HYPO VORARLBERG BANK AG

ANNUAL REPORT

2019

KEY FIGURES 2019

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

Balance sheet figures TEUR	Notes	31/12/2019	31/12/2018	Change in TEUR	Change in %
Total assets		13,979,941	13,754,610	225,331	1.6
Loans and advances to banks		116,743	132,408	-15,665	-11.8
Loans and advances to customers		10,042,455	9,652,675	389,780	4.0
Liabilities to banks		1,536,100	1,305,809	230,291	17.6
Liabilities to customers		5,434,969	5,682,356	-247,387	-4.4
Securitised liabilities		5,425,331	5,257,582	167,749	3.2
Own funds	(65)	1,509,673	1,379,763	129,910	9.4
thereof tier 1 capital	(65)	1,240,031	1,179,866	60,165	5.1
Total capital ratio	(65)	17.85 %	17.79 %	0.06 %	0.3

Income statement TEUR	Notes	2019	2018	Change in TEUR	Change in %
Net interest income	(6)	169,541	167,428	2,113	1.3
Net fee and commission income	(8)	36,466	31,914	4,552	14.3
Administrative expenses	(13)	-96,291	-97,734	1,443	-1.5
Earnings before taxes		91,692	48,657	43,035	88.4
Consolidated net income		70,376	29,176	41,200	>100.0

Corporate figures	Notes	2019	2018	Change absolute	Change in %
Cost/income ratio (CIR)		53.24 %	61.22 %	-7.98 %	-13.0
Return on equity (RoE)		8.13 %	4.43 %	3.70 %	83.5
Employees	(53)	719	727	-8	-1.1

Own funds TEUR	31/12/2019	31/12/2018	Change absolute	Change in %
Common equity tier 1 capital (CET1)	1,190,026	1,129,859	60,167	5.3
Additional tier 1 capital (AT1)	50,005	50,007	-2	0.0
Tier 1 capital	1,240,031	1,179,866	60,165	5.1
Tier 2 capital (T2)	269,642	199,897	69,745	34.9
Own funds	1,509,673	1,379,763	129,910	9.4
CET1 capital ratio (CET1)	14.07 %	14.57 %	-0.50 %	-3.4
Surplus of CET1 capital	809,498	780,852	28,646	3.7
T1 capital ratio (T1)	14.66 %	15.21 %	-0.55 %	-3.6
Surplus of T1 capital	732,661	714,523	18,138	2.5
Total capital ratio	17.85 %	17.79 %	0.06 %	0.3
Surplus of total capital	833,179	759,307	73,872	9.7

The shareholders of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) as at 31 December 2019:

Shareholders	Total shareholding	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 %

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

TABLE OF CONTENTS

HYPO VORARLBERG

WILFRIED AMANN
MEMBER OF THE MANAGING BOARD

MICHEL HALLER
CHAIRMAN OF THE MANAGING BOARD

JOHANNES HEFEL
MEMBER OF THE MANAGING BOARD

FOREWORD
OF THE MANAGING BOARD

Our customers value Hypo Vorarlberg as a reliable and stable partner, particularly in economically challenging times. The good consolidated net income achieved in the 2019 financial year shows that this trust is justified.

Dear customers, business partners, shareholder representatives and employees,

Hypo Vorarlberg can look back on a challenging financial year, with the ECB's low or negative interest rate policy and increasing regulation keeping banks busy still in 2019. At the same time, digitalisation gained further momentum and put the business model of entire sectors to the test. A similar effect was generated by the growing trend towards sustainability, intensified by student protests with the motto "Fridays for Future". And finally, geopolitical tensions led to volatile financial, goods and services markets throughout the year.

In this context, we are all the more pleased that we managed to bring in another good operating result in 2019. IFRS earnings before taxes in 2019 were up significantly year-on-year at EUR 91.7 million (2018: EUR 48.7 million). However, earnings in 2018 were negatively impacted by high amortization and impairment as a result of the transition to IFRS 9, making it more difficult to compare the two years. The positive development in interest-related business and the significant growth in commission business in 2019 substantiate our focus on customer business and our risk-conscious business policy.

Digital and personal
As an ambitious universal bank, we see digitalisation not only as a challenge but also as an opportunity. That is why in 2019 we launched our online asset management tool "MEIN ANLAGEKONZEPT", for example. An internal digitalisation department is responsible for exploring the potential of new technologies and harnessing this potential for us. But at the same time, we do not forget what sets us apart as Hypo Vorarlberg: personal advice for our many private and corporate customers at the highest level and in a trustful atmosphere, especially when it comes to complex issues such as investing assets or real estate financing. As ever, "those with big plans come to us".

Mindfulness in core business
In 2019, many companies had to ask themselves the question: Where do you stand on sustainability? Hypo Vorarlberg answered this question years ago already: As a mindful advisory bank, sustainability is practically in our DNA. Our Asset Management therefore took steps in the direction of sustainable investment at an early stage. Ethical and sustainable criteria help us identify undesirable transactions before they are concluded in financing and investment business. In the future we will redouble our efforts, as demand for sustainable financial products is increasing.

Stability in challenging times
In turbulent times, it is particularly important to have a reliable and stable partner by your side. For Hypo Vorarlberg, stability means that we focus on our core business and pursue continuous, sustainable growth. This is what makes us successful. Stability also means that we are a long-term partner and not just a temporary one. Interesting stories about the topic of stability can be found in our VORHABEN #3/2019 magazine.

Stability has rarely ever been as important as it is at the start of 2020. The outbreak of the new coronavirus hit society and the economy with an intensity that few could have imagined. The effects of the crisis will probably stay with us for years. We as a bank are particularly called upon now: Together with the other regional banks in Vorarlberg, we will do everything we can to support affected families and companies. After all, stability also means standing by our own convictions when things get difficult.

We would like to thank our nearly 900 employees for their ambition and commitment in the past year. They represent the foundation for Hypo Vorarlberg's success. And they give us the confidence that we will also manage the difficult financial year ahead. Our company's motto has never carried more weight: Achieving great things together – for the bank, for companies and for society as a whole.

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

ORGANISATIONAL CHART

MANAGING BOARD

DIV RISK MANAGEMENT
MICHEL HALLER, CEO

Credit Management – Corporate Customers
Stefan Germann
- Credit Management – Corporate Customers / 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 / Private Customers
- Contract Law

Human Resources
Egon Helbok

Communication
Sabine Nigsch

Data Protection
Daniel Oberauer

Compliance
Reinhard Kaindl

Mid- and 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 Leasing, Italy
Michael Meyer (Backoffice/Risk Management)

Hypo Vorarlberg Immo Italia, Italy
Alexander Ploner

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
- APM & Investments
- Money, Foreign Exchange and Interest Derivatives Trading
- Securities Customer Trading

Strategic Bank Management
David Blum

Accounting
Nora Frischherz
- Controlling
- Bookkeeping, Supervisory Reporting
- Account Management
- 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

Digitisation
Stefan Medenbach

DIV PRIVATE CUSTOMERS
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
Karl-Heinz Strube
- Asset Management
- Fonds Management
- Financial Analysis / Research
- Active Advisory

Corporate and Internal Audit
Christoph Schwaninger

Logistics
Wilhelm Oberhauser
- Facility and Materials Administration
- Sustainability

Marketing
Angelika Rimmele
- Marketing Management
- Youth Marketing
- Sponsoring and Events
- Creation

As at 30 March 2020

MANAGING BOARD

Data Protection
Daniel Oberauer

Compliance
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
Christoph Schwaninger

Outsourcing
Maria Diem

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

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

Feldkirch Branch Office
Martin Schieder, BM

Rankweil Branch Office
Katharina Woletz, SPC

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

Egg Branch Office
Markus Kohler, BM

Bregenz Private Customers Branch Office
Christian Brun, BOH
Stephan Spies, SPC
Stephan Bohle, HPB

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

Corporate Customers Germany
Markus Schmid

Bregenz Wealth Management
Stefan Schmitt

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

Messepark Branch Office
Lena-Maria Schuler, HSC

LKH Feldkirch Branch Office
Stefan Kreiner, 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
BOH PC	Branch Office Head Private Customers
BM	Branch Manager Private Customers
HCC	Head of Corporate Customers
HWM	Head of Wealth Management
HPB	Head of Private Banking
HPC PB	Head of Private Customers and Private Banking
SPC	Head of Service and Private Customers
HSC	Head of Service Customers

EXECUTIVE BOARDS

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

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Offsetdruckerei Schwarzach Ges.m.b.H., Dornbirn

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

Karlheinz Rüdisser
Deputy State Governor of Vorarlberg (retired), Lauterach

Birgit Sonnbichler
Entrepreneur, Dornbirn

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

Andreas Hinterauer
Works council delegate

Elmar Köck
Works council delegate

Gerhard Köhle
Works council delegate

Peter Niksic
Works council delegate

As at 30 March 2020

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

Loan committee

Jodok Simma, Chairman
Alfred Geismayr, Deputy Chairman
Karl Fenkart
Eduard Fischer
Michael Horn
Veronika Moosbrugger
Elmar Köck

Risk committee (from May 2019)

Karlheinz Rüdisser, Chairman
Karl Fenkart, Deputy Chairman
Jodok Simma
Nicolas Stieger
Veronika Moosbrugger
Gerhard Köhle

Audit committee (from May 2019)

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Astrid Bischof
Karl Fenkart
Veronika Moosbrugger
Gerhard Köhle

Nomination committee

Birgit Sonnbichler, Chairwoman
Ulrich Theileis, Deputy Chairman
Jodok Simma
Karl Fenkart
Veronika Moosbrugger
Gerhard Köhle

Remuneration committee

Birgit Sonnbichler, Chairwoman
Ulrich Theileis, Deputy Chairman
Jodok Simma
Karl Fenkart
Veronika Moosbrugger
Gerhard Köhle

STATE COMMISSIONER

Gabriele Petschinger (until 31.12.2019)

Jutta Raunig (from 1.1.2020)

Matthias Ofner
Deputy

ESCROW AGENTS

Heinz Bildstein
President of the State Court, Feldkirch

Daniela Steffl
Deputy, Federal Ministry of Finance, Vienna

As at 30 March 2020

ADVISORY BOARD

Markus Wallner
Chairman, State Governor of Vorarlberg, Frastanz

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

Alexander Abbrederis
Managing Director, pratopac GmbH, Rankweil

Gerhart Bachmann
President of Vorarlberg Dental Chamber, Feldkirch

Hubert Bertsch
Managing Director, Bertsch Holding GmbH, Bludenz

Ernst Bitsche
Entrepreneur, Thüringen

Christof Bitschi
Chairman of FPÖ Vorarlberg political party, Brand

Herbert Blum
Managing Director, Julius Blum GmbH, Höchst

Christian Brand
Chairman of the Managing Board of Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (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

Verena Eugster
Chairwoman of Junge Wirtschaft Vorarlberg
Entrepreneur, W3 Marketing GmbH, Dornbirn

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 parliamentary group in the Vorarlberg State Parliament, Bregenz

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

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 Vorarlberg Medical Association, Dornbirn

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.m.b.H.), Dornbirn

Hans-Peter Metzler
President of Vorarlberg Economic Chamber, Hittisau

Josef Moosbrugger
President of Austrian Chamber of Agriculture, Bregenz

As at 30 March 2020

Martin Ohneberg
President of Vorarlberg Regional Group of the Federation of Austrian Industries
Managing Director, HENN GmbH & Co KG, Dornbirn

Johannes Rauch
State Councillor, Member of the Vorarlberg government, Rankweil

Jürgen Reiner
President of Vorarlberg Chamber of Tax Advisors and Public Accountants, Lochau

Sabine Scheffknecht
Chairwoman of NEOS Vorarlberg political party, Lustenau

Gerold Schneider
Hotelier, Lech

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

Thomas Sohm
Managing Director, Etiketten Carini GmbH, Lustenau

Harald Sonderegger
President of Vorarlberg State Parliament, Schlins

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

Martin Staudinger
Chairman of SPÖ Vorarlberg political party, Hard

Eduard Tschofen
Chartered Accountant, Feldkirch

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

Daniel Zadra
Chairman of Die Grünen parliamentary group in the Vorarlberg State Parliament, Lustenau

As at 30 March 2020

GROUP MANAGEMENT REPORT

MACROECONOMIC CONDITIONS

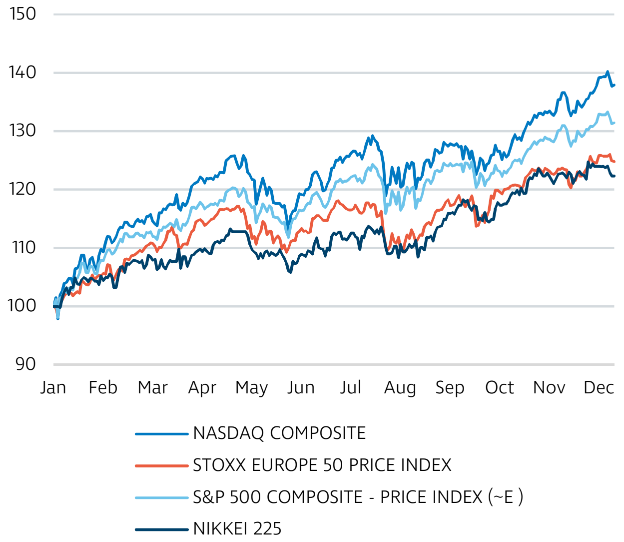
Global economy and euro zone
At the start of 2019, some economic sentiment indicators weakened and the pace of growth slowed. Given that growth in France and Germany had been lower in the final quarters of 2018, the positive results for the euro area's economic output in the first quarter of 2019 came as even more of a surprise. The US Federal Reserve (Fed) was still presenting a cautiously positive picture of the US economy in late April. In May, the trade conflict between the US and China flared up again. Although the atmosphere in talks between the two economic superpowers soon improved, no agreement was reached.

In the middle of the second quarter, signs of weakening growth increased. The global slowdown also spread to US industry. There were growing calls for key interest rate cuts. In early June, Fed Chair Jerome Powell commented that the US central bank would continuously monitor the implications of the trade conflicts and react appropriately if necessary. In mid-June, ECB President Mario Draghi fuelled expectations of further monetary policy easing. Despite growing uncertainty, both the euro area – particularly Spain – and the US economy recorded positive GDP growth in the second quarter. The Fed nonetheless responded to the weaker economic outlook with its first key interest rate cut in ten years.

The German ifo business climate index slid close to a seven-year low in August, substantiating Deutsche Bundesbank's not particularly optimistic assessment. In September, the ECB raised the penalty interest rates for banks and announced that bond purchases would be resumed from November onwards. This was followed not long after by another interest rate cut in the US, despite the robust labour market combined with moderate economic growth. In the fourth quarter, the US and China held intensive negotiations on a partial trade agreement in the trade conflict. There were also signs of the Brexit situation easing in the UK. Prime Minister Boris Johnson, in office since July 2019, prepared a withdrawal agreement with the EU that was adopted by the British House of Commons and set the seal on the UK's desire to leave the European Union on 31 January 2020.

Stock and bond markets
In the first few weeks of 2019, the situation on the stock markets eased and there were no extended phases of negative market development. The return of market turbulence and price decreases in May was mainly due to disagreements between China and the USA. Speculation about potential interest rate cuts in the US improved sentiment on the stock markets again. After this, the benchmark indices soon left their losses behind them. Valuation ratios remained high in the US, while valuations in Europe were assessed moderately. In August, discussions regarding trade tariffs brought about some price fluctuations on the stock markets again. Further disillusionment on the part of investors was prompted by disappointment at the Fed's hesitant interest rate policy and the possibility of a no-deal Brexit under British Prime Minister Johnson. The stock markets recovered rapidly in September, moving towards new highs.

Global stock market development in 2019 (in EUR)



(Source: Thomson Reuters Datastream)

On the bond market, corporate bond spreads narrowed considerably at the start of 2019. The decreasing expectation of interest rate hikes by central banks caused long-term interest rates to fall further in both Europe and the US. The Euro Bund Future posted new all-time highs. Over the course of the year, this once again led to negative yields on ten-year German government bonds, which subsequently reached new record lows. From August onwards, a significant countermovement was discernible. Yields on ten-year US Treasuries fell from considerably higher levels towards 2 %. The spread levels for euro-denominated corporate bonds eased over the course of the year despite the negative economic data.

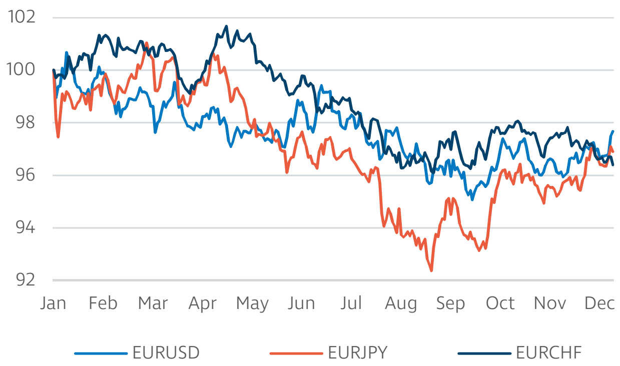
Commodities and currencies
Partly due to a production cut by the OPEC states, the crude oil price started to recover in 2019, until fears of cooling global economic growth halted the upward trend. After the attacks on the Saudi oil industry, prices shot up again. Economic concerns and political influences thus led to a volatile development throughout the year. The gold price had already been rising since autumn 2018. Fears of recession in the final quarter of 2018 gave the precious metal the momentum for a solid recovery. There was also additional demand due to purchases by central banks. In the first half of 2019, the gold price moved above the USD 1,400 mark for the first time since June 2013, and in the third quarter of 2019 it also exceeded USD 1,500. The valuation of the precious metal was strengthened again towards the end of the year.

Gold price development in 2019 (in USD)

(Source: Thomson Reuters Datastream)

The US dollar generally grew firmer against the euro over the course of the year. In the final quarter, the euro regained a little strength. The Japanese yen appreciated considerably against the euro, particularly in the second quarter. In the second half of the year, the euro recovered due to declining risk aversion as a result of the US and China showing willingness to talk. After a depreciating trend in the first quarter of 2019, the Swiss franc gained considerable strength as the year progressed, partly due to increased geopolitical risks.

Currencies against the euro in 2019



(Source: Thomson Reuters Datastream)

Austria

The declining global economic momentum in 2019 also had a negative impact on the Austrian economy. According to a forecast by the Österreichische Nationalbank (OeNB) dated December 2019, real GDP growth fell to 1.6 % in 2019 (2018: 2.3 %). Growth in exports slowed significantly. In addition, industry had been in recession since the middle of the year, ending the boom that had lasted since 2015. These negative developments were partly absorbed by high consumer demand and the booming construction sector.

Along with the economic downturn, momentum on the labour market also slowed in 2019. After reaching a high of 2.2 % in 2018, growth in the number of employees slowed to 1.5 % in 2019, according to the OeNB. The unemployment rate based on the national definition nonetheless decreased slightly to 8.5 % by the end of December 2019 (2018: 8.7 %).

Based on the Harmonised Index of Consumer Prices (HVPI), Austrian inflation averaged 1.6 % in the first half of 2019 and decreased further to 1.3 % in the third quarter. The OeNB attributed this development to the drop in energy prices. For the year as a whole, the national bank calculated an inflation rate of 1.5 %, considerably below the 2018 level (2.1 %).

The total state budget surplus improved further to 0.5 % of GDP in 2019. According to the OeNB, this was mainly thanks to the profitable environment in terms of tax revenues – especially due to the good labour market development – and the decrease in interest expenses. At the end of 2018, public debt amounted to EUR 285,287 million or 74.0 % of GDP. According to Statistik Austria it again declined in the reporting year. As at the end of the third quarter of 2019, the level of debt was EUR 281,428 million or 71.1 % of GDP.

Vorarlberg

Industry was still a strong driving force behind Vorarlberg's economic success in 2019. The results of the economic survey (business climate index) for the fourth quarter of 2019 showed a sound economic situation in Vorarlberg industry. However, industry representatives emphasised the major uncertainties and geopolitical influences. The shortage of specialist staff remained an important issue. At the end of 2019, industry was also expectantly awaiting the implementation of the government programmes at state and federal level.

The business climate index of Vorarlberg industry – an average of expectations for the current business situation and that in six months' time – improved from 22.6 % in the third quarter of 2019 to 29.9 % in the fourth quarter of 2019. However, this was still the fourth-weakest figure in the past three years. 63 % of those surveyed rated their current business situation as good, while 3 % spoke of a bad situation. The outlook for the first half of 2020 was already cautious back then in view of the above-mentioned uncertainties and challenges.

THE AUSTRIAN BANKING SECTOR

IN 2019

In addition to the continuing low or negative interest rates, the global economic downturn was also among the challenges for Austrian banks in the reporting year. This was reflected in a slight decline in the sector's profitability. In 2019, net profit for the period of the banks (after taxes and minority interests) fell by 3.4 % to EUR 5,265 million at the end of the third quarter (30 September 2018: EUR 5,453 million). However, net interest income of Austrian-based banks increased slightly to EUR 11,598 million in the third quarter of 2019 (Q3 2018: EUR 11,363 million).

At the end of the third quarter of 2019, Austrian banks reported consolidated total assets of EUR 1,032,969 million. This represents an increase of approximately 4.8 % compared to the end of the fourth quarter of 2018 (EUR 985,981 million).

The Austrian savings rate, i.e. the ratio between savings and disposable income, decreased slightly in 2019. According to the OeNB, the net savings rate of private households in the period from the fourth quarter of 2018 to the third quarter of 2019 was around 7.1 % of nominal disposable household income (7.9 % in the same period of the previous year).

Loans and advances to Austrian non-banks have consistently followed a slight upward trend in recent years and amounted to EUR 362,446 million in the third quarter of 2019 (31 December 2019: EUR 349,401 million). The measures taken in the area of foreign currency loans continued to have a positive effect, as shown by the declining volume to private households and non-financial enterprises since 2008. In the fourth quarter of 2019, loans to private households in foreign currencies (primarily in Swiss francs) totalled EUR 13,590 million (Q4 2018: EUR 14,992 million). According to the OeNB, the foreign-currency loans no longer represent a systemic risk to the banking system.

Solid capitalisation

The capitalisation of Austrian banks has improved considerably since the outbreak of the financial crisis in 2008. In the third quarter of 2019, the figures improved again slightly compared to the previous year. As at 30 September 2019, the Austrian banking system reported a common equity tier 1 (CET1) ratio of 15.2 % (Q3 2018: 14.8 %) and a total capital ratio of 18.3 % (Q3 2018: 18.0 %). 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, removed 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 has been implemented by Einlagensicherung AUSTRIA Ges.m.b.H.

