option)	-6,228	0
Interest and similar expenses other	**-45,432**	**-46,346**
Net interest income	**167,428**	**158,185**

The interest income from receivables measured at amortised cost amounts to TEUR 212,209 (2017: TEUR 188,016). The interest expenses from liabilities measured at amortised cost amount to TEUR -60,842 (2017: TEUR -60,010).

(7) DIVIDEND INCOME

TEUR	2018	2017
Trading assets	0	22
Financial assets at Fair Value (SPPI / 2017 - Option)	938	917
Subsidiaries	459	136
Dividend income	**1,397**	**1,075**

(8) NET FEE AND COMMISSION INCOME

TEUR	2018	2017
Fee and commission income from financing	6,769	4,996
Fee and commission income from securities	14,797	16,195
Fee and commission income from account management / payment transactions	13,406	12,366
Other fee and commission income	4,539	4,956
Fee and commission income	**39,511**	**38,513**

TEUR	2018	2017
Fee and commission expenses from financing	-4,721	-1,115
Fee and commission expenses from securities	-1,173	-1,248
Fee and commission expenses from account management / payment transactions	-1,501	-1,274
Other fee and commission expenses	-202	-43
Fee and commission expenses	**-7,597**	**-3,680**

Fee and commission income from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 10,314 (2017: TEUR 10,005). Fee and commission expenses from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR -776 (2017: TEUR -621). Fee and commission income from fiduciary activities amounts to TEUR 1,326 (2017: TEUR 1,373).

(9) NET RESULT FROM FINANCIAL INSTRUMENTS AT COST AND AFS

TEUR	2018	2017
Realised gains from financial assets AC	7,098	1,917
Realised losses from financial liabilities AC	-1,976	-110
Realised gains from financial liabilities AC	285	161
Realised losses from financial liabilities AC	0	-165
Realised gains from financial assets AFS	N.A.	15
Realised losses from financial assets AFS	N.A.	-437
Net result from financial instruments at Cost und AFS	**5,407**	**1,381**

(10) NET RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE

TEUR	2018	2017
Result from trading	3,242	4,794
Measurement of derivative financial instruments	2,426	-41,258
Result from financial instruments at Fair Value (SPPI)	-3,356	N.A.
Result from financial instruments at Fair Value (Option)	-20,302	-17,898
Result from financial liabilities at Fair Value (Option)	28,054	65,296
Result from hedging relationships	144	-458
Net result from financial instruments at Fair Value	**10,208**	**10,476**

NET RESULT ON HEDGE ACCOUNTING

TEUR	2018	2017
Measurement of hedging instruments - for financial assets - Available for Sale	N.A.	-10,288
Measurement of hedging instruments - for financial assets at Cost	14,684	-16,075
Measurement of hedging instruments - for financial liabilities at Cost	11,554	33,370
Result from hedging instruments	26,238	7,007
Measurement of underlying transactions - for financial assets - Available for Sale	N.A.	10,577
Measurement of underlying transactions - for financial assets at Cost	-15,179	16,402
Measurement of underlying transactions - for financial liabilities at Cost	-10,915	-34,444
Result from underlying transactions	-26,094	-7,465
Net result on hedge accounting	144	-458

The Group does not have any remaining amounts resulting from terminated hedges that should be amortised over the residual term of the hedged item as the reversal of the hedge also resulted in the reversal of the hedged item.

(11) OTHER INCOME

TEUR	2018	2017
Income from operating leases	3,786	4,310
Other income from leasing business	1,762	1,813
Operating cost income	1,798	1,730
Income from the disposal of non-financial assets	2,298	4,314
Income from consultancy and other services	476	488
Miscellaneous other income	7,800	16,710
Other income	17,920	29,365

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

TEUR	2018	2017
Up to 1 year	3,033	2,745
More than 1 year to 5 years	9,814	7,381
More than 5 years	9,093	6,769
Minimum lease payments from nonterminable operating leases (lessor)	21,940	16,895

(12) OTHER EXPENSES

TEUR	2018	2017
Other expenses from leasing business	-2,113	-2,652
Operating cost expenses	-2,072	-2,001
Expenses resulting from losses	-11,818	-2,967
Other tax expenses	-3,479	-2,806
Losses on the disposal of non-financial assets	-1,970	-2,234
Miscellaneous other expenses	-13,370	-12,946
Other expenses	-34,822	-25,606

Other tax expenses include the stability fee of TEUR 2,427 (2017: TEUR 2,451).

(13) ADMINISTRATIVE EXPENSES

Group administrative expenses consist of staff costs and material expenses.

TEUR	2018	2017
Staff costs	-62,892	-60,448
Material expenses	-34,842	-35,868
Administrative expenses	-97,734	-96,316

Of which staff costs

TEUR	2018	2017
Wages and salaries	-46,938	-45,340
Statutory social security contributions	-11,907	-11,553
Voluntary social benefitsnd	-756	-861
Expenses for retirement benefitse	-2,776	-2,383
Social capital	-515	-311
Staff costs	-62,892	-60,448

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 1,428 (2017: TEUR 1,415).

Of which material expenses

TEUR	2018	2017
Building expenses	-5,810	-5,633
IT expensesd	-12,296	-12,361
Advertising and PR expenses	-4,669	-4,984
Legal and advisory expenses	-2,297	-2,468
Communications expenses	-1,285	-1,254
Organisational form-related expenses	-3,114	-3,010
Staff development expenses	-1,230	-873
Other materials expenses	-4,141	-5,285
Material expenses	-34,842	-35,868

Building expenses include rental payments for rented and leased assets. Minimum rental expenses of TEUR 1,429 (2017: TEUR 1,885) are expected for 2019 and TEUR 6,993 (2017: TEUR 9,659) for the next five years.

Minimum lease payments from non-terminable operating leases

TEUR	2018	2017
Up to 1 year	-1,135	-1,184
More than 1 year to 5 years	-2,629	-3,014
More than 5 years	-3,272	-3,840
Minimum lease payments from nonterminable operating leases (lessor)	**-7,036**	**-8,038**

(14) DEPRECIATION AND AMORTISATION

TEUR	2018	2017
Depreciation of property, plant and equipment	-4,300	-3,113
Impairments on investment property	-1,623	-2,167
Depreciation of intangible assets	-850	-522
Depreciation and amortisation	**-6,773**	**-5,802**

(15) LOAN LOSS PROVISIONS AND IMPAIRMENT OF FINANCIAL ASSETS

TEUR	2018	2017
Provision allocations for commitments/ guarantees	-56	-2,684
Reversals from provisions for commitments/ guarantees	7,110	7,263
Allocations to other provisions in lending business	-2,758	-717
Reversals from other provisions in lending business	1,518	2,715
Provisions for financial instruments	**5,814**	**6,577**
Allocation of impairment losses for financial assets - available for sale	N.A.	-15
Reversal of impairment losses for financial assets - available for sale	N.A.	787
Allocation of impairment losses for financial assets at cost	-49,046	-20,827
Reversal of impairment losses for financial assets at cost	38,242	24,621
Impairment of financial assets	**-10,804**	**4,566**
Allocation of impairment losses for investments	-171	-168
Reversal of impairment losses for investments	980	221
Write-downs on investments	**809**	**53**
Loan loss provisions and impairment	**-4,181**	**11,196**

In 2018, the loss from the direct write-down and the utilisation of recognised loan loss provisions was TEUR 16,990 (2017: TEUR 7,425). There were no indications of further impairment in 2018 as of the date these consolidated financial statements were prepared.

(16) IMPAIRMENT OF NON-FINANCIAL ASSETS

TEUR	2018	2017
Reversal of depreciation of property, plant and equipment	0	6
Depreciation of property, plant and equipment	**0**	**6**
Recognition of impairment of investment property	-470	-200
Reversal of impairment of investment property	31	0
Impairment investment property	**-439**	**-200**
Recognition of amortisation of intangible assets	-31,352	0
Amortisation of intangible assets	**-31,352**	**0**
Recognition of impairment of other assets	-10,580	-1,207
Impairment of other assets	**-10,580**	**-1,207**
Impairment of non-financial assets	**-42,371**	**-1,401**

Impairment of intangible assets includes capitalised development costs for a biotechnology project in the area of pharmaceutical research. Management no longer expects the developed product to be marketed, thus the intangible asset have been fully im-paired.

Impairment of other assets relates to the property portfolio in Italy. The write-downs carried out in 2018 are based primarily on the appraisals for the underlying real estate. Appraisals are reviewed annually for all properties. In most cases, comparative values from the direct environment are used for this purpose. In individual cases, the market value is determined based on underlying rental contracts. There were some changes in tenants and rental income in 2018, which is why the estimate of these properties has been decreased.

For the measurement of the properties in the portfolio, a new method was developed in 2018 in which the property portfolio is divided into segments. For those properties that are held between zero and six months, based on past sales, it is assumed that the notional break-up value can be achieved, for those between six months and five years an increase in the discount of 2.45% and for those over five years a discount of 8.36%.

(17) TAXES ON INCOME

TEUR	2018	2017
Current income taxes	-22,884	-23,930
Deferred income taxes	4,487	-4,059
Income taxes from previous periods	-1,084	0
Taxes on income	-19,481	-27,989

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

TEUR	2018	2017
Earnings before taxes	48,657	94,602
Applicable tax rate	25%	25%
Income tax computed	-12,164	-23,651
Tax effects		
from tax-exempt investment income	357	641
from other tax-exempt income	2	2
from previous years and tax rate changes	-1,604	-45
from differing international tax rates	249	18
from impairment of loss carryforwards and temporary differences	-10,120	0
from other non-deductible expenses	4,641	1,033
from other differences	-842	-5,987
Taxes on income	-19,481	-27,989

Due to the measurement of financial assets classified as available for sale outside profit or loss in the previous year, deferred taxes were allocated directly to other comprehensive income in the previous year and thus likewise recognised outside profit or loss. As at 31 December 2018, these deferred taxes (tax liability) amounted to TEUR 0 (2016: TEUR 3,283 tax liability).

The change in social capital from defined benefit plans, which was recognised through other comprehensive income in the re-porting year amounts to TEUR -1,000 (2017: TEUR 1,276). The related deferred taxes amount to TEUR 234 (2017: TEUR -284).

The recording of the change in own credit risk outside profit or loss in 2018 in the amount of TEUR 14,888 (2017 TEUR: 0) resulted in deferred tax of TEUR -3,722 (2017: TEUR 0).

Other differences include taxes on income from an interest in a partnership. The partly non-tax effective partial write-down on an equity investment was included in the previous year.

C. NOTES TO THE BALANCE SHEET

(18) CASH AND BALANCES

TEUR	31.12.2018	31.12.2017
Cash on hand	27,315	25,391
Balances with central banks	488,337	288,196
sight deposits with banks	74,068	37,308
Cash and balances with central banks	589,720	350,895

Balances with central banks include the minimum reserve in the amount of TEUR 43,172 (2017: EUR 43,173 million) 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.

(19) TRADING ASSETS

TEUR	31.12.2018	31.12.2017
Equity instruments	176	50
Derivatives with positive market values	152,664	190,890
Trading assets	152,840	190,940

Trading assets by region

TEUR	31.12.2018	31.12.2017
Austria	17,179	21,339
Germany	62,104	71,563
Switzerland and Liechtenstein	736	176
Other foreign countries	72,821	97,862
Trading assets	152,840	190,940

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

TEUR	Nominal values		Positive market values		Negative market values	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Interest rate swaps	1,910,056	3,112,292	139,203	160,030	93,444	106,590
Cross currency swaps ps	123,111	1,045,814	2,910	24,927	64,678	52,404
Interest rate options	100,867	211,246	2,927	2,157	1,380	1,498
Interest rate derivatives	**2,134,034**	**4,369,352**	**145,040**	**187,114**	**159,502**	**160,492**
FX forward transactions	210,228	326,656	7,493	3,442	7,021	3,081
FX swaps	43,099	72,937	131	331	269	45
FX options	0	315	0	3	340	3
Currency derivatives	**253,327**	**399,908**	**7,624**	**3,776**	**7,630**	**3,129**
Derivatives	**2,387,361**	**4,769,260**	**152,664**	**190,890**	**167,132**	**163,621**

The previous year's figures in the table above have been increased by the deferred interest compared to the previous year. The market values shown include the interest accrued.

(20) FINANCIAL ASSETS – AT FAIR VALUE (SPPI)

TEUR	31.12.2018	31.12.2017
Equity instruments	85,959	N.A.
Debt securities of public issuers	121,602	N.A.
Debt securities of other issuers	160,617	N.A.
Loans and advances to customers	416,550	N.A.
Financial assets at fair value (SPPI)	**784,728**	**N.A.**

Financial assets at fair value (SPPI) by product

TEUR	31.12.2018	31.12.2017
Overdraft lines	72,824	N.A.
Long-term loans	343,726	N.A.
Total loans and credits	**416,550**	**N.A.**
Public bonds	121,602	N.A.
Other bonds	160,617	N.A.
Total bonds	**282,219**	**N.A.**
Shares	83,202	N.A.
Investment certificates	2,531	N.A.
Other equity interests	226	N.A.
Total equity instruments	**85,959**	**N.A.**
Financial assets at fair value (SPPI	**784,728**	**N.A.**

Financial assets at fair value (SPPI) by region

TEUR	31.12.2018	31.12.2017
Austria	541,745	N.A.
Germany	92,954	N.A.
Switzerland and Liechtenstein	6,750	N.A.
Other foreign countries	143,279	N.A.
Financial assets at fair value (SPPI	**784,728**	**N.A.**

Financial assets at fair value (SPPI) by business segment

TEUR	31.12.2018	31.12.2017
Corporate customers	414,699	N.A.
Private Customers	1,853	N.A.
Financial Markets	282,241	N.A.
Corporate Center	85,935	N.A.
Financial assets at fair value (SPPI)	**784,728**	**N.A.**

Financial assets at fair value (SPPI) by sector

TEUR	31.12.2018	31.12.2017
Public sector	121,648	N.A.
Financial institutions	139,102	N.A.
Financial companies	29,644	N.A.
Companies	492,099	N.A.
Private households	2,235	N.A.
Financial assets at fair value (SPPI)	**784,728**	**N.A.**

Financial assets at fair value (SPPI) – company by branch

TEUR	31.12.2018	31.12.2017
Agriculture and forestry	269	N.A.
Mining	2,936	N.A.
Construction industry	94,177	N.A.
Trading	14	N.A.
Transportation and storage	8,763	N.A.
Accommodation and food service activities	3,008	N.A.
Information and communication	12	N.A.
Financial services	48,199	N.A.
Housing	221,730	N.A.
Liberal professionals	33,978	N.A.
Administrative and support service activities	9,232	N.A.
Human health and social work activities	163	N.A.
Other services	69,618	N.A.
Financial assets at fair value (SPPI) – companies	**492,099**	**N.A.**

Financial assets at fair value (SPPI) – disclosures on changes in fair value

TEUR	31.12.2018	31.12.2017
Credit exposure	709,738	N.A.
Collateral	130,309	N.A.
Total change in market value	**55,161**	**N.A.**
of which due to market risk	48,803	N.A.
of which due to credit risk	6,358	N.A.
Change in market value in the reporting period	**16,465**	**N.A.**
of which due to market risk	10,107	N.A.
of which due to credit risk	6,358	N.A.

Two years ago, the bondholders of HETA ASSET RESOLUTION AG (HETA), the restructuring unit of the former Hypo Alpe-Adria-Bank International AG, agreed by a large majority to cede their papers, renouncing part of their claims to the province of Carinthia. In the course of accepting the exchange offer of the Kärntner Ausgleichszahlungs-Fonds, Hypo Vorarlberg has acquired a "letter of assurance", which is reflected in the so-called "contingent additional purchase price". If the proceeds from realisation from HETA exceed the expected recovery value (plus premium) of the respective instrument, the selling investors receive a subsequent payment. The equalisation payment is not taken into account in the calculation of the letter of assurance. The range for the "contingent additional purchase price" is between 0 % and 10 %.

Due to the proceeds from realisation that are currently above expectations, individual market participants are interested in purchasing the "letter of assurance". However, it is currently flexible whether or to what extent compensation payments may be paid. In particular, the recoverable proceeds generated from the realisation of HETA and the outcome of any legal disputes and agreements with investors will have a decisive influence on the recovery. On 19 December 2018, HETA issued a press release, whereby recovery of 85.9 % is expected to be generated (previously: 81.3 %).

Based on the knowledge of individual transactions concluded and these current price indicators of other banks, Hypo Vorarlberg has recognised the "contingent additional purchase price" as a financial instrument in accordance with IAS 32.11 with a fair value of TEUR 6,356 and allocated it to level 2. The change in fair value is recognised in profit or loss in "Net result from financial instruments at fair value" in the income statement. To perform plausibility checks on the existing price indicators, an internal valuation model was prepared. Using three scenarios, the valuation model determines the expected amount of recovery from the HETA settlement. The net present value is calculated in each scenario by discounting the gross value at a discount rate at standard market conditions in accordance with the discounted cash flow method. Subsequently, the net present values of the individual scenarios are multiplied by the assumed probabilities of occurrence and then totalled. The result of this plausibility check supports the measurement in the consolidated financial statements for 2018.

(21) FINANCIAL ASSETS – AT FAIR VALUE (OPTION)

TEUR	31.12.2018	31.12.2017
Public bonds	58,388	174,438
Other bonds	8,731	115,079
Equity instruments	0	59,250
Loans and advances to customers	325,049	395,898
Financial assets at fair value (option)	**392,168**	**744,665**

Financial assets at fair value (option) by product

TEUR	31.12.2018	31.12.2017
Long-term loans	325,049	395,898
Total loans and andvances	**325,049**	**395,898**
Public bonds	58,388	174,438
Other bonds	8,731	115,079
Total bonds	**67,119**	**289,517**
Shares	0	56,428
Investment certificates	0	2,716
Other equity interests	0	106
Total equity instruments	**0**	**59,250**
Financial assets at fair value (option)	**392,168**	**744,665**

Financial assets at fair value (option) by region

TEUR	31.12.2018	31.12.2017
Austria	347,490	527,888
Germany	5,326	60,109
Switzerland and Liechtenstein	4,978	5,037
Other foreign countries	34,374	151,631
Financial assets at fair value (option)	**392,168**	**744,665**

Financial assets at fair value (option) by business segment

TEUR	31.12.2018	31.12.2017
Corporate customers	259,218	308,207
Private Customers	6,046	15,115
Financial Markets	113,162	349,364
Corporate Center	13,742	71,979
Financial assets at fair value (option)	**392,168**	**744,665**

Financial assets at fair value (option) by sector

TEUR	31.12.2018	31.12.2017
Public sector	356,676	501,718
Financial institutions	8,731	86,554
Financial companies	2,412	37,106
Companies	24,349	104,172
Private households	0	15,115
Financial assets at fair value (option)	**392,168**	**744,665**

Financial assets at fair value (option) – company by branch

TEUR	31.12.2018	31.12.2017
Energy supply	0	1,964
Construction industry	0	1,632
Trading	3,559	5,114
Transportation and storage	0	13,347
Financial services	11,331	0
Housing	9,459	15,135
Administrative and support service activities	0	10,444
Other services	0	56,536
Financial assets at fair value (option) - companies	**24,349**	**104,172**

Financial assets at fair value (option) – disclosures on changes in fair value

TEUR	31.12.2018	31.12.2017
Credit exposure	392,168	744,665
Collateral	372,971	300,489
Total change in market value	**62,976**	**134,561**
of which due to market risk	59,089	126,187
of which due to credit risk	3,887	8,374
Change in market value in the reporting period	**-71,585**	**-18,884**
of which due to market risk	-67,098	-21,564
of which due to credit risk	-4,487	2,680

(22) FINANCIAL ASSETS - AVAILABLE FOR SALE

TEUR	31.12.2018	31.12.2017
Equity instruments - without recycling	N.A.	37,673
Debt securities of public issuers	N.A.	330,073
Debt securities of other issuers	N.A.	317,606
Financial assets available for sale	**N.A.**	**685,352**

Financial assets – available for sale breakdown by product

TEUR	31.12.2018	31.12.2017
Public bonds	N.A.	330,074
Other bonds	N.A.	317,607
Total bonds	**N.A.**	**647,681**
Shares	N.A.	10,099
Investment certificates	N.A.	6,320
Other equity interests	N.A.	21,252
Total equity instruments	**N.A.**	**37,671**
Financial assets – available for sale	**N.A.**	**685,352**

Financial assets available for sale – breakdown by region

TEUR	31.12.2018	31.12.2017
Austria	N.A.	283,556
Germany	N.A.	56,336
Switzerland and Liechtenstein	N.A.	11,187
Italy	N.A.	3,887
Other foreign countries	N.A.	330,386
Financial assets available for sale	**N.A.**	**685,352**

Financial assets available for sale – breakdown by business segment

TEUR	31.12.2018	31.12.2017
Financial Markets	N.A.	685,180
Corporate Center	N.A.	172
Financial assets - available for sale	**N.A.**	**685,352**

Financial assets available for sale breakdown by sector

TEUR	31.12.2018	31.12.2017
Public sector	N.A.	345,596
Financial institutions	N.A.	318,686
Financial companies	N.A.	6,217
Companies	N.A.	14,853
Financial assets - available for sale	**N.A.**	**685,352**

Financial assets available for sale breakdown by sector - company by branch

TEUR	31.12.2018	31.12.2017
Manufacturing	N.A.	2,159
Transportation and storage	N.A.	56
Information and communication	N.A.	1,147
Financial services	N.A.	1,657
Liberal professionals	N.A.	1,947
Public administration	N.A.	7,715
Other services	N.A.	172
Financial assets available for sale – companies	**N.A.**	**14,853**

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

The movements in the OCI measurement were recognised outside profit or loss and thus in other comprehensive income. As at 31 December 2017, this amounted to TEUR 32,802. 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 was reversed from the reserve in the income statement in 2017. Impairment on these assets were recognised through profit or loss under risk provisions and impairments of financial assets in Note (15) and amounted to TEUR 3,263 in 2017.

Due to the application of hedge accounting in 2017, the changes in market value of TEUR 22,953 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 from financial instruments at fair value.

(23) FINANCIAL ASSETS - AT COST

TEUR	31.12.2018	31.12.2017
Debt securities of public issuers	788,599	523,942
Debt securities of other issuers	1,707,558	1,206,887
Loans and advances to financial institutions	132,408	106,666
Loans and advances to customers	8,994,453	9,097,891
Trade receivables	983	1,441
Gross exposure value	**11,624,001**	**10,936,827**
Valuation allowances for debt securities - stage 1	-224	0
Valuation allowances for debt securities - stage 2	-2,526	0
Valuation allowances for debt securities - stage 3	-1,020	0
Valuation allowances for loans and advances - stage 1	-11,243	0
Valuation allowances for loans and advances - stage 2	-15,019	0
Valuation allowances for loans and advances - stage 3	-58,098	-89,776
Valuation allowances	**-88,130**	**-89,776**
Financial assets at cost	**11,535,871**	**10,847,051**

In the financial assets at cost, the use of hedge accounting led to amortised costs of TEUR 2,073,142 (2017: TEUR 1,032,821) being adjusted by the hedged fair value of TEUR 78,539 (2017: TEUR 48,051).

Financial assets at cost – by product

TEUR	31.12.2018	31.12.2017
Interbank accounts	84,948	75,652
Money market investments	40,154	30,350
Overdraft lines	812,580	859,329
Cash advances	328,631	304,486
Acceptant credits	13,752	15,892
Long-term loans	6,658,309	6,722,997
Lease receivables	1,104,133	1,106,816
Trade receivables	977	700
Total loans and advances	**9,043,484**	**9,116,222**
Debt securities of public issuers	788,565	517,167
Debt securities of other issuers	1,703,822	1,213,662
Total debt securities	**2,492,387**	**1,730,829**
Financial assets at cost	**11,535,871**	**10,847,051**

Financial assets at cost – by region

TEUR	31.12.2018	31.12.2017
Austria	6,826,049	6,609,371
Germany	1,370,710	1,363,892
Switzerland and Liechtenstein	788,537	735,042
Italy	858,971	881,984
Other foreign countries	1,691,604	1,256,762
Finanzielle Vermögenswerte at Cost	**11,535,871**	**10,847,051**

Financial assets at cost – by business segment

TEUR	31.12.2018	31.12.2017
Corporate customers	5,621,343	5,780,132
Private customers	1,965,619	1,887,216
Financial Markets	2,833,058	2,062,108
Corporate Center	1,115,851	1,117,595
Financial assets at cost	**11,535,871**	**10,847,051**

Financial assets at cost – by sector

TEUR	31.12.2018	31.12.2017
Public sector	1,220,363	935,662
Financial institutions	1,693,604	1,196,607
Financial companies	275,217	220,223
Companies	6,122,261	6,340,152
Private households	2,224,426	2,154,407
Financial assets at cost	**11,535,871**	**10,847,051**

Financial assets at cost – company by branch

TEUR	31.12.2018	31.12.2017
Agriculture and forestry	42,864	42,964
Mining	17,277	17,713
Manufacturing	762,070	736,167
Energy supply	159,116	150,209
Water supply	63,531	29,234
Construction industry	785,833	935,039
Trading	618,926	611,660
Transportation and storage	229,278	223,566
Accommodation and food service activities	444,546	433,558
Information and communication	47,595	37,735
Financial services	277,003	292,209
Housing	2,027,835	2,191,108
Liberal professionals	354,741	293,248
Administrative and support service activities	104,982	89,007
Public administration	47,911	16,635
Education	2,479	2,679
Human health and social work activities	46,682	36,362
Arts, entertainment and recreation activities	20,341	13,124
Other services	69,251	187,935
Financial assets at cost – companies	**6,122,261**	**6,340,152**

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.

TEUR	31.12.2018	31.12.2017
Minimum lease payments	1,262,772	1,292,801
Non-guaranteed residual values	0	0
Gross total investment	**1,262,772**	**1,292,801**
Unrealised financial income	-158,639	-185,985
Net investment	**1,104,133**	**1,106,816**
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	**1,104,133**	**1,106,816**

The cumulative valuation allowance on finance leases amounts to TEUR 24.927 (2017: TEUR 26.511).

Leases – breakdown by maturity

TEUR	31.12.2018	31.12.2017
Gross total investment	1,262,772	1,292,801
of which up to 1 year	198,230	194,699
of which 1 to 5 years	490,537	484,859
of which more than 5 years	574,005	613,243
Present value of minimum lease payments	1,104,133	1,106,816
of which up to 1 year	170,042	163,817
of which 1 to 5 years	409,852	394,367
of which more than 5 years	524,239	548,632

(24) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

TEUR	31.12.2018	31.12.2017
Positive market value of fair value hedges	81,179	73,985
Positive market values of hedges	81,179	73,985

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

TEUR	Nominal values		Positive market values		Negative market values	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Interest rate swaps	4,002,854	4,815,555	80,550	72,038	86,069	99,137
Cross currency swaps	32,988	176,007	629	1,947	24,047	19,904
Interes rate derivatives	4,035,842	4,991,562	81,179	73,985	110,116	119,041
Derivatives	4,035,842	4,991,562	81,179	73,985	110,116	119,041

The previous year's figures in the table above have been increased by the deferred interest compared to the previous year. The market values shown include the interest accrued.

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

(25) SHARES IN COMPANIES VALUED AT EQUITY

Development in equity investments

TEUR	31.12.2018	31.12.2017
Carrying value of holding 1 January	4,186	34,750
Attributable profit/loss	292	-22,224
Changes in the scope of consolidation	-40	-7,370
Write-downs on equity investments	0	-579
Dividends	-2,057	-382
Carrying value of holding 31 December	2,381	4,195

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 881 (2017: TEUR 1,524). 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 292 in 2018 (2017: TEUR -17,717).

The difference between the closing balance of the carrying value of holding as at 31 December 2017 and the opening balance as at 1 January 2018 results from IFRS 9 transition of companies consolidated at equity as valuation allowances have been recognised for their finance leases in accordance with IFRS 9. For the Group, this caused pro-rata shareholders' equity to decline by TEUR 9 as at 1 January 2018.

Further information on equity investments and companies measured at equity is provided under Part VII.

(26) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

TEUR	31.12.2018	31.12.2017
Properties	10,339	10,272
Buildings	54,100	56,545
Operational and office equipment	4,263	4,228
Other Property, plant and equipment	1,515	1,763
Property, plant and equipment	70,217	72,808

The gross carrying amount of fully depreciated property, plant and equipment that is still in use is TEUR 17,623 (2017: TEUR 10,917). The development of property, plant and equipment is shown in Note (31).

(27) INVESTMENT PROPERTY

TEUR	31.12.2018	31.12.2017
Properties	15,009	16,365
Buildings	43,175	47,854
Investment property	58,184	64,219

In 2018, the property portfolio comprised 69 (2017: 50) properties in Austria, Switzerland, Germany and Italy. The portfolio includes both residential properties with a carrying amount of TEUR 9,057 (2017: TEUR 9,160) and commercial properties with a carrying amount of TEUR 49,127 (2017: TEUR 45,551). The current market value of our property portfolio is TEUR 81,141 (2017: TEUR 71,722).

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	2018	2017
Return in %	1,75 - 9,0	2,0 - 9,0
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 (31). The rental payments reported for investment property are shown in Note (11).

(28) INTANGIBLE ASSETS

Intangible assets – breakdown by type

TEUR	31.12.2018	31.12.2017
Software acquired	2,035	2,163
Internally generated intangible assets	0	31,352
Other intangible assets	448	399
Intangible assets	2,483	33,914

The internally generated intangible assets recognised in the previous year (2017: TEUR 31,352) were intangible assets of an associate. Since, at the time of preparation of the consolidated financial statements, contrary to the original expectations, the recoverability of this asset no longer exists, an impairment loss was posted. An offer to buy the associate submitted after the balance sheet date supports the accounting method used. The development of intangible assets is shown in Note (31).

(29) DEFERRED INCOME TAX ASSETS

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

TEUR	31.12.2018	31.12.2017
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	144	147
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	0	3,283
Temporary differences from writing-down assets	3,123	3,125
Temporary differences from provisions	873	485
Temporary differences from social capital	4,388	4,064
Temporary differences from impairments	8,609	13,557
Other temporary differences	685	634
Deferred income tax assets	17,822	25,295
Set-off of deferred taxes	-8,977	-16,311
Net deferred income tax assets	8,845	8,984

There are tax loss carryforwards of TEUR 14,049 (2017: TEUR 5,498) that can be carried forward indefinitely, but are not yet capitalised in the Group, as it is unlikely that taxable profits will be available. A breakdown of total deferred income tax assets by maturity is shown in Note (42).

(30) OTHER ASSETS

TEUR	31.12.2018	31.12.2017
Accruals	400	387
Other tax assets	11,669	6,826
Other properties	38,780	47,354
Other assets	21,168	48,662
Other assets	72,017	103,229

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 collat-eral from the lending business. Other assets include accruals of income that the Group has not yet received. These include the deferral from asset management and the ECB's TLTRO programme. The year-on-year decrease is attributable to receivables from the pending offsetting within a securitisation transaction which was posted in this amount as at 31 December 2017.

The breakdown by maturity is shown in Note (42). Impairments on other properties are recognised under non-financial assets in Note (16) and amounted to TEUR 10,580 in 2018 (2017: TEUR 0).

(31) STATEMENT OF CHANGES IN ASSETS

TEUR 2017	Acquisition cost 01.01.	Currency Translation	Acquisitions	Additions	Disposals	Reclassifi-cations and other	Acquisition cost 31.12.	Carrying amounts 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
Other property	64,228	0	835	9,381	-1,584	-13,588	59,272	47,354
Total	**287,561**	**-863**	**32,279**	**20,368**	**-11,402**	**-13,486**	**314,457**	**218,295**

TEUR 2017	Cumulative deprecia-tion / am-ortisation 01.01.	Currency translation	Acquisitions	Regular amortisa-tion	Disposals	Reclassifi-cations and other	Impair-ments	Cumulative deprecia-tion / am-ortisation 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
Other property	-12,614	0	0	-1,208	63	1,841	0	-11,918
Total	**-99,866**	**241**	**0**	**-7,010**	**5,751**	**4,922**	**-200**	**-96,162**

Other properties are included in other assets.

TEUR 2018	Acquisition cost 01.01.	Currency Translation	Acquisitions	Additions	Disposals	Reclassifi-cations and other	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	8,652	0	0	599	-6	0	9,245	2,035
Internally generated intangible assets	31,352	0	0	0	0	0	31,352	0
Other intangible assets	403	17	0	159	0	0	579	448
Intangible assets	**40,407**	**17**	**0**	**758**	**-6**	**0**	**41,176**	**2,483**
Owner-occupied land and buildings	100,905	85	0	422	-73	240	101,579	64,439
Operational and office equipment	15,561	5	0	1,215	-1,152	98	15,727	4,263
Other property, plant and equipment	2,157	0	0	186	-240	-299	1,804	1,515
Property, plant and equipment	**118,623**	**90**	**0**	**1,823**	**-1,465**	**39**	**119,110**	**70,217**
Investment property	96,155	2	0	98	-11,129	5,359	90,485	58,184
Other property	59,272	0	0	-103	-1,490	2,080	59,759	38,780
Total	**314,457**	**109**	**0**	**2,576**	**-14,090**	**7,478**	**310,530**	**169,664**

TEUR 2018	Cumulative deprecia-tion / am-ortisation 01.01.	Currency translation	Acquisitions	Regular amortisa-tion	Disposals	Reclassifi-cations and other	Impair-ments	Cumulative deprecia-tion / am-ortisation 31.12.
Software acquired	-6,489	0	0	-726	5	0	0	-7,210
Internally generated intangible assets	0	0	0	0	0	0	-31,352	-31,352
Other intangible assets	-4	-2	0	-124	0	-1	0	-131
Intangible assets	**-6,493**	**-2**	**0**	**-850**	**5**	**-1**	**-31,352**	**-38,693**
Owner-occupied land and buildings	-34,088	-59	0	-2,993	20	-20	0	-37,140
Operational and office equipment	-11,333	-3	0	-1,248	1,079	41	0	-11,464
Other property, plant and equipment	-394	1	0	-59	0	174	-11	-289
Property, plant and equipment	**-45,815**	**-61**	**0**	**-4,300**	**1,099**	**195**	**-11**	**-48,893**
Investment property	-31,936	-2	0	-1,623	1,082	4,146	-3,968	-32,301
Other property	-11,918	0	0	0	16	11,844	-20,921	-20,979
Total	**-96,162**	**-65**	**0**	**-6,773**	**2,202**	**16,184**	**-56,252**	**-140,866**

(32) TRADING LIABILITIES

Trading liabilities and derivatives – breakdown by type of business

TEUR	31.12.2018	31.12.2017
Derivatives with negative market values	167,132	163,621
Trading liabilities	**167,132**	**163,621**

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

(33) FINANCIAL LIABILITIES AT FAIR VALUE (OPTION)

TEUR	31.12.2018	31.12.2017
Deposits from financial institutions	25,846	29,674
Deposits from customers	140,668	151,237
Debt securities issued	1,006,355	1,129,974
Financial liabilities at fair value (option)	**1,172,869**	**1,310,885**

Financial liabilities at fair value (option) by product

TEUR	31.12.2018	31.12.2017
Money market borrowing	25,846	0
Promissory note loans	140,669	180,911
Total deposits	**166,515**	**180,911**
Mortgage bonds	25,447	25,396
Municipal bonds	601,287	700,029
Bonds	140,823	166,079
Housing construction bonds	207,951	197,866
Supplementary capital	30,846	40,604
Total debt securities issued	**1,006,354**	**1,129,974**
Financial liabilities at fair value (option)	**1,172,869**	**1,310,885**

Financial liabilities at fair value (option) by region

TEUR	31.12.2018	31.12.2017
Austria	792,587	1,138,216
Germany	172,280	172,669
Switzerland and Liechtenstein	208,002	0
Financial liabilities at fair value (option)	**1,172,869**	**1,310,885**

Financial liabilities at fair value (option) by segment

TEUR	31.12.2018	31.12.2017
Financial Markets	1,142,023	1,310,885
Corporate Center	30,846	0
Financial liabilities at fair value (option)	1,172,869	1,310,885

Financial liabilities at fair value (option) by sector

TEUR	31.12.2018	31.12.2017
Financial institutions	1,032,201	1,159,648
Finance companies	140,668	151,237
Financial liabilities at fair value (option)	1,172,869	1,310,885

Disclosures on changes in fair value

TEUR	31.12.2018	31.12.2017
Carrying value	1,172,869	1,310,885
Amount repayable	1,159,142	1,218,322
Difference between carrying value and amount repayable	13,727	92,563
Total change in market value	102,515	134,590
of which due to market risk	102,311	119,498
of which due to credit risk	204	15,092
Change in market value in the reporting period	-32,075	-60,510
of which due to market risk	-17,187	-65,508
of which due to credit risk	-14,888	4,998

In the calculation of the market value of "financial liabilities – LFVO", the credit spread is derived from market data. When de-termining the change in fair value due to credit risk, there is a nuanced assessment of financial instruments with regard to cur-rency, 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.