Consolidated earnings situation of Austrian banks:

in EUR million	Q3 2019	Q4 2018	Q3 2018	Q4 2017	Q3 2017
Net interest income	11,598	15,210	11,364	14,536	10,938
Operating profit	6,467	8,361	6,207	8,087	6,143
Income after taxes	5,265	6,916	5,453	6,577	5,144

(Source: OeNB)

HYPO VORARLBERG'S
BUSINESS MODEL

For decades, the three pillars of "corporate bank", "housing bank" and "investment bank" have formed the basis on which Hypo Vorarlberg operates sustainably and successfully. The bank's core competencies consist particularly of residential construction financing, corporate customer business, investment advisory services and asset management. Whereas on its home market of Vorarlberg it acts as a universal bank offering its customers the full range of products and services, on its other core markets Hypo Vorarlberg focuses on selected niches.

Its clear business goal is to remain the number 1 on its home market of Vorarlberg. In the core markets outside Vorarlberg, the bank aims to achieve profitable growth. The Managing Board attaches great importance to a risk-conscious lending and business policy. Hypo Vorarlberg puts profitability and stability ahead of growth. The company takes care to ensure that value creation mostly remains in the regions in which it operates. Hypo Vorarlberg offers its numerous employees secure jobs, thereby making an important contribution to the stability and performance of the economic system in its core markets.

In addition, Hypo Vorarlberg takes on social responsibility by supporting regional culture and sports with sponsorship and long-term partnerships. With the Hypo Vorarlberg charitable fund, the bank helps people who have experienced personal misfortunes to escape the worst financial hardship and supports various social institutions and regional cultural projects.

BUSINESS SEGMENTS

Corporate Customers
One focus of Hypo Vorarlberg's business activities is corporate customer business. Vorarlberg and the surrounding regions are characterised by a strong mid-market economic structure with a high export ratio. Hypo Vorarlberg supports these companies with all financial issues that are relevant to them. The bank has particular expertise in the areas of investment and project financing, subsidies, foreign services and working capital financing, as a provider of alternative forms of financing and in investment.

Private Customers
In the Private Customers segment, Hypo Vorarlberg offers extensive services with a focus on residential construction financing, pension advice and investment advice. Customers benefit from individual, flexible solutions as well as fair and transparent conditions. Regular customer recommendations motivate the bank to continue on the path it has taken in the future, too.

Private Banking and Wealth Management
Private Banking and Wealth Management supports wealthy individuals, their families and selected institutional customers. 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.

Treasury / Financial Markets
The Financial Markets segment is responsible for asset/liability management, refinancing of Hypo Vorarlberg and various services for customers and other groups within the bank. These include money, foreign exchange, interest rate derivatives and securities trading, for example. Hypo Vorarlberg does not engage in any significant proprietary trading that is not connected with customer business.

Corporate Center
The Corporate Center mainly groups together the subsidiaries and holdings that expand the bank's service range with banking-related products. These particularly include the real estate and leasing subsidiaries in Austria and Italy, HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG), the insurance broker and Masterinvest.

CORE MARKETS

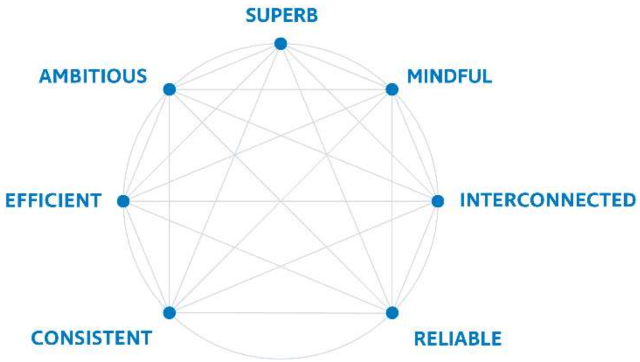
In addition to the headquarters in Bregenz and 14 other branches in Vorarlberg, Hypo Vorarlberg has additional locations in Vienna, Graz and Wels, as well as in St. Gallen in Switzerland. The company is thus represented in the key economic regions of Austria and eastern Switzerland. Other core markets are located in southern Germany (Bavaria and Baden-Württemberg). Outside Vorarlberg, Hypo Vorarlberg focuses on niches in corporate customer business, real estate financing and investment advisory services.

In addition to traditional banking products, customers can also use other banking-related products and services in the areas of real estate, leasing and insurance. The subsidiary Hypo Immobilien & Leasing GmbH, based in Dornbirn and Vienna, offers expertise under the Hypo Vorarlberg brand. Hypo Vorarlberg Leasing AG in Bolzano, Italy, develops leasing solutions and has additional branches in Como and Treviso. The subsidiary Hypo Versicherungsmakler GmbH offers customers independent insurance solutions. It is expected to be merged with exacta Versicherungsmakler GmbH on 1 April 2020 to form the biggest regional insurance broker in Vorarlberg with the name comit. The merger applies retroactively as at 1 January 2020.

VALUES

Hypo Vorarlberg's seven core brand values provide guidance for employees, managers and members of the Managing Board.

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.

Together with its subsidiaries, Hypo Vorarlberg puts its identity and values into practice 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.

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."

STABLE BUSINESS DEVELOPMENT
IN 2019

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 entire 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 again in 2019. 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.

Hypo Vorarlberg generated a good operating result in the 2019 financial year. The most important foundation for the bank's sustained economic success is its risk-conscious lending and business policy. The development of customer deposits and the financing volume conforms to Hypo Vorarlberg's strategy, which puts profitability and stability ahead of growth. This is also reflected in total assets, which were up 1.6 % year-on-year at TEUR 13,979,941 as at 31 December 2019 (2018: TEUR 13,754,610).

INCOME DEVELOPMENT

The persistently low or negative interest rates are a big challenge for a bank that traditionally operates mainly in customer business. As at the end of 2019, loans and advances to customers were above the previous year's level. In this challenging environment, net interest income within the Hypo Vorarlberg Group rose by 1.3 % in 2019. Net fee and commission income climbed by 14.3 % in the reporting year.

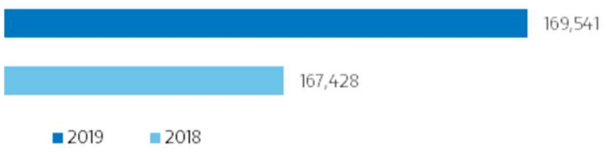
In 2018, earnings had been significantly impacted by high losses (impairment) at subsidiaries as a result of new IFRS 9 requirements. In 2019, earnings before taxes increased again to a total of TEUR 91,692 (2018: TEUR 48,657). Consolidated net income after taxes amounted to TEUR 70,376 in 2019 (2018: TEUR 29,176).

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

in TEUR	2019	Change	2018
Net interest income	169,541	1.3 %	167,428
Net fee and commission income	36,466	14.3 %	31,914
Administrative expenses	-96,291	-1.5 %	-97,734
Loan loss provisions and impairment of financial assets	-21,592	>100 %	-4,181
Impairment of non-financial assets	-1,648	-96.1 %	-42,371
Earnings before taxes	91,692	88.4 %	48,657
Consolidated net income	70,376	>100 %	29,176

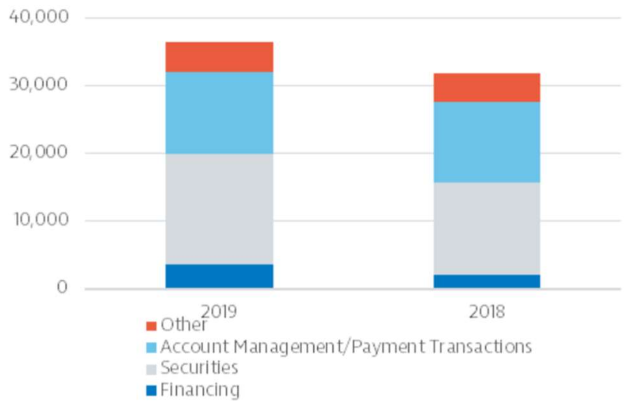
Net interest income
While the persistently high level of liquidity in the 2019 financial year reflected the customers' full confidence, the ECB's interest rate policy had a notable effect on net interest income. Despite the low interest rates, interest-related business made a significant contribution to Hypo Vorarlberg's earnings in the reporting year. Both interest expenses and interest income decreased in comparison to the previous year. As a result of the rise in interest income at the Austrian and Italian leasing subsidiaries, interest income decreased to a lesser extent than interest expenses, causing net interest income to climb by 1.3 % overall to TEUR 169,541 (2018: TEUR 167,428).

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. Fee and commission income from securities business plays a particularly important role. In 2019, it climbed by 20.5 % to TEUR 17,823 after TEUR 14,797 in 2018.

Structure/development in net fee and commission income
in TEUR



As a result of intensive efforts – particularly in securities business – Hypo Vorarlberg's net fee and commission income in the past financial year was 14.3 % stronger than in the previous year, amounting to TEUR 36,466 (2018: TEUR 31,914).

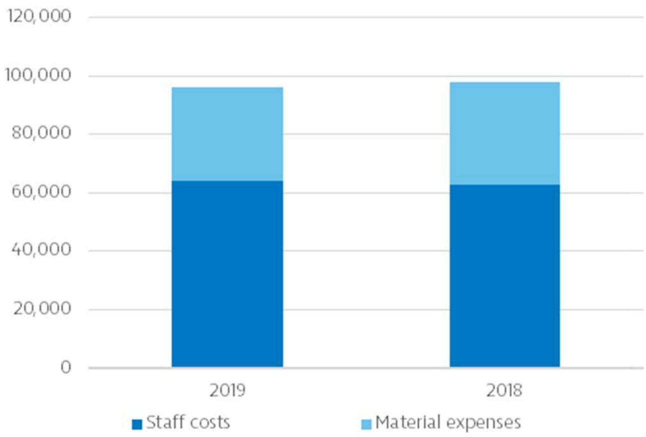
Other income/expenses
Other income includes income from operating leases, operating cost income or gains on the disposal of non-financial assets. As at 31 December 2019, total other income amounted to TEUR 23,804 (2018: TEUR 17,920). This increase was primarily due to the positive effect of TEUR 7,262 from the deconsolidation of Innovacell Biotechnologie AG.

Other expenses were reduced to TEUR 24,923 (2018: TEUR 34,822). This amount includes the stability fee of TEUR 2,373 (2018: TEUR 2,427).

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 constant rate. Administrative expenses decreased slightly year-on-year by 1.5 % to TEUR 96,291 (2018: TEUR 97,734).

Material expenses decreased by 7.8 % year-on-year. By contrast, in 2019 staff costs rose by 2.0 % to TEUR 64,160 (2018: TEUR 62,892), with the included wages and salaries item also increasing by 2.5 % from TEUR 46,938 to TEUR 48,134. Another reason for the increase was higher staff provisions. The decrease in the capitalisation rate from 2 % to 1.3 % led to allocations in this area. As a result of the deconsolidation of Innovacell Biotechnologie AG, the headcount in the group dropped from an annual average of 727 employees to 719 employees (full-time equivalent).

Structure/development in administrative expenses
in TEUR



As a result of the closure of the Lauterach branch office in December 2019, the number of branches in Austria fell to 18 as at the end of 2019. 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
Hypo Vorarlberg is an advisory bank and stands out because of its high-quality consulting and support for customers. In the interest of sustainable staff development, great importance is therefore attached to sound employee training and development. As a major employer in its core markets, the Hypo Vorarlberg Group employs almost 900 people.

Key employee figures (Hypo Vorarlberg Group)

	2019	Change	2018
Average number of employees (weighted)	719	-1.1 %	727
of which apprentices	9	28.6 %	7
of which part-time	102	5.2 %	97
Employees at end of year (headcount)	881	0.1 %	880
of which women	502	-0.8 %	506
of which men	379	1.3 %	374
Proportion of women (incl. apprentices)	57.0 %	-0.9 %	57.5 %
Proportion of men (incl. apprentices)	43.0 %	1.2 %	42.5 %
Average period of employment in years	11.8	1.7 %	11.6
Average age in years	40.5	0.5 %	40.3

Depreciation and amortization
In 2019, at TEUR 7,585 depreciation and amortization were up 12.0 % on the previous year (2018: TEUR 6,773). The increase was due to the new leasing regulations (IFRS 16) that have applied since 1 January 2019.

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 in lending business was higher in 2019 than in the previous year. In 2018, loan loss provisions had been 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 21,592 in 2019, whereas in 2018 they had amounted to only TEUR 4,181.

Impairment of non-financial assets
As at 31 December 2019, impairment of non-financial assets amounted to TEUR 1,648 (2018: TEUR 42,371). In the previous year, the property portfolio of Italian leasing companies had been 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.

In addition, the remeasurement of an associate of HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) had led to impairment of TEUR 31,352 in 2018. Hypo Vorarlberg holds 79.19 % in HUBAG.

Income before/after taxes
Hypo Vorarlberg closed 2019 successfully on an operating basis. As at 31 December 2019, total earnings before taxes amounted to TEUR 91,692 (2018: TEUR 48,657). Adjusted for taxes, earnings amounted to TEUR 70,376, representing a year-on-year increase of more than >100.0 % (2018: TEUR 29,176). In 2018, earnings were significantly negatively impacted as a result of high losses at subsidiaries.

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 2019 amounted to TEUR 21,316, up 9.4 % on the previous year (2018: TEUR 19,481).

Minority interests
Of the net income after taxes of TEUR 70,376 (2018: TEUR 29,176), a total of TEUR 1,263 (2018: TEUR -13,121) is attributable to the minority shareholders of the Group subsidiaries.

Dividends of Hypo Vorarlberg Bank AG
Net profit according to UGB posted by Hypo Vorarlberg for the 2019 financial year amounted to TEUR 56,111 (2018: TEUR 57,356). After the allocation to reserves and by offsetting retained profit, accumulated profits available for appropriation totalled TEUR 3,484 (2018: TEUR 3,167). Subject to approval by the shareholders' meeting and taking account of further developments up until the time of this resolution, a dividend of EUR 11 per entitled share is proposed based on the share capital of TEUR 162,152. Total distribution is therefore TEUR 3,484 (2018: TEUR 3,056) for 316,736 shares.

Key management indicators

	2019	Change	2018
Return on equity (RoE)	8.13 %	83.5 %	4.43 %
Cost/income ratio (CIR)	53.24 %	-13.0 %	61.22 %
Return on total assets	0.66 %	83.0 %	0.36 %
Tier 1 capital ratio	14.66 %	-3.6 %	15.21 %
Total capital ratio	17.85 %	0.3 %	17.79 %

Based on net profit, return on equity (RoE) changed from 4.43 % in the previous year to 8.13 % in 2019 due to the high impairments at subsidiaries in the previous year. For these reasons, the return on total assets also increased again from 0.36 % in 2018 to 0.66 % in the reporting year. The cost/income ratio (CIR) of Hypo Vorarlberg stood at 53.24 % as at 31 December (2019: 53.24 %).

The total capital ratio in the Group rose slightly to 17.85 % as at 31 December 2019 (2018: 17.79 %), while the core capital ratio (T1) came to 14.66 % (2018: 15.21 %).

BALANCE SHEET DEVELOPMENT

Changes in assets

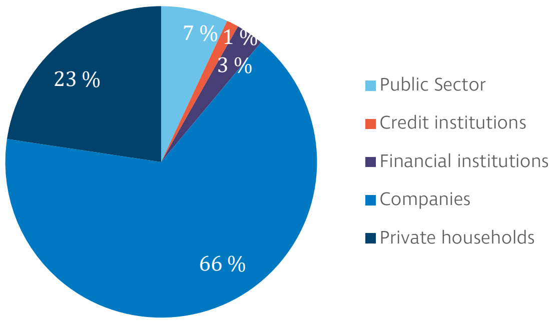
As a strong financing partner for the people and companies in its core markets, loans and advances to customers constituted the largest item of Hypo Vorarlberg's assets. In the 2019 financial year, Hypo Vorarlberg's total consolidated assets slightly increased again and amounted to TEUR 13,979,941 as at 31 December 2019, representing an increase of 1.6 % compared to the previous year's reporting date (2018: TEUR 13,754,610). This was partly due to the slight expansion of the lending business.

Financial assets

As at 31 December 2019, loans and advances to customers across all measurement categories totalled TEUR 10,042,455 (2018: TEUR 9,652,675), of which the largest proportion was accounted for at amortized cost.

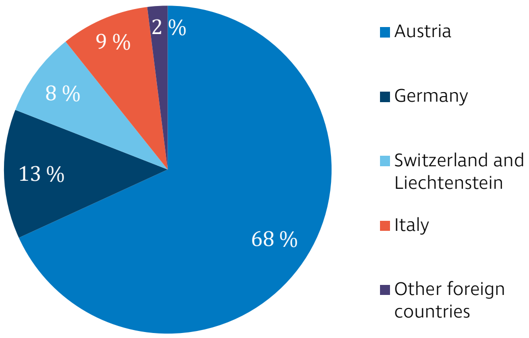
In the reporting year, loans and advances to banks decreased by 11.8 % to TEUR 116,743 (2018: TEUR 132,408). Financial assets also include bonds, whose volume amounted to TEUR 2,799,207 (2018: TEUR 2,841,725) as at 31 December 2019.

Loans and advances to customers and banks – by sector



This item totalling TEUR 10,159,198 across all measurement categories primarily includes loans and advances to companies and private households and was 3.8 % higher than in the previous year (2018: TEUR 9,785,083). Public-sector loans and credits decreased slightly compared to 2018, 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 2019, Hypo Vorarlberg reported loans and advances to customers in Swiss francs totalling TEUR 1,335,565 (2018: TEUR 1,379,609). 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 proportion of foreign-currency financing in the Private Customers (predominantly in CHF) and Corporate Customers segments is steadily decreasing.

Cash and balances

The cash reserve includes cash on hand and the balances with central banks. The item decreased from TEUR 589,720 in the previous year to TEUR 442,546 in 2019, mainly due to lower balances with central banks.

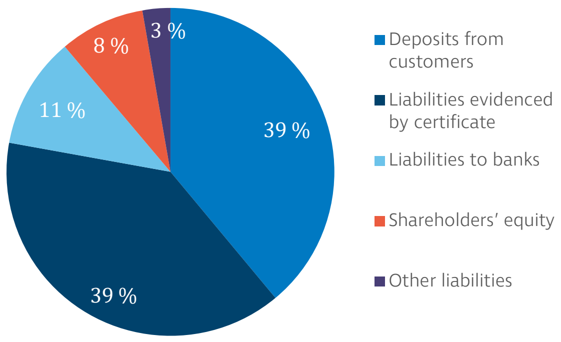
Trading assets

In the reporting year, trading assets decreased from TEUR 152,840 to TEUR 147,971 due to derivatives.

Changes in liabilities

There was an increase of 3.6 % in financial liabilities at amortized cost – which account for the largest part of the balance sheet liabilities – to TEUR 11,467,794 (2018: TEUR 11,072,878). This includes customer deposits, liabilities evidenced by certificates and liabilities to banks.

Balance sheet structure/balance sheet liabilities



This graph shows the sustainably established and balanced refinancing structure of Hypo Vorarlberg. Of the total balance-sheet liabilities of TEUR 13,979,941, a sum of TEUR 5,434,969 consisted of deposits from customers (savings, demand and term deposits) as at 31 December 2019. Customer deposits thus decreased by 4.4 % from TEUR 5,682,356 in the previous year.

In 2019, 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 5,257,582 to TEUR 5,425,331.

For liquidity reasons, liabilities to banks increased significantly compared to the previous year and amounted to TEUR 1,536,100 as at 31 December 2019 (2018: TEUR 1,305,809).

Shareholders' equity increased year on year by 5.9 % to TEUR 1,198,271 (2018: TEUR 1,131,177). Thus, the remaining share of liabilities amounted to TEUR 385,270 (2018: TEUR 377,686).

CHANGES IN OWN FUNDS

Composition of own funds according to CRR and capital ratios

in TEUR	2019	Change	2018
Total risk exposure amount	**8,456,168**	**9.0 %**	**7,755,706**
Common equity tier 1 capital (CET1)	1,190,026	5.3 %	1,129,859
Additional tier 1 capital (AT1)	50,005	0.0 %	50,007
Tier 1 capital	**1,240,031**	**5.1 %**	**1,179,866**
Tier 2 capital (T2)	269,642	34.9 %	199,897
Own funds	**1,509,673**	**9.4 %**	**1,379,763**
CET1 capital ratio (CET1)	14.07 %	-3.4 %	14.57 %
Surplus of CET1 capital	809,498	3.7 %	780,852
T1 capital ratio (T1)	14.66 %	-3.6 %	15.21 %
Surplus of T1 capital	732,661	2.5 %	714,523
Total capital ratio	17.85 %	0.3 %	17.79 %
Surplus of total capital	833,179	9.7 %	759,307

The Managing Board is ensuring a sound and sustainable capital structure at Hypo Vorarlberg through ongoing optimisation measures. As at 31 December 2019, the share capital of Hypo Vorarlberg amounted to TEUR 162,152, as in the previous year.

Overall, the core capital (T1) increased to TEUR 1,240,031 as at 31 December 2019 (2018: TEUR 1,179,866). The supplementary capital (T2) rose to TEUR 269,642 in 2019 (2018: TEUR 199,897). Among other factors, this increase was due to a bond in Swiss francs with a volume of CHF 100 million that was issued by the bank in 2019.

As at 31 December 2019, total own funds of the Hypo Vorarlberg Group increased by 9.4 % compared to the previous year to TEUR 1,509,673 and were thus well in excess of the minimum required by law (Basel III). The total capital ratio rose to 17.85 % as at the end of 2019 (2018: 17.79 %). The core capital ratio (T1) fell to 14.66 % as at the end of year (2018: 15.21 %), while the common equity tier 1 (CET1) ratio decreased from 14.57 % to 14.07 %. This was due to the increase in total risk exposure from TEUR 7,755,706 to TEUR 8,456,168.

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

Share capital, share denominations and participation capital

In 2018, the planned capital measures with the majority shareholder, the state of Vorarlberg, were successfully completed. The largest proportion of the existing participation capital was converted into core capital, thereby increasing the share capital of Hypo Vorarlberg. Hypo Vorarlberg subscribed capital is unchanged at TEUR 162,152. As at 31 December 2019, the number of no-par value shares issued was unchanged at 316,736.

Shareholder structure

The percentage of Hypo Vorarlberg's capital as at 31 December 2019 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

The global outbreak of the coronavirus (COVID-19) at the start of 2020 and the associated national and international measures to contain the spread of the virus have a significant impact on the global economic development and lead to declines on the financial, goods and services markets. At present, the potential effects on the economy and sectors of industry cannot be reliably estimated. The coronavirus does not have any effect on the figures in the 2019 financial statements, as it constitutes a non-adjusting event after the reporting date. For detailed information, please refer to the "Outlook for the 2020 financial year" section of the Group management report.

DEVELOPMENT
BY SEGMENT

CORPORATE CUSTOMERS

As an entrepreneurial bank, Hypo Vorarlberg primarily positions itself within the Corporate Customers segment as a banking partner for real estate companies, 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.