Notes on the change in supplementary capital (LFVO)

TEUR	31.12.2018	31.12.2017
LFVO supplementary capital - balance 01.01.	40,604	55,935
LFVO supplementary capital – New intake	135	1,500
LFVO supplementary capital - Repayments	-8,923	-17,443
LFVO supplementary capital – change in deferred interest	17	-76
LFVO supplementary capital – Change from measurement	-987	688
LFVO supplementary capital - balance 31.12.	30,846	40,604

(34) FINANCIAL LIABILITIES AT COST

TEUR	31.12.2018	31.12.2017
Deposits from financial institutions	1,279,963	1,598,964
Demand deposits from customers	4,299,218	3,932,427
Savings deposits from customers	1,232,274	1,243,234
Debt securities issued	4,251,228	3,568,978
Trade payables	10,195	11,832
Financial liabilities at cost	11,072,878	10,355,435

In liabilities at cost, the use of hedge accounting led to amortised costs of TEUR 4,427,167 (2017: TEUR 3,430,609) being adjusted by the hedged fair value of TEUR 88,272 (2017: TEUR 52,819).

Financial liabilities at cost by product

TEUR	31.12.2018	31.12.2017
Interbank accounts	123,269	188,296
Money market deposits	1,118,451	1,217,994
Demand deposits	3,292,241	2,762,763
Time deposits	775,612	1,169,664
Savings deposits	766,648	639,955
Capital savings accounts	465,626	603,279
Promissory note loans	269,608	192,674
Total deposits	6,811,455	6,774,625
Mortgage bonds	2,252,636	1,609,793
Municipal bonds	41,956	41,249
Medium-term fixed-rate notes	1,123	1,414
Bonds	1,677,368	1,620,061
Housing construction bonds	15,695	24,252
Supplementary capital	211,916	261,908
Additional core capital	50,534	10,301
Total debt securities issued	4,251,228	3,568,978
Trade payables	10,195	11,832
Total other financial liabilities	10,195	11,832
Financial liabilities at cost	11,072,878	10,355,435

Financial liabilities at cost by region

TEUR	31.12.2018	31.12.2017
Austria	8,486,423	9,022,524
Germany	808,720	800,567
Switzerland and Liechtenstein	673,651	300,085
Italy	218,042	28,706
Other foreign countries	886,042	203,553
Financial liabilities at cost	11,072,878	10,355,435

Financial liabilities at cost by business segment

TEUR	31.12.2018	31.12.2017
Corporate customers	1,930,902	1,677,589
Private customers	2,576,859	2,593,941
Financial Markets	5,985,017	5,939,091
Corporate Center	580,100	144,814
Financial liabilities at cost	11,072,878	10,355,435

Financial liabilities at cost by sector

TEUR	31.12.2018	31.12.2017
Central banks	1,012,175	1,032,720
Public sector	352,727	379,237
Financial institutions	4,518,570	4,108,311
Financial companies	1,135,555	1,032,073
Companies	1,861,203	1,719,342
Private households	2,192,648	2,083,752
Financial liabilities at cost	**11,072,878**	**10,355,435**

Financial liabilities at cost – company by branch

TEUR	31.12.2018	31.12.2017
Agriculture and forestry	10,486	10,886
Mining	11,035	53,241
Manufacturing	315,005	243,939
Energy supply	98,697	119,198
Water supply	1,470	2,746
Construction industry	154,275	88,014
Trading	259,527	184,286
Transportation and storage	35,652	76,839
Accommodation and food service activities	79,819	37,690
Information and communication	50,791	29,219
Financial services	214,800	236,563
Housing	215,274	180,562
Liberal professionals	186,990	210,145
Administrative and support service activities	99,217	128,030
Public administration	42,797	31,560
Education	10,762	10,047
Human health and social work activities	35,104	43,010
Arts, entertainment and recreation activities	17,934	16,586
Other services	21,568	16,781
Financial liabilities at cost - companies	**1,861,203**	**1,719,342**

Notes on the change in supplementary capital (LAC)

TEUR	31.12.2018	31.12.2017
LAC supplementary capital - balance 01.01.	**272,209**	**389,015**
LAC supplementary capital – New intake	40,977	48,546
LAC supplementary capital - Repayments	-59,420	-163,340
LAC supplementary capital – change in deferred interest	5	266
LAC supplementary capital – Change from measurement	8,679	-2,278
LAC supplementary capital - balance 31.12.	**262,450**	**272,209**

(35) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

TEUR	31.12.2018	31.12.2017
Negative market value of fair value hedges	110,116	119,041
Negative market values of hedges	**110,116**	**119,041**

The nominal values and the negative market values of the hedging instruments are shown in Note (24). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(36) PROVISIONS

Provisions by type

TEUR	31.12.2018	31.12.2017
Severance provisions	16,258	15,788
Pension provisions	5,549	5,189
Service anniversary provisions	2,555	2,236
Social capital	**24,362**	**23,213**
Provisions for guarantees/liability agreements	2,901	7,826
Provisions for credit risks	766	999
Provisions for ongoing litigation	1,914	1,226
Rückstellungen für Personal	380	390
Provisions for other expenses	11,719	3,912
Other provisions	**17,680**	**14,353**
Provisions	**42,042**	**37,566**

A breakdown by maturity or the expected terms of resulting outflows is shown in Note (42).

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 IFRS 9, they do not come under the scope of IAS 37. These provisions are therefore determined in accordance with IFRS 9.

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 in Austria by law to hold fixed interest securities as collateral for pension recipients' pension entitlements.

Expected utilisation of social capital

TEUR	31.12.2018	31.12.2017
Up to 3 months	379	129
More than 3 up to 12 months	578	575
More than 1 up to 5 years	4,179	3,823
More than 5 years	19,217	18,599
Unlimited	9	87
social capital	24,362	23,213

Development of social capital

TEUR 2017	Severence provisions	Pensions provisions	Service anniversary provisions	Total
Carrying value 01.01.	16,498	5,814	2,222	24,534
Years of service expense	536	64	192	792
Interest expense	281	83	38	402
Actuarial gains/losses of financial assumptions	-968	-308	-158	-1,434
Payments	-559	-361	-58	-978
Other changes	0	-103	0	-103
Carrying value 31.12.	15,788	5,189	2,236	23,213

TEUR 2018	Severence provisions	Pensions provisions	Service anniversary provisions	Total
Carrying value 01.01.	15,788	5,189	2,236	23,213
Years of service expense	631	12	190	833
Interest expense	281	82	43	406
Contributions	-31	0	-6	-37
Actuarial gains/losses of financial assumptions	439	628	221	1,288
Payments	-820	-375	-128	-1,323
Other changes	-30	13	-1	-18
Carrying value 31.12.	16,258	5,549	2,555	24,362

The actuarial gains/losses from severance and pension provisions of TEUR -1,000 (2017: TEUR 1,276) 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

TEUR	2018	2017
Fair value of assets from defined benefit plans	3,026	2,293
of which equity instruments	255	187
of which debt securities	2,244	1,727
of which properties	496	347
of which other assets from defined benefit plans	31	32
Present value of obligations from defined benefit plans	4,283	3,374
Net defined benefit obligation – St. Gallen branch	**1,257**	**1,081**

Reconciliation of fund assets

TEUR	2018	2017
Fair value of assets from defined benefit plans on 1 January	**2,293**	**2,997**
Currency translation effects	88	-247
Interest income from assets	16	18
Gain/loss on remeasurement of assets	12	7
Employer contribution payments	229	231
Employee contribution payments	153	154
Plan participant contribution payments	594	20
Disbursements	-359	-887
Fair value of assets from defined benefit plans on 31 December	**3,026**	**2,293**

Changes in other provisions

TEUR 2017	Ongoing litigation	Guarantees and loan commit-ments	Staff	Other	Credit-risks	Total
Carrying value 01.01.	**1,256**	**14,421**	**451**	**5,079**	**3,681**	**24,888**
Allocation	948	2,411	4	2,630	460	6,453
Use	-537	-2,004	-65	-665	-154	-3,425
Reversal	-451	-6,991	0	-3,132	-2,988	-13,562
Remaining adjustment	5	-11	0	0	0	-6
Changes in the scope of consolidation	5	0	0	0	0	5
Carrying 31.12.	**1,226**	**7,826**	**390**	**3,912**	**999**	**14,353**

TEUR 2018	Ongoing litigation	Guarantees and loan commit-ments	Staff	Other	Credit-risks	Total
Carrying value 01.01.	**1,226**	**7,803**	**390**	**3,912**	**999**	**14,330**
Allocation	1,335	1,981	5	11,324	1,989	16,634
Use	-257	-10	-15	-2,275	-750	-3,307
Reversal	-400	-6,777	0	-1,244	-1,472	-9,893
Unwinding	0	-101	0	0	0	-101
Remaining adjustment	10	5	0	2	0	17
Carrying 31.12.	**1,914**	**2,901**	**380**	**11,719**	**766**	**17,680**

The difference between the closing balance of provisions for guarantees and commitments as at 31 December 2017 compared to the portfolio as at 1 January 2018 is attributable to the transition to IFRS 9, as the provisions for non-balance sheet default risks were also calculated and recognised in accordance with the new provisions.

(37) INCOME TAX LIABILITIES

Income tax liabilities – breakdown by type

TEUR	31.12.2018	31.12.2017
Tax provision	9,299	9,803
Income tax liabilities	19	1
Income tax liabilities	**9,318**	**9,804**

Development of the tax provision

TEUR	2018	2017
Carrying value 01.01.	**9,804**	**19,497**
Currency translation	23	-55
Allocation	9,138	9,159
Use	-9,601	-19,006
Reversal	-65	-52
Changes in the scope of consolidation	0	260
Carrying value 31.12.	**9,299**	**9,803**

The breakdown by maturity is shown in Note (42).

(38) DEFERRED TAX

In the table below, deferred income tax assets are deducted from income tax liabilities when they represent a liability in net terms in the respective tax entity. The breakdown by maturity is shown in Note (42).

TEUR	31.12.2018	31.12.2017
Temporary differences from the measurement of financial instruments via the income statement	8,371	16,001
Temporary differences from writing down assets	2,713	2,947
Temporary differences from provisions	0	2,496
Other temporary differences	991	3,707
Deferred income tax liabilities	**12,075**	**25,151**
Set-off of deferred taxes	-8,977	-16,310
Net deferred income tax liabilities	**3,098**	**8,841**

For the recognition of the actuarial gains and losses on defined benefit plans, TEUR -1,860 (2017: TEUR -903) was recognised in other comprehensive income. The related deferred taxes (tax liability) amount to TEUR 465 (2017: TEUR 226). Deferred taxes (tax liability) of TEUR 51 were also recognised in other comprehensive income of TEUR -204, which was recognised outside of profit or loss.

Other temporary differences include TEUR 2,483 (2017: TEUR 2,280) for the targeted sale of an investment. There are otherwise no outside basis differences within the Group.

(39) OTHER LIABILITIES

TEUR	31.12.2018	31.12.2017
Liabilities in connection with social security	1,514	1,489
Other tax liabilities	917	6,986
Accruals	12,146	14,944
Expense provisions	6,540	6,233
Remaining liabilities	24,863	29,096
Other liabilities	**45,980**	**58,748**

(40) SHAREHOLDERS' EQUITY

Composition of equity by types

TEUR	31.12.2018	31.12.2017
Share capital	162,152	165,453
Capital reserve	44,674	48,874
Accumulated other comprehensive income	**-1,503**	**9,045**
Total items without recycling	**-1,548**	**-677**
Measurement of pension plans	-1,395	-677
Measurement from own change in credit rating	-153	0
Total items with recycling	**45**	**9,722**
Foreign currency measurements	45	-127
OCI measurement of debt instruments	0	9,849
Retained earnings	925,016	902,080
Reserves from equity consolidation	3,398	-17,435
Total parent company shareholders	**1,133,737**	**1,108,017**
Minority interests given recognition in CET1 capital	-2,560	10,562
Total equity	**1,131,177**	**1,118,579**

The subscribed capital consists of share capital of TEUR 162,152 (2017: TEUR 156,453), which was fully paid in. On 31 December 2018, 316,736 (2017: 305,605) shares with a nominal value of EUR 511.95 were issued. The participation certificate issued in 2008 and fully paid in was repaid as part of a regulatory capital strengthening process and partially reinvested as share capital in the bank in 2019. In the previous year, the value of the participation certificate in share capital amounted to TEUR 9,000. On 31 December 2018, 0 (2017: 1,000,000) participation certificates with a nominal value of EUR 9.00 were issued.

Retained earnings include the legal reserve. The reversal of the legal reserve amounting to TEUR 10,601 (2017: TEUR 13,467) is connected to the UGB in conjunction with the AktG.

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 (2017: TEUR 128,472) 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.

Reconciliation of accumulated other comprehensive income

TEUR	Measurement of pension plans	Measurement from own change in credit rating	Foreign currency measurement	OCI measurement Debt instruments	Total
Balance 31 December 2016	**-1,668**	**0**	**-2**	**10,219**	**8,549**
OCI measurement, not recyclable	1,276	0	0	0	1,276
Deferred taxes, not recyclable	-284	0	0	0	-284
OCI measurement, recyclable	0	0	-125	-49	-174
Reclassification to income statement	0	0	0	-445	-445
Deferred taxes, recyclable	0	0	0	124	124
Balance 31 December 2017	**-676**	**0**	**-127**	**9,849**	**9,046**
Balance 31 December 2017	**-676**	**0**	**-127**	**9,849**	**9,046**
IFRS 9 changes	47	-11,319	0	-9,849	-21,121
Balance 1 January 2018	**-629**	**-11,319**	**-127**	**0**	**-12,075**
Equity transfer	0	0	127	0	127
OCI measurement	-1,000	14,888	0	0	13,888
Deferred taxes, not recyclable	234	-3,722	0	0	-3,488
OCI measurement	0	0	45	0	45
Balance 31 December 2018	**-1,395**	**-153**	**45**	**0**	**-1,503**

Due to the disposal of financial liabilities voluntarily measured at fair value, TEUR 423 was reversed in accumulated other comprehensive income.

Dividends of Hypo Vorarlberg Bank AG
Hypo Vorarlberg Bank AG can distribute a dividend no larger than the unappropriated surplus of TEUR 3,167 (2017: TEUR 5,000) 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.

(41) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

TEUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2017						
Cash and balances with central banks	197,708	6,299	139,387	1,860	5,641	350,895
Trading assets	165,289	20	14,851	6,840	3,940	190,940
Financial assets at Fair Value (SPPI)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Financial assets at Fair Value (Option)	657,107	1,632	5,037	65,462	15,427	744,665
Financial assets - Available for Sale	578,359	34,768	38,760	0	33,465	685,352
Financial assets at cost	9,024,685	102,844	1,515,804	20,100	183,618	10,847,051
Positive market values of hedges	70,116	325	3,538	0	6	73,985
Affiliates	1,246	0	0	0	0	1,246
Shares in companies valued at equity	4,195	0	0	0	0	4,195
Property, plant and equipment	66,326	0	6,482	0	0	72,808
Investment property	64,219	0	0	0	0	64,219
Intangible assets	33,568	0	346	0	0	33,914
Income tax assets	1,037	0	0	0	0	1,037
Deferred income tax assets	8,984	0	0	0	0	8,984
Other assets	103,026	36	60	0	107	103,229
Total assets	**10,975,865**	**145,924**	**1,724,265**	**94,262**	**242,204**	**13,182,520**

TEUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2017						
Trading liabilities	146,468	2,906	2,561	6,240	5,446	163,621
Financial liabilities at Fair Value (Option)	1,000,303	0	294,443	16,139	0	1,310,885
Financial liabilities at Cost	9,643,372	157,181	434,849	4,878	115,155	10,355,435
Negative market values of hedges	83,628	3,212	11,905	980	19,316	119,041
Provisions	36,100	0	1,466	0	0	37,566
Income tax liabilities	8,967	0	836	0	1	9,804
Deferred income tax liabilities	8,723	0	118	0	0	8,841
Other liabilities	57,497	21	743	0	487	58,748
Shareholder's equity	1,118,343	0	0	0	236	1,118,579
Total liabilities and shareholders' equity	**12,103,401**	**163,320**	**746,921**	**28,237**	**140,641**	**13,182,520**

TEUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2018						
Cash and balances with central banks	246,371	5,258	329,888	1,764	6,439	589,720
Trading assets	137,508	2,995	6,735	5,071	531	152,840
Financial assets at Fair Value (SPPI)	701,270	18,019	13,860	51,579	0	784,728
Financial assets at Fair Value (Option)	374,870	0	4,978	0	12,320	392,168
Financial assets - Available for Sale	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Financial assets at cost	9,688,729	150,170	1,498,897	19,934	178,141	11,535,871
Positive market values of hedges	76,015	385	4,512	0	267	81,179
Affiliates	1,814	0	0	0	0	1,814
Shares in companies valued at equity	2,381	0	0	0	0	2,381
Property, plant and equipment	63,685	0	6,532	0	0	70,217
Investment property	58,184	0	0	0	0	58,184
Intangible assets	2,066	0	417	0	0	2,483
Income tax assets	2,163	0	0	0	0	2,163
Deferred income tax assets	8,842	0	3	0	0	8,845
Other assets	71,668	38	253	0	58	72,017
Total assets	**11,435,566**	**176,865**	**1,866,075**	**78,348**	**197,756**	**13,754,610**

TEUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2018						
Trading liabilities	165,511	1,028	479	0	114	167,132
Financial liabilities at Fair Value (Option)	955,699	0	208,002	9,168	0	1,172,869
Financial liabilities at Cost	10,206,740	204,568	592,794	2,372	66,404	11,072,878
Negative market values of hedges	97,955	2,472	6,164	0	3,525	110,116
Provisions	40,504	0	1,538	0	0	42,042
Income tax liabilities	8,727	0	591	0	0	9,318
Deferred income tax liabilities	2,986	0	112	0	0	3,098
Other liabilities	45,155	87	738	0	0	45,980
Shareholder's equity	1,130,942	0	11	0	224	1,131,177
Total liabilities and shareholders' equity	**12,654,219**	**208,155**	**810,429**	**11,540**	**70,267**	**13,754,610**

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 2018 TEUR 4,971 (2017: TEUR 4,552).

Foreign-denominated assets and liabilities

TEUR	31.12.2018	31.12.2017
Foreign assets	5,602,962	5,378,146
Foreign liabilities	3,391,254	3,238,947

(42) MATURITIES

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	325,504	0	0	0	0	25,391	350,895
Trading assets	0	2,468	9,883	44,197	134,342	50	190,940
Financial assets at Fair Value (SPPI)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Financial assets at Fair Value (Option)	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	27,671	685,352
Financial assets at Cost	688,985	848,878	1,331,372	3,614,904	4,331,939	30,973	10,847,051
Positive market values of hedges	0	0	2,697	41,024	30,264	0	73,985
Affiliates	0	0	0	0	0	1,246	1,246
Shares in companies valued at equity	0	0	0	0	0	4,195	4,195
Property, plant and equipment	0	0	0	0	0	72,808	72,808
Investment property	0	0	0	0	0	64,219	64,219
Intangible assets	0	0	0	0	0	33,914	33,914
Income tax assets	137	204	1	695	0	0	1,037
Deferred income tax assets	0	0	0	0	8,984	0	8,984
Other assets	19,659	27,136	5,621	2,083	454	48,276	103,229
Assets	**1,034,286**	**911,993**	**1,442,319**	**4,316,444**	**5,109,485**	**367,993**	**13,182,520**

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
Trading liabilites	0	2,094	2,492	55,564	103,471	0	163,621
Financial liabilities at Fair Value (Option)	0	13,029	114,875	428,190	754,791	0	1,310,885
Financial liabilities at Cost	3,790,214	850,618	582,415	3,492,334	1,639,854	0	10,355,435
Negative markt values of hedges	0	971	1,215	40,343	76,512	0	119,041
Provisions	32,774	0	5	0	2,641	2,146	37,566
Income tax liabilities	117	0	9,687	0	0	0	9,804
Deferred income tax liabilities	2,292	17,688	-6,768	-8,973	-20,975	25,577	8,841
Other liabilities	31,682	10,641	6,047	3,601	1,594	5,183	58,748
Shareholder's 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**

TEUR 31.12.2018	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	562,405	0	0	0	0	27,315	589,720
Trading assets	0	4,173	11,708	23,121	113,662	176	152,840
Financial assets at Fair Value (SPPI)	65,213	88,219	75,292	266,469	197,220	92,315	784,728
Financial assets at Fair Value (Option)	10	5,224	23,319	121,273	242,342	0	392,168
Financial assets - Available for Sale	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Financial assets at Cost	669,201	975,464	1,193,098	4,116,246	4,520,188	61,674	11,535,871
Positive market values of hedges	0	223	6,252	25,410	49,294	0	81,179
Affiliates	0	0	0	0	0	1,814	1,814
Shares in companies valued at equity	0	0	0	0	0	2,381	2,381
Property, plant and equipment	0	0	0	0	0	70,217	70,217
Investment property	0	0	0	0	0	58,184	58,184
Intangible assets	0	0	0	0	0	2,483	2,483
Income tax assets	116	0	81	1,966	0	0	2,163
Deferred income tax assets	40	0	0	7,083	1,713	9	8,845
Other assets	24,550	1,420	441	1,593	277	43,736	72,017
Assets	**1,321,535**	**1,074,723**	**1,310,191**	**4,563,161**	**5,124,696**	**360,304**	**13,754,610**

TEUR 31.12.2018	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Trading liabilites	0	7,766	31,028	35,106	93,232	0	167,132
Financial liabilities at Fair Value (Option)	0	15,299	251,386	177,098	729,086	0	1,172,869
Financial liabilities at Cost	4,064,328	727,412	812,348	2,916,031	2,550,570	2,189	11,072,878
Negative markt values of hedges	0	1,684	1,669	39,851	66,912	0	110,116
Provisions	1,562	435	2,783	17,008	19,949	305	42,042
Income tax liabilities	66	37	1	0	9,211	3	9,318
Deferred income tax liabilities	1,528	61	7,169	-8,297	2,125	512	3,098
Other liabilities	30,539	4,499	5,146	3,591	1,480	725	45,980
Shareholder's equity	0	0	0	0	0	1,131,177	1,131,177
Total liabilities and shareholders' equity	**4,098,023**	**757,193**	**1,111,530**	**3,180,388**	**3,472,565**	**1,134,911**	**13,754,610**

D. FURTHER IFRS INFORMATION

(43) 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.

(44) CONTINGENT LIABILITIES AND CREDIT RISKS

Off-balance liabilities

TEUR	31.12.2018	31.12.2017
Loan commitments granted	1,823,510	1,791,891
Financial guarantees granted	397,082	308,055
Other guarantees granted	19,060	19,466
Off-balance liabilities	**2,239,652**	**2,119,412**

The loan commitments issued 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. 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 commitments issued constitute certain trust activities and documentary credit transactions.

Contingent liabilities – breakdown by residual duration

TEUR	31.12.2018	31.12.2017
Repayable on demand	2	243
Up to 3 months	33,611	30,542
Up to 1 year	106,154	86,536
Up to 5 years	117,328	110,491
More than 5 years	78,111	27,887
Unlimited	80,936	71,822
Contingent liabilities	**416,142**	**327,521**

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 etablish 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 1,694 (2017: TEUR 1,640). 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 at 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.

In the case of an affiliated bank, deposit protection ensures balances on accounts and savings accounts up to TEUR 100 per customer and bank. In specific cases, the hedged amount increases to TEUR 500 per customer and bank. In both cases, there is no deductible for investors. Deposit protection also includes the hedging of deposited securities of a customer in the case of a security with an amount of up to TEUR 20 per customer and bank. For non-natural persons, the customer has to pay a deductible of 10 %.

Liability for the liabilities of Pfandbriefstelle Verwaltungsgesellschaft AG i.A. (Previously: "Pfandbriefbank (Österreich) AG"):

Pfandbriefstelle Verwaltungsgesellschaft AG i.A has been in liquidation since 1 June 2018 in accordance with the decision of the FMA regarding the resettlement of the bank concession. The amount of liabilities covered by the liability of the guarantor amounts to EUR 0 as at 31 December 2018. All eight affiliated institutions (Hypo Vorarlberg, Tirol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability for the liabilities in the previous year amounting to TEUR 71,625. As at 31 December 2017, Hypo Vorarlberg held bonds of TEUR 7,545 (recognised under "Liabilities evidenced by certificates") that were issued by Pfandbriefstelle Verwaltungsgesellschaft AG i.A.

As at the balance sheet date, there were the liabilities to Pfandbriefstelle Verwaltungsgesellschaft AG i.A shown in the table below.

Liabilities to Pfandbriefstelle Verwaltungsgesellschaft AG i.A.

TEUR	31.12.2018	31.12.2017
Liabilities evidenced by certificates	0	0
Financial liabilities – designated at fair value	0	7,545
Liabilities to Pfandbriefstelle Verwaltungsgesellschaft AG i.A.	**0**	**7,545**

(45) INTEREST-FREE LOANS AND ADVANCES

TEUR	31.12.2018	31.12.2017
Interest-free loans and advances to banks	4,263	36,136
Interest-free loans and advances to customers	83,940	111,482
Interest-free loans and advances	**88,203**	**147,618**

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.

(46) COLLATERAL

Assets provided as collateral

TEUR	31.12.2018	31.12.2017
Financial assets - designated at Fair Value (SPPI)	383,832	N.A.
Financial assets - designated at Fair Value (Option)	335,162	527,313
Financial assets - Available for Sale	N.A.	549,905
Financial assets at Cost	6,589,209	5,846,374
Assets provided as collateral	**7,308,203**	**6,923,592**
of which covered pool for mortgage bonds	3,145,565	2,952,712
of which covered pool for public-sector mortgage bonds	791,611	792,075

Assignment and use of collateral

TEUR	Assignment of collateral	
	31.12.2018	31.12.2017
Backing for refinancing with central banks	1,264,579	1,016,645
Covered pool for mortgage bonds	3,835,912	3,693,488
Covered pool for public-sector mortgage bonds	872,692	885,047
Surplus cover for mortgage bonds and municipal bonds	98,112	80,632
Covered pool for trust savings deposits	31,115	33,808
Cover for pension provisions	2,106	2,125
Genuine repurchase agreements, repos	1,008,554	1,029,222
Deposits, collateral, margins	195,133	182,625
Collateral – breakdown by assignment	**7,308,203**	**6,923,592**

TEUR	Use of collateral	
	31.12.2018	31.12.2017
Backing for refinancing with central banks	1,012,175	1,032,510
Covered pool for mortgage bonds	2,989,285	2,620,055
Covered pool for public-sector mortgage bonds	551,476	605,364
Surplus cover for mortgage bonds and municipal bonds	98,112	80,632
Covered pool for trust savings deposits	26,400	26,696
Cover for pension provisions	2,106	2,125
Genuine repurchase agreements, repos	0	137,646
Deposits, collateral, margins	195,130	182,628
Collateral – breakdown by assignment	**4,874,684**	**4,687,656**

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.

(47) SUBORDINATED ASSETS

TEUR	31.12.2018	31.12.2017
Financial assets at Fair Value (SPPI)	44,067	N.A.
Financial assets at Fair Value (Option)	0	6,923
Financial assets - Available for Sale	N.A.	38,697
Financial assets at Cost	26,319	30,276
Subordinated assets	**70,386**	**75,896**
of which debt securities	70,386	74,196
of which loans and advances	0	1,700

(48) FIDUCIARY TRANSACTIONS ADVANCES

TEUR	31.12.2018	31.12.2017
Loans and advances to customers	100,784	64,718
Fiduciary assets	**100,784**	**64,718**
Amounts owed to banks	87,104	49,334
Amounts owed to customers	13,835	16,006
Fiduciary assets	**100,939**	**65,340**

(49) REPURCHASE AGREEMENTS

TEUR	31.12.2018	31.12.2017
Amounts owed to banks	0	137,646
Total deposits (Repos)	**0**	**137,646**
Debt securities	0	141,809
Total provided Collateral (Repos)	**0**	**141,809**

(50) 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 6,272 (2017: TEUR 5,362) 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 19,585 (2017: TEUR 20,654) for themselves and for companies for which they are employeesly liable at the customary terms and conditions for the Bank or for Bank employees.

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Remuneration

The remuneration for members of the Managing Board in 2018 consisted of only a fixed amount. There are no variable remuneration components. In some cases, variable remuneration determined individually by the Managing Board has been agreed for managing directors and senior employees due to individual targets. There are no sharebased remuneration schemes.

In 2018, Hypo Vorarlberg Bank AG spent the following amounts for the active Managing Board members:

TEUR	2018	2017
Michel Haller	327	321
Johannes Hefel	254	249
Wilfried Amann	276	271
Managing Board remuneration	**857**	**841**

Remuneration paid to related parties

TEUR	2018	2017
Managing Board members and managing directors	1,912	1,844
Retired Managing Board members and survivors	66	65
Managerial personnel	4,953	4,498
Supervisory Board members	204	197
Remuneration paid to related parties	**7,135**	**6,604**

Severance and pensions

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

TEUR	2018	2017
Managing Board members and managing directors	130	128
Retired Managing Board members and survivors	114	25
Managerial personnel	1,240	527
Severance and pensions paid to related parties	**1,484**	**680**

The Group purchased services amounting to TEUR 65 (2017: TEUR 61) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

TEUR	2018	2017
Loans and advances	0	2,076
Financial assets	**0**	**2,076**
Deposits	309	434
Financial liabilities	**309**	**434**

Transactions with related companies include only business current accounts for our non-consolidated subsidiaries. The deposits currently have an interest rate of 0% (2017: 0.02%). The financial assets of the previous year were held with two affiliated companies, which were sold during 2018.

In the 2017 financial year, the Group still had receivables from loans and credits to affiliated, non-consolidated subsidiaries. The receivables generally had an interest rate of 0.25%. Since the two affiliated companies were sold in 2018, these receivables are not longer recognised in this disclosure.

Income and expenses from affiliated companies

TEUR	2018	2017
Interest income	0	8
Fee and commission income	0	2
Total income/expenses from affiliated companies	**0**	**10**

Business relationships with associated companies

TEUR	2018	2017
Equity instruments	972	972
Loans and advances	10,615	12,950
Financial assets	**11,587**	**13,922**
Deposits	3,114	2,139
Financial liabilities	**3,114**	**2,139**
Nominal values of derivatives	3,000	3,000

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 a derivative transaction with associated companies, which has a fair value of TEUR 96 (2017: TEUR 61).

Income and expenses from associated companies

TEUR	2018	2017
Interest income	208	240
Interest expenses	-1	-1
Dividend earnings	2,058	382
Fee and commission income	9	2
Total income/expenses from associated companies	**2,274**	**623**

Business relationships with shareholders

TEUR	2018	2017
Equity instruments	10,707	11,252
Loans and advances	148,087	88,721
Financial assets	**158,794**	**99,973**
Deposits	11,297	19,917
Financial liabilities	**11,297**	**19,917**
Nominal values of off-balance-sheet items	53	36
Nominal values of derivatives	2,096,352	2,126,935

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 total market value of TEUR 5,619 (2017: TEUR 7,237) to hedge against market price and interest rate 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

TEUR	2018	2017
Interest income	24,016	26,074
Interest expenses	-14,003	-17,104
Fee and commission income	1,740	1,764
Fee and commission expenses	0	-12
Other expenses	-750	-1,090
Total income/expenses from significant shareholders	**11,003**	**9,632**

Shareholders of Hypo Vorarlberg Bank AG

Shareholders - 2018	Total shares	Voting rights
Vorarlberger Landesbank-Holding	76.8732 %	76.8732 %
Austria Beteiligungsgesellschaft mbH	23.1268 %	23.1268 %
- Landesbank Baden-Württemberg	15.4179 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.7089 %	
Share capital	**100.0000 %**	**100.0000 %**

Shareholders - 2017	Total shares	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 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.

In 2018, the shareholder structure has changed slightly, as the participation certificate issued in 2008 and fully paid in was repaid as part of a regulatory capital strengthening process and partially reinvested as share capital in the bank.

Business relationship with state-related companies

TEUR	2018	2017
Loans and advances	75,931	68,755
Financial assets	75,931	68,755
Deposits	81,327	95,269
Financial liabilities	81,327	95,269
Nominal values of off-balance-sheet items	0	8,467

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

Income and expenses from state-related companies

TEUR	2018	2017
Interest income	613	654
Interest expenses	-79	-100
Fee and commission income	400	311
Total income/expenses from state-related companies	934	865

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.

(51) SHARE-BASED PAY ARRANGEMENTS

In the previous reporting period, there were option rights until 1 December 2018, but these were not exercised. There were no pay arrangements for participation certificates for participation certificates in the Group as at 31 December 2018.