The corporate customer business at Hypo Vorarlberg performed excellently in the 2019 financial year. Companies' willingness to invest increased significantly again over the course of the past year, thus enabling the bank to increase its lending volume in this segment. Overall, loans and advances to customers increased to TEUR 6,613,979 (2018: TEUR 6,295,260). Risk costs remained low due to the excellent ratings of corporate customers in the bank's core markets.

Overall, the Corporate Customers segment generated earnings before taxes of TEUR 62,331 in 2019 (2018: TEUR 75,204). Net interest income amounted to TEUR 98,416 as at 31 December 2019, down 3.8 % as against the previous year (2018: TEUR 102,355), when net interest income had included significant one-time effects. Net fee and commission income improved as against 2018 to TEUR 14,583 (2018: TEUR 13,545). This was mainly attributable to higher commissions from loans and payment transactions.

Hypo Office Banking (HOB), established in 2017, brought a significant simplification for companies' payment transactions onto the market. HOB enables corporate customers to manage all their national and international accounts in one web-based system. With this online payment transactions application, Hypo Vorarlberg is a technological pioneer on the Austrian market.

PRIVATE CUSTOMERS

One focus of Hypo Vorarlberg's private customer business is residential construction financing. The bank achieved an excellent result in this area in 2019, helping fulfil around 2,000 housing dreams in the reporting period – more than ever before. Compared to the previous year, the total volume of loans to private individuals was increased by around TEUR 70,000 to TEUR 2,043,416 (2018: TEUR 1,973,518).

In investment business, the historically low level of interest rates remained the central issue, still making it harder for investors to find returns. Many customers therefore increasingly invested in securities, some of them for the first time. Because Hypo Vorarlberg can provide the right solution for every type of investor, earnings in this area were also increased significantly.

In 2019, Hypo Vorarlberg generated net interest income of TEUR 34,040 in the Private Customers segment, which represented a significant increase against the previous year (2018: TEUR 30,198). Net fee and commission income was also considerably higher than in the previous year (TEUR 16,557) at TEUR 21,020 in 2019. Overall, Hypo Vorarlberg generated earnings before taxes of TEUR 9,032 in the Private Customers segment in 2019 (2018: TEUR 2,727).

Ongoing digitalisation also poses new challenges for business with private customers. Hypo Vorarlberg sees this development as an opportunity to adapt its range of products and services to customer requirements and to the latest technology. For example, since 2019 the bank has had its own online asset management tool ("MEIN ANLAGEKONZEPT"). At the same time, the bank is committed to its branches. Digital solutions still will not be able to replace personal advice in the future – particularly when it comes to large-scale financing or a major investment.

PRIVATE BANKING AND WEALTH MANAGEMENT

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 specialist private banks. 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 also that of anonymous testers on a regular basis. In November 2019, the Elite Report (Munich) thus awarded Hypo Vorarlberg's Wealth Management department the highest grade "summa cum laude" for the ninth time in a row. With an overall result of 686 points, the bank achieved an excellent second-place ranking 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.

Asset Management

Business in Asset Management developed very positively in the 2019 reporting year. At the end of 2019, total assets under management amounted to TEUR 721,198 (2018: TEUR 682,198). This year-on-year change was mainly due to stable price increases throughout the year. A total of 2,182 mandates were managed as at 31 December 2019.

Asset Management at Hypo Vorarlberg has taken key steps towards sustainable investment. In September 2019, the Center for Social and Sustainable Products (CSSP) in Liechtenstein, an independent consulting and research company with a focus on sustainable investments, awarded the fund Hypo Weltportfolio Aktien (since 1 January 2020: Hypo Vorarlberg Weltportfolio Aktien) the yourSRI transparency seal (SRI = socially responsible investment) for another year for the third time in a row. With a volume of approximately TEUR 178,000 as at 31 December 2019, Hypo Vorarlberg Weltportfolio Aktien is one of the largest fund of funds in Austria and is deployed in almost all asset management strategies. The Österreichischer Dachfonds Award conferred by the magazine GELD in November 2019 shows that sustainability and performance are not mutually exclusive. Out of more than 50 global funds registered in Austria, this fund achieved the best one-year and three-year performance – including on a risk-adjusted basis in particular.

As at 30 September 2019, another five Hypo Vorarlberg funds were subject to the same audit by the CSSP and may carry the transparency seal for one year.

TREASURY / FINANCIAL MARKETS

Despite major uncertainties, the market environment was consistently positive in 2019. Credit spreads and capital market interest rates fell significantly over the course of the year. Refinancing via the capital market was encouraged by the market development and the resumption of the ECB's purchase programme. However, it proved much more difficult to invest the liquidity reserve in fixed-income securities. Due to decreased interest rates and credit spreads, the planned volume for proprietary investment was not met.

The result for the bank's maturity transformation contribution was positively influenced by the market development, allowing for a much better result than planned to be achieved. As a result of the introduction of ECB "tiering" and lower deposit rates, net interest margin contributions on the liabilities side increased above the planned level for 2019. Overall, the segment generated earnings before taxes of TEUR 4,174 in 2019 (2018: TEUR 2,165).

APM & Investments
The APM & Investments unit invested a net volume of approximately TEUR 350,868 in bonds in 2019. Due to the low investment margins, volume estimates were deliberately undercut in 2019. Major decision-making criteria for new investments once again included 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
A total of 22 of the bank's own issues were repaid in 2019. The total nominal value of these maturing bonds came to TEUR 927,570. To refinance this loss of liquidity, 31 new own bonds with a total volume of TEUR 1,026,970 were issued in the past year.

Money, foreign exchange and interest rate derivatives trading
In 2019, the readily accessible short-term liquidity was characterised by significant fluctuations typical in money market trading. Cash assets moved between levels of just under EUR 0 and more than TEUR 900,000 in the reporting year. As at the end of the year, liquidity amounted to a little under TEUR 100,000, meaning that it had decreased by around TEUR 400,000 overall during the year. Furthermore, collateral of at least TEUR 500,000 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 1,400 transactions with a total volume of over TEUR 14,000,000.

The area of derivatives trading with customers was difficult again in 2019. Both the regulatory environment and the persistently low interest rates probably contributed significantly to this. Foreign exchange trading declined by around 10 %. However, slight increases were seen in foreign exchange trading with customers. A total of over 2,400 customer transactions were concluded in interest rate derivatives and foreign exchange trading in 2019 with a total volume of over TEUR 1,500,000.

Securities (non-proprietary)
The 2019 stock market year was dominated by the ongoing issues of Brexit and the US-China trade conflict. Following signs of a solution to the trade dispute between the US and China in the fourth quarter, the stock markets reached new highs. Due to these defining issues on the stock markets and a change in strategy in Hypo Vorarlberg's asset management, there was a decrease in transactions and trading volumes.

Fund Service
The volume under management increased from TEUR 7,507,000 to TEUR 8,420,000 on an annual basis, corresponding to growth of TEUR 913,000 or 12.2 %.

Swap group
As at 31 December 2019, the Swap group managed 1,184 swaps, interest rate options and currency options. Their nominal volume amounted to approximately TEUR 10,267,702
(2018: TEUR 10,164,546). This is equivalent to an increase of 64 transactions or TEUR 103,156 in terms of the nominal volume. Compared to the previous year, the level of cash collateral increased from TEUR -75,445 to TEUR -25,102, with the minus sign indicating collateral provided.

CORPORATE CENTER
In addition to the business segments mentioned above, the Corporate Center item includes the refinancing of holdings. This segment's earnings contribution amounted to TEUR 16,155 in 2019 (2018: TEUR -31,439). The negative earnings in the previous year were attributable to impairment at the 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 and Feldkirch. 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 selected Austrian customers and the Swiss leasing market are managed by an in-house sales team. As at 31 December 2019, Hypo Immobilien & Leasing GmbH had a headcount of 45 employees (2018: 49).

Since the end of October 2015, the Vienna team of Hypo Immobilien & Leasing GmbH has been based at its location in the Zacherlhaus building together with the bank. Since then, cooperation with the advisors at the Vienna branch has been stepped up to enable customers to benefit from additional advisory services. There is also a property valuation team based in Vienna. As has been the case in Vorarlberg for years, the team carries out valuations for Hypo Vorarlberg especially for financing purposes.

Each year, the Hypo Immobilien & Leasing GmbH experts publish a recommended price brochure providing points of reference to be used when valuing property. 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.

A digitalisation project was launched last year. This involves further digitalising internal processes, improving services for customers and equipping the workplaces for modern, mobile work. In addition, a digitalisation department has been established at the company to follow developments actively, gather ideas and implement additional solutions on an ongoing basis.

For 2019, Hypo Immobilien & Leasing GmbH reported earnings before taxes of TEUR 736 (2018: TEUR 779). The consolidated earnings before taxes of the companies included in the consolidated financial statements and belonging to the real estate and leasing subgroup came to TEUR 3,459 as at 31 December 2019 (2018: TEUR 5,426).

HYPO VORARLBERG LEASING AG
HYPO VORARLBERG IMMO ITALIA GMBH

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

New business on the Italian leasing market declined by 3.3 % year-on-year to a total of EUR 27.9 billion in 2019.

Only the area of movables leasing posted growth on an annual basis (+ 2.0 %), while in real estate leasing a decline of 6.6 % was registered in the same period. In the final quarter of 2019, the overall leasing market grew by 8 % as compared to the same quarter of the previous year.

In this context, Hypo Vorarlberg Leasing generated new volume of TEUR 94,076 which represented an increase of 5.16 % in the 2019 financial year (2018: TEUR 89,463).

The company focused on real estate and movables leasing projects in the Trentino/South Tyrol region. As planned, the share attributable to movables leasing was increased from 11 % to 21 % of the volume. 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 2019, Hypo Vorarlberg Leasing again reported a very positive result in net interest income of TEUR 13,535 (2018: TEUR 13,211). Overall, the company generated a profit before taxes of TEUR 1,710 (2018: TEUR -17,929). The main areas of focus continued to be on consistent management of existing portfolios and efficient realisation of recovered lease assets.

In 2019, the company decided to transfer a total of 126 properties for sale to the affiliate Hypo Vorarlberg Immo Italia GmbH by way of a partial spin-off. Some of the transferred assets are leased. The spin-off was formally closed in mid-November and is expected to bring about significant cost savings at Hypo Vorarlberg Leasing from 2020 onwards.

From 18 March to 7 June 2019, Banca d'Italia conducted a periodic inspection covering all areas of the company. The positive final inspection report was handed over to the company's governing bodies in mid-September.

The implementation of a new IT software, which is expected to increase the automation and digitalisation of business processes, was continued intensively in 2019 and is expected to be fully completed in 2020. In 2020, the company plans to introduce a digital customer portal that not only offers the benefits of direct web-based customer access but also provides for the implementation of digital signatures for contractual documents.

Hypo Vorarlberg Immo Italia GmbH

As in the previous year, Hypo Vorarlberg Immo Italia GmbH sold commercial properties with a volume of TEUR 10,600 in 2019. The Italian market for commercial properties stagnated in 2019. Prices also saw little movement.

With regard to rented properties, there was a lot of movement in 2019. A number of rented properties were successfully sold. For other properties, new rental contracts were concluded. The average rental yield was maintained at the previous year's level.

Despite various provisions, Hypo Vorarlberg Immo Italia GmbH managed to keep its negative earnings before taxes within limits at TEUR -775 in 2019 (2018: TEUR 425).

HYPO VERSICHERUNGSMAKLER GMBH

Overall, the 2019 financial year was again very encouraging for Hypo Versicherungsmakler GmbH. Both sales commissions and earnings were increased year-on-year. This positive development is attributable to various different factors.

The strong economy positively influenced the development of fee and commission income in property insurance. By actively collaborating with the corporate customer advisors at Hypo Vorarlberg, a number of new corporate customers were acquired. In the Private Customers segment, fresh impetus was created by means of intensive sales activities for disability insurance. As in the past, sales campaigns for private pension products had a positive effect on earnings.

In June 2019, the owners of exacta Versicherungsmakler GmbH & Co KG and Hypo Versicherungsmakler GmbH adopted a general resolution to operate insurance brokerage business in a joint venture with the name comit in the future.

The new company will be jointly owned by Hypo Vorarlberg (40 % of shares), VLV and Wälder Versicherung. In the future, comit will be the biggest regional insurance broker in Vorarlberg. The merger is to take place retroactively as at 1 January 2020 and the headquarters will be the Hypo Office at Poststrasse 11, Dornbirn. The new company will have 34 employees and manage a premium volume of approximately EUR 30 million.

This merger is intended firstly to consolidate and expand the market position, and secondly to enable better handling of upcoming challenges such as the implementation of regulations, digitalisation, online sales of standard products, etc. In addition, the size of the company will give it the unique opportunity to leverage synergies and to promote and enhance specialist expertise. The merger is intended to ensure a sustainable alignment for the economically successful continuation of the joint company.

The two companies will continue to operate independently until 31 March 2020. The relocation of exacta to Dornbirn is planned for the second quarter of 2020. The customers will be informed in multiple stages.

Overall, Hypo Versicherungsmakler GmbH improved its net fee and commission income to TEUR 1,834 in 2019 (2018: TEUR 1,693) and increased its earnings before taxes to TEUR 345 (2018: TEUR 251).

The further education obligation under the Insurance Distribution Directive (IDD) leads to significant additional staff costs and time commitments, particularly for consultants in Hypo Vorarlberg's sales channels. There will be a critical assessment of the future sales alignment from a commercial law perspective. To this end, an online consulting project together with VLV will start trial operations in the second quarter.

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.

Following the implementation of the portfolio reduction, the company's financial assets are now concentrated on only a few investments for which measures to carry out an exit have already been initiated.

OUTLOOK
FOR THE 2020 FISCAL YEAR

COVID-19 PANDEMIC

The global outbreak of the coronavirus (COVID-19) at the start of 2020 and the associated national and international measures to contain the spread of the virus have a significant impact on the global economic development and lead to declines on the financial, goods and services markets. Due to the very rapid spread of the virus, many governments were forced to adopt measures that even included lockdowns. In China, where the virus claimed its first victims at the end of 2019 already, economic output slumped sharply in the first two months of 2020.

The global stock and bond markets reacted particularly sensitively to the developments. On 16 March, the American Dow Jones recorded its biggest losses since 1987, while the ATX dropped by almost half between the start of the year and mid-March.

The extent and duration of the negative economic effects cannot be reliably estimated at present.

Effects in Austria

Public life in Austria came almost completely to a halt because of the restrictions on movement imposed by the federal government with effect from 16 March 2020 (provisionally to last until 13 April 2020). Just a few days or weeks after the growing spread of the coronavirus in Central Europe, clear effects on the domestic economy could be seen. Tourism, retail and services were among the economic sectors worst affected by the coronavirus crisis. Industry was also impacted by closures and disruptions to supply chains and production.

For domestic companies, the Austrian federal government quickly adopted immediate and interim measures and issued two relief packages with a total volume of up to EUR 38 billion. These include credit guarantees and warranties, emergency aid for particularly hard-hit sectors, and tax deferrals. In addition, relief measures for companies have been adopted, such as coronavirus-related reduced working hours.

A higher unemployment rate can already be observed in Austria at the end of March, but it is expected to be possible to keep the increase within tolerable limits by means of reduced working hours and liquidity measures for affected companies.

Any assessment of the development of the Austrian economy over the next few months is subject to considerable uncertainty. According to the experts from the Austrian Institute of Economic Research (WIFO), the restrictive measures to contain the spread of the virus will lead to a short technical recession in the first and second quarter of 2020. Depending on the duration of the coronavirus crisis, the domestic economy is expected to contract by 2.5 % in 2020. This estimate is based on a scenario in which the current strict government measures remain in place until the end of April, are gradually relaxed in May and conditions then normalise again in the summer. Overall, Austria is likely to suffer less severe economic consequences than many other European countries.

Crisis management/measures at Hypo Vorarlberg

To protect employees and customers, the crisis team at Hypo Vorarlberg addressed the situation at an early stage and adopted several measures to contain the further spread of the virus and ensure that the Group maintains its capacity to act in the future, too.

For this purpose, essential departments have been separated in spatial terms (team splitting) and a large number of employees can work remotely/from home. Immediately after the federal government's restrictions on movement came into effect, some Hypo Vorarlberg branches switched to limited operations, while one location had to be closed temporarily due to the restrictive regulations on visitors to hospitals. Great attention is being paid to ensuring a functioning supply of cash for customers. Personal consultations are mostly held by telephone. The bank's proactive communication policy has contributed to avoiding misunderstandings and retaining customers' trust. The crisis team still holds regular meetings to evaluate the situation and implement decisions at short notice.

In economic terms, the top priority for Hypo Vorarlberg's crisis management is to maintain its customers' and business partners' economic stability. Only then will it be possible to avoid permanent damage to companies and customers in the core markets and thus also to the Group's economic development. Together with other regional banks and the Chamber of Commerce, Hypo Vorarlberg has adopted support measures with minimum bureaucracy, such as suspending loan repayments and offering bridge loans for companies and individuals affected by the crisis. By the end of March 2020, Hypo Vorarlberg had already received several requests for payment deferrals from customers.

The Austrian government's measures, which include credit guarantees, also help banks. Based on a government guarantee, bridge loans that meet certain criteria only have to be backed by equity for 20 % of the amount of the loan. In addition, the ECB and the European Banking Authority (EBA) are working on additional measures to facilitate lending without increasing the risks for banks. For example, measures by the regulator to prevent loans from being classified as non-performing due to deferred payments are currently discussed.

Banks are the first port of call for companies with liquidity bottlenecks – particularly in this challenging situation. Where necessary, Hypo Vorarlberg will make use of instruments provided by the ECB to secure liquidity. Due to the favourable refinancing conditions in advance, Hypo Vorarlberg has already carried out successful prefunding for the upcoming major maturity in April. The increased spreads are currently being used selectively for proprietary investment, while on the liabilities side there are no major maturities in 2020.

Insolvencies and losses of income will increasingly lead to loan defaults, both in the directly affected sectors and further along the value chain. Hypo Vorarlberg is well equipped in terms of capital. As at 31 December 2019, the total capital ratio in the Group came to 17.85 %, the core capital ratio (T1) was at 14.66 % and sufficient buffers had been established for crisis situations.

PRIORITIES FOR 2020

As things currently stand, it can be assumed that the entire 2020 financial year will be dominated by handling the COVID-19 pandemic and its effects. Nonetheless, Hypo Vorarlberg has set the following priorities for 2020:

The Managing Board will continue to pursue the proven, broad-based business model, although the ongoing low and negative interest rates, new legal requirements – such as Basel IV and the implementation of the EU action plan for financing sustainable growth – and ongoing digitalisation pose a large challenge for the industry. Digitalisation and changing customer requirements are also still requiring 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 can continuously adapt 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. It remains to be seen whether this trend will continue. 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 competent and committed employees. Closeness to customers and personal consulting are an important part of the corporate philosophy – something that is also noted and appreciated by customers. To keep ensuring high-quality advice, the bank will also continue to invest in education and training for its employees in 2020.

The Managing Board remains committed to the branches as an important sales channel. 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, Hypo Vorarlberg continues to focus on its in-house asset management (in particular the selection strategies) which since 1 March 2019 can also be completed online by customers.

EXPECTED EARNINGS DEVELOPMENT FOR HYPO VORARLBERG IN 2020

Thanks to the reserves it has accumulated in the past years and its stable equity position, Hypo Vorarlberg can keep operating even in the current difficult economic situation.

The Managing Board currently assumes that the company will continue to survive as a going concern based on the measures described above and the utilisation of facilitations and subsidies.

In addition to a sound equity base, Hypo Vorarlberg also has sufficient liquidity reserves and a diversified funding structure. Furthermore, there are no major maturities coming up in 2020.

The company takes a positive view of the ECB's announcement that it will ease capital requirements in view of the crisis. Nonetheless, the economic crisis caused by the coronavirus can be expected to have a significant impact on all of Hypo Vorarlberg's business segments. Another key factor for consolidated net income will be the development in the particularly hard-hit regions in northern Italy where the bank's leasing and real estate company operates.

Based on the scenario of a technical recession in the second and third quarters of 2020, a decline in earnings and a rise in risk costs can be expected at Group level, with slight recovery potential in the final quarter. The role of the public sector in managing the economic effects of the pandemic will also be extremely important.

Anticipated earnings in 2020 will be impacted by valuation effects and staging in the short term, and only later – possibly only in the following years – by actual defaults. The economic development of the Hypo Vorarlberg Group in the 2020 financial year will particularly depend on the duration of the crisis and the extent to which catch-up effects can compensate for its impact.

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 16.996 (2018: TEUR 8,199).

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. Regarding the use of financial instruments in accordance with Section 243 (3) No. 5 UGB, please refer to the disclosures in the notes, section A (Accounting Policies), note (3).

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.

The uncertain economic consequences of the global COVID-19 pandemic also pose a major challenge for risk management at Hypo Vorarlberg. For details, please refer to the information in the "Outlook for the 2020 financial year."

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 Vorarlberg.

Control environment

Hypo Vorarlberg's Accounting department, which simultaneously functions as the Group Accounting department, 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. 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 many 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. 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 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 ICS is continually assessed by Internal Audit regarding 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. 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 training programme 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. The Austrian Federal Administrative Court (BVwG) upheld the FMA's penal order and Hypo Vorarlberg paid the fine but also filed an extraordinary appeal with the Austrian Administrative High Court (VwGH). The Austrian Administrative High Court repealed the order and there will now be another hearing at the BVwG. 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.

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 non-operative 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 meant that this change did not have a material impact on the bank's earnings strength.

DATA PROCESSING/IT

Like many other Austrian banks, Hypo Vorarlberg has outsourced large parts of its IT systems to ARZ (Allgemeines Rechenzentrum GmbH). As a competence centre for IT services in the banking industry, ARZ supports key business processes of the affiliated banks, most of which are also owners with various different shares. The banks' joint strategy is to bundle IT expertise to generate economies of scale and synergies and harness potential efficiencies through technology. This enables Hypo Vorarlberg, as well as the other participating banks, to reduce the complexity of its own IT infrastructure while also concentrating on its core business.

ARZ's central system for day-to-day banking business is its internally developed ARCTIS software solution, supplemented by standard solutions such as GEOS, SAP, B+S and others. ARZ is responsible for operating the core banking systems and IT infrastructure. New requirements for central IT systems are implemented by ARZ together with the banks.

In the 2019 financial year, further adjustments and improvements to the systems required for the implementation of MiFID II and PSD2 were implemented. As part of the implementation of the PSD2 RTS requirements, access to internet banking was changed over to two-factor authentication and an access-to-account interface was implemented in line with the Berlin Group standard. The necessary conditions were established for the use of instant payment and new systems for handling payment transactions. Another focus was the further development and modernisation of the IT architecture with the aim of opening up the core banking system via defined interfaces to become faster and more flexible for new solutions, particularly with regard to digitalisation.

The rating software family was enhanced with additional functions and the existing functions were validated and calibrated. Internal regulations and processes for the control and risk management of IT systems were modified in line with the significantly wider-ranging requirements. The increased requirements for notification and reporting were supported with the use of new processes and systems for supplying and preparing the necessary data.