(52) HUMAN RESOURCES

TEUR	2018	2017
Full-time salaried staff	620	634
Part-time salaried staff	97	93
Apprentices	7	8
Cleaning staff / workers	3	2
Average number of employees	727	737

(53) SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No particularly significant developments occurred during the period between the end of the 2018 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

TEUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2018	102,355	30,198	11,620	23,255	167,428
	2017	93,597	29,586	5,417	29,585	158,185
Dividend income	2018	0	0	526	871	1,397
	2017	0	0	575	500	1,075
Net fee and commission income	2018	13,545	16,557	2,203	-391	31,914
	2017	12,833	17,523	2,242	2,235	34,833
Net result from financial instruments at Cost and AFS	2018	0	0	5,421	-14	5,407
	2017	0	0	3,530	-2,149	1,381
Net result from financial instruments at Fair Value	2018	-652	1,302	-1,950	11,508	10,208
	2017	302	1,868	7,496	810	10,476
Other income	2018	1,468	519	-13	15,946	17,920
	2017	3,778	1,664	3	23,920	29,365
Other expenses	2018	-2,817	-2,860	-5,069	-24,076	-34,822
	2017	-3,477	-3,714	-4,969	-13,446	-25,606
Administrative expenses	2018	-33,597	-42,244	-10,565	-11,328	-97,734
	2017	-32,810	-41,558	-9,328	-12,620	-96,316
Depreciation and amortisation	2018	-692	-834	-31	-5,216	-6,773
	2017	-701	-1,041	-63	-3,997	-5,802
Loan loss provisions and impairment of financial assets	2018	-4,406	89	23	113	-4,181
	2017	10,402	1,251	-1,417	960	11,196
Impairment of non-financial assets	2018	0	0	0	-42,371	-42,371
	2017	0	0	0	-1,401	-1,401
Result from equity consolidation	2018	0	0	0	264	264
	2017	0	0	0	-17,661	-17,661
Result from change in own credit risk	2018	N.A	N.A	N.A	N.A	N.A
	2017	0	0	-5,123	0	-5,123
Earnings before taxes	**2018**	**75,204**	**2,727**	**2,165**	**-31,439**	**48,657**
	2017	**83,924**	**5,579**	**-1,637**	**6,736**	**94,602**
Assets	2018	6,401,606	2,000,905	3,920,074	1,432,025	13,754,610
	2017	6,114,239	1,940,752	3,561,560	1,565,969	13,182,520
Liabilities and shareholders' equity	2018	1,938,518	2,582,490	7,380,747	1,852,855	13,754,610
	2017	2,175,131	3,159,631	7,152,800	694,958	13,182,520
Liabilities	2018	1,939,107	2,578,099	7,400,931	705,296	12,623,433
	2017	1,754,510	3,068,630	6,842,661	398,140	12,063,941

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 2,381 (2017: TEUR 4,195) 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 seg-ment. 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 pro-duct 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 seg-ment. 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. Simi-larly, 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

TEUR		Corporate customers	Private customers	Financial Markets	Corporate Center	Total
Recognition of impairments	2018	-25,836	-3,583	-183	-54,150	-83,752
	2017	-16,713	-853	-250	-4,853	-22,669
Reversals of impairments	2018	27,264	3,577	212	4,310	35,363
	2017	26,572	1,786	2,526	2,651	33,535

Reporting by region

TEUR		Austria	Third country	Total
Net interest income	2018	144,452	22,976	167,428
	2017	134,977	23,208	158,185
Dividend income	2018	1,397	0	1,397
	2017	1,075	0	1,075
Net fee and commission income	2018	31,478	436	31,914
	2017	34,234	599	34,833
Net result from financial instruments at Cost and AFS	2018	5,396	11	5,407
	2017	1,381	0	1,381
Net result from financial instruments at Fair Value	2018	9,854	354	10,208
	2017	10,025	451	10,476
Other income	2018	13,432	4,488	17,920
	2017	23,530	5,835	29,365
Other expenses	2018	-28,150	-6,672	-34,822
	2017	-19,238	-6,368	-25,606
Administrative expenses	2018	-88,459	-9,275	-97,734
	2017	-87,008	-9,308	-96,316
Depreciation and amortisation	2018	-6,406	-367	-6,773
	2017	-4,932	-870	-5,802
Loan loss provisions and impairment of financial assets	2018	20,118	-24,299	-4,181
	2017	15,808	-4,612	11,196
Impairment of non-financial assets	2018	-31,623	-10,748	-42,371
	2017	-2	-1,399	-1,401
Result from equity consolidation	2018	264	0	264
	2017	-17,661	0	-17,661
Result from change in own credit risk	2018	N.A	N.A	N.A
	2017	-5,123	0	-5,123
Earnings before taxes	**2018**	**71,753**	**-23,096**	**48,657**
	2017	**87,066**	**7,536**	**94,602**
Assets	2018	12,180,881	1,573,729	13,754,610
	2017	11,590,473	1,592,047	13,182,520
Liabilities and shareholders' equity	2018	13,271,879	482,731	13,754,610
	2017	12,995,961	186,559	13,182,520
Liabilities	2018	12,294,566	328,867	12,623,433
	2017	11,944,963	118,978	12,063,941

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(54) EARNINGS BY MEASUREMENT CATEGORY

Result of financial assets

TEUR 2017	HA	SPPI	FVO	AFS	AC	Total assets
Interest income	43,287	N.A.	5,140	16,457	189,479	254,363
Interes expenses	0	N.A.	0	0	-1,463	-1,463
Net interest income	**43,287**	**N.A.**	**5,140**	**16,457**	**188,016**	**252,900**
Dividend earnings	22	N.A.	1,053	0	0	1,075
Additions to loan loss provisions	0	N.A.	0	-183	-18,815	-18,998
Reversal of loan loss provisions	0	N.A.	0	1,010	21,391	22,401
Write-ups	4,801	N.A.	839	0	0	5,640
Depreciation	-95,782	N.A.	-21,646	0	0	-117,428
Realised gains	16	N.A.	4,017	1,895	5,430	11,358
Realised losses	0	N.A.	-2,568	-523	-2,122	-5,213
Comprehensive income	**-47,656**	**N.A.**	**-13,165**	**18,656**	**193,900**	**151,735**
Measurement	0	N.A.	0	-494	0	-494

TEUR 2017	HA	SPPI	FVO	AFS	AC	Total assets
Interest income	50,964	4,648	5,881	N.A.	207,259	268,752
Interes expenses	0	0	0	N.A.	-1,987	-1,987
Net interest income	**50,964**	**4,648**	**5,881**	**N.A.**	**205,272**	**266,765**
Dividend earnings	0	1,397	0	N.A.	0	1,397
Additions to loan loss provisions	0	0	0	N.A.	-49,046	-49,046
Reversal of loan loss provisions	0	0	0	N.A.	38,242	38,242
Write-ups	26,236	980	0	N.A.	0	27,216
Depreciation	0	-171	0	N.A.	-15,179	-15,350
Realised gains	1,969	378,542	5,377	N.A.	7,099	392,987
Realised losses	-1,724	-381,898	-25,679	N.A.	-1,976	-411,277
Comprehensive income	**77,445**	**3,498**	**-14,421**	**N.A.**	**184,412**	**250,934**
Measurement	0	0	0	N.A.	0	0

Result of financial liabilities

TEUR 2017	HP	LFVO	LAC	Total liabilities
Interest income	0	11,640	0	11,640
Interes expenses	-46,345	0	-60,010	-106,355
Net interest income	**-46,345**	**11,640**	**-60,010**	**-94,715**
Write-ups	54,500	66,282	49	120,831
Depreciation	0	-771	-1,166	-1,937
Realised gains	0	163	112	275
Realised losses	0	-378	-75	-453
Comprehensive income	**8,155**	**76,936**	**-61,090**	**24,001**
Measurement	0	0	0	0

TEUR 2018	HP	LFVO	LAC	Total liabilities
Interest income	0	0	4,950	4,950
Interes expenses	-39,203	-6,228	-58,856	-104,287
Net interest income	**-39,203**	**-6,228**	**-53,906**	**-99,337**
Write-ups	2,997	0	-10,915	-7,918
Depreciation	2,427	0	0	2,427
Realised gains	0	29,676	285	29,961
Realised losses	0	-1,622	0	-1,622
Comprehensive income	**-33,779**	**21,826**	**-64,536**	**-76,489**
Measurement	0	14,888	0	14,888

(55) DISCLOSURES ON FAIR VALUE

TEUR	(Notes)	31.12.2018 Fair Value	31.12.2018 Carrying Amount	31.12.2017 Fair Value	31.12.2017 Carrying Amount
Assets					
Trading assets	(19)	152,840	152,840	190,940	190,940
Financial assets at Fair Value (SPPI)	(20)	784,728	784,728	N.A.	N.A.
Financial assets at Fair Value (Option)	(21)	392,168	392,168	744,665	744,665
Financial assets - Available for Sale	(22)	N.A.	N.A.	685,352	685,352
Financial assets at Cost	(23)	12,166,407	11,535,871	11,706,637	10,847,051
Positive market values of hedges	(24)	81,179	81,179	73,985	73,985
Affiliates		1,814	1,814	1,246	1,246
Liabilities					
Trading liabilities	(32)	167,132	167,132	163,621	163,621
Financial liabilities at Fair Value (Option)	(33)	1,172,869	1,172,869	1,310,885	1,310,885
Financial liabilities at Cost	(34)	11,079,964	11,072,878	10,388,759	10,355,435
Negative market values of hedges	(35)	110,116	110,116	119,041	119,041

In the case of financial assets at cost, the fair value of the fixed-interest transactions - provided they are loans and credits - was determined on the basis of the expected future cash flows taking into account the current market interest rates. In the case of bonds, 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.

For financial liabilities at cost, the repayment amount recognised for deposits without agreed maturity and variable interest rates 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 bonds 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

TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Financial assets at Cost	1,754,669	0	9,951,968	11,706,637
Financial liabilities at Cost	2,954,010	48,727	7,386,022	10,388,759

TEUR 31.12.2018	Level 1	Level 2	Level 3	Total
Financial assets at Cost	2,507,517	25,369	9,633,521	12,166,407
Financial liabilities at Cost	3,511,256	67,377	7,501,331	11,079,964

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

TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Trading assets	50	134,432	56,458	190,940
Financial assets at Fair Value (Option)	50,518	515,827	178,320	744,665
Financial assets - Available for Sale	626,268	5,010	54,074	685,352
Positive market values of hedges	0	73,898	87	73,985
Affiliates	0	0	1,246	1,246
Assets measured at Fair Value	**676,836**	**729,167**	**290,185**	**1,696,188**
Reclassification of assets from level 2 and 3 to level 1	12,935	-8,299	-4,636	0
Reclassification of assets from level 1 and 3 to Level 2	0	0	0	0
Trading liabilities	0	159,428	4,193	163,621
Financial liabilities at Fair Value (Option)	123,771	324,361	862,753	1,310,885
Negative market values of hedges	0	111,898	7,143	119,041
Liabilities measured at Fair Value	**123,771**	**595,687**	**874,089**	**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	8,062	-8,062	0

TEUR 31.12.2018	Level 1	Level 2	Level 3	Total
Trading assets	176	101,261	51,403	152,840
Financial assets at Fair Value (SPPI)	99,015	153,803	531,910	784,728
Financial assets at Fair Value (Option)	23,266	43,853	325,049	392,168
Positive market values of hedges	0	81,174	5	81,179
Affiliates	0	0	1,814	1,814
Assets measured at Fair Value	**122,457**	**380,091**	**910,181**	**1,412,729**
Reclassification of assets from level 2 and 3 to level 1	51,916	-51,916	0	0
Reclassification of assets from level 1 and 3 to Level 2	-12,320	12,320	0	0
Trading liabilities	0	158,944	8,188	167,132
Financial liabilities at Fair Value (Option)	127,389	293,575	751,905	1,172,869
Negative market values of hedges	0	104,235	5,881	110,116
Liabilities measured at Fair Value	**127,389**	**556,754**	**765,974**	**1,450,117**
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	-7,823	7,823	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 a valuation committee for financial instruments. This committee specifies 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 should be measured 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 internal input parameters or changes need to be implemented. The valuation committee will decide to adjust the internal input parameters if this is more in line with the aim of measuring financial instruments as objectively as possible.

The reclassifications in Level 1 and Level 2 described in the text below are shown in the previous tables, while reclassifications in Level 3 are shown in the changes in financial instruments table.

The reclassification of assets from Level 1 to Level 2 comprises one (2017: zero) FVO category financial instrument with a carrying value of TEUR 12,320 (2017: TEUR 0). Because no OTC secondary market price was available from Bloomberg, a derived market valuation was used.

The reclassification of assets from Level 2 to Level 1 comprises three (2017: zero) SPPI category financial instrument with a carrying value of TEUR 51,916. In the 2017 financial year, these financial instruments were still allocated to the FVO category with a carrying value of TEUR 12,935. 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 zero (2017: one) FVO category financial instrument, zero HA category derivative (2017: one) and no derivatives (2017: 16) reported under the positive market values of hedges item. The carrying value of the previous year was TEUR 3,417 for the FVO category financial instrument, TEUR 27 for the HA category derivative and TEUR 1,191 for the derivatives reported under the positive market values of hedges item. 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 HA derivatives were reclassified because of the use of available OTC secondary market price sources from Bloomberg. For items reclassified in 2017, the carrying value in 2016 was TEUR 4,683, whereby TEUR 3,566 was allocated to the FVO category, TEUR 5 to the HA category and TEUR 1,112 to the positive market values of hedges item.

In 2018, the reclassification of assets from Level 2 to Level 3 comprises a SPPI bond with a value of TEUR 3,325 (2017: two derivatives reported under the HA item of TEUR 17,232). The bond was transferred to Level 3 because the valuation was only possible on the basis of internal input parameters. As at 31 December 2017, the carrying amount of the bond was TEUR 3,418. The two derivatives from the previous year 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. For items reclassified in 2017, the carrying value for 2016 was TEUR 18,202.

The reclassification of liabilities from Level 1 to Level 2 comprises one (2017: zero) LFVO category financial instrument with a carrying value of TEUR 7,823. 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 comprises zero (2017: four) HP category derivatives and zero (2017: six) derivatives reported under the positive market values of hedges item. The carrying value in the previous year was TEUR 5,280 for the HP category and TEUR 2,781 for the positive market values of hedges item. Measurement of the derivatives reclassified in 2017 relied exclusively on relevant input factors observable on the market. In 2018, measurement of the credit spread was based on internal input factors. For financial instruments reclassified in 2017, the carrying value in 2016 was TEUR 8,897, whereby TEUR 6,565 was allocated to the HP category and TEUR 2,332 to the negative market values of hedges item.

The reclassification of liabilities from Level 2 to Level 3 comprised two (previous year: zero) LFVO category issues with a carrying value of TEUR 6,558. 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. At the end of the previous year, the carrying value for the LFVO category financial instruments was TEUR 7,193.

Fair value hierarchy for financial assets – breakdown by class

TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Derivatives	0	134,431	56,459	190,890
Equity instruments	50	0	0	50
Trading assets	50	134,431	56,459	190,940
Equity instruments	2,716	0	56,535	59,251
Debt securities	47,802	241,715	0	289,517
Loans and advances	0	274,112	121,785	395,897
Financial assets at Fair Value (Option)	50,518	515,827	178,320	744,665
Equity instruments	3,045	0	34,630	37,675
Debt securities	623,222	5,010	19,445	647,677
Financial assets - Available for Sale	626,267	5,010	54,075	685,352
Positive market values of hedges	0	73,898	87	73,985
Affiliates	0	0	1,246	1,246
ASSETS	676,835	729,166	290,187	1,696,188
Derivatives	0	159,427	4,194	163,621
Trading liabilites	0	159,427	4,194	163,621
Deposits	0	0	180,911	180,911
Debt securities issued	123,771	324,361	681,842	1,129,974
Financial liabilities at Fair Value (Option)	123,771	324,361	862,753	1,310,885
Negative markt values of hedges	0	111,898	7,143	119,041
LIABILITIES	123,771	595,686	874,090	1,593,547

TEUR 31.12.2018	Level 1	Level 2	Level 3	Total
Derivatives	0	101,261	51,403	152,664
Equity instruments	176	0	0	176
Trading assets	176	101,261	51,403	152,840
Equity instruments	3,401	0	82,558	85,959
Debt securities	95,613	147,446	32,803	275,862
Loans and advances	0	6,356	416,551	422,907
Financial assets at Fair Value SPPI	99,014	153,802	531,912	784,728
Debt securities	23,266	43,853	0	67,119
Loans and advances	0	0	325,049	325,049
Financial assets at Fair Value (Option)	23,266	43,853	325,049	392,168
Positive market values from hedges	0	81,174	5	81,179
Affiliates	0	0	1,814	1,814
ASSETS	122,456	380,090	910,183	1,412,729
Derivatives	0	158,944	8,188	167,132
Trading liabilites	0	158,944	8,188	167,132
Deposits	0	0	166,514	166,514
Debt securities issues	127,389	293,575	585,391	1,006,355
Other financial liabilities	0	0	0	0
Financial liabilities at Fair Value (Option)	127,389	293,575	751,905	1,172,869
Negative market values from hedges	0	104,236	5,880	110,116
LIABILITIES	127,389	556,755	765,973	1,450,117

Changes in Level 3 financial instruments

TEUR 2017	Opening balance	Purchases/ Issues	Sales/ Redemp-tions	Additions from Level 1 and Level 2	Reclassifi-cation to Level 1 and Level 2	Changes in fair values	Closing balance
Trading assets	57,627	0	0	17,232	-38	-18,363	56,458
Financial assets at Fair Value (SPPI)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Financial assets at Fair Value (Option)	159,122	56,535	-13,214	0	-3,566	-20,557	178,320
Financial assets - Available for Sale	52,947	699	-284	0	0	712	54,074
Positive market values of hedges	1,324	0	0	0	1,172	-2,409	87
Affiliates	1,245	0	0	0	0	1	1,246
Assets measured at Fair Value in level 3	**272,265**	**57,234**	**-13,498**	**17,232**	**-2,432**	**-40,616**	**290,185**
Trading liabilites	12,960	0	0	0	-6,565	-2,202	4,193
Financial liabilities at Fair Value (Option)	1,714,884	20,100	-834,648	0	0	-37,583	862,753
Negative markt values of hedges	10,359	0	0	0	2,333	-5,549	7,143
Liabilities measured at Fair Value in level 3	**1,738,203**	**20,100**	**-834,648**	**0**	**-4,232**	**-45,334**	**874,089**

Reconciliation of financial instruments in Level 3 from IAS 39 to IFRS 9

TEUR	Carrying amount (FV) IAS 39 Closing balance 31.12.2017	Reclassifi-cation	Revaluation	Carrying amount (FV) IFRS 9 Opening balance 01.01.2018
Trading assets	56,458	0	1	56,459
Financial assets at Fair Value (SPPI)	N.A.	473,502	-18,824	454,678
Financial assets at Fair Value (Option)	178,320	186,724	-2,679	362,365
Financial assets - Available for Sale	54,074	-54,074	0	0
Negative market values of hedges	87	0	0	87
Affiliates	1,246	0	0	1,246
Assets measured at Fair Value in level 3	**290,185**	**606,152**	**-21,502**	**874,835**
Trading liabilites	4,193	120	0	4,313
Financial liabilities at Fair Value (Option)	862,753	0	0	862,753
Negative markt values of hedges	7,143	-120	1	7,024
Liabilities measured at Fair Value in level 3	**874,089**	**0**	**1**	**874,090**

TEUR 2018	Opening balance	Purchases/ Issues	Sales/ Redemp- tions	Additions from Level 1 and Level 2	Reclassifi- cation to Level 1 and Level 2	Changes in fair values	Closing balance
Trading assets	56,459	0	0	0	0	-5,056	51,403
Financial assets at Fair Value (SPPI)	454,678	134,967	-48,599	3,325	0	-12,461	531,910
Financial assets at Fair Value (Option)	362,365	0	-7,418	0	0	-29,898	325,049
Financial assets - Available for Sale	0	0	0	0	0	0	0
Negative market values of hedges	87	0	0	0	0	-82	5
Affiliates	1,246	0	-262	0	0	830	1,814
Assets measured at Fair Value in level 3	**874,835**	**134,967**	**-56,279**	**3,325**	**0**	**-46,667**	**910,181**
Trading liabilites	4,313	0	0	0	0	3,875	8,188
Financial liabilities at Fair Value (Option)	862,753	13,000	-119,401	6,558	0	-11,005	751,905
Negative markt values of hedges	7,024	0	0	0	0	-1,143	5,881
Liabilities measured at Fair Value in level 3	**874,090**	**13,000**	**-119,401**	**6,558**	**0**	**-8,273**	**765,974**

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 fair value changes are recognised in the result from financial instruments at fair value except for the position of financial assets – available for sale and the credit risk of financial liabilities at fair value (option).

In the previous year, the change in the fair value of financial assets – available for sale of TEUR 713 was recognised through profit or loss in the income statement under the net result from financial instruments at cost in other comprehensive income at TEUR -1,328 in the changes to AFS revaluation reserve IAS 39.

Changes in the fair value in the financial liabilities at fair value category amount to TEUR -11,005 (2017: TEUR -37,583), of which TEUR 773 (2017: TEUR 40,312) was recognised under the net result from financial instruments at fair value and TEUR -11,778 (2017: TEUR 2,729) in other comprehensive income recognised under measurement of own credit risk for liabilities at fair value. In the 2017 financial year, TEUR 2,729 was recognised under the result from change in own credit risk.

Disclosures regarding sensitivity of internal input factors

TEUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Derivatives	103	195	-152	-285
Financial assets at Fair Value (SPPI)	112	N.A.	-123	N.A.
Of which issues	85	N.A.	-106	N.A.
Of which loans and advances	27	N.A.	-17	N.A.
Financial liabilities at Fair Value (Option)	431	524	-289	-423
Of which loans and advances	431	524	-289	-423
Financial assets - Available for Sale	N.A	65	N.A	-81
Financial liabilities at Fair Value (Option)	-3,554	-5,230	3,554	5,230
Of which issues	-2,516	-4,022	2,516	4,022
Of which time deposits	-1,038	-1,208	1,038	1,208
Total	**-2,908**	**-4,446**	**2,990**	**4,441**

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.

(56) DISCLOSURES ON OFFSETTING FINANCIAL INSTRUMENTS

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	-94,909	37,903
Total liabilities	**282,662**	**0**	**282,662**	**-149,850**	**-94,909**	**37,903**

TEUR 31.12.2018	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	233,843	0	233,843	-140,702	-69,765	23,376
Total assets	**233,843**	**0**	**233,843**	**-140,702**	**-69,765**	**23,376**
Negative market values of derivative financial instruments	277,248	0	277,248	-140,702	-106,579	29,967
Total liabilities	**277,248**	**0**	**277,248**	**-140,702**	**-106,579**	**29,967**

(57) IMPAIRMENT ON FINANCIAL INSTRUMENTS

Development of loan loss provisions in accordance with IAS 39 in 2017

TEUR	Balance 01.01.2017	Allocation	Reversal	Use	Currency translation	31.12.2017
Individual valuation allowances	88,925	6,783	-9,473	-8,859	-75	77,301
Portfolio valuation allowances for loans and advances	15,450	2,467	-888	-2	-1	17,026
Portfolio valuation allowances for issues	192	0	-23	0	0	169
Total	**104,567**	**9,250**	**-10,384**	**-8,861**	**-76**	**94,496**

Amount of impairment and provisions per category and stage

TEUR 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Loans and advances	11,246	15,019	58,098	84,363
Debt securities	224	2,526	1,020	3,770
Credit commitments, financial guarantees and other commitments	871	295	1,735	2,901
Total	**12,341**	**17,840**	**60,853**	**91,034**

Amount of maximum default risk for all financial instruments

TEUR 31.12.2018	Gross carrying amount	Commit-ments and guarante	Maximum default risk
Debt securities SPPI	282,219	0	282,219
Debt securities FVO	67,119	0	67,119
Debt securities AC	2,496,157	0	2,496,157
Debt securities	**2,845,495**	**0**	**2,845,495**
Loans and advances cash reserve	562,405	9,985	572,390
Loans and advances SPPI	416,550	95,182	511,732
Loans and advances FVO	325,049	0	325,049
Loans and advances AC	9,127,844	1,608,518	10,736,362
Loans and advances	**10,431,848**	**1,713,685**	**12,145,533**
Trading assets derivatives	152,664	0	152,664
Positive market values of hedges	81,179	0	81,179
Derivatives	**233,843**	**0**	**233,843**
Equity instruments HA	176	0	176
Equity instruments SPPI	85,959	0	85,959
Equity instruments	**86,135**	**0**	**86,135**
Sureties and guarantees	**0**	**525,967**	**525,967**
Overall exposure	**13,597,321**	**2,239,652**	**15,836,973**

Default risk of financial instruments subject to the provisions of impairment under IFRS 9

TEUR 31.12.2018	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Not rated	Total
Stage I – carrying amount	2,273,723	3,513,765	4,634,024	112,908	1	2,717	10,537,138
Stage I - off-balance-sheet transactions	178,241	924,497	973,215	11,398	0	18	2,087,369
Stage I - total	**2,451,964**	**4,438,262**	**5,607,239**	**124,306**	**1**	**2,735**	**12,624,507**
Stage II - carrying amount	10,973	154,087	557,576	184,595	0	17,565	924,796
Stage II - off-balance-sheet transactions	581	42,502	85,114	10,857	0	4,826	143,880
Stage II - total	**11,554**	**196,589**	**642,690**	**195,452**	**0**	**22,391**	**1,068,676**
Stage III - carrying amount	0	0	2,440	1,839	157,774	14	162,067
Stage III - off-balance-sheet transactions	1	0	0	0	8,402	0	8,403
Stage III - total	**1**	**0**	**2,440**	**1,839**	**166,176**	**14**	**170,470**
POCI - carrying amount	0	0	23	0	9,763	0	9,786
POCI - off-balance-sheet transactions	0	0	0	0	1,347	0	1,347
POCI - total	**0**	**0**	**23**	**0**	**11,110**	**0**	**11,133**
Total - Carrying amount	**2,284,696**	**3,667,852**	**5,194,040**	**299,342**	**157,775**	**20,296**	**11,624,001**
Total - off-balance-sheet transactions	**178,823**	**966,999**	**1,058,329**	**22,255**	**8,402**	**4,844**	**2,239,652**
Total amount	**2,463,519**	**4,634,851**	**6,252,369**	**321,597**	**166,177**	**25,140**	**13,863,653**

Information on the default risk of impaired financial instruments

TEUR 31.12.2018	Gross carrying amount	Valuation allowance	Other collateral	Received guarantees
Debt securities	1,020	3,770	0	0
Loans and advances	236,510	84,363	138,782	1,798
Measured at amortised cost	**237,530**	**88,133**	**138,782**	**1,798**
Loans and advances	1,259	0	1,252	0
Measured at fair value	**1,259**	**0**	**1,252**	**0**

Financial liabilities of TEUR 5,771 were written off during the reporting period and are still subject to enforcement activity.

Changes in valuation allowances and provisions in accordance with IFRS 9

TEUR 2018	Opening balance	Addition of new business	Reversal of repayment	Changes due to changed default risk	Utilisation of loan loss provisions	Other adjustments	Closing balance
Valuation allowances debt securities - Stage 1	170	552	-174	-324	0	0	224
Valuation allowances loans and advances - Stage 1	11,681	3,580	-1,476	-2,600	0	58	11,243
Valuation allowances - Stage 1	**11,851**	**4,132**	**-1,650**	**-2,924**	**0**	**58**	**11,467**
Valuation allowances debt securities - Stage 2	36	2,167	0	323	0	0	2,526
Valuation allowances loans and advances - Stage 2	13,803	12,981	-581	-11,277	0	93	15,019
Valuation allowances - Stage 2	**13,839**	**15,148**	**-581**	**-10,954**	**0**	**93**	**17,545**
Valuation allowances debt securities - Stage 3	1,020	1,479	0	-1,479	0	0	1,020
Valuation allowances loans and advances - Stage 3	71,082	17,110	-9,575	-3,844	-16,775	100	58,098
Valuation allowances - Stage 3	**72,102**	**18,589**	**-9,575**	**-5,323**	**-16,775**	**100**	**59,118**
Total valuation allowances	**97,792**	**37,869**	**-11,806**	**-19,201**	**-16,775**	**251**	**88,130**
Provisions for commitments and guarantees - Stage 1	910	697	-381	-351	-7	3	871
Provisions for commitments and guarantees - Stage 2	166	173	-19	-24	0	-1	295
Provisions for commitments and guarantees - Stage 3	6,727	1,293	-4,597	-1,692	0	4	1,735
Total provisions	**7,803**	**2,163**	**-4,997**	**-2,067**	**-7**	**6**	**2,901**

Valuation allowances increased by TEUR 37,869 due to increases in the gross carrying amount (additions from new business).

Changes in valuation allowances per item and class

TEUR 2018	Opening balance	Additions	Utilisation	Reversals	Unwinding	Other changes	Closing balance
Valuation allowances cash reserve - Stage 1	5	0	0	3	0	-8	0
Valuation allowances cash reserve - Stage 2	0	0	0	-8	0	8	0
Valuation allowances cash reserve	**5**	**0**	**0**	**-5**	**0**	**0**	**0**
Valuation allowances debt securities AC - Stage 1	170	2,193	0	-2,177	0	38	224
Valuation allowances debt securities AC - Stage 2	36	2,000	0	-1,999	0	2,489	2,526
Valuation allowances debt securities AC - Stage 3	1,020	0	0	0	0	0	1,020
Valuation allowances debt securities AC	**1,226**	**4,193**	**0**	**-4,176**	**0**	**2,527**	**3,770**
Valuation allowances loans and advances AC - Stage 1	11,676	131	0	-15,568	0	15,004	11,243
Valuation allowances loans and advances AC - Stage 2	13,803	16,976	0	-689	0	-15,071	15,019
Valuation allowances loans and advances AC - Stage 3	71,082	20,050	-16,775	-14,894	-1,680	315	58,098
Valuation allowances loans and advances AC	**96,561**	**37,157**	**-16,775**	**-31,151**	**-1,680**	**248**	**84,360**
Valuation allowances debt securities and loans and advances	**97,787**	**41,350**	**-16,775**	**-35,327**	**-1,680**	**2,775**	**88,130**
Valuation allowances Corporate Customers	58,180	25,836	-10,801	-27,264	-701	162	45,412
Valuation allowances Private Customers	10,401	3,583	-615	-3,577	-34	74	9,832
Valuation allowances Financial Markets	344	183	0	-212	0	2,528	2,843
Valuation allowances Corporate Center	28,867	11,748	-5,359	-4,279	-945	11	30,043
Valuation allowances POCI	0	245	0	0	-1	0	244

(58) FINANCIAL INSTRUMENTS BY CATEGORY

Financial instruments are presented according to measurement category in the corresponding notes to the balance sheet items, as the measurement categories as per IAS 9 are already shown in detail 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.

(59) 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 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 mea-sures 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 main-tains 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.

(60) 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 %

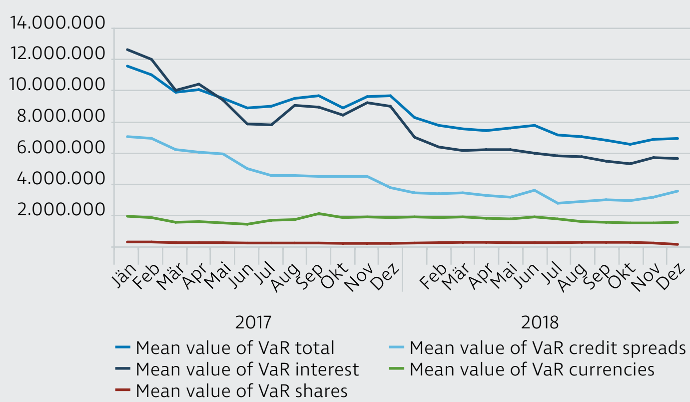
The VaR limit defines the maximum loss the Group is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis in line with the ICAAP. In addition, limits are defined for various yield curves, currency pairs, credit spread risks and equity position 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 closed. The Group only has a very small equity risk; in addition, the Group holds shares for the presentation of model portfolios in the context of asset management.

Development of mean VaR



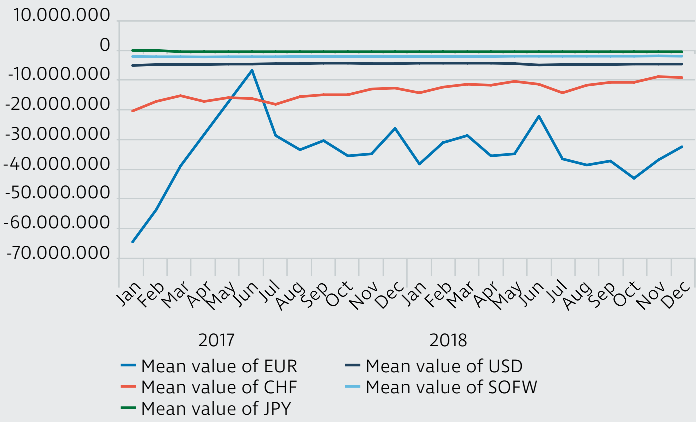
TEUR 2017	Mean value of VaR total	Mean value of VaR interest	Mean value of VaR-FX	Mean value of VaR shares	Mean value of VaR credit spreads
January	11,644	12,740	2,024	444	7,178
February	11,104	12,049	1,883	428	7,054
March	9,891	10,023	1,522	350	6,282
April	10,081	10,463	1,526	344	6,088
May	9,513	9,379	1,444	331	5,998
June	8,840	7,815	1,325	263	5,012
July	8,948	7,737	1,669	248	4,527
August	9,498	9,042	1,713	285	4,522
September	9,701	8,925	2,259	257	4,486
October	8,873	8,384	1,915	239	4,483
November	9,593	9,213	1,945	219	4,476
December	9,659	8,988	1,878	217	3,701

TEUR 2018	Mean value of VaR total	Mean value of VaR interest	Mean value of VaR-FX	Mean value of VaR shares	Mean value of VaR credit spreads
January	8,199	6,924	1,940	253	3,369
February	7,669	6,300	1,907	313	3,281
March	7,466	6,057	1,972	373	3,338
April	7,344	6,139	1,841	358	3,170
May	7,527	6,084	1,796	346	3,069
June	7,662	5,852	1,968	350	3,544
July	7,072	5,719	1,768	346	2,637
August	6,920	5,644	1,567	360	2,778
September	6,694	5,334	1,508	375	2,893
October	6,421	5,180	1,466	384	2,812
November	6,746	5,582	1,423	296	3,097
December	6,804	5,514	1,503	40	3,456

VaR for the individual risk types developed over the past two years as follows.

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



(61) 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 must comply with the ethics and sustainability principles for Hypo Vorarlberg's business transactions. Financing for customers and proprietary investments of Hypo Vorarlberg with a direct and substantial relation to subsequent industries or business practices can be decidedly excluded from new business at the time of conclusion: Violation of the United Nations Universal Declaration of Human Rights, production using primarily child labour, violation of labour rights under the ILO core labour standards, projects and enterprises in warring states in accordance with OEKB Coverage Guidelines (not including projects for humanitarian or primary public care purposes), pornography and prostitution, banned weapons, installation and operation of nuclear power plants and coal mining. In general, business transactions should be reviewed for morality.
- 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 IT tool 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 their utilisation is 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 their utilisation is reported to the Managing Board on a regular basis. Limits and their utilisation are reported to the Supervisory Board once a year.