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 gave rise to one objection that will soon be handled in consultation with the external auditors and does not involve any substantial risk.

ARZ and the banks counter IT risks through backup systems, failover concepts, security concepts and extensive information for employees. 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 2019 Hypo Informatikgesellschaft m.b.H. – a wholly owned subsidiary of Hypo Vorarlberg – employed 40 employees (headcount). These employees provide support with operating the systems developed and operated by ARZ within the Bank. Furthermore, the subsidiary performs key additional IT services for the bank and the Group. For example, it provides the decentralised infrastructure and ensures its technological advancement. Hypo Informatik also develops individual applications if there are no adequate solutions within the ARZ group. Hypo Informatikgesellschaft m.b.H. is expected to be reintegrated in Hypo Vorarlberg on 30 September 2020.

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 2019

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 & Co KG.

The principles of the remuneration policy were adopted with regard to robust and effective risk management in concordance with the business strategy. In 2019, a total of two meetings of the Remuneration Committee of Hypo Vorarlberg were held.

In addition to the Supervisory Board – specifically the Remuneration Committee headed by Birgit Sonnbichler – 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.

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 2019 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.

MINDFUL BUSINESS –
SUSTAINABILITY AT HYPO VORARLBERG

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. 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 its sustainability targets at the beginning of 2016 and created a new position for this purpose. This was intended to embed the topic even more strongly within the bank. In May 2017, the rating agency ISS ESG (formerly ISS oekom) awarded the bank a "C" rating (Prime), thus putting Hypo Vorarlberg within the Prime range (corporate rating/last modification July 2019). This rating qualifies the Hypo Vorarlberg securities traded on the market for investment from an environmental and social perspective.

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 2019 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.

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 to guarantee an orderly approach and identify potential risks in advance.

Bregenz, 30 March 2020

Hypo Vorarlberg Bank AG
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

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH IFRS DATED 31. DECEMBER 2019

I. STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

Income statement

TEUR	Notes	2019	2018	Change in TEUR	Change in %
Interest and similar income according to the effective interest method		201,679	212,209	-10,530	-5.0
Other interest and similar income		67,535	61,493	6,042	9.8
Interest and similar expenses according to the effective interest method		-63,746	-60,842	-2,904	4.8
Other interest and similar expenses		-35,927	-45,432	9,505	-20.9
Net interest income	(6)	169,541	167,428	2,113	1.3
Dividend income	(7)	1,451	1,397	54	3.9
Fee and commission income		43,357	39,511	3,846	9.7
Fee and commission expenses		-6,891	-7,597	706	-9.3
Net fee and commission income	(8)	36,466	31,914	4,552	14.3
Net result from financial instruments at amortized cost and OCI	(9)	-14	5,407	-5,421	-
Net result from financial instruments at fair value	(10)	12,436	10,208	2,228	21.8
Other income	(11)	23,804	17,920	5,884	32.8
Other expenses	(12)	-24,923	-34,822	9,899	-28.4
Administrative expenses	(13)	-96,291	-97,734	1,443	-1.5
Depreciation and amortization	(14)	-7,585	-6,773	-812	12.0
Loan loss provisions and impairment of financial assets	(15)	-21,592	-4,181	-17,411	>100.0
Impairment of non-financial assets	(16)	-1,648	-42,371	40,723	-96.1
Result from equity consolidation		52	264	-212	-80.3
Result from non-current assets available for sale		-5	0	-5	>100.0
Earnings before taxes		91,692	48,657	43,035	88.4
Taxes on income	(17)	-21,316	-19,481	-1,835	9.4
Annual net income		70,376	29,176	41,200	>100.0
of which attributable to owners of the parent company		69,113	42,297	26,816	63.4
of which attributable to non-controlling interests		1,263	-13,121	14,384	-

Statement of comprehensive income

TEUR	2019	2018	Change in TEUR	Change in %
Annual net income	70,376	29,176	41,200	>100.0
Other income (OCI)	-3,937	10,446	-14,383	-
OCI w/o recycling	-3,941	10,400	-14,341	-
Actuarial result IAS 19	-1,822	-1,000	-822	82.2
Measurement of own credit risks for liabilities at fair value	-3,410	14,888	-18,298	-
Income tax effects	1,291	-3,488	4,779	-
OCI with recyling	4	46	-42	-91.3
Foreign currency translation	4	46	-42	-91.3
Group statement of comprehensive income	66,439	39,622	26,817	67.7
of which attributable to owners of the parent company	65,176	52,743	12,433	23.6
of which attributable to non-controlling interests	1,263	-13,121	14,384	-

II. BALANCE SHEET
DATED 31 DECEMBER 2019

Assets

TEUR	Notes	31/12/2019	31/12/2018	Change in TEUR	Change in %
Cash and balances with central banks	(18)	442,546	589,720	-147,174	-25.0
Trading assets	(19)	147,971	152,840	-4,869	-3.2
Financial assets at fair value (non-SPPI)	(20)	830,791	784,728	46,063	5.9
of which equity instruments		27,893	85,959	-58,066	-67.6
of which debt securities		245,698	282,219	-36,521	-12.9
of which loans and advances to customers		557,200	416,550	140,650	33.8
Financial assets at fair value (option)	(21)	364,668	392,168	-27,500	-7.0
of which debt securities		65,806	67,119	-1,313	-2.0
of which loans and advances to customers		298,862	325,049	-26,187	-8.1
Financial assets at amortized cost	(23)	11,790,839	11,535,871	254,968	2.2
of which debt securities		2,487,703	2,492,387	-4,684	-0.2
of which loans and advances to banks		116,743	132,408	-15,665	-11.8
of which loans and advances to customers		9,186,393	8,911,076	275,317	3.1
Positive market values of hedges	(24)	155,053	81,179	73,874	91.0
Affiliates		1,534	1,814	-280	-15.4
Shares in companies valued at equity	(25)	1,806	2,381	-575	-24.1
Property, plant and equipment	(26)	84,127	70,217	13,910	19.8
Investment property	(27)	54,778	58,184	-3,406	-5.9
Intangible assets	(28)	2,796	2,483	313	12.6
Income tax assets		5,109	2,163	2,946	>100.0
Deferred income tax assets	(29)	11,204	8,845	2,359	26.7
Non-current assets available for sale	(30)	4,635	0	4,635	>100.0
Other assets	(31)	82,084	72,017	10,067	14.0
Total assets		**13,979,941**	**13,754,610**	**225,331**	**1.6**

Liabilities and shareholders' equity

TEUR	Notes	31/12/2019	31/12/2018	Change in TEUR	Change in %
Trading liabilities	(33)	139,044	167,132	-28,088	-16.8
Financial liabilities at fair value (option)	(34)	928,606	1,172,869	-244,263	-20.8
of which securitised liabilities		787,054	1,006,354	-219,300	-21.8
of which liabilities to banks		2,100	25,846	-23,746	-91.9
of which liabilities to customers		139,452	140,669	-1,217	-0.9
Financial liabilities at amortized cost	(35)	11,467,794	11,072,878	394,916	3.6
of which securitised liabilities		4,638,277	4,251,228	387,049	9.1
of which liabilities to banks		1,534,000	1,279,963	254,037	19.8
of which liabilities to customers		5,295,517	5,541,687	-246,170	-4.4
Negative market values of hedges	(36)	141,270	110,116	31,154	28.3
Provisions	(37)	44,790	42,042	2,748	6.5
Income tax liabilities	(38)	1,071	9,318	-8,247	-88.5
Deferred income tax liabilities	(39)	3,463	3,098	365	11.8
Other liabilities	(40)	55,632	45,980	9,652	21.0
Shareholders' equity	(41)	1,198,271	1,131,177	67,094	5.9
of which attributable to owners of the parent company		1,195,857	1,133,737	62,120	5.5
of which attributable to non-controlling interests		2,414	-2,560	4,974	-
Total liabilities and shareholders' equity		**13,979,941**	**13,754,610**	**225,331**	**1.6**

III. STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity

TEUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Accumulated other income	Total parent company shareholders	Non-controlling interest	Total Shareholders' equity
Balance 01/01/2018	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 31/12/2018	0	0	42,297	10,446	52,743	-13,121	39,622
Capital adjustment	-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 31/12/2018	162,152	44,674	928,414	-1,503	1,133,737	-2,560	1,131,177
Balance 01/01/2019	162,152	44,674	928,414	-1,503	1,133,737	-2,560	1,131,177
Consolidated net income	0	0	69,113	0	69,113	1,263	70,376
Other income	0	0	0	-3,937	-3,937	0	-3,937
Comprehensive income 31/12/2019	0	0	69,113	-3,937	65,176	1,263	66,439
Disposal from consolidation	0	0	0	0	0	3,719	3,719
Reclassifications	0	0	45	-45	0	-1	-1
Dividends	0	0	-3,056	0	-3,056	-7	-3,063
Balance 31/12/2019	162,152	44,674	994,516	-5,485	1,195,857	2,414	1,198,271

Further details on equity and the composition of capital components – in particular accumulated other comprehensive income – are given in note (41).

IV. CASH FLOW STATEMENT

Cash flows from operating activities

TEUR	2019	2018
Consolidated net income	70,376	29,176
Non-cash items included in consolidated net income		
Impairments/reversals on property, plant and equipment	6,954	39,969
Impairments/reversals on financial instruments	-15,748	30,963
Allocations/reversals to/from reserves and loan loss provisions	21,959	16,020
Change in other non-cash items	-73,566	36,013
Other adjustments (interest and income taxes)	-152,227	-211,458
Change in assets from operating activities		
Trading assets	-3,548	0
Loans and advances at fair value (non-SPPI)	-142,501	-73,868
Loans and advances at fair value (option)	21,156	20,160
Loans and advances at amortized cost	-279,865	-257,238
Income tax assets	-2,946	-1,126
Deferred income tax assets	0	5,578
Other assets	-10,067	31,212
Change in liabilities from operating activities		
Non-subordinated liabilities at fair value (option)	-249,794	-127,248
Non-subordinated liabilities at amortized cost	297,949	726,476
Provisions	4,656	-3,234
Income tax liabilities	-3,234	-10,110
Other liabilities	5,453	-15,006
Interest received	225,958	220,272
Interest paid	-82,060	-50,067
Income tax paid	-26,384	-13,819
Cash flows from operating activities	-387,479	392,665

Cash flows from investing activities

TEUR	2019	2018
Cash inflow from the sale/repayment of		
Financial instruments	540,502	287,643
Property, plant and equipment and intangible assets	3,303	4,444
Subsidiaries	190	2,247
Cash outflows for investments in		
Financial instruments	-425,655	-468,097
Property, plant and equipment and intangible assets	-4,189	-2,678
Subsidiaries	0	-18
Interest received	35,888	55,970
Dividends and profit distributions received	1,451	1,397
Cash flows from investing activities	151,490	-119,092

Cash flows from financing activities

TEUR	2019	2018
Cash changes in own shares and holdings	0	-30,000
Proceeds from capital increases	0	22,499
Cash changes subordinated and tier 2 capital	95,909	-21,121
Lease payments from operating leases	-1,404	N.A.
Dividends	-3,063	-3,830
Interest paid	-12,550	-11,717
Cashflow aus der Finanzierungstätigkeit	78,892	-44,169

Reconciliation to cash and balances with central banks

TEUR	2019	2018
Cash and balances with central banks as at 1 January	589,720	350,895
Cash flows from operating activities	-387,479	392,665
Cash flows from investing activities	151,490	-119,092
Cash flows from financing activities	78,892	-44,169
Effects of changes in exchange rate	9,923	9,421
Cash and balances with central banks as at 31 December	442,546	589,720

Further disclosures on the cash flow statement are shown under note (44).

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

The consolidated financial statements for the 2019 financial year and the comparative figures for 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that are in force and published by the International Accounting Standards Board (IASB) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC, formerly SIC, Standing Interpretations Committee) – as applicable in the European Union – and therefore fulfil the requirements of Section 59a of the Austria Banking Act and Section 245a of the Austrian Commercial Code.

On 30 March 2020, 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 2019. 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, the consolidated financial statements include 39 subsidiaries (2018: 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, 34 are headquartered in Austria (2018: 37) and five in other countries (2018: five).

The shares in the companies HYPO EQUITY Beteiligungs AG and KUFA GmbH were each increased from 79.19 % to 100 %. Both companies were acquired within the Group from "Hypo-Rent" Leasing- und Beteiligungsgesellschaft m.b.H.

As at 24 June 2019, the shares in Innovacell Biotechnologie AG were sold, with the effect that the company was deconsolidated from the Hypo Vorarlberg Bank AG Group. The sales proceeds for the share in the company amounted to TEUR 400. The carrying amount of the net assets sold was TEUR -10,581 while the minority interests to be derecognised amounted to TEUR -3,719, resulting in a positive deconsolidation effect of TEUR 7,262 (included in the "Other income" item).

By way of the assignment contracts dated 31 January 2019, the shares in the companies "Mongala" Beteiligungsverwaltung GmbH and "HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H. were sold. These two companies therefore no longer form part of the scope of consolidation. The sales proceeds totalled TEUR 191, while the effect from deconsolidation amounted to TEUR 34 and was recognised in the "Other income" item.

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.

Three (2018: three) material Austrian associates are accounted for using the equity method.

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 amortized 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.

Based on the data in these financial statements, the aggregated total assets of associated investments not measured at equity amounted to TEUR 20,386 in the past financial year (2018: TEUR 20,181). The aggregated equity of these investments amounted to TEUR 4,806 (2018: TEUR 4,806), and after tax earnings totalled TEUR 313 (2018: TEUR 313). If these investments were included in the consolidated financial statements using the equity method and based on balance sheet data as of 31 December 2019, the measurement effect on the items "Shares in companies valued at equity" and "Equity" would be TEUR 471 (2018: TEUR 471). Likewise, inclusion in the income statement would have an effect of TEUR 94 (2018: TEUR 94) in "Result from equity consolidation". The two companies are not included in the consolidated financial statements due to reasons of immateriality and because data and information relating to the limited effects on the increased informational value 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 VII), which have a different reporting date of 30 September 2019 and prepare interim financial statements dated 30 December 2019.

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.

Looking ahead, it should be noted that Hypo Versicherungsmakler GmbH is to be merged with exacta Versicherungsmakler GmbH in April 2020 with retroactive effect from 1 January 2020. This will give rise to the new company "comit", in which Hypo Vorarlberg Bank AG will have a 40 % share. In addition, Hypo Informatikgesellschaft m.b.H., which was wholly owned by Hypo Vorarlberg Bank AG in 2019, is expected to be merged with the bank on 30 September 2020.

(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 amortized 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 (non-SPPI) and fair value (option) 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 rates	31/12/2019	31/12/2018
CHF	1.0854	1.1269
JPY	121.9400	125.8500
USD	1.1234	1.1450
PLN	4.2568	4.3014
CZK	25.4080	25.7240
GBP	0.8508	0.8945

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 and when its cost or another market value can be measured reliably. 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 (= amortized 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 9 distinguishes between debt instruments, equity instruments and derivatives. On initial recognition, a financial instrument is categorised 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 (non-SPPI)	NON-SPPI
Financial assets at fair value (option)	FVO
Financial assets at fair value (OCI)	OCI
Financial assets at amortized cost	AC
Trading liabilities	HP
Financial liabilities at fair value (option)	LFVO
Financial liabilities at amortized 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 models

- "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 (non-SPPI)

Those financial instruments that have been allocated to the "hold" Business model but which do not meet the IFRS 9 cash flow criteria (non-SPPI – Non-solely payment of principal and interest) 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 (non-SPPI) are included implicitly in the fair value of the financial instrument and are therefore not shown 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 (non-SPPI) are included implicitly in the fair value of the financial instrument and are therefore not shown 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 amortized cost and other comprehensive income. In the consolidated financial statements for 2019 and in the previous year, no financial assets are allocated to this category.

Financial assets at amortized 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 amortized 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, amortized 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. This category also includes trade receivables. The amount of these receivables is immaterial in absolute terms. They also do not include any financing elements, so these receivables are recognised at their nominal value.

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 amortized 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 amortized 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, amortized 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 deposits 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 (non-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 in other comprehensive income
Financial assets at amortized cost	Amortized cost

Measurement of financial liabilities	Measurement
Trading assets	Fair value in the income statement
Financial liabilities at fair value (option)	Fair value in the income statement
Financial liabilities at amortized cost	Amortized 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 Hypo Vorarlberg acquires/issues securities mostly via OTC markets, it must be checked which market is the principal market for each individual security or, if this does not exist, which market is the most advantageous market.

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

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

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

- For interest-bearing instruments, such as receivables, liabilities and interest-bearing over-the-counter securities, the fair value is determined as the present value of future cash flows. The value of this group of financial instruments is therefore determined according to the recognised DCF method, in which the expected cash flows are first discounted using the risk-free swap curve. 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. 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 account 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 HA, non-SPPI or FVO categories. There is no requirement to separate financial assets. Owing to the cash flow criteria, they are measured at fair value. Liabilities are 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, multitranches and PRDCs. If they meet the cash flow criteria, 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. It is very likely that securities may be collateralised on a net basis, meaning that 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.

The Group accounts for securities lending transactions in the same way as securities from genuine repurchase agreements. Lent securities remain in the securities portfolio and are measured according to the rules of IFRS 9. Borrowed securities are not recognised or measured. Furthermore, collateral provided for securities lending transactions is shown as loans and advances on the balance sheet. The Group recognises 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 amortized 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 IFRS 16
- 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

No impairment is recognised for trade receivables that are immaterial in terms of their amount and maturity. Outstanding items already due are written down directly.

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 are 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.

Exemption for financial assets with a low credit risk
For financial assets with a low credit risk at the reporting date, impairment is also recognised in the amount of the expected loss over the next 12 months if the credit risk has increased significantly since their addition. 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
- If a dunning level has been reached

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).

Identification of losses
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. For small liabilities from private and commercial customers, automated performance ratings are prepared on a quarterly basis. 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 and other LGDs 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 is documented by the person responsible.

Recovery
Requirements for the return of an exposure to standard support 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 in the performing range 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 to the belief 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 within the performing range
- 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 within the performing range 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 in the non-performing range 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 is 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 within the performing range. A loan loss provision in stage 3 is recognised for transactions involving a forbearance measure that are already in the non-performing range. Loans and advances with forbearance measures are shown in note (62).

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. 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.

The Group estimates its own LGDs for the default category.

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 (like internal risk management) uses the regulatory CCF in conjunction with the maturity profiles from 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. In the case of a POCI instrument, the expected cash flows are discounted at the credit-risk-adjusted effective interest rate and the present value is recognised on initial measurement. Changes in the present value result in impairment or a reversal of impairment on subsequent measurement.

Financial assets at amortized 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 amortized 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 items
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. 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 amortized cost and financial liabilities at amortized 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.

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
For underlying transactions measured at amortized 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 financial instruments at fair value. 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 (57).

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 amortized cost in 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 under note (26) or as rented properties under investment property under note (27). Lease income is recognised on a straight-line basis over the lease term. Lease payments received in

the period are reported under "Other income" in note (11), maintenance expenses and operating costs under "Other expenses" in note (12) and depreciation and amortization in the "Depreciation and amortization" item in note (14). Leases in which the Group acts as lessor are classified almost exclusively as finance leases.

Accounting as lessee
IFRS 16 stipulates that both the asset representing the right of use and the liability representing the lease payment obligation are to be shown in the lessee's balance sheet. At the start of the contract term, an assessment is made as to whether the contract constitutes a lease and whether the contract transfers control of the identified asset for a certain period in exchange for a fee. The right of use and the liability are recognised at the start of the term. The right of use is recognised at cost at the commencement date and is subsequently amortized over its useful life or over the contract term if shorter. In our Group, amortization is carried out on a straight-line basis and recognised as an expense in the "Depreciation and amortization" item.

When the leased asset is transferred to the lessee, the lease liability is measured. This is done at the present value of the remaining lease payments for the period of use anticipated by the management. It is discounted at the interest rate implicit in the lease, provided this can be determined on the basis of the contract. If this is not the case, it is discounted on the basis of a calculated borrowing rate. The Group calculates this rate using the risk-free yield curves adjusted by mark-ups based on its own credit risk, the amount of the loan, the term and, if necessary, existing collateral.

The standard provides for exemptions for the recognition of short-term leases and leases for which the value of the underlying asset is immaterial. Specifically, this relates to leases whose term does not exceed one year and whose equivalent value is less than TEUR 5. The Group makes use of the exemptions for short-term and low-value leases. Lease payments for short-term and immaterial leases are recognised as expense in the "Administrative expenses" item.

Lease payments consist of fixed lease payments, variable lease payments, which are generally index-linked, amounts to be paid under a residual value guarantee, the exercise price of a purchase option and compensation payments for termination of the lease.

On subsequent measurement, the carrying amount of the lease liability accrues interest at the relevant rate, is reduced by the lease payments already made and is remeasured to take account of adjustments or modifications, particularly in the case of leases with an indefinite contractual term.

The rights of use and disclosures on them are reported in the "Property, plant and equipment" item of the balance sheet in note (26). The lease liabilities and disclosures on them are reported in the "Financial liabilities at amortized cost" item in note (35).

There were no sale-and-leaseback transactions in the Group in 2019 or in the previous year.

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 (note (11)). Depreciation is reported under depreciation (note (14)) and maintenance expenses for these properties are reported under other expenses (note (12)). The balance sheet item investment property under note (27) includes buildings with finite useful lives. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Investment property	25 - 50

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

l) Intangible assets
Intangible assets are recognised at cost on initial recognition and subsequently carried at cost less cumulative amortization 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 amortized on a straight-line basis over their economic lives and tested for potential impairment. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period.

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

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 reflect the potential tax benefits 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 carry forwards.

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 within 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 may include properties that were subject to finance leases. These finance leases were terminated or cancelled prematurely. This item may also include leased assets that are to be sold after the expiry of the lease. In addition to properties, equity investments may also be recognised in this item. However, the Group assigns the assets to this balance sheet item only if there is a realistic possibility of a sale within 12 months. 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. 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 the result from non-current assets available for sale.

q) Provisions

A provision is recognised if the Group has a present legal or constructive obligation as a result of 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 under note (37) 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 financial assets (note (15)). All other expenses or income in connection with provisions are recognised in administrative expenses (note (13)) and under other expenses (note (12)).

The Group's social capital is also shown under provisions. Social capital means provisions for defined-benefit 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 (2018: 12) pensioners and their surviving dependants are entitled to a defined-benefit bank pension. This is a final salary plan based on a works agreement. 2 (2018: 2) 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), 24 Mitarbeiter employees (2018: 20) of the St. Gallen branch are entitled to a defined-benefit pension. The Group and the employees make contributions to the BVG collective foundation Swiss Life, which is managed by Swiss Life AG. There is no other constructive obligation from normal commercial practice.

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

Anniversary bonuses
After 25 and 40 years of service, every employee of Hypo Vorarlberg Bank AG 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) and interest from non-fixed-income securities 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 amortized cost and OCI
This item includes generated gains and losses of financial instruments measured at amortized 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.

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 comprise both staff costs and material expenses.

The staff costs include wages and salaries, 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 if they are not included on other comprehensive income. 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 amortization of property, plant and equipment, intangible assets, investment property and rights of use from leases. 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 plant and equipment, investment property, intangible assets and other assets.

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 amortized 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 1,009 (2018: TEUR 879). A 1 % reduction in the impairment ratio with respect to the underlying exposure would reduce the risk provision by TEUR 1,009 (2018: TEUR 879). The development of credit risk provisions is shown in note (58). 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 11,790,839 (2018: TEUR 11,535,871).

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 (56) 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 28,253 (2018: TEUR 311) 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 -5,824 (2018: TEUR 14,888) and was recorded in the result from change in own credit risk. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 970,753 (2018: TEUR 910,181) and of the liabilities TEUR 646,864 (2018: TEUR 765,974).

Income taxes
With regard income taxes, the Group is subject to several tax authorities. Material estimates are used in the calculation of the tax provision in note (38). The taxable income for each company is calculated on the basis of the local commercial result by reconciling financial and tax accounting. In addition, expected additional tax obligations in connection with ongoing or announced tax audits are recognised in the tax provision. After a completed tax audit, the difference between the expected and the actual payment of back taxes is recognised through profit or loss in the income statement under income taxes from previous periods and deferred taxes. Judgements are required to determine the amount of deferred 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 (39). The effects on the income statement are shown in note (17) as well as those of the Other Result on note (41). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 16,313 (2018: TEUR 11,008) and of the liabilities TEUR 4,534 (2018: TEUR 12,416).

Provisions
The amount recognised for provisions is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. The provisions recognised on the balance sheet are shown in note (37).The effects on the income statement relating to liabilities and credit risks are shown under loan loss provisions and impairment of financial assets in note (15) and in other cases under administrative expenses in note (13) and are recognised in other income and other expenses in notes (11) and (12). The carrying amount of the provisions – not including social capital – underlying the judgements, assumptions and estimates amounts to TEUR 18,250 (2018: TEUR 17,680).

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	2019	2018
Interest rate/domestic	1.30 %	2.00 %
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 %	1.80 %

The actuarial gains and losses from the adjustment of actuarial assumptions were recognised in other comprehensive income at TEUR -1,822 (2018: TEUR -1,000). The deferred taxes resulting from the recognition were also recognised directly in other comprehensive income at TEUR 439 (2018: TEUR 234). For 2020, pension payments of TEUR 359 (2019: TEUR 376), severance payments of TEUR 412 (2019: TEUR 423) and anniversary bonuses of TEUR 111 (2019: TEUR 72) 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 1,493 (2018: TEUR 1,381), and a 0.5 % increase in the discount factor would reduce staff costs by TEUR 1,363 (2018: TEUR 1,261). A 0.5 % decline in the salary or pension trend would reduce staff costs by TEUR 1,333 (2018: TEUR 1,241), and a 0.5 % increase in the salary or pension trend would increase staff costs by TEUR 1,444 (2018: TEUR 1,343). A 0.5 % decline in employee turnover would increase staff costs by TEUR 100 (2018: TEUR 92), and a 0.5 % increase in employee turnover would reduce staff costs by TEUR 100 (2018: TEUR 92). The carrying amounts of social capital are shown in note (37). Effects on the income statement are reported under administrative expenses in note (13) and under other income in note (41). The carrying amount of the social capital underlying the judgements, assumptions and estimates amounts to TEUR 26,540 (2018: TEUR 24,362).

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 1,114,722 (2018: TEUR 1,104,133), while that of the operating leases amounts to TEUR 10,673 (2018: n.a.).

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 Group 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 2019.

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

Publication of IFRS 16 – Leases
IFRS 16 was published by the IASB in January 2016 and supersedes the following standards and interpretations for leases: IAS 17, IFRIC 4, SIC-15 and SIC-27.

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 standard provides for exemptions for the recognition of short-term leases if the value of the underlying asset is immaterial. 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 regulation has been mandatory since the beginning of the 2019 financial year.

For the transition to IFRS 16, the Group chose the retrospective modified approach in accordance with IFRS 16, under which the previous year's figures were not adjusted. Leases that had previously been classified as operating leases were measured using the borrowing rate. The right of use was recognised in the same amount as the lease liability. Accordingly, there is no effect on equity as at the date of first-time application. The Group makes use of the exemptions for short-term and low-value leases. In these cases, rights of use are not recognised. The rights of use are reported in the "Property, plant and equipment" item of the balance sheet. The lease liabilities are reported in the "Financial liabilities at amortized cost" item.

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 compensation 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 amortized cost or at fair value outside of profit or loss. The amendments are to be applied retroactively as at 1 January 2019. This amendment does not have any effect on the consolidated financial statements, as the Group does not have any options of this kind.

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 is effective for reporting periods beginning on or after 1 January 2019. It has not resulted in any material changes for the consolidated financial statements.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement
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 beginning on or after 1 January 2019. The amendments do not have any effects on the consolidated financial statements.

Amendments to IAS 28 – Long-term investments in associates 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 has been mandatory since the beginning of the 2019 financial year. This has not resulted in any changes in the consolidated financial statements.

Annual improvements – 2015-2017 cycle
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. This has not had any material effects on the consolidated financial statements.

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 2019 financial year. The listed standards and revisions of standards and interpretations will only be applied once they have come into force in the EU.

Amendments to IAS 1 and IAS 8 – Definition of "materiality"
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 and 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 on the consolidated financial statements.

Amendments to cross-references to the Conceptual Framework
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 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 in the Group.

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. 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 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 consolidated financial statements.

Amendments to IFRS 9 and IFRS 7: Interest Rate Benchmark Reform
In view of the EU Benchmark Regulation – effective since 1 January 2018 – the EONIA benchmark interest rate, among other rates, is no longer in line with the market. It is being replaced by the new ESTR ("EURO Short Term Rate"). The interest rate is based on all registered transactions by banks in the eurozone. The changeover in the clearing houses is scheduled for June 2020. The Group does not expect the interest rate benchmark reform to have any material effect on the consolidated financial statements.

Publication of IFRS 17 – Insurance contracts
In May 2017, the IASB published standard IFRS 17, which governs the accounting treatment of assets and liabilities resulting from insurance contracts. The standard will replace the previous IFRS 4 Insurance Contracts standard when it comes into force as of 1 January 2022. 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 on the consolidated financial statements.

(5) RESTATEMENT OF PREVIOUS YEAR'S FIGURES
There were no restatements to the previous year's figures in these consolidated financial statements.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

TEUR	2019	2018
Interest income from cash and balances with central banks	48	22
Interest income from financial assets at amortized cost	199,878	207,237
Interest income from liabilities	1,753	4,950
Interest and similar income according to effective interest method	201,679	212,209
Interest income from trading assets	7,576	16,139
Interest income from hedging instruments	44,024	34,825
Interest income from financial assets at fair value (non-SPPI)	13,607	4,648
Interest income from financial assets at fair value (option)	2,328	5,881
Interest and similar income other	67,535	61,493
Interest expenses financial liabilities at amortized cost	-60,810	-58,854
Interest expenses other liabilities	-35	-1
Interest expenses assets	-2,901	-1,987
Interest and similar expenses according to effective interest method	-63,746	-60,842
Interest expenses trading liabilities	-1,174	-1,257
Interest expenses hedging instruments	-28,953	-37,947
Interest expenses financial liabilities at fair value (option)	-5,800	-6,228
Interest and similar expenses other	-35,927	-45,432
Net interest income	169,541	167,428

Interest income from leasing business amounts to TEUR 20,650 (2018: TEUR 19,325).

(7) DIVIDEND INCOME

TEUR	2019	2018
Financial assets at fair value (non-SPPI)	494	938
Subsidiaries	957	459
Dividend income	1,451	1,397

(8) NET FEE AND COMMISSION INCOME

TEUR	2019	2018
Fee and commission income from financing	7,215	6,769
Fee and commission income from securities	17,823	14,797
Fee and commission income from account management/payment transactions	13,547	13,406
Other fee and commission income	4,772	4,539
Fee and commission income	43,357	39,511

TEUR	2019	2018
Fee and commission expenses from financing	-3,692	-4,721
Fee and commission expenses from securities	-1,499	-1,173
Fee and commission expenses from account management/payment transactions	-1,415	-1,501
Other fee and commission expenses	-285	-202
Fee and commission expenses	-6,891	-7,597

Fee and commission income from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 11,051 (2018: TEUR 10,314). Fee and commission expenses from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 57 (2018: TEUR 776). Fee and commission income from fiduciary activities amounts to TEUR 1,353 (2018: TEUR 1,326).

(9) NET RESULT FROM FINANCIAL INSTRUMENTS AT AMORTIZED COST AND OCI

TEUR	2019	2018
Realised gains from financial assets at amortized cost	513	7,098
Realised losses from financial liabilities at amortized cost	-803	-1,976
Realised gains from financial liabilities at amortized cost	1,467	285
Realised losses from financial liabilities at amortized cost	-1,191	0
Net result from financial instruments at amortized cost and OCI	-14	5,407

(10) NET RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE

TEUR	2019	2018
Result from trading	4,098	3,242
Measurement of derivative financial instruments	-5,156	2,426
Result from financial instruments at fair value (non-SPPI)	14,538	-3,356
Result from financial instruments at fair value (option)	-914	-20,302
Result from financial liabilities at fair value (option)	-1,446	28,054
Result from hedging relationships	1,316	144
Net result from financial instruments at fair value	12,436	10,208

Net Result on hedge accounting

TEUR	2019	2018
Measurement of hedging instruments - for financial assets at amortized cost	12,074	14,684
Measurement of hedging instruments - for financial liabilities at amortized cost	-67,538	11,554
Result from hedging instruments	-55,464	26,238
Measurement of underlying transactions - for financial assets at amortized cost	-16,449	-15,179
Measurement of underlying transactions - for financial liabilities at amortized cost	73,229	-10,915
Result from underlying transactions	56,780	-26,094
Net result on hedge accounting	1,316	144

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	2019	2018
Income from operating leases	3,410	3,786
Other income from leasing business	1,622	1,762
Operating cost income	1,834	1,798
Income from the disposal of non-financial assets	2,826	2,298
Income from consultancy and other services	498	476
Miscellaneous other income	13,614	7,800
Other income	23,804	17,920

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 operating leases

TEUR	2019	2018
Up to 1 year	2,851	3,033
More than 1 year to 5 years	8,090	7,273
More than 5 years	3,091	3,828
Minimum lease payments from operating leases (lessor)	14,032	14,134

The previous year's figures in the table above have been restated as compared to the 2018 annual report. The disclosures in the previous year covered all contractual lease payments. By contrast, only lease payments that include termination rights for the lessee are shown now.

(12) OTHER EXPENSES

TEUR	2019	2018
Other expenses from leasing business	-2,287	-2,113
Operating cost expenses	-2,338	-2,072
Expenses resulting from losses	-3,200	-11,818
Other tax expenses	-3,482	-3,479
Losses on the disposal of non-financial assets	-1,000	-1,970
Miscellaneous other expenses	-12,616	-13,370
Other expenses	-24,923	-34,822

Other tax expenses include the stability fee of TEUR 2,373 (2018: TEUR 2,427).

(13) ADMINISTRATIVE EXPENSES

Group administrative expenses consist of staff costs and material expenses.

TEUR	2019	2018
Staff costs	-64,160	-62,892
Material expenses	-32,131	-34,842
Administrative expenses	-96,291	-97,734

Of which staff costs

TEUR	2019	2018
Wages and salaries	-48,134	-46,938
Statutory social security contributions	-12,165	-11,907
Voluntary social benefits	-755	-756
Expenses for retirement benefits	-2,625	-2,776
Social capital	-481	-515
Staff costs	-64,160	-62,892

Expenses for pensions include payments for defined contribution plans as part of an employee benefit fund and pension fund contributions of TEUR 1,471 (2018: TEUR 1,428).

Of which material expenses

TEUR	2019	2018
Building expenses	-4,438	-5,810
IT expenses	-12,685	-12,296
Advertising and PR expenses	-4,265	-4,669
Legal and advisory expenses	-2,365	-2,297
Communications expenses	-1,210	-1,285
Organisational form-related expenses	-2,944	-3,114
Staff development expenses	-1,273	-1,230
Other materials expenses	-2,951	-4,141
Material expenses	-32,131	-34,842

Minimum rental expenses of TEUR 1,537 (2019: TEUR 1,429) are expected for 2020 and TEUR 7,917 (2019: TEUR 6,993) for the next 5 years.

Minimum lease payments from non-terminable operating leases

TEUR	2019	2018
Up to 1 year	N.A.	-1,135
More than 1 year to 5 years	N.A.	-2,629
More than 5 years	N.A.	-3,272
Minimum lease payments from nonterminable operating leases (lessor)	N.A.	-7,036

Now that IFRS 16 has taken effect, lease payments are not recognised directly in the income statement. The lease payments are treated as repayment of the lease liabilities.

(14) DEPRECIATION AND AMORTIZATION

TEUR	2019	2018
Depreciation of property, plant and equipment	-3,529	-4,300
Impairments on investment property	-1,610	-1,623
Depreciation of intangible assets	-1,147	-850
Amortization of rights of use from leases	-1,299	N.A.
Depreciation and amortization	-7,585	-6,773

(15) LOAN LOSS PROVISIONS AND IMPAIRMENT OF FINANCIAL ASSETS

TEUR	2019	2018
Provision allocations for commitments/ guarantees	-2,922	-56
Reversals from provisions for commitments/guarantees	1,834	7,110
Allocations to other provisions in lending business	-442	-2,758
Reversals from other provisions in lending business	365	1,518
Provisions for financial assets	-1,165	5,814
Allocation of impairment losses for financial assets at amortized cost	-41,975	-49,046
Reversal of impairment losses for financial assets at amortized cost	21,366	38,242
Impairment of financial assets	-20,609	-10,804
Allocation of impairment losses for investments	-175	-171
Reversal of impairment losses for investments	357	980
Write-downs on investments	182	809
Loan loss provisions and impairment	-21,592	-4,181

In 2019, the loss from the direct write-down and the utilisation of recognised loan loss provisions was TEUR 9,815 (2018: TEUR 16,990).

(16) IMPAIRMENT OF NON-FINANCIAL ASSETS

TEUR	2019	2018
Recognition of impairment of investment property	-105	-470
Reversal of impairment of investment property	0	31
Impairment investment property	-105	-439
Recognition of amortization of intangible assets	0	-31,352
Amortization of intangible assets	0	-31,352
Recognition of impairment of other assets	-1,543	-10,580
Impairment of other assets	-1,543	-10,580
Impairment of non-financial assets	-1,648	-42,371

In 2018, impairment of intangible assets included capitalised development costs for a biotechnology project in the area of pharmaceutical research.

Impairment of other assets in 2018 related to the property portfolio in Italy. The write-downs carried out 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.

(17) TAXES ON INCOME

TEUR	2019	2018
Current income taxes	-21,370	-22,884
Deferred income taxes	701	4,487
Income taxes from previous periods	-647	-1,084
Taxes on income	-21,316	-19,481

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

TEUR	2019	2018
Earnings before taxes	91,692	48,657
Applicable tax rate	25%	25%
Income tax computed	-22,923	-12,164
Tax effects		
from tax-exempt investment income	1,854	357
from other tax-exempt income	4	2
from previous years and tax rate changes	13	-1,604
from differing international tax rates	278	249
from impairment of loss carryforwards and temporary differences	0	-10,120
from other non-deductible expenses	-686	4,641
from other differences	144	-842
Taxes on income	-21,316	-19,481

The change in social capital from defined benefit plans, which was recognised through other comprehensive income in the reporting year amounts to TEUR -1,822 (2018: TEUR -1,000). The related deferred taxes amount to TEUR 439 (2018: TEUR 234).

The recording of the change in own credit risk outside profit or loss in 2019 in the amount of TEUR -3,410 (2018: TEUR 14,888) resulted in deferred tax of TEUR 852 (2018: TEUR -3,722).

C. NOTES TO THE BALANCE SHEET

(18) CASH AND BALANCES

TEUR	31/12/2019	31/12/2018
Cash on hand	26,433	27,315
Balances with central banks	382,643	488,337
Sight deposits with banks	33,470	74,068
Cash and balances with central banks	442,546	589,720

Balances with central banks include the minimum reserve in the amount of TEUR 44,294 (2018: TEUR 43,172) 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	31/12/2019	31/12/2018
Equity instruments	151	176
Derivatives with positive market values	147,820	152,664
Trading assets	147,971	152,840

Trading assets by region

TEUR	31/12/2019	31/12/2018
Austria	17,644	17,179
Germany	56,909	62,104
Switzerland and Liechtenstein	1,083	736
Other foreign countries	72,335	72,821
Trading assets	147,971	152,840

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

	Nominal values		Positive market values		Negative market values	
TEUR	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Interest rate swaps	2,383,697	2,794,303	136,468	139,203	93,060	93,444
Cross currency swaps	817,383	976,156	5,052	2,910	41,000	64,678
Interest rate options	132,162	153,681	2,549	2,927	1,185	1,380
Interest rate derivatives	3,333,242	3,924,140	144,069	145,040	135,245	159,502
FX forward transactions	289,059	409,778	3,428	7,493	3,062	7,021
FX swaps	84,735	82,032	256	131	212	269
FX options	26,692	9,525	67	0	525	340
Currency derivatives	400,487	501,335	3,751	7,624	3,799	7,630
Derivatives	3,733,729	4,425,475	147,820	152,664	139,044	167,132

The market values shown include the interest accrued.

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

TEUR	31/12/2019	31/12/2018
Equity instruments	27,893	85,959
Debt securities of public issuers	98,818	121,602
Debt securities of other issuers	146,880	160,617
Loans and advances to customers	557,200	416,550
Financial assets at fair value (non-SPPI)	830,791	784,728

Financial assets at fair value (non-SPPI) by product

TEUR	31/12/2019	31/12/2018
Shares	13,915	83,202
Investment certificates	3,411	2,531
Other equity interests	10,567	226
Total equity instruments	27,893	85,959
Debt securities of public issuers	98,818	121,602
Other debt securities	146,880	160,617
Total debt securities	245,698	282,219
Overdraft lines	75,873	72,824
Long-term loans	481,327	343,726
Total loans and credits	557,200	416,550
Financial assets at fair value (non-SPPI)	830,791	784,728

Financial assets at fair value (non-SPPI) by region

TEUR	31/12/2019	31/12/2018
Austria	601,854	541,745
Germany	90,463	92,954
Switzerland and Liechtenstein	6,752	6,750
Other foreign countries	131,722	143,279
Financial assets at fair value (non-SPPI)	830,791	784,728

Financial assets at fair value (non-SPPI) by business segment

TEUR	31/12/2019	31/12/2018
Corporate customers	555,537	414,699
Private customers	1,664	1,853
Financial markets	240,064	282,241
Corporate Center	33,526	85,935
Financial assets at fair value (non-SPPI)	830,791	784,728

Financial assets at fair value (non-SPPI) by sector

TEUR	31/12/2019	31/12/2018
Public sector	98,854	121,648
Financial institutions	133,626	139,102
Financial companies	19,120	29,644
Companies	577,389	492,099
Private households	1,802	2,235
Financial assets at fair value (non-SPPI)	830,791	784,728

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

TEUR	31/12/2019	31/12/2018
Agriculture and forestry	245	269
Mining	0	2,936
Manufactoring	3,279	0
Construction industry	70,760	94,177
Trading	40	14
Transportation and storage	8,764	8,763
Accommodation and food service activities	2,989	3,008
Information and communication	12	12
Financial services	9,270	48,199
Housing	368,459	221,730
Liberal professionals	102,280	33,978
Administrative and support service activities	0	9,232
Public administration	1	0
Human health and social work activities	0	163
Other services	11,290	69,618
Financial assets at fair value (non-SPPI) – companies	577,389	492,099

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

TEUR	31/12/2019	31/12/2018
Credit exposure	830,791	784,728
Collateral	522,148	467,976
Total change in market value	83,873	55,161
of which due to market risk	56,995	48,803
of which due to credit risk	26,878	6,358
Change in market value in the reporting period	28,713	16,465
of which due to market risk	8,192	10,107
of which due to credit risk	20,521	6,358

Three 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. The recovery anticipated on the part of HETA currently amounts to 87.0 % (2018: 85.9 %).

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 8.533 (2018: TEUR 6.356) and allocated it to level 2. The change in fair value is recognised in profit or loss under "Net result from financial instruments at fair value" in note (10) in the income statement.

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

TEUR	31/12/2019	31/12/2018
Debt securities of public issuers	59,801	58,388
Other debt securities	6,005	8,731
Loans and advances to customers	298,862	325,049
Financial assets at fair value (option)	364,668	392,168

Financial assets at fair value (option) by product

TEUR	31/12/2019	31/12/2018
Debt securities by public issuers	59,801	58,388
Other debt securities	6,005	8,731
Total debt securities	65,806	67,119
Long-term loans	298,862	325,049
Total loans and advances	298,862	325,049
Financial assets at fair value (option)	364,668	392,168

Financial assets at fair value (option) by region

TEUR	31/12/2019	31/12/2018
Austria	326,767	347,490
Germany	0	5,326
Switzerland and Liechtenstein	5,090	4,978
Other foreign countries	32,811	34,374
Financial assets at fair value (option)	364,668	392,168

Financial assets at fair value (option) by business segment

TEUR	31/12/2019	31/12/2018
Corporate customers	238,781	259,218
Private customers	5,350	6,046
Financial markets	106,362	113,162
Corporate Center	14,175	13,742
Financial assets at fair value (option)	364,668	392,168

Financial assets at fair value (option) by sector

TEUR	31/12/2019	31/12/2018
Public sector	336,913	356,676
Financial institutions	6,005	8,731
Financial companies	2,155	2,412
Companies	19,595	24,349
Financial assets at fair value (option)	364,668	392,168

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

TEUR	31/12/2019	31/12/2018
Trading	0	3,559
Financial services	0	11,331
Housing	5,350	9,459
Liberal professionals	12,019	0
Administrative and support service activities	2,226	0
Financial assets at fair value (option) - companies	19,595	24,349

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

TEUR	31/12/2019	31/12/2018
Credit exposure	364,668	392,168
Collateral	351,049	372,971
Total change in market value	61,718	62,976
of which due to market risk	55,768	59,089
of which due to credit risk	5,950	3,887
Change in market value in the reporting period	-1,258	-71,585
of which due to market risk	-3,321	-67,098
of which due to credit risk	2,063	-4,487

(22) FINANCIAL ASSETS AT FAIR VALUE (OCI)

As at 31 December 2019 and in the previous year, there were no financial assets at fair value (OCI).