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 addresses specific banking risks through conservative credit approval policies, strict monitoring of loans 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. Individual loans are 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 individual 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. 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)

TEUR 31.12.2017		Ratingclass 1	Ratingclass 2	Ratingclass 3	Ratingclass 4	Ratingclass 5	unrated	Total
Exposure	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**

TEUR 31.12.2018		Ratingclass 1	Ratingclass 2	Ratingclass 3	Ratingclass 4	Ratingclass 5	unrated	Total
Exposure	Corporate Customers	830,590	2,156,902	4,509,863	106,784	107,865	1,736	7,713,740
	Private Customers	339	841,053	1,209,047	37,392	29,176	29,160	2,146,167
	Financial Markets	3,208,977	566,051	71,518	12,643	0	8,768	3,867,957
	Corporate Center	82,674	679,470	990,467	231,343	85,687	257,106	2,326,747
Total exposure		**4,122,580**	**4,243,476**	**6,780,895**	**388,162**	**222,728**	**296,770**	**16,054,611**

Regions broken down by rating (maximum default risk)

TEUR 31.12.2017	Ratingclass 1	Ratingclass 2	Ratingclass 3	Ratingclass 4	Ratingclass 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**

TEUR 31.12.2018	Ratingclass 1	Ratingclass 2	Ratingclass 3	Ratingclass 4	Ratingclass 5	unrated	Total
Austria	1,867,315	2,621,905	4,661,573	189,928	110,559	12,409	9,463,689
Italy	3,548	169,183	585,194	158,973	92,880	5,481	1,015,259
Germany	215,323	498,262	943,885	4,616	8,361	50	1,670,497
Switzerland and Liechtenstein	355,016	439,909	416,282	19,969	3,643	1,905	1,236,724
Other foreign countries	1,681,378	514,217	173,961	14,676	7,285	276,925	2,668,442
Total exposure	**4,122,580**	**4,243,476**	**6,780,895**	**388,162**	**222,728**	**296,770**	**16,054,611**

The Group reports a concentration risk in Italy in the poor rating classes. In recent years, the property market in Italy has been characterised by falling prices. The Group conducts leasing business in Northern Italy, where the economic situation, in relative terms, is better than in the rest of the country.

Industries (maximum default risk)

TEUR	31.12.2018	31.12.2017
Financial intermediaries	3,504,189	2,997,044
Consumers/private customers	2,332,728	2,230,955
Public sector	1,967,722	2,117,158
Real estate	2,510,248	2,390,451
Services	1,821,856	1,730,336
Trading	805,834	890,775
Metals/machinery	341,832	365,205
Construction	600,259	485,728
Transport/communications	309,015	299,969
Tourism	538,400	511,734
Water and energy utilities	186,019	179,114
Other goods	115,914	156,002
Vehicle construction	145,151	116,364
Petroleum, plastics	105,222	88,793
Other industries	770,219	766,954
Total	**16,054,608**	**15,326,582**

Exposure in rating class 5

TEUR	31.12.2018	31.12.2017
Corporate Customers - Exposure	107,865	107,833
Corporate Customers – Valuation allowance	31,566	30,349
Private Customers - Exposure	29,176	23,706
Corporate Customers – Valuation allowance	4,434	7,039
Financial Markets - Exposure	0	0
Financial Markets - Valuation allowance	0	0
Corporate Center - Exposure	85,687	161,818
Corporate Center - Valuation allowance	23,610	35,881
Total – Exposure	**222,728**	**293,357**
Total - Valuation allowance	**59,610**	**73,269**

Non-performing loans

The Group designates loans in the regulatory asset class of loans in arrears (90-days in arrears, liability is unlikely to be settled) as non-performing loans. These amounted to TEUR 224,068 as at 31 December 2018 (2017: TEUR 281,983), accounting for 1.40% (2017: 1.84%) 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. Real estate collateral is predominantly found in the market area of the bank. The largest volume of real estate collateral is in the domestic market of Vorarlberg, followed by Vienna. In Italy, the leased assets are in Northern Italy.

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. There is no significant concentration of guarantors.

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, no properties (2017: one property at TEUR 6,331) were acquired by the Hypo Immobilien & Leasing Group; seven properties (2017: one property) were sold at TEUR 4,841 (2017: TEUR 5,400).

Depending on the market situation, it may not be easy to convert the acquired properties into cash. Following acquisition, it is analysed 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 significant individual liability was rated sound in 2018 or in the reporting year.

Past due but non-impaired receivables

Length of time overdue	31.12.2018 Exposure TEUR	31.12.2017 Exposure TEUR
Less than 1 day	15,659,387	14,879,381
1 to 60 days	85,663	144,576
61 to 90 days	2,240	9,237
More than 90 days	84,593	33
Total	**15,831,883**	**15,033,227**

Loans and advances with forbearance measures

TEUR	31.12.2018	31.12.2017
Non-financial companies	33,338	52,056
Private households	4,314	5,158
Loans and advances with forbearance measures on performing loans	**37,652**	**57,214**
Financial intermediaries	953	190
Non-financial companies	44,925	62,281
Private households	3,283	4,126
Loans and advances with forbearance measures on nonperforming loans	**49,161**	**66,597**
Total loans and advances with forbearance measures	**86,813**	**123,811**

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 329.000.

in EUR Mio.	31.12.2018	Closing Date
Senior Tranche	256	258
Mezzanine Tranche	68	68
First Loss Tranche	5	5
Total	**329**	**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. Hypo Vorarlberg has exercised its option and has deducted securitisation items with a risk weighting of 1,250 % from the capital and no longer recognises them under risk-weighted assets.

(62) 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 manage-ment). 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 should be 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 complies 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 (19), (24), (32) and (35). The disclosures in the assets column relate to Notes (18) and (20) to (23). The disclosures in the equity and liabilities column relate to Notes (32) to (34) and (36) to (39). The money market table shows maturities within the next 12 months. The capital market table shows maturities after the next 12 months.

Maturity profile money market

TEUR	Assets		Liabilities		Total
31.12.2017	Assets	Derivatives	Liabilities	Derivatives	
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

TEUR	Assets		Liabilities		Total
31.12.2018	Assets	Derivatives	Liabilities	Derivatives	
January 2019	1,098,506	138,986	-738,618	-140,194	358,680
February 2019	219,594	27,993	-232,253	-27,162	-11,828
March 2019	420,420	69,629	-204,882	-69,668	215,499
April 2019	179,169	87,751	-140,683	-81,804	44,433
May 2019	165,179	136,195	-654,000	-126,131	-478,757
June 2019	299,241	68,816	-235,614	-68,903	63,540
July 2019	157,879	102,960	-155,081	-125,783	-20,025
August 2019	156,783	23,247	-221,716	-20,189	-61,875
September 2019	240,798	25,130	-169,329	-25,943	70,656
October 2019	168,114	33,672	-260,512	-30,193	-88,919
November 2019	138,541	6,572	-146,532	-6,138	-7,557
December 2019	124,766	16,796	-123,355	-10,070	8,137

Development of maturities on the capital market

TEUR	Assets		Liabilities		Total
31.12.2017	Assets	Derivatives	Liabilities	Derivatives	
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

TEUR	Assets		Liabilities		Total
31.12.2018	Assets	Derivatives	Liabilities	Derivatives	
2019	3,919,495	745,138	-3,743,362	-735,692	185,579
2020	1,405,159	370,852	-2,135,698	-369,186	-728,873
2021	1,981,880	107,171	-2,278,295	-99,890	-289,134
2022	1,186,109	82,416	-900,913	-78,351	289,261
2023	957,132	69,090	-409,212	-69,440	547,570
2024	857,624	190,155	-1,026,404	-198,468	-177,093
2025	731,719	341,583	-962,951	-343,572	-233,221
2026	646,458	91,203	-669,368	-92,811	-24,518
2027	566,436	40,594	-275,740	-37,418	293,872
2028	558,148	52,785	-157,824	-51,743	401,366
2029	350,493	30,906	-185,177	-27,548	168,674
2030	295,368	27,107	-154,831	-25,172	142,472

(63) 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 to minimise legal risks.

(64) 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 monitored on an ongoing basis in accordance with CRR. These data are calculated every month and reported individually and at the level of the Group to Oesterreichische Nationalbank on a quarterly basis.

In 2018, 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 2018, an additional capital conservation buffer of 1.88% (2017: 1.25%) 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. Hypo Vorarlberg Bank AG met the regulatory capital requirements in accordance with CRR both in the year under review and the previous year.

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 premiumaccounts 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 income 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 type and amount of the liability, 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

TEUR	31.12.2018	31.12.2017
Risk weighted exposure amounts	7,284,299	6,902,740
Total risk exposure amount for position, foreign exchange and commodities risks	242	353
Total risk exposure amount for operational risk	440,523	442,563
Total risk exposure amount for credit valuation adjustment	30,642	31,660
Total risk exposure amount	**7,755,706**	**7,377,316**

Common Equity Tier 1 capital (CET1) according to CRR

TEUR	31.12.2018	31.12.2017
Capital instruments eligible as CET1 capital	206,826	184,327
Retained earnings	806,135	754,302
Accumulated other comprehensive income	-1,630	9,219
Other reserves	128,472	128,472
Transitional adjustments due to grandfathered CET1 Capital instruments	0	15,000
Minority interests	34	30
Transitional adjustments due to additional minority interests	0	2
Adjustments to CET1 due to prudential filters	-7,492	2,948
Intangible assets	-2,486	-2,510
Other transitional adjustments to CET1 capital	0	-8,019
Common Equity Tier 1 capital (CET1)	**1,129,859**	**1,083,771**

Additional Tier 1 capital (AT1) according to CRR

TEUR	31.12.2018	31.12.2017
Capital instruments eligible as AT1 capital	50,000	10,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	7	7
Transitional adjustments due to additional recognition in AT1 capital of instruments issued by subsidiaries	0	-1
Other transitional adjustments to AT1 capital	0	-502
Additional Tier 1 capital (AT1)	**50,007**	**9,504**

Tier 2 capital (T2)

TEUR	31.12.2018	31.12.2017
Capital instruments and subordinated loans eligible as T2 capital	199,888	235,076
Instruments issued by subsidiaries that are given recognition in T2 capital	9	9
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	0	-2
Tier 2 capital (T2)	**199,897**	**235,083**

Composition of own funds according to CRR and capital ratios

TEUR	31.12.2018	31.12.2017
Common Equity Tier 1 capital (CET1)	1,129,859	1,083,771
Additional Tier 1 capital (AT1)	50,007	9,504
Tier 1 capital	**1,179,866**	**1,093,275**
Tier 2 capital (T2)	199,897	235,083
Own funds	**1,379,763**	**1,328,358**
CET1 Capital ratio (CET1)	14.57 %	14.69 %
Surplus of CET1 capital	780,852	751,792
T1 capital ratio (T1)	15.21 %	14.82 %
Surplus of T1 capital	714,523	650,635
Total capital ratio	17.79 %	18.01 %
Surplus of total capital	759,307	738,172

The previous year's own funds and capital ratios shown are based on amounts in accordance with IAS 39 and therefore can only be compared to a limited extent with the data as at 31 December 2018 due to the transition to IFRS 9. The Group does not exercise the provisions of Article 473a CRR.

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(65) 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.

(66) 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 (23).

The disclosure pursuant to Section 64 (1) No. 2 BWG on total assets and liabilities in foreign currencies can be read in Note (41).

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 32).

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 (42).

The balance sheet items "Financial liabilities at fair value (option)" and "Financial liabilities at cost" include subordinated liabilities. The following table provides details in accordance with Section 64 (1) No. 5 to 6 BWG.

TEUR	Total number		Carrying value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LFVO	6	7	32,844	41,616
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) LAC	13	19	203,234	264,516

TEUR	Average interest		Average remaining term	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LFVO	1,693	1,666	9,3	8,1
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	3,609	2,471	5,7	8,3

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 AT0000A0XB21, TEUR 98,182, 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 49,989, 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 2019, bonds and other fixed-income securities in accordance with Section 64 (1) No. 7 BWG totalling TEUR 397,587 (2018: TEUR 228,018) and issued bonds totalling TEUR 880,000 (2018: TEUR 309,659) 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 (46).

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 9,673 in 2018 (2017: TEUR 9,936).

The disclosure pursuant to Section 64 (1) No. 15 BWG can be read in Note (68). The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service. As at 31 December 2018, the trading portfolio includes investment funds of TEUR 176 (2017: TEUR 50).

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 (40 and 64).

The financial information and key figures for each country of establishment pursuant to Section 64 (1) No. 18 BWG are disclosed in the following table.

TEUR 2017	Austria	Switzerland	Italy	Czech Republic
Net interest income	138,193	6,739	13,253	0
Dividend income	1,075	0	0	0
Net fee and commission income	34,308	653	-128	0
Net result from financial instruments at Cost and AFS	1,381	0	0	0
Net result from financial instruments at Fair Value	10,026	436	14	0
Administrative expenses	-86,577	-4,505	-5,218	-16
Impairments	-4,932	-176	-694	0
Earnings before taxes	90,715	3,424	457	6
Taxes on income	-27,059	-592	-337	-1
Number of full-time equivalent employees	678	20	39	0

TEUR 2018	Austria	Switzerland	Italy	Czech Republic
Net interest income	146,823	7,399	13,206	0
Dividend income	1,397	0	0	0
Net fee and commission income	31,551	549	-186	0
Net result from financial instruments at Cost and AFS	5,396	11	0	0
Net result from financial instruments at Fair Value	9,855	381	-28	0
Administrative expenses	-88,100	-4,485	-5,139	-10
Impairments	-5,696	-275	-802	0
Earnings before taxes	63,078	3,161	-17,571	-11
Taxes on income	-18,976	-453	-52	0
Number of full-time equivalent employees	669	19	39	0

Switzerland comprises the branch in St. Gallen. The branch in St. Gallen acts as a universal bank and it focuses on lending, asset management and investment advisory services. It operates in German-speaking Switzerland, especially Eastern Switzerland.

Italy comprises our subsidiaries 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 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.

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.

The return on total assets in accordance with Section 64 (1) No. 19 BWG is 0.36 % (previous year: 0.51 %).

(67) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE (UGB)

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.

TEUR	2018	2017
Expenses for auditing the consolidated financial statements	211	184
Expenses for other auditing services	38	39
Expenses for other services	12	28
Total fees	**261**	**251**

(68) DISCLOSURES ON STOCK-EXCHANGE LISTING

A breakdown of securities per Section 64 (1) No. 10 and No. 11 BWG is provided below.

TEUR	Not listed 31.12.2018	Listed 31.12.2018	Not listed 31.12.2017	Listed 31.12.2017	Total 31.12.2018	Total 31.12.2017
Debt securities at Fair Value - SPPI	114,353	167,866	N.A.	N.A.	282,219	N.A.
Debt securities at Fair Value - FVO	67,119	0	80,242	209,275	67,119	289,517
Debt securities - AFS	N.A.	N.A.	18,300	629,381	N.A.	647,681
Debt securities - AC	2,402,390	89,997	646,459	1,084,370	2,492,387	1,730,829
Equity securities – trading assets	176	0	27	23	176	50
Equity securities at Fair Value - SPPI	85,954	5	N.A.	N.A.	85,959	N.A.
Equity securities at Fair Value - FVO	0	0	59,244	6	0	59,250
Equity securities - AFS	N.A.	N.A.	27,840	9,831	N.A.	37,671
Total securities	**2,669,992**	**257,868**	**832,112**	**1,932,886**	**2,927,860**	**2,764,998**
of which non-current assets	2,656,469	257,868	805,661	1,932,863	2,914,337	2,738,524
of which current assets	13,347	0	26,424	0	13,347	26,424
of which trading assets	176	0	27	23	176	50

In the interest of improved transparency and informational value of the breakdown of securities, loans and credits were not taken into account.

The difference between cost and the lower repayment amount per Section 56 (2) Austrian Banking Act was TEUR 60,011 (2017: TEUR 51,261). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was TEUR 13,969 (2017: TEUR 17,699). At 31 December 2018, subordinated capital in the portfolio securities totalled TEUR 2,544 (2017: TEUR 1,038).

(69) 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.

Company name, place TEUR	Percentage of capital in %	UGB Sharehold-er's equity	UGB Net result	UGB Total assets	Date of financial statements
HV-Finanzdienstleistungs- und Immobilien GmbH, DE-Kempten	100.00	198	6	201	31.12.2018
Hotel Widderstein Besitz & Verwaltungs GmbH, Dornbirn	100.00	91	-10	112	31.12.2018
„ATZ" Besitz- und VerwaltungsGmbH, Dornbirn	100.00	-310	-226	783	31.12.2018
Total		**-21**	**-230**	**1,096**	

The following holdings over which the Group can exert significant influence are not included in the consolidated financial statements, 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 TEUR	Percentage of capital in %	UGB Sharehold-er's equity	UGB Net result	UGB Total assets	Date of financial statements
"Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	33.33	37	0	218	31.12.2018
CAMPUS Dornbirn II Investment GmbH, Dornbirn	30.00	4,769	313	19,963	31.12.2018

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 (until 29.05.2018)

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Dornbirn

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

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Birgit Sonnbichler
Entrepreneur, Dornbirn (from 30.05.2018)

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

Elmar Köck
Works Council delegate

Gerhard Köhle
Works Council delegate

Peter Niksic
Works Council delegate

VII. SUBSIDIARIES
AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statement
The shareholdings listed in the following table did not change in the financial year 2018. The share of voting rights corresponds to the equity interest.