(23) FINANCIAL ASSETS AT AMORTIZED COST

TEUR	31/12/2019	31/12/2018
Debt securities of public issuers	697,344	788,599
Debt securities of other issuers	1,793,210	1,707,558
Loans and advances to financial institutions	116,791	132,408
Loans and advances to customers	9,282,851	8,994,453
Trade receivables	1,577	983
Gross exposure value	11,891,773	11,624,001
Valuation allowances for debt securities - stage 1	-271	-224
Valuation allowances for debt securities - stage 2	-1,560	-2,526
Valuation allowances for debt securities - stage 3	-1,020	-1,020
Valuation allowances for loans and advances to financial institutions - stage 1	-8	0
Valuation allowances for loans and advances to financial institutions - stage 2	-40	0
Valuation allowances for loans and advances to customers - stage 1	-13,965	-11,243
Valuation allowances for loans and advances to customers - stage 2	-15,085	-15,019
Valuation allowances for loans and advances to customers - stage 3	-68,985	-58,098
Valuation allowances	-100,934	-88,130
Financial assets at amortized cost	11,790,839	11,535,871

In the financial assets at amortized cost, the use of hedge accounting led to amortized costs of TEUR 2,271,965 (2018: TEUR 2,073,142) being adjusted by the hedged fair value of TEUR 118,031 (2018: TEUR 78,539).

Financial assets at amortized cost – by product

TEUR	31/12/2019	31/12/2018
Debt securities of public issuers	697,312	788,565
Debt securities of other issuers	1,790,391	1,703,822
Total debt securities	2,487,703	2,492,387
Interbank accounts	93,035	84,948
Money market investments	20,332	40,154
Overdraft lines	912,404	812,580
Cash advances	305,035	328,631
Acceptant credits	17,614	13,752
Long-term loans	6,838,387	6,658,309
Lease receivables	1,114,722	1,104,133
Trade receivables	1,607	977
Total loans and advances	9,303,136	9,043,484
Financial assets at amortized cost	11,790,839	11,535,871

Financial assets at amortized cost – by region

TEUR	31/12/2019	31/12/2018
Austria	6,868,861	6,826,049
Germany	1,415,003	1,370,710
Switzerland and Liechtenstein	857,656	788,537
Italy	889,704	858,971
Other foreign countries	1,759,615	1,691,604
Financial assets at amortized cost	11,790,839	11,535,871

Financial assets at amortized cost – by business segment

TEUR	31/12/2019	31/12/2018
Corporate customers	5,826,565	5,621,343
Private customers	2,036,402	1,965,619
Financial markets	2,806,935	2,833,058
Corporate Center	1,120,937	1,115,851
Financial assets at amortized cost	11,790,839	11,535,871

Financial assets at amortized cost – by sector

TEUR	31/12/2019	31/12/2018
Public sector	1,128,736	1,220,363
Financial institutions	1,750,028	1,693,604
Financial companies	303,837	275,217
Companies	6,309,107	6,122,261
Private households	2,299,131	2,224,426
Financial assets at amortized cost	11,790,839	11,535,871

Financial assets at amortized cost – company by branch

TEUR	31/12/2019	31/12/2018
Agriculture and forestry	41,327	42,864
Mining	21,891	17,277
Manufacturing	727,604	762,070
Energy supply	140,386	159,116
Water supply	57,298	63,531
Construction industry	562,497	785,833
Trading	505,377	618,926
Transportation and storage	246,715	229,278
Accommodation and food service activities	424,546	444,546
Information and communication	80,472	47,595
Financial services	191,671	277,003
Housing	2,453,984	2,027,835
Liberal professionals	581,749	354,741
Administrative and support service activities	65,735	104,982
Public administration	74,126	47,911
Education	2,620	2,479
Human health and social work activities	42,451	46,682
Arts, entertainment and recreation activities	28,968	20,341
Other services	59,690	69,251
Financial assets at amortized cost – companies	6,309,107	6,122,261

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	31/12/2019	31/12/2018
Minimum lease payments	1,265,681	1,262,772
Non-guaranteed residual values	0	0
Gross total investment	1,265,681	1,262,772
Unrealised financial income	-150,959	-158,639
Net investment	1,114,722	1,104,133
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	1,114,722	1,104,133

The cumulative valuation allowance on finance leases amounts to TEUR 29,287 (2018: TEUR 24,927).

Leases – breakdown by maturity

TEUR	31/12/2019	31/12/2018
Gross total investment	1,265,681	1,262,772
of which up to 1 year	183,145	198,230
of which 1 to 5 years	507,145	490,537
of which more than 5 years	575,391	574,005
Present value of minimum lease payments	1,114,722	1,104,133
of which up to 1 year	154,810	170,042
of which 1 to 5 years	428,809	409,852
of which more than 5 years	531,103	524,239

(24) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

TEUR	31/12/2019	31/12/2018
Positive market value of fair value hedges	155,053	81,179
Positive market values of hedges	155,053	81,179

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

TEUR	Nominal values		Positive market values		Negative market values	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Interest rate swaps	6,691,386	5,996,303	154,146	80,550	108,496	86,069
Cross currency swaps	216,381	234,578	907	629	32,775	24,047
Interes rate derivatives	6,907,767	6,230,881	155,053	81,179	141,270	110,116
Derivatives	6,907,767	6,230,881	155,053	81,179	141,270	110,116

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	2019	2018
Carrying value of holding 1 January	2,381	4,186
Attributable profit/loss	52	292
Changes in the scope of consolidation	0	-40
Dividends	-627	-2,057
Carrying value of holding 31 December	1,806	2,381

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 699 (2018: TEUR 881). 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. In 2019, these gains and losses amounted to TEUR 52 (2018: TEUR 292).

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	31/12/2019	31/12/2018
Properties	10,748	10,339
Buildings	56,006	54,100
Operational and office equipment	5,000	4,263
Other Property, plant and equipment	1,700	1,515
Rights of use from leases	10,673	N.A.
Property, plant and equipment	84,127	70,217

The gross carrying amount of fully depreciated property, plant and equipment that is still in use is TEUR 14,296 (2018: TEUR 17,623). The development of property, plant and equipment is shown in note (32).

Reconciliation of rights of use from leases by category

TEUR 2019	Opening balance	Addition	Disposal	Revaluation	Depreciation/ amortizaton	Closing balance
Real estate	12,077	0	-547	0	-1,227	10,303
Parking spaces	338	0	-14	0	-34	290
Motor vehicles	89	23	0	6	-38	80
Rights of use from leases	12,504	23	-561	6	-1,299	10,673

Amortization of the right of use is recognised in the "Depreciation and amortization" item in note (14). Lease liabilities pursuant to IFRS 16 are reported in the "Financial liabilities at amortized cost" item of the balance sheet in note (35), while interest expenses relating to the lease liabilities are recognised in the "Net interest income" item in note (6).

(27) INVESTMENT PROPERTY

TEUR	31/12/2019	31/12/2018
Properties	13,452	15,009
Buildings	41,326	43,175
Investment property	54,778	58,184

In 2019, the property portfolio comprised 73 properties (2018: 69) properties in Austria, Switzerland, Germany and Italy. The portfolio includes both residential properties with a carrying amount of TEUR 8,486 (2018: TEUR 9,057) and commercial properties with a carrying amount of TEUR 46,290 (2018: TEUR 49,127). The current market value of the property portfolio is TEUR 77,572 (2018: TEUR 81,141).

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	2019	2018
Return in %	1.00 - 9.00	1.75 - 9.00
Inflation rate in %	1.50 - 2.00	1.50 - 2.00
Rental loss risk in %	1.50 - 8.00	1.50 - 8.00

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 (32). The rental payments reported for investment property are shown under other income in note (11).

(28) INTANGIBLE ASSETS

Intangible assets – breakdown by type

TEUR	31/12/2019	31/12/2018
Software acquired	2,471	2,035
Other intangible assets	325	448
Intangible assets	2,796	2,483

(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	31/12/2019	31/12/2018
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	108	144
Temporary differences from writing-down assets	944	3,123
Temporary differences from provisions	1,681	873
Temporary differences from social capital	5,028	4,388
Temporary differences from impairments	11,936	8,609
Other temporary differences	1,004	685
Deferred income tax assets	20,701	17,822
Set-off of deferred taxes	-9,497	-8,977
Net deferred income tax assets	11,204	8,845

There are tax loss carry forwards of TEUR 12,439 (2018: TEUR 14,049) 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 (43).

(30) NON-CURRENT ASSETS AVAILABLE FOR SALE

TEUR	31/12/2019	31/12/2018
Equity investments held for sale	4,635	0
Non-current assets available for sale	4,635	0

In autumn 2019, the equity investment in Campus Dornbirn II Investment GmbH was reclassified to the "Non-current assets available for sale" item, as the management has decided to sell this equity investment. A preliminary contract has now been signed, meaning that the actual sale of the shares is very likely.

The market value of the equity investment amounts to TEUR 4,635. It was calculated using an internal measurement model and corresponds to Level 3. Since the equity investment was already measured at market value, the reclassification to "Non-current assets available for sale" did not result in any valuation adjustment. Costs to sell of TEUR 5 were subsequently deducted from this market value and recognised through profit or loss in the "Result from non-current assets available for sale" item.

(31) OTHER ASSETS

TEUR	31/12/2019	31/12/2018
Accruals	314	400
Other tax assets	6,971	11,669
Other properties	37,284	38,780
Other assets	37,515	21,168
Other assets	82,084	72,017

Prepaid expenses and any assets not attributable to one of the other asset items are reported under other assets. This item also includes properties that are not property, plant and equipment according to IAS 16, investment property according to IAS 40, or non-current assets available for sale according to IFRS 5. These properties are closely associated with the realisation of collateral from the lending business. 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 breakdown by maturity is shown in note (43). Impairments on other properties are recognised under non-financial assets in note (16) and amounted to TEUR 1,543 in 2019 (2018: TEUR 10,580).

(32) STATEMENT OF CHANGES IN ASSETS

TEUR 2018	Acquisition cost 1 Jan.	Currency translation	Acquisitions	Additions	Disposals	Reclassifi-cations and other	Acquisition cost 31 Dec.	Carrying amounts 31 Dec.
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 depreciation/ amortization 1 Jan.	Currency translation	Acquisitions	Regular amortization	Disposals	Reclassifi-cations and other	Impairments	Cumulative depreciation/ amortization 31 Dec.
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

The right of use from leases is included in "Other property, plant and equipment". Other properties are included in the "Other assets" item in note (31).

TEUR 2019	Acquisition cost 1 Jan.	Currency translation	Acquisitions	Additions	Disposals	Reclassifi-cations and other	Acquisition cost 31 Dec.	Carrying amounts 31 Dec.
Software acquired	9,245	2	0	1,446	0	0	10,693	2,471
Internally generated intangible assets	31,352	1	-31,353	0	0	0	0	0
Other intangible assets	579	20	-1	0	0	0	598	325
Intangible assets	41,176	23	-31,354	1,446	0	0	11,291	2,796
Owner-occupied land and buildings	101,579	86	0	148	-1,823	5,378	105,368	66,753
Operational and office equipment	15,727	7	-98	2,055	-1,332	0	16,359	5,000
Other property, plant and equipment	1,804	0	0	270	-562	12,504	14,016	12,373
Property, plant and equipment	119,110	93	-98	2,473	-3,717	17,882	135,743	84,126
Investment property	90,485	0	0	269	-1,658	-166	88,930	54,778
Other property	59,759	-1	10	4,066	-4,381	-743	58,710	37,284
Total	310,530	115	-31,442	8,254	-9,756	16,973	294,674	178,984

TEUR 2019	Cumulative depreciation/ amortization 1 Jan.	Currency translation	Acquisitions	Regular amortization	Disposals	Reclassifi-cations and other	Impairments	Cumulative depreciation/ amortization 31 Dec.
Software acquired	-7,210	0	0	-1,012	0	0	0	-8,222
Internally generated intangible assets	-31,352	0	31,352	0	0	0	0	0
Other intangible assets	-131	-7	0	-135	0	0	0	-273
Intangible assets	-38,693	-7	31,352	-1,147	0	0	0	-8,495
Owner-occupied land and buildings	-37,140	-67	0	-2,212	1,003	-199	0	-38,615
Operational and office equipment	-11,464	-4	84	-1,259	1,284	0	0	-11,359
Other property, plant and equipment	-289	0	0	-1,357	3	0	0	-1,643
Property, plant and equipment	-48,893	-71	84	-4,828	2,290	-199	0	-51,617
Investment property	-32,301	0	0	-1,610	511	-647	-105	-34,152
Other property	-20,979	0	-10	0	1,243	-137	-1,543	-21,426
Total	-140,866	-78	31,426	-7,585	4,044	-983	-1,648	-115,690

The right of use from leases is included in “Other property, plant and equipment”. Other properties are included in the “Other assets” item in note (31).

(33) TRADING LIABILITIES

Trading liabilities and derivatives – breakdown by type of business

TEUR	31/12/2019	31/12/2018
Derivatives with negative market values	139,044	167,132
Trading liabilities	139,044	167,132

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

(34) FINANCIAL LIABILITIES AT FAIR VALUE (OPTION)

TEUR	31/12/2019	31/12/2018
Liabilities to financial institutions	2,100	25,846
Time deposits customers	139,452	140,669
Debt securities issued	787,054	1,006,354
Financial liabilities at fair value (option)	928,606	1,172,869

Financial liabilities at fair value (option) by product

TEUR	31/12/2019	31/12/2018
Mortgage bonds	25,303	25,447
Municipal bonds	371,302	601,287
Bonds	126,975	140,823
Housing construction bonds	231,443	207,951
Supplementary capital	32,031	30,846
Total debt securities issued	787,054	1,006,354
Money market borrowing	2,100	25,846
Promissory note loans	139,452	140,669
Total deposits	141,552	166,515
Financial liabilities at fair value (option)	928,606	1,172,869

Financial liabilities at fair value (option) by region

TEUR	31/12/2019	31/12/2018
Austria	779,968	792,587
Germany	148,638	172,280
Switzerland and Liechtenstein	0	208,002
Financial liabilities at fair value (option)	928,606	1,172,869

Financial liabilities at fair value (option) by segment

TEUR	31/12/2019	31/12/2018
Financial markets	896,575	1,142,023
Corporate Center	32,031	30,846
Financial liabilities at fair value (option)	928,606	1,172,869

Financial liabilities at fair value (option) by sector

TEUR	31/12/2019	31/12/2018
Financial institutions	789,154	1,032,201
Financial companies	139,452	140,668
Financial liabilities at fair value (option)	928,606	1,172,869

Disclosures on changes in fair value

TEUR	31/12/2019	31/12/2018
Carrying value	928,606	1,172,869
Amount repayable	899,695	1,159,142
Difference between carrying value and amount repayable	28,911	13,727
Total change in market value	106,581	102,515
of which due to market risk	102,603	102,311
of which due to credit risk	3,978	204
Change in market value in the reporting period	4,066	-32,075
of which due to market risk	292	-17,187
of which due to credit risk	3,774	-14,888

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

Notes on the change in supplementary capital (LFVO)

TEUR	2019	2018
LFVO supplementary capital - balance 1 January	30,846	40,604
New intake	249	135
Repayments	-130	-8,923
Change in deferred interest	-57	17
Change from measurement	1,123	-987
LFVO supplementary capital - balance 31 December	32,031	30,846

(35) FINANCIAL LIABILITIES AT AMORTIZED COST

TEUR	31/12/2019	31/12/2018
Liabilities to financial institutions	1,534,000	1,279,963
Demand deposits from customers	4,080,244	4,299,218
Savings deposits from customers	1,197,132	1,232,274
Debt securities issued	4,638,277	4,251,228
Trade payables	7,294	10,105
Other liabilities	90	90
Liabilities from leases	10,757	N.A.
Financial liabilities at amortized cost	11,467,794	11,072,878

In liabilities at amortized cost, the use of hedge accounting led to amortized costs of TEUR 4,812,090 (2018: TEUR 4,427,167) being adjusted by the hedged fair value of TEUR 122,044 (2018: TEUR 88,272).

Financial liabilities at amortized cost by product

TEUR	31/12/2019	31/12/2018
Mortgage bonds	2,815,051	2,252,636
Municipal bonds	44,227	41,956
Medium-term fixed-rate notes	694	1,123
Bonds	1,425,847	1,677,368
Housing construction bonds	0	15,695
Supplementary capital	301,925	211,916
Additional core capital	50,533	50,534
Total debt securities issued	4,638,277	4,251,228
Interbank accounts	179,401	123,269
Money market deposits	1,272,849	1,118,451
Demand deposits	3,309,393	3,292,241
Time deposits	531,295	775,612
Savings deposits	845,728	766,648
Capital savings accounts	351,404	465,626
Promissory note loans	321,306	269,608
Total deposits	6,811,376	6,811,455
Trade payables	7,294	10,195
Other financial liabilities	10,847	0
Total other financial liabilities	18,141	10,195
Financial liabilities at amortized cost	11,467,794	11,072,878

Financial liabilities at amortized cost by region

TEUR	31/12/2019	31/12/2018
Austria	8,950,114	8,486,423
Germany	892,610	808,720
Switzerland and Liechtenstein	1,007,934	673,651
Italy	245,151	218,042
Other foreign countries	371,985	886,042
Financial liabilities at amortized cost	11,467,794	11,072,878

Financial liabilities at amortized cost by business segment

TEUR	31/12/2019	31/12/2018
Corporate customers	1,806,057	1,930,902
Private customers	2,580,022	2,576,859
Financial markets	6,481,661	5,985,017
Corporate Center	600,054	580,100
Financial liabilities at amortized cost	11,467,794	11,072,878

Financial liabilities at amortized cost by sector

TEUR	31/12/2019	31/12/2018
Central banks	1,014,644	1,012,175
Public sector	300,513	352,727
Financial institutions	5,169,173	4,518,570
Financial companies	950,257	1,135,555
Companies	1,780,217	1,861,203
Private households	2,252,990	2,192,648
Financial liabilities at amortized cost	11,467,794	11,072,878

Financial liabilities at amortized cost – company by branch

TEUR	31/12/2019	31/12/2018
Agriculture and forestry	9,036	10,486
Mining	606	11,035
Manufacturing	240,972	315,005
Energy supply	83,796	98,697
Water supply	7,870	1,470
Construction industry	139,649	154,275
Trading	283,687	259,527
Transportation and storage	23,577	35,652
Accommodation and food service activities	36,608	79,819
Information and communication	20,473	50,791
Financial services	59,909	214,800
Housing	262,027	215,274
Liberal professionals	438,611	186,990
Administrative and support service activities	70,689	99,217
Public administration	13,789	42,797
Education	14,466	10,762
Human health and social work activities	44,003	35,104
Arts, entertainment and recreation activities	18,454	17,934
Other services	11,995	21,568
Financial liabilities at amortized cost - companies	1,780,217	1,861,203

Notes on the change in supplementary capital (LAC)

TEUR	2019	2018
LAC Tier 2 capital and additional Tier 1 capital - balance 1 January	262,450	272,209
New intake	94,413	40,977
Repayments	-6,317	-59,420
Change in deferred interest	131	5
Change from measurement	1,781	8,679
LAC Tier 2 capital and additional Tier 1 capital - balance 31 December	352,458	262,450

Disclosures on lease liabilities by remaining term

TEUR	31/12/2019	31/12/2018
Up to 3 months	379	N.A.
More than 3 months to 12 months	1,132	N.A.
More than 1 year to 5 years	4,936	N.A.
More than 5 years	6,014	N.A.
Lease liabilities	12,461	N.A.

The lease liabilities shown here by remaining term are the undiscounted lease payments. Therefore, the total payments do not correspond to the present value of the lease liabilities shown in the table above. The weighted average interest rate is 1.61 %. Expenses for short-term leases, low-value leases and variable lease payments that were not included in the measurement of the lease liability total TEUR 280 (2018: n.a.).

Reconciliation of lease liabilities from 31 December 2018 to 1 January 2019

TEUR	
Reported non-terminable minimum lease payments as at 31 December 2018	7,037
Term adjustments for leases with an indefinite duration	7,048
Discounted at the incremental borrowing rate at the date of first-time application of IFRS 16	-1,581
Other adjustments	30
Lease liabilities recognised on 1 January 2019	12,534

Change in lease liabilities

TEUR	2019	2018
Lease liabilities – balance as at 1 January	12,534	N.A.
Interest expense	193	N.A.
Disposals due to reversals	-566	N.A.
Lease payments	-1,404	N.A.
Lease liabilities – balance as at 31 December	10,757	N.A.

(36) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

TEUR	31/12/2019	31/12/2018
Negative market value of fair value hedges	141,270	110,116
Negative market values of hedges	141,270	110,116

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.

(37) PROVISIONS

Provisions by type

TEUR	31/12/2019	31/12/2018
Severance provisions	17,677	16,258
Pension provisions	5,906	5,549
Service anniversary provisions	2,957	2,555
Social capital	26,540	24,362
Provisions for guarantees/liability agreements	3,990	2,901
Provisions for credit risks	849	766
Provisions for ongoing litigation	987	1,914
Staff provisions	380	380
Provisions for other expenses	12,044	11,719
Other provisions	18,250	17,680
Provisions	44,790	42,042

A breakdown by maturity or the expected terms of resulting outflows is shown in note (43).

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.

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	31/12/2019	31/12/2018
Up to 3 months	105	379
More than 3 up to 12 months	881	578
More than 1 up to 5 years	4,385	4,179
More than 5 years	21,166	19,217
Unlimited	3	9
Social capital	26,540	24,362

Development of social capital

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

2019	Severence provisions	Pensions provisions	Service anniversary provisions	Total
Carrying value 1 January	16,258	5,549	2,555	24,362
Years of service expense	554	640	213	1,407
Interest expense	306	93	51	450
Contribution payments	0	-228	0	-228
Actuarial gains/losses of financial assumptions	1,247	508	193	1,948
Foreign exchange risk	0	58	0	58
Benefit payments	-659	-714	-55	-1,428
Other changes	-29	0	0	-29
Carrying value 31 December	17,677	5,906	2,957	26,540

The actuarial gains/losses from severance and pension provisions of TEUR -1,822 (2018: TEUR -1,000) 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	31/12/2019	31/12/2018
Fair value of assets from defined benefit plans	3,992	3,026
of which equity instruments	451	255
of which debt securities	2,795	2,244
of which properties	681	496
of which other assets from defined benefit plans	65	31
Present value of obligations from defined benefit plans	5,698	4,283
Net defined benefit obligation – St. Gallen branch	**1,706**	**1,257**

Reconciliation of fund assets

TEUR	2019	2018
Fair value of assets from defined benefit plans on 1 January	**3,026**	**2,293**
Currency translation effects	116	88
Interest income from assets	27	16
Gain/loss on remeasurement of assets	364	12
Employer contribution payments	234	229
Employee contribution payments	156	153
Plan participant contribution payments	425	594
Disbursements	-356	-359
Fair value of assets from defined benefit plans on 31 December	**3,992**	**3,026**

Changes in other provisions

TEUR 2018	Ongoing litigation	Guarantees and loan commitments	Staff	Other	Credit risks	Total
Carrying value 1 January	**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 value 31 December	**1,914**	**2,901**	**380**	**11,719**	**766**	**17,680**

TEUR 2019	Ongoing litigation	Guarantees and loan commitments	Staff	Other	Credit risks	Total
Carrying value 1 January	**1,914**	**2,901**	**380**	**11,719**	**766**	**17,680**
Allocation	337	2,900	5	2,133	437	5,812
Use	-404	0	-5	-9	0	-418
Reversal	-623	-1,812	0	-1,901	-354	-4,690
Unwinding	0	-2	0	0	0	-2
Remaining adjustment	-237	3	0	102	0	-132
Carrying value 31 December	**987**	**3,990**	**380**	**12,044**	**849**	**18,250**

(38) INCOME TAX LIABILITIES

Income tax liabilities – breakdown by type

TEUR	31/12/2019	31/12/2018
Tax provision	1,051	9,299
Income tax liabilities	20	19
Income tax liabilities	1,071	9,318

Development of the tax provision

TEUR	2019	2018
Carrying value 1 January	9,299	9,804
Currency translation	24	23
Allocation	1,029	9,138
Use	-9,286	-9,601
Reversal	-15	-65
Carrying value 31 December	1,051	9,299

The breakdown by maturity is shown in note (43).