Company name, place	Percentage of capital in %	Date of financial statement
„Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00 %	31.12.2018
LD-Leasing GmbH, Dornbirn	100.00 %	31.12.2018
Hypo Vorarlberg Leasing AG, IT-Bolzano	100.00 %	31.12.2018
HYPO VORARLBERG HOLDING (ITALIEN) G.m.b.H, IT-Bolzano	100.00 %	31.12.2018
Hypo Vorarlberg Immo Italia srl, IT-Bolzano	100.00 %	31.12.2018
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
Hypo Immobilien Besitz GmbH, Dornbirn	100.00 %	31.12.2018
„Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
„HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00 %	31.12.2018
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00 %	31.12.2018
Hypo Versicherungsmakler GmbH, Dornbirn	100.00 %	31.12.2018
Hypo Immobilien Investment GmbH, Dornbirn	100.00 %	31.12.2018
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00 %	31.12.2018
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100.00 %	31.12.2018
HIL Immobilien GmbH, Dornbirn	100.00 %	31.12.2018
HIL BETA Mobilienverwertung GmbH, Dornbirn	100.00 %	31.12.2018
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00 %	31.12.2018
HIL Baumarkt Triester Straße Immobilienleasing GmbH, Dornbirn	100.00 %	31.12.2018
HIL Real Estate alpha GmbH, Dornbirn	100.00 %	31.12.2018
HIL Real Estate International Holding GmbH, Dornbirn	100.00 %	31.12.2018
„Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100.00 %	31.12.2018
INPROX Praha Michle - HIL s.r.o., CZ-Prague	100.00 %	31.12.2018
INPROX Praha Letnany - HIL s.r.o., CZ-Prague	100.00 %	31.12.2018
„HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
„POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00 %	31.12.2018
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00 %	31.12.2018
D. TSCHERNE Gesellschaft m.b.H., Vienna	100.00 %	31.12.2018
VKL IV Leasinggesellschaft mbH, Dornbirn	100.00 %	31.12.2018
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31.12.2018
AURORA - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30.09.2018
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz*)	79.19 %	30.09.2018
ECOS Venture Capital Beteiligungs GmbH, Vienna*)	79.19 %	30.09.2018
HYPO EQUITY Beteiligungs AG, Bregenz*)	79.19 %	30.09.2018
KUFA GmbH, Bregenz*)	79.19 %	30.09.2018
METIS - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30.09.2018
PAXO - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30.09.2018
SOCE - AC Holding GmbH, Vienna*)	79.19 %	30.09.2018
„HSL-Lindner" Traktorenleasing GmbH, Dornbirn	76.00 %	31.12.2018
Innovacell Biotechnologie AG, Innsbruck	43.80 %	31.12.2018

*) The separate financial statement of these companies were prepared on 30 September 2018, as these companies' financial years differ from the calendar year. The financial figures for the fourth quarter have been taken into consideration.

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 has 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 2018. The share of voting rights corresponds to the equity interest in each case.

Company name, place TEUR	Percentage of capital in %	Shareholder's equity	Total assets	Liabilities	Revenues
MASTERINVEST Kapitalanlage GmbH, Vienna	37,50	4,677	8,423	3,746	1
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33,33	209	1,556	1,347	0
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33,33	1,672	1,948	276	12

VKL I (Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H.) – III and VKL III Gebäudeleasing Gesellschaft m.b.H. 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 2018. For the companies, net interest income is shown under revenues.

(70) 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

TEUR	31.12.2018	31.12.2017
Assets	2,341	2,154
Financial assets	2,323	2,094
of which current	1,299	1,159
of which non-current	1,024	935
Other assets	18	60
Liabilities	2,099	1,963
Financial liabilities	2,071	1,940
of which current	290	240
of which non-current	1,781	1,700
Other liabilities	28	23
Shareholders' equity	242	191
of which non-controlling interests	58	46

TEUR	2018	2017
Net interest income	66	50
Other income	1,182	1,023
Other expenses	-1,179	-1,020
Earnings before taxes	72	44
Taxes on income	-18	-12
Income after taxes	54	33
of which non-controlling interests	-13	-8
Dividends/distributions	20	0
of which non-controlling interests	5	0

HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz

TEUR	31.12.2018	31.12.2017
Assets	59,801	90,215
Financial assets	58,910	56,926
of which current	448	391
of which non-current	58,462	56,535
Other assets	891	33,289
Liabilities	59,770	60,409
Financial liabilities	52,982	50,199
of which current	3,015	3,432
of which non-current	49,967	46,767
Provisions	140	250
Other liabilities	6,648	9,960
Shareholders' equity	31	29,806
of which non-controlling interests	-2,618	10,516

TEUR	2018	2017
Net interest income	-2,190	-791
Dividend income	434	366
Other income	1,858	3,159
Other expenses	-10	-265
Earnings before taxes	-31,731	-122
Taxes on income	1,955	-1
Income after taxes	-29,775	-123
Dividends/distributions	0	0

(71) 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

TEUR	31.12.2018	31.12.2017
Assets	8,423	8,262
Financial assets	6,064	5,597
of which current	2,972	2,509
of which non-current	3,092	3,088
Other assets	2,359	2,665
Liabilities	3,746	3,703
Financial liabilities	2,584	2,514
of which current	2,584	2,514
Provisions	146	142
Other liabilities	1,016	1,047
Shareholders' equity	4,677	4,559

TEUR	2018	2017
Net interest income	1	2
Dividend income	36	31
Other income	555	465
Other expenses	-393	-350
Earnings before taxes	985	802
Taxes on income	-247	-217
Income after taxes	738	585
Dividends/distributions	620	620

Below, Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H and VKL III Gebäudeleasing-Gesellschaft m.b.H. are aggregated in the presentation of financial information, because these two companies pursue the same objective, and the shareholder structure and shareholdings in all these companies are identical. In 2018, VKL II was liquidated. The previous year's figures in the two following tables were therefore adjusted for the figures of VKL II.

Vorarlberger Kommunalgebäudeleasing companies

TEUR	31.12.2018	31.12.2017
Assets	3,504	9,168
Financial assets	1,556	4,523
of which current	13	0
of which non-current	1,543	4,523
Other assets	1,948	4,645
Liabilities	1,623	4,305
Financial liabilities	1,353	4,304
of which current	7	2,958
of which non-current	1,346	1,346
Other assets	270	1
Shareholders' equity	1,881	4,863

TEUR	2018	2017
Net interest incom	12	5
Other income	344	16
Other expenses	-16	-16
Earnings before taxes	48	-15
Taxes on income	-4	-4
Income after taxes	44	-17
Dividends/distributions	3,000	0

(72) DISCLOSURES ON STRUCTURED AND NON-CONSOLIDATED ENTITIES

In accordance with the decision of the FMA regarding the resettlement of the bank concession, Pfandbriefstelle Verwaltungsgesellschaft AG i.A. has been in liquidation since 1 June 2018. The amount of liabilities covered by the liability of the guarantor amounts to TEUR 0 as at 31 December 2018. All eight affiliated institutions (Hypo Vorarlberg, Tirol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability for the liabilities in the previous year amounting to TEUR 71,625. As at 31 December 2017, Hypo Vorarlberg held bonds of TEUR 7,545 (recognised under "Liabilities evidenced by certificates") that were issued by Pfandbriefstelle Verwaltungsgesellschaft AG i.A.

Interest expenses from liabilities to Pfandbriefstelle Verwaltungsgesellschaft AG i.A.

TEUR	2018	2017
Interest expenses from debt securities	0	-24
Interest expenses from liabilities - designated at Fair Value	-34	-1,860
Interest expenses from liabilities to Pfandbriefstelle Verwaltungsgesellschaft AG i.A.	**-34**	**-1,884**

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, am 28 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, im 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 balance sheet as of December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement 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, 2018 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 2018. 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. Allowances for financial assets at cost

2. Valuation of securities, own issues and derivatives, that are categorized in the fair value level 3 of the fair value hierarchy

1. ALLOWANCES FOR FINANCIAL ASSETS AT COST

Description:
To reflect the risk of losses in the portfolio of financial assets at cost (2018: EUR 11,624.0m / 2017: 10,936.8m), the Company recorded significant allowances in its consolidated financial statements as of December 31, 2018 (2018: EUR 88.1m / 2017: EUR 89.8m). These represent the Management Board's best estimate of expected credit losses in the portfolio of financial assets at cost at the balance sheet date.

In accordance with the regulations of IFRS 9, which was applied for the first time on January 1, 2018, financial assets are measured at cost depending on the classification of bonds, loans, credits, and trade receivables on the basis of the business model and the characteristics of the contractual cash flows. In addition, the level allocation designed by the company and its key assumptions for assessing the assessment of a significant increase in the default risk (level 2) or default events (existence of objective evidence of impairment - level 3) are significant for determining the amount of loss allowances.

Allowances are calculated using the discounted cash flow method. The expected cash flows are estimated in the same way as the expected proceeds from the realisation of collateral. Estimates are made on an individual basis (significant loan receivables) or on the basis of a collective estimate (rule-based approach for non-significant loan receivables).

In this regard, we refer to the information provided by the Company's Management Board in the Notes to the Consolidated Financial Statements in Notes (3) "Accounting Policies", (23) "Financial Assets at Cost" and (61) "Credit Risk".

The determination of the amount of loss allowances is subject to considerable discretionary scope on the basis of the assumptions and estimates used. In addition, the regulations of IFRS 9 were applied for the first time in the 2018 financial year, which led to significant changes in processes and models in connection with the determination of allowances for the portfolio of financial assets at cost. We have therefore identified this area as a material audit issue.

How we addressed the matter in the context of the audit:
In order to assess the appropriateness of the loss allowances recognized, we have assessed the significant processes and models in credit risk management, taking into account in particular the regulations of IFRS 9 applied for the first time on 1 January 2018. In particular, we have used the processes and models for classifying debt securities, loans, credits and trade receivables on the basis of the business model and determining the characteristics of the contractual cash flows. In addition, we have examined the level allocation designed by the Company and its key assumptions for the assessment of a significant increase in the default risk or default events in order to assess whether these processes and models are suitable for identifying a significant increase in the default risk or default events and determining the need for allowances.

We have identified the internal control system, in particular the key controls for the purchase of bonds and the granting of loans and credits, in ongoing monitoring and in the early warning process, and tested it in some areas. We have reviewed the internal control system in the area of credit management, in particular with regard to the correct handling of rating models and collateral valuation.

On the basis of a selection of already defaulted bonds, loans, credits and trade receivables, we examined whether sufficient value adjustments had been made. For these loans, we critically assessed management's estimates of future cash flows expected from repayments and collateral.

In addition to compliance with the internal rules regarding rating and collateral assignment we examined a sample of debt securities, loans, credits and trade receivables that were not identified as defaulted to determine whether significant increases in default risk or loss events were fully identified.

When reviewing the allowances at portfolio level, we assessed the valuation models used and the parameters applied to determine whether they were suitable for determining appropriate provisions. We also examined the underlying data basis for its data quality and reconstructed the arithmetical accuracy of the loss allowances.

In addition, we have checked whether the information provided by the Company's Management Board in the Notes on the allowances for bonds, loans, credits and trade receivables is complete and whether the content of the valuation procedure has been correctly reproduced.

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 for the year ended 31 December 2018, the Company records to a significant extent securities, own issues and derivatives that are assigned to fair value level 3 of the fair value hierarchy.

The valuation of these securities, own issues and derivatives requires the fair value to be determined using recognised valuation models and methods, as no market or stock exchange prices are available in an active market.

When using recognised valuation models, the selection of these valuation models and methods, the selection of the input parameters used and the discretionary decisions associated with the selection of the input parameters, which are subject to estimation uncertainties, are of decisive importance for determining the fair value to be applied.

Due to the fact that the securities, own issues and derivatives which are subject to the fair value level 3 of the fair value hierarchy, make up a significant amount of the Company's balance sheet total and that estimation uncertainties may arise with respect to the input parameters relevant to measurement, we have selected this area as the material audit area.

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 (55) "Disclosures on fair values" and Note (3) "Accounting policies".

How we addressed the matter in the context of the audit:
We have reviewed the valuation processes and the design and effectiveness of the Group's key controls with respect to data inputs for the valuation of securities, own issues and derivatives assigned to Fair Value Level 3 of the fair value hierarchy. In measuring these securities, own issues and derivatives, we have assessed the assumptions and methods used by the Group to determine whether they are appropriate for determining correct values. On a sample basis, we assessed the valuation of these securities, own issues and derivatives and their carrying amounts in accordance with the IFRS 9 categorisation.

In addition, we have examined whether the information provided by the Company's Management Board in the Notes on the measurement of securities, own issues and derivatives assigned to fair value level 3 of the fair value hierarchy is complete and whether the content of the measurement procedure is reported correctly.

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 May 31, 2017. We were appointed by the Supervisory Board on July 24, 2017. 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 28, 2019

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 report is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This auditor's report 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

Markus Felder
Head of Private Customers

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

Daniel Oberauer
Data protection officer

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

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Egg, Wälderpark, HNr. 940
Markus Kohler, 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
Ernst Albegger,
Regional Manager Styria and
Head of Corporate Customers
Daniel Gerhold,
Deputy Regional Manager Styria
Gerhard Vollmann,
Head of Private Customers and
Private Banking

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Helgar Helbok, 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
Stefan Ritter, 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, Head of Private Customers
and Private Banking

Vienna, Brandstätte 6
Roswitha Klein, Regional Manager Vienna /
Head of Wealth Management
Hans-Jürgen Spitzer,
Head of Coporate Customers Vienna
Robert Glasner,
Branch Office Manager Private Customers
Katharina Jantschgi,
Head of Service and Private Customers

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Dieter Wildauer, Regional Manager Switzerland
Thomas Reich, Head of Back Office

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Hypo Immobilien & Leasing GmbH
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Wolfgang Bösch, Managing Director
Peter Scholz, Managing Director

Hypo Informatikgesellschaft m.b.H.
Bregenz, St.-Anna-Straße 1
Johann Berchtold, Managing Director
Jörg Ruwe, 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

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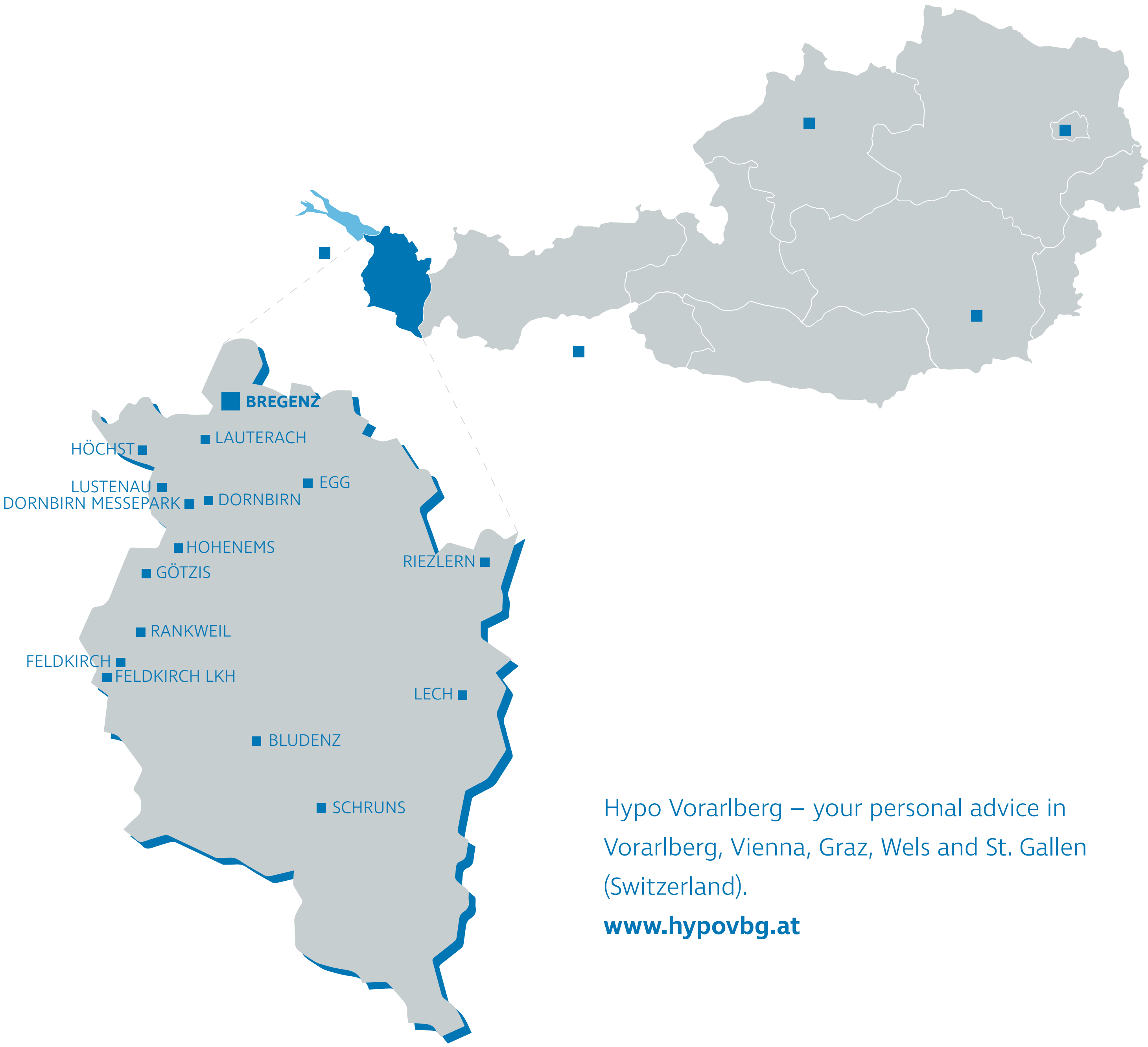
Bolzano, Galileo-Galilei-Straße 10 H
Como, Via F.lli Rosselli 14
Treviso, Vicolo Paolo Veronese 6
Michael Meyer, Delegate of the Board
of Directors

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 – your personal advice in Vorarlberg, Vienna, Graz, Wels and St. Gallen (Switzerland).

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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


People differentiate
with circumspection about
what is important and what is not.
www.hypovbg.at