(39) 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 (43).

TEUR	31/12/2019	31/12/2018
Temporary differences from the measurement of financial instruments via the income statement	6,563	8,371
Temporary differences from writing down assets	4,766	2,713
Other temporary differences	1,631	991
Deferred income tax liabilities	12,960	12,075
Set-off of deferred taxes	-9,497	-8,977
Net deferred income tax liabilities	3,463	3,098

For the recognition of the actuarial gains and losses on defined benefit plans, TEUR -3,704 (2018: TEUR -1,860) was recognised in other comprehensive income. The related deferred taxes (tax liability) amount to TEUR 926 (2018: TEUR 465). Deferred taxes (tax liability) of TEUR 904 (2018: TEUR 51) were also recognised in other comprehensive income of TEUR -3,614 (2018: TEUR -204), which was recognised outside of profit or loss.

Other temporary differences include TEUR 500 (2018: TEUR 2,483) for the sale of an investment. There are otherwise no outside basis differences within the Group.

(40) OTHER LIABILITIES

TEUR	31/12/2019	31/12/2018
Liabilities in connection with social security	1,521	1,514
Other tax liabilities	3,833	917
Accruals	10,377	12,146
Expense provisions	5,866	6,540
Remaining liabilities	34,035	24,863
Other liabilities	55,632	45,980

(41) SHAREHOLDERS' EQUITY

Composition of equity by types

TEUR	31/12/2019	31/12/2018
Share capital	162,152	162,152
Capital reserve	44,674	44,674
Accumulated other comprehensive income	-5,485	-1,503
Total items without recycling	-5,489	-1,548
Measurement of pension plans	-2,778	-1,395
Measurement from own change in credit rating	-2,711	-153
Total items with recycling	4	45
Foreign currency measurements	4	45
Retained earnings	991,198	925,016
Reserves from equity consolidation	3,318	3,398
Total parent company shareholders	1,195,857	1,133,737
Minority interests given recognition in CET1 capital	2,414	-2,560
Total equity	1,198,271	1,131,177

The subscribed capital consists of share capital of TEUR 162,152 (2018: TEUR 162,152), which was fully paid in. On 31 December 2019, 316,736 (2018: 316,736) shares with a nominal value of EUR 512 were issued.

Retained earnings include the legal reserve. The reversal of the legal reserve amounting to TEUR 10,601 (2018: TEUR 10,601) 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 132,567 (2018: 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 1 January 2018	-629	-11,319	-127	0	-12,075
Equity transfer	0	0	126	0	126
OCI measurement, not recyclable	-1,000	14,888	0	0	13,888
Deferred taxes, not recyclable	234	-3,722	0	0	-3,488
OCI measurement, recyclable	0	0	46	0	46
Balance 31 December 2018	-1,395	-153	45	0	-1,503
Balance 1 January 2019	-1,395	-153	45	0	-1,503
Equity transfer	0	0	-45	0	-45
OCI measurement, not recyclable	-1,822	-3,410	0	0	-5,232
Deferred taxes, not recyclable	439	852	0	0	1,291
OCI measurement, recyclable	0	0	4	0	4
Balance 31 December 2019	-2,778	-2,711	4	0	-5,485

Other comprehensive income includes a sum of TEUR 364 (2018: TEUR 423) attributable to financial instruments already repaid or sold that are voluntarily measured at fair value.

Dividends of Hypo Vorarlberg Bank AG
Hypo Vorarlberg Bank AG can distribute a dividend no larger than the unappropriated surplus of TEUR 3,484 (2018: TEUR 3,167) 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 2019 financial year amounted to TEUR 56,111 (2018: TEUR 57,356). After the allocation to reserves of TEUR 52,739 (2018: TEUR 55,364) and the addition of the retained profit of TEUR 111 (2018: TEUR 1,175), accumulated profits available for appropriation totalled TEUR 3,484 (2018: TEUR 3,167). Subject to approval by the shareholders' meeting and taking account of further developments up until the time of this resolution, a dividend of EUR 11 (2018: EUR 10) per entitled share is proposed based on the shares and the associated share capital of TEUR 162,152 (2018: TEUR 162,152). The dividend distribution will therefore be TEUR 3,484 (2018: TEUR 3,056). for 316,736 Stück (2018: 305,605 Stück) shares.

(42) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

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 (non-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 at amortized 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 amortized 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
Shareholders' 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**

TEUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2019						
Cash and balances with central banks	225,817	2,923	206,817	1,816	5,173	442,546
Trading assets	143,979	81	398	2,795	718	147,971
Financial assets at fair value (non-SPPI)	757,424	26,233	14,449	32,685	0	830,791
Financial assets at fair value (option)	346,046	0	5,090	0	13,532	364,668
Financial assets at amortized cost	9,975,610	126,870	1,464,137	16,794	207,428	11,790,839
Positive market values of hedges	143,658	21	10,572	0	802	155,053
Affiliates	1,534	0	0	0	0	1,534
Shares in companies valued at equity	1,806	0	0	0	0	1,806
Property, plant and equipment	77,634	0	6,493	0	0	84,127
Investment property	54,778	0	0	0	0	54,778
Intangible assets	2,472	0	324	0	0	2,796
Income tax assets	5,107	0	2	0	0	5,109
Deferred income tax assets	11,203	0	1	0	0	11,204
Non-current assets available for sale	4,635	0	0	0	0	4,635
Other assets	76,014	38	5,838	0	194	82,084
Total assets	**11,827,717**	**156,166**	**1,714,121**	**54,090**	**227,847**	**13,979,941**

TEUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2019						
Trading liabilities	136,412	1,520	143	939	30	139,044
Financial liabilities at fair value (option)	919,056	0	0	9,550	0	928,606
Financial liabilities at amortized cost	10,395,340	133,060	839,786	3,955	95,653	11,467,794
Negative market values of hedges	124,455	2,687	10,439	0	3,689	141,270
Provisions	43,011	0	1,779	0	0	44,790
Income tax liabilities	310	0	761	0	0	1,071
Deferred income tax liabilities	3,373	0	90	0	0	3,463
Other liabilities	54,218	99	1,315	0	0	55,632
Shareholders' equity	1,198,050	0	3	0	218	1,198,271
Total liabilities and shareholders' equity	**12,874,225**	**137,366**	**854,316**	**14,444**	**99,590**	**13,979,941**

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 as of 31 December 2019 was TEUR 4,463 (2018: TEUR 4,971).

Foreign-denominated assets and liabilities

TEUR	31/12/2019	31/12/2018
Foreign assets	5,753,866	5,602,962
Foreign liabilities	3,119,434	3,391,254

(43) MATURITIES

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 (non-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 at amortized 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 amortized 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
Shareholders' 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**

TEUR 31/12/2019	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	416,113	0	0	0	0	26,433	442,546
Trading assets	0	3,360	4,336	20,038	120,086	151	147,971
Financial assets at fair value (non-SPPI)	113,628	46,983	144,049	257,389	232,315	36,427	830,791
Financial assets at fair value (option)	0	5,040	25,816	111,485	222,327	0	364,668
Financial assets at amortized cost	644,401	906,832	1,231,297	4,380,013	4,541,532	86,764	11,790,839
Positive market values of hedges	0	0	8,431	29,178	117,444	0	155,053
Affiliates	0	0	0	0	0	1,534	1,534
Shares in companies valued at equity	0	0	0	0	0	1,806	1,806
Property, plant and equipment	0	0	0	0	0	84,127	84,127
Investment property	0	0	0	0	0	54,778	54,778
Intangible assets	0	0	0	0	0	2,796	2,796
Income tax assets	73	0	1,318	3,718	0	0	5,109
Deferred income tax assets	-974	2,266	-10,770	11,855	9,276	-449	11,204
Non-current assets available for sale	0	0	4,635	0	0	0	4,635
Other assets	32,058	2,767	1,786	5,222	2,226	38,025	82,084
Assets	1,205,299	967,248	1,410,898	4,818,898	5,245,206	332,392	13,979,941

TEUR 31/12/2019	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	4,331	24,323	22,456	87,934	0	139,044
Financial liabilities at fair value (option)	0	17,866	49,674	144,558	716,508	0	928,606
Financial liabilities at amortized cost	4,217,380	544,263	1,054,510	2,819,165	2,832,476	0	11,467,794
Negative markt values of hedges	0	1,916	2,585	57,406	79,363	0	141,270
Provisions	1,960	211	1,365	18,431	22,370	453	44,790
Income tax liabilities	45	32	0	0	968	26	1,071
Deferred income tax liabilities	6	0	919	37	1,849	652	3,463
Other liabilities	37,873	5,514	6,999	3,321	1,741	184	55,632
Shareholders' equity	0	0	0	0	0	1,198,271	1,198,271
Total liabilities and shareholders' equity	4,257,264	574,133	1,140,375	3,065,374	3,743,209	1,199,586	13,979,941

D. FURTHER IFRS INFORMATION

(44) 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.

(45) CONTINGENT LIABILITIES AND CREDIT RISKS

Off-balance liabilities

TEUR	31/12/2019	31/12/2018
Loan commitments granted	1,999,128	1,823,510
Financial guarantees granted	404,989	397,082
Other guarantees granted	31,733	19,060
Off-balance liabilities	2,435,850	2,239,652

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	31/12/2019	31/12/2018
Repayable on demand	0	2
Up to 3 months	30,967	33,611
Up to 1 year	75,910	106,154
Up to 5 years	159,584	117,328
More than 5 years	65,694	78,111
Unlimited	104,567	80,936
Contingent liabilities	436,722	416,142

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

Obligation from the membership of the deposit insurance company "Einlagensicherung AUSTRIA Ges.m.b.H. (ESA)" 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. Each protection scheme must establish a deposit protection fund based on available financial resources that is equivalent to at least 0.8 % of the total covered deposits of the member institutions (target level). 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 1.458 (2018: TEUR 1.694). In accordance with Section 22 (1) ESAEG, ESA must also stipulate special contributions of a maximum of 0.5 % of the total covered deposits of its member institutions and collect these from its member institutions in a timely manner each calendar year if the available financial resources of a protection scheme are not sufficient to compensate the depositors in the event of default or to fulfil obligations from lending operations.

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 %.

(46) INTEREST-FREE LOANS AND ADVANCES

TEUR	31/12/2019	31/12/2018
Interest-free loans and advances to banks	181	4,263
Interest-free loans and advances to customers	108,848	83,940
Interest-free loans and advances	109,029	88,203

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.

(47) COLLATERAL

Assets provided as collateral

TEUR	31/12/2019	31/12/2018
Financial assets at fair value (non-SPPI)	364,352	383,832
Financial assets at fair value (option)	324,899	335,162
Financial assets at amortized cost	6,843,019	6,589,209
Assets provided as collateral	7,532,270	7,308,203
of which covered pool for mortgage bonds	3,310,690	3,145,565
of which covered pool for public-sector mortgage bonds	705,368	791,611

Assignment of collateral

TEUR	31/12/2019	31/12/2018
Backing for refinancing with central banks	1,616,044	1,264,579
Covered pool for mortgage bonds	4,062,356	3,835,912
Covered pool for public-sector mortgage bonds	778,413	872,692
Surplus cover for mortgage bonds and municipal bonds	91,958	98,112
Covered pool for trust savings deposits	31,130	31,115
Cover for pension provisions	2,142	2,106
Genuine repurchase agreements, repos	769,633	1,008,554
Deposits, collateral, margins	180,594	195,133
Collateral – breakdown by assignment	7,532,270	7,308,203

Utilisation of collateral

TEUR	31/12/2019	31/12/2018
Backing for refinancing with central banks	1,014,643	1,012,175
Covered pool for mortgage bonds	3,008,142	2,989,285
Covered pool for public-sector mortgage bonds	327,646	551,476
Surplus cover for mortgage bonds and municipal bonds	91,958	98,112
Covered pool for trust savings deposits	24,874	26,400
Cover for pension provisions	2,142	2,106
Genuine repurchase agreements, repos	150,000	0
Deposits, collateral, margins	180,594	195,130
Collateral – breakdown by utilisation	4,799,999	4,874,684

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.

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.

(48) SUBORDINATED ASSETS

TEUR	31/12/2019	31/12/2018
Financial assets at fair value (non-SPPI)	56,233	44,067
Financial assets at amortized cost	26,324	26,319
Subordinated assets	82,557	70,386
of which debt securities	82,557	70,386

(49) FIDUCIARY TRANSACTIONS ADVANCES

TEUR	31/12/2019	31/12/2018
Loans and advances to customers	108,361	100,784
Fiduciary assets	108,361	100,784
Amounts owed to banks	95,444	87,104
Amounts owed to customers	13,227	13,835
Fiduciary liabilities	108,671	100,939

(50) REPURCHASE AGREEMENTS

TEUR	31/12/2019	31/12/2018
Amounts owed to banks	150,000	0
Total deposits (repos)	150,000	0
Debt securities	145,667	0
Total provided collateral (repos)	145,667	0

(51) RELATED PARTY DISCLOSURES

Related parties include:

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

Advances, loans and warranties

At the end of the year, the Managing Board members and managing directors and their next of kin had received advances, loans and warranties amounting to TEUR 5,326 (2018: TEUR 6,272) 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 18,845 (2018: TEUR 19,585) for themselves and for companies for which they are employees liable at the customary terms and conditions for the Bank or for Bank employees.

Remuneration

The remuneration for members of the Managing Board consists 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 share based remuneration schemes.

In 2019, Hypo Vorarlberg Bank AG spent the following amounts for the active Managing Board members:

TEUR	2019	2018
Michel Haller	334	327
Johannes Hefel	259	254
Wilfried Amann	282	276
Managing Board remuneration	875	857

TEUR	2019	2018
Managing Board members and managing directors	1,945	1,912
Retired Managing Board members and survivors	68	66
Managerial personnel	5,154	4,953
Supervisory Board members	223	204
Remuneration paid to related parties	7,390	7,135

Severance and pensions

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

TEUR	2019	2018
Managing Board members and managing directors	131	130
Retired Managing Board members and survivors	71	114
Managerial personnel	1,181	1,240
Severance and pensions paid to related parties	1,383	1,484

The Group purchased services amounting to TEUR 94 (2018: TEUR 65) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

TEUR	31/12/2019	31/12/2018
Equity instruments	1,522	0
Financial assets	1,522	0
Deposits	287	309
Financial liabilities	287	309

Apart from equity investments in affiliated, non-consolidated companies, business activities with affiliated companies comprise only business current accounts. The deposits currently have an interest rate of 0 % (2018: 0 %).

Income and expenses from affiliated companies

As in the previous year, income and expenses with affiliated companies came to less than TEUR 1 in the reporting year.

Business relationships with associated companies

TEUR	31/12/2019	31/12/2018
Equity instruments	4,647	972
Loans and advances	11,428	10,615
Financial assets	16,075	11,587
Deposits	2,276	3,114
Financial liabilities	2,276	3,114
Nominal values of derivatives	3,000	3,000

In addition to equity instruments, transactions with associated companies also 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 295 (2018: TEUR 96).

Income and expenses from associated companies

TEUR	2019	2018
Interest income	207	208
Interest expenses	-1	-1
Dividend earnings	627	2,058
Fee and commission income	7	9
Total income/expenses from associated companies	840	2,274

Business relationships with shareholders

TEUR	31/12/2019	31/12/2018
Equity instruments	10,481	10,707
Debt securities	2,963	0
Loans and advances	159,416	148,087
Financial assets	172,860	158,794
Deposits	19,136	11,297
Financial liabilities	19,136	11,297
Nominal values of off-balance-sheet items	117,931	139,384
Nominal values of derivatives	1,758,381	2,096,352

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 Landesbank Baden-Württemberg with a total market value of TEUR 9,186 (2018: TEUR 5,619) 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	2019	2018
Interest income	20,765	24,016
Interest expenses	-11,205	-14,003
Fee and commission income	1,800	1,740
Fee and commission expenses	-1	0
Other expenses	0	-750
Total income/expenses from significant shareholders	11,359	11,003

Shareholders of Hypo Vorarlberg Bank AG

Shareholders 31/12/2019	Total shares	Voting rights
Vorarlberger Landesbank-Holding	76.8732 %	76.8732 %
Austria Beteiligungsgesellschaft m.b.H.	23.1268 %	23.1268 %
- Landesbank Baden-Württemberg	15.4179 %	
- Landeskreditbank Baden-Württemberg Förderbank	7.7089 %	
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 m.b.H. Numerous transactions typical of a banking relationship have been conducted with Landesbank Baden-Württemberg.

Business relationship with state-related companies

TEUR	31/12/2019	31/12/2018
Loans and advances	77,318	75,931
Financial assets	77,318	75,931
Deposits	82,268	81,327
Financial liabilities	82,268	81,327
Nominal values of off-balance-sheet items	39,511	33,216

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

Income and expenses from state-related companies

TEUR	2019	2018
Interest income	660	613
Interest expenses	-31	-79
Fee and commission income	309	400
Total income/expenses from state-related companies	938	934

There were no doubtful debts due from related parties in financial year 2019 or the comparative period. Therefore, neither provisions nor expenses were required for impairment or write-downs on debts due from related parties.

(52) SHARE-BASED PAY ARRANGEMENTS

There were no pay arrangements for participation certificates in the Group as at 31 December 2019.

(53) HUMAN RESOURCES

	2019	2018
Full-time salaried staff	605	620
Part-time salaried staff	102	97
Apprentices	9	7
Cleaning staff / workers	3	3
Average number of employees	**719**	**727**

(54) SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The global outbreak of the coronavirus (COVID-19) at the start of 2020 and the associated national and international measures to contain the spread of the virus have a significant impact on the global economic development and lead to declines on the financial, goods and services markets. At present, the potential effects on the economy and sectors of industry cannot be reliably estimated. The coronavirus does not have any effect on the figures in the 2019 financial statements, as it constitutes a non-adjusting event after the reporting date. For detailed information, please refer to the "Outlook for the 2020 financial year" section of the Group management report.

E. SEGMENT REPORTING

Reporting by business segment

TEUR		Corporate customers	Private customers	Financial markets	Corporate Center	Total
Net interest income	2019	98,416	34,040	15,378	21,707	169,541
	2018	102,355	30,198	11,620	23,255	167,428
Dividend income	2019	0	0	552	899	1,451
	2018	0	0	526	871	1,397
Net fee and commission income	2019	14,583	21,020	1,542	-679	36,466
	2018	13,545	16,557	2,203	-391	31,914
Net result from financial instruments at amortized cost and OCI	2019	-2	0	1,039	-1,051	-14
	2018	0	0	5,421	-14	5,407
Net result from financial instruments at fair value	2019	3,270	910	801	7,455	12,436
	2018	-652	1,302	-1,950	11,508	10,208
Other income	2019	624	727	3	22,450	23,804
	2018	1,468	519	-13	15,946	17,920
Other expenses	2019	-2,412	-2,611	-4,942	-14,958	-24,923
	2018	-2,817	-2,860	-5,069	-24,076	-34,822
Administrative expenses	2019	-34,567	-42,556	-10,751	-8,417	-96,291
	2018	-33,597	-42,244	-10,565	-11,328	-97,734
Depreciation and amortization	2019	-735	-878	-36	-5,936	-7,585
	2018	-692	-834	-31	-5,216	-6,773
Loan loss provisions and impairment of financial assets	2019	-16,846	-1,620	588	-3,714	-21,592
	2018	-4,406	89	23	113	-4,181
Impairment of non-financial assets	2019	0	0	0	-1,648	-1,648
	2018	0	0	0	-42,371	-42,371
Result from equity consolidation	2019	0	0	0	52	52
	2018	0	0	0	264	264
Result from non-current assets available for sale	2019	0	0	0	-5	-5
	2018	0	0	0	0	0
Earnings before taxes	**2019**	**62,331**	**9,032**	**4,174**	**16,155**	**91,692**
	2018	**75,204**	**2,727**	**2,165**	**-31,439**	**48,657**
Assets	2019	6,785,162	2,070,447	3,713,221	1,411,111	13,979,941
	2018	6,401,606	2,000,905	3,920,074	1,432,025	13,754,610
Liabilities and shareholders' equity	2019	1,810,779	2,585,469	7,719,519	1,864,174	13,979,941
	2018	1,938,518	2,582,490	7,380,747	1,852,855	13,754,610
Liabilities	2019	1,809,437	2,581,305	7,665,389	725,539	12,781,670
	2018	1,939,107	2,578,099	7,400,931	705,296	12,623,433

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 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 1,806 (2018: TEUR 2,381) was included in assets from consolidation according to the equity method.

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

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

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

Corporate Centre
All banking transactions with our subsidiaries and associated companies are reported in this segment. 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	2019	-26,120	-4,920	-476	-10,410	-41,926
	2018	-25,836	-3,583	-183	-54,150	-83,752
Reversals of impairments	2019	10,261	3,622	1,068	5,079	20,030
	2018	27,264	3,577	212	4,310	35,363

Reporting by region

TEUR		Austria	Third country	Total
Net interest income	2019	145,485	24,056	169,541
	2018	144,452	22,976	167,428
Dividend income	2019	1,451	0	1,451
	2018	1,397	0	1,397
Net fee and commission income	2019	36,013	453	36,466
	2018	31,478	436	31,914
Net result from financial instruments at amortized cost and OCI	2019	-11	-3	-14
	2018	5,396	11	5,407
Net result from financial instruments at fair value	2019	12,053	383	12,436
	2018	9,854	354	10,208
Other income	2019	18,503	5,301	23,804
	2018	13,432	4,488	17,920
Other expenses	2019	-19,960	-4,963	-24,923
	2018	-28,150	-6,672	-34,822
Administrative expenses	2019	-86,664	-9,627	-96,291
	2018	-88,459	-9,275	-97,734
Depreciation and amortization	2019	-6,020	-1,565	-7,585
	2018	-6,406	-367	-6,773
Loan loss provisions and impairment of financial assets	2019	-15,355	-6,237	-21,592
	2018	20,118	-24,299	-4,181
Impairment of non-financial assets	2019	0	-1,648	-1,648
	2018	-31,623	-10,748	-42,371
Result from equity consolidation	2019	52	0	52
	2018	264	0	264
Result from non-current assets available for sale	2019	-5	0	-5
	2018	0	0	0
Earnings before taxes	**2019**	**85,542**	**6,150**	**91,692**
	2018	**71,753**	**-23,096**	**48,657**
Assets	2019	12,293,957	1,685,984	13,979,941
	2018	12,180,881	1,573,729	13,754,610
Liabilities and shareholders' equity	2019	13,504,244	475,697	13,979,941
	2018	13,271,879	482,731	13,754,610
Liabilities	2019	12,457,539	324,131	12,781,670
	2018	12,294,566	328,867	12,623,433

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(55) EARNINGS BY MEASUREMENT CATEGORY

Result of financial assets

TEUR 2018	HA	NON-SPPI	FVO	AC	Total assets
Interest income	50,964	4,648	5,881	207,259	268,752
Interes expenses	0	0	0	-1,987	-1,987
Net interest income	50,964	4,648	5,881	205,272	266,765
Dividend earnings	0	1,397	0	0	1,397
Additions to loan loss provisions	0	0	0	-49,046	-49,046
Reversal of loan loss provisions	0	0	0	38,242	38,242
Write-ups	26,236	980	0	0	27,216
Depreciation	0	-171	0	-15,179	-15,350
Realised gains	1,969	378,542	5,377	7,099	392,987
Realised losses	-1,724	-381,898	-25,679	-1,976	-411,277
Comprehensive income	77,445	3,498	-14,421	184,412	250,934

TEUR 2019	HA	NON-SPPI	FVO	AC	Total assets
Interest income	51,600	13,607	2,328	199,926	267,461
Interes expenses	0	0	0	-2,901	-2,901
Net interest income	51,600	13,607	2,328	197,025	264,560
Dividend earnings	0	1,451	0	0	1,451
Additions to loan loss provisions	0	0	0	-41,975	-41,975
Reversal of loan loss provisions	0	0	0	21,366	21,366
Write-ups	12,074	357	0	0	12,431
Depreciation	0	-175	0	-16,449	-16,624
Realised gains	1,499	15,788	7,885	513	25,685
Realised losses	-2,213	-1,250	-8,799	-803	-13,065
Comprehensive income	62,960	29,778	1,414	159,677	253,829

Result of financial liabilities

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

TEUR 2019	HP	LFVO	LAC	Total liabilities
Interest income	0	0	1,753	1,753
Interes expenses	-30,127	-5,800	-60,845	-96,772
Net interest income	-30,127	-5,800	-59,092	-95,019
Write-ups	0	0	73,229	73,229
Depreciation	-67,880	0	0	-67,880
Realised gains	0	15,708	1,467	17,175
Realised losses	0	-17,154	-1,191	-18,345
Comprehensive income	-98,007	-7,246	14,413	-90,840
Measurement	0	-3,410	0	-3,410

(56) DISCLOSURES ON FAIR VALUE

TEUR	Notes	31/12/2019 Fair value	31/12/2019 Carrying amount	31/12/2018 Fair value	31/12/2018 Carrying amount
Assets					
Trading assets	(19)	147,971	147,971	152,840	152,840
Financial assets at fair value (non-SPPI)	(20)	830,791	830,791	784,728	784,728
Financial assets at fair value (option)	(21)	364,668	364,668	392,168	392,168
Financial assets at amortized cost	(23)	12,477,712	11,790,839	12,166,407	11,535,871
Positive market values of hedges	(24)	155,053	155,053	81,179	81,179
Affiliates		1,534	1,534	1,814	1,814
Liabilities					
Trading liabilities	(33)	139,044	139,044	167,132	167,132
Financial liabilities at fair value (option)	(34)	928,606	928,606	1,172,869	1,172,869
Financial liabilities at amortized cost	(35)	11,526,413	11,467,794	11,079,964	11,072,878
Negative market values of hedges	(36)	141,270	141,270	110,116	110,116

In the case of financial assets at amortized 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 amortized 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 (at amortized cost)

TEUR 31/12/2018	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost	2,507,517	25,369	9,633,521	12,166,407
Financial liabilities at amortized cost	3,511,256	67,377	7,501,331	11,079,964

TEUR 31/12/2019	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost	2,490,923	24,863	9,961,926	12,477,712
Financial liabilities at amortized cost	3,768,760	51,362	7,706,291	11,526,413

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

Fair value hierarchy for financial instruments recognised at fair value

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 (non-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

TEUR 31/12/2019	Level 1	Level 2	Level 3	Total
Trading assets	151	91,341	56,479	147,971
Financial assets at fair value (non-SPPI)	107,393	114,245	609,153	830,791
Financial assets at fair value (option)	23,507	42,300	298,861	364,668
Positive market values of hedges	0	150,327	4,726	155,053
Affiliates	0	0	1,534	1,534
Assets measured at fair value	131,051	398,213	970,753	1,500,017
Reclassification of assets from level 2 and 3 to level 1	4,469	-4,468	-1	0
Reclassification of assets from level 1 and 3 to Level 2	-10,037	10,037	0	0
Trading liabilities	0	130,457	8,587	139,044
Financial liabilities at fair value (option)	0	302,997	625,609	928,606
Negative market values of hedges	0	128,602	12,668	141,270
Liabilities measured at fair value	0	562,056	646,864	1,208,920
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	-11,020	14,131	-3,111	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 tables and text below are shown in the previous tables, while reclassifications in Level 3 are shown in the changes in financial instruments table in Level 3.

Reclassification of assets

From Level 1 to Level 2

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 1 to Level 2	2	10,037	10,114	1	12,320	12,935
Financial assets at fair value (non-SPPI)	2	10,037	10,114	0	0	0
Financial assets at fair value (option)	0	0	0	1	12,320	12,935

Because no secondary market price was available from Bloomberg, a derived market valuation was used for financial instruments in the non-SPPI category in the current year and for those in the FVO category in the previous year.

From Level 1 to Level 3

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 1 to Level 3	1	782	870	0	0	0
Financial assets at fair value (non-SPPI)	1	782	870	0	0	0

Due to the lack of tradability of the fund, its market value was determined based on the net asset value of the fund according to the fund report. However, this does not constitute the redemption price.

From Level 2 to Level 1

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 2 to Level 1	1	4,468	4,488	3	51,916	52,784
Financial assets at fair value (non-SPPI)	1	4,468	4,488	3	51,916	52,784

Instead of a derived market valuation, an available OTC secondary market source from Bloomberg was used to measure financial instruments in the non-SPPI category in both the current year and the previous year.

From Level 2 to Level 3

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 2 to Level 3	4	5,178	4,683	1	3,325	3,418
Trading assets	3	4,161	3,949	0	0	0
Financial assets at fair value (non-SPPI)	0	0	0	1	3,325	3,418
Positive market values of hedges	1	1,017	734	0	0	0

As there were no observable credit spreads on the market for derivatives in the categories of trading assets and positive market values of hedges, these were measured on the basis of an internal measurement model. The financial instrument in the non-SPPI category could also be calculated only on the basis of internal inputs in the previous year.

From Level 3 to Level 1

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 3 to Level 1	1	1	2	0	0	0
Financial assets at fair value (non-SPPI)	1	1	2	0	0	0

For one financial instrument in the non-SPPI category, a price available from Bloomberg could be used instead of an internal valuation model.

Reclassification of liabilities

From Level 1 to Level 2

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 1 to Level 2	2	11,020	10,783	1	7,823	8,185
Financial liabilities at fair value (option)	2	11,020	10,783	1	7,823	8,185

As in the previous year, no Bloomberg prices were available for the issue in the LFVO category in the current year, so the measurement is based on comparable instruments and market data.

From Level 2 to Level 3

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 2 to Level 3	4	4,775	3,762	2	6,558	7,193
Trading liabilities	3	3,259	2,546	0	0	0
Financial liabilities at fair value (option)	0	0	0	2	6,558	7,193
Negative market values of hedges	1	1,516	1,216	0	0	0

The reclassified derivatives in the categories of trading liabilities and negative market values of hedges were measured on the basis of an internal measurement model, as there were no credit spreads available on the market. An internal measurement model also had to be used for the issues in the LFVO category in the previous year, as there were no input factors observable on the market.

From Level 3 to Level 2

TEUR	31/12/2019 Total number	31/12/2019 Carrying amount	31/12/2019 Carrying amount previous	31/12/2018 Total number	31/12/2018 Carrying amount	31/12/2018 Carrying amount previous
From Level 3 to Level 2	1	3,111	2,708	0	0	0
Financial liabilities at fair value (option)	1	3,111	2,708	0	0	0

Input factors observable on the market could be used to measure the issues in the LFVO category, so the measurement is based on comparable instruments and market data.

Fair value hierarchy for financial assets and liabilities – breakdown by class

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	95,614	147,447	32,801	275,862
Loans and advances	0	6,356	416,551	422,907
Financial assets at fair value (non-SPPI)	99,015	153,803	531,910	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 of hedges	0	81,174	5	81,179
Affiliates	0	0	1,814	1,814
ASSETS	122,457	380,091	910,181	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 issued	127,389	293,575	585,391	1,006,355
Financial liabilities at fair value (option)	127,389	293,575	751,905	1,172,869
Negative markt values of hedges	0	104,235	5,881	110,116
LIABILITIES	127,389	556,754	765,974	1,450,117

TEUR 31/12/2019	Level 1	Level 2	Level 3	Total
Derivatives	0	91,341	56,479	147,820
Equity instruments	151	0	0	151
Trading assets	151	91,341	56,479	147,971
Equity instruments	0	0	27,893	27,893
Debt securities	107,393	114,245	24,061	245,699
Loans and advances	0	0	557,199	557,199
Financial assets at fair value (non-SPPI)	107,393	114,245	609,153	830,791
Debt securities	23,507	42,300	0	65,807
Loans and advances	0	0	298,861	298,861
Financial assets at fair value (option)	23,507	42,300	298,861	364,668
Positive market values of hedges	0	150,327	4,726	155,053
Affiliates	0	0	1,534	1,534
ASSETS	131,051	398,213	970,753	1,500,017
Derivatives	0	130,457	8,587	139,044
Trading liabilites	0	130,457	8,587	139,044
Deposits	0	0	141,552	141,552
Debt securities issued	0	302,997	484,057	787,054
Financial liabilities at fair value (option)	0	302,997	625,609	928,606
Negative markt values of hedges	0	128,602	12,668	141,270
LIABILITIES	0	562,056	646,864	1,208,920

Changes in Level 3 financial instruments

TEUR 2018	Opening balance	Purchases/ Issues	Sales/ Redemp-tions	Additions from Level 1 and Level 2	Reclassifica-tion 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 (non-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
Positive 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

TEUR 2019	Opening balance	Purchases/ Issues	Sales/ Redemp-tions	Additions from Level 1 and Level 2	Reclassifica-tion to Level 1 and Level 2	Changes in fair values	Closing balance
Trading assets	51,403	0	0	4,161	0	915	56,479
Financial assets at fair value (non-SPPI)	531,910	205,477	-148,150	782	-1	19,135	609,153
Financial assets at fair value (option)	325,049	0	-4,427	0	0	-21,761	298,861
Positive market values of hedges	5	0	0	1,017	0	3,704	4,726
Affiliates	1,814	0	-4,640	0	0	4,360	1,534
Assets measured at fair value in level 3	910,181	205,477	-157,217	5,960	-1	6,353	970,753
Trading liabilites	8,188	0	0	3,259	0	-2,860	8,587
Financial liabilities at fair value (option)	751,905	10,000	-140,237	0	-3,111	7,052	625,609
Negative markt values of hedges	5,881	0	0	1,516	0	5,271	12,668
Liabilities measured at fair value in level 3	765,974	10,000	-140,237	4,775	-3,111	9,463	646,864

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.

Changes in the fair value in the financial liabilities at fair value (option) category amount to TEUR 7,052 (2018: TEUR -11,005), of which TEUR -3,456 (2018: TEUR -773) was recognised under the net result from financial instruments at fair value and TEUR -3,596 (2018: TEUR 11,778) in other comprehensive income recognised under measurement of own credit risk for liabilities at fair value.

Disclosures regarding sensitivity of internal input factors

TEUR	Positive fair value change with alternative measurement parameters		Negative fair value with alternative measurement parameters	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Derivatives	103	103	-152	-152
Financial assets at fair value (non-SPPI)	1,991	112	-2,782	-123
of which issues	522	85	-670	-106
of which loans and advances	1,469	27	-2,112	-17
Financial assets at fair value (option)	10	431	-18	-289
of which loans and advances	10	431	-18	-289
Financial liabilities at fair value (option)	-3,779	-3,554	3,779	3,554
of which debt securities issued	-3,127	-2,516	3,127	2,516
of which deposits	-652	-1,038	652	1,038
Total	**-1,675**	**-2,908**	**827**	**2,990**

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.

Based on the collateral management with institutional counterparties, seven derivative hedging instruments in Level 3 were measured not by using the internal valuation models, but instead by taking over the counterparty's market values. If the internal valuation model had been used here, this would have resulted in a change in market values of TEUR 588. This valuation was also applied to the underlying transactions, resulting in an opposing change in the valuation of TEUR -644.

(57) DISCLOSURES ON OFFSETTING FINANCIAL INSTRUMENTS

TEUR 31/12/2018	Financial instruments (gross)	Recognised amounts set off (gross)	Financial instruments (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**

TEUR 31/12/2019	Financial instruments (gross)	Recognised amounts set off (gross)	Financial instruments (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	302,873	0	302,873	-184,715	-92,735	25,423
Total assets	**302,873**	**0**	**302,873**	**-184,715**	**-92,735**	**25,423**
Negative market values of derivative financial instruments	280,314	0	280,314	-184,715	-117,822	-22,223
Total liabilities	**280,314**	**0**	**280,314**	**-184,715**	**-117,822**	**-22,223**

(58) IMPAIRMENT ON FINANCIAL INSTRUMENTS

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
Impairment and provisions	**12,341**	**17,840**	**60,853**	**91,034**

TEUR 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Loans and advances	13,973	15,125	68,985	98,083
Debt securities	271	1,560	1,020	2,851
Credit commitments, financial guarantees and other commitments	1,987	408	1,595	3,990
Impairment and provisions	**16,231**	**17,093**	**71,600**	**104,924**

Amount of maximum default risk for all financial instruments

TEUR 31/12/2018	Gross carrying amount	Commitments and guarantees	Maximum default risk
Debt securities at fair value (non-SPPI)	282,219	0	282,219
Debt securities at fair value (option)	67,119	0	67,119
Debt securities at amortized cost	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 at fair value (non-SPPI)	416,550	95,182	511,732
Loans and advances at fair value (option)	325,049	0	325,049
Loans and advances at amortized cost	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 trading assets	176	0	176
Equity instruments at fair value (non-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**

TEUR 31/12/2019	Gross carrying amount	Commitments and guarantees	Maximum default risk
Debt securities at fair value (non-SPPI)	245,698	0	245,698
Debt securities at fair value (option)	65,806	0	65,806
Debt securities at amortized cost	2,487,703	0	2,487,703
Debt securities	**2,799,207**	**0**	**2,799,207**
Loans and advances cash reserve	416,113	0	416,113
Loans and advances at fair value (non-SPPI)	557,200	110,310	667,510
Loans and advances at fair value (option)	298,862	0	298,862
Loans and advances at amortized cost	9,303,136	1,767,686	11,070,822
Loans and advances	**10,575,311**	**1,877,996**	**12,453,307**
Trading assets derivatives	147,820	0	147,820
Positive market values of hedges	155,053	0	155,053
Derivatives	**302,873**	**0**	**302,873**
Equity instruments trading assets	151	0	151
Equity instruments at fair value (non-SPPI)	27,893	0	27,893
Equity instruments	**28,044**	**0**	**28,044**
Sureties and guarantees	**0**	**557,854**	**557,854**
Overall exposure	**13,705,435**	**2,435,850**	**16,141,285**

Default risk of financial instruments subject to the provisions of impairment

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 - default risk	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 - default risk	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 - default risk	1	0	2,440	1,839	166,176	14	170,470
of which POCI - carrying amount	0	0	23	0	9,763	0	9,786
of which POCI - off-balance-sheet transactions	0	0	0	0	1,347	0	1,347
of which POCI - default risk	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 - default risk	2,463,519	4,634,851	6,252,369	321,597	166,177	25,140	13,863,653

TEUR 31/12/2019	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Not rated	Total
Stage I – carrying amount	2,339,082	3,676,902	4,695,815	95,009	0	27,791	10,834,599
Stage I - off-balance-sheet transactions	162,342	846,263	1,262,387	7,215	0	3	2,278,210
Stage I - default risk	2,501,424	4,523,165	5,958,202	102,224	0	27,794	13,112,809
Stage II - carrying amount	15,988	153,393	502,521	201,261	0	70,944	944,107
Stage II - off-balance-sheet transactions	436	42,361	101,257	11,746	0	5,126	160,926
Stage II - default risk	16,424	195,754	603,778	213,007	0	76,070	1,105,033
Stage III - carrying amount	0	0	151	487	157,636	363	158,637
Stage III - off-balance-sheet transactions	0	0	0	0	7,094	0	7,094
Stage III - default risk	0	0	151	487	164,730	363	165,731
of which POCI - carrying amount	0	703	934	553	6,508	0	8,698
of which POCI - off-balance-sheet transactions	0	0	0	0	188	0	188
of which POCI - default risk	0	703	934	553	6,696	0	8,886
Total - carrying amount	2,355,070	3,830,295	5,198,487	296,757	157,636	99,098	11,937,343
Total - off-balance-sheet transactions	162,778	888,624	1,363,644	18,961	7,094	5,129	2,446,230
Total - default risk	2,517,848	4,718,919	6,562,131	315,718	164,730	104,227	14,383,573

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	1,020	0	0
Loans and advances	236,510	58,845	138,782	1,798
Measured at amortized cost	**237,530**	**59,865**	**138,782**	**1,798**
Loans and advances	1,259	0	1,252	0
Measured at fair value	**1,259**	**0**	**1,252**	**0**

TEUR 31/12/2019	Gross carrying amount	Valuation allowance	Other collateral	Received guarantees
Debt securities	1,020	1,020	0	0
Loans and advances	238,160	69,702	126,102	1,610
Measured at amortized cost	**239,180**	**70,722**	**126,102**	**1,610**
Debt securities	1	0	0	0
Loans and advances	1,080	0	1,080	0
Measured at fair value	**1,081**	**0**	**1,080**	**0**

Financial liabilities of TEUR 1,514 (2018: TEUR 5,771) were written off during the reporting period and are still subject to enforcement activity.

Changes in valuation allowances per item and class

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

TEUR 2019	Opening balance	Additions	Utilisation	Reversals	Unwinding	Stage Transfer	Other changes	Closing balance
Valuation allowances debt securities AC - Stage 1	224	123	0	-77	0	0	1	271
Valuation allowances debt securities AC - Stage 2	2,526	0	0	-966	0	0	0	1,560
Valuation allowances debt securities AC - Stage 3	1,020	0	0	0	0	0	0	1,020
Valuation allowances debt securities AC	3,770	123	0	-1,043	0	0	1	2,851
Valuation allowances loans and advances AC - Stage 1	11,243	2,114	0	-6,529	0	7,112	33	13,973
Valuation allowances loans and advances AC - Stage 2	15,019	12,908	0	-3,535	0	-9,356	89	15,125
Valuation allowances loans and advances AC - Stage 3	58,098	25,133	-8,881	-8,923	1,191	2,244	123	68,985
Valuation allowances loans and advances AC	84,360	40,155	-8,881	-18,987	1,191	0	245	98,083
Valuation allowances debt securities and loans and advances	88,130	40,278	-8,881	-20,030	1,191	0	246	100,934
Valuation allowances corporate customers	45,412	26,120	-4,008	-10,261	729	0	177	58,169
Valuation allowances private customers	9,832	4,920	-192	-3,622	60	0	66	11,064
Valuation allowances financial markets	2,843	476	0	-1,068	0	0	0	2,251
Valuation allowances Corporate Center	30,043	8,762	-4,681	-5,079	402	0	3	29,450
Valuation allowances POCI	244	2,092	0	-187	11	0	4	2,164

(59) 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.

(60) OVERALL RISK MANAGEMENT

The Group's operations involve the following risks:

- Credit risk and counterparty default 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 the Group. Accordingly, it approves the principles of risk control and the risk measurement procedures. Additionally, it determines the willingness to take risks and defines limits for all relevant types of risk based on risk-absorbing capacity.

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

The overall risk management of Hypo Vorarlberg is based on a strict separation between Front Office and Back Office. The risk management functions of Hypo Vorarlberg are bundled under the responsibility of the Managing Board member responsible for risk management. Risk controlling at Hypo Vorarlberg is developed and implemented by group risk controlling. This unit measures 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, Strategic Bank Management and Treasury departments are also present at committee meetings.

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

The uncertain economic consequences of the global COVID-19 pandemic also pose a major challenge for risk management at Hypo Vorarlberg. For detailed information, please refer to the "Outlook for the 2020 financial year" section of the Group management report.

(61) 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 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.

Measurement of market risk is based on three methods, which are all calculated centrally for the individual bank:

- Value at risk (VaR)
- 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 %

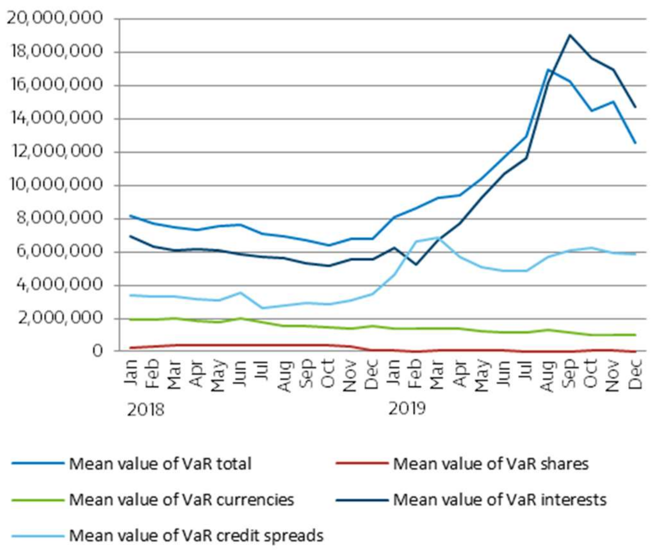
The VaR limit defines the maximum loss the Group is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis in line with the ICAAP. In addition, limits are defined for various yield curves, currency pairs, credit spread risks and equity position 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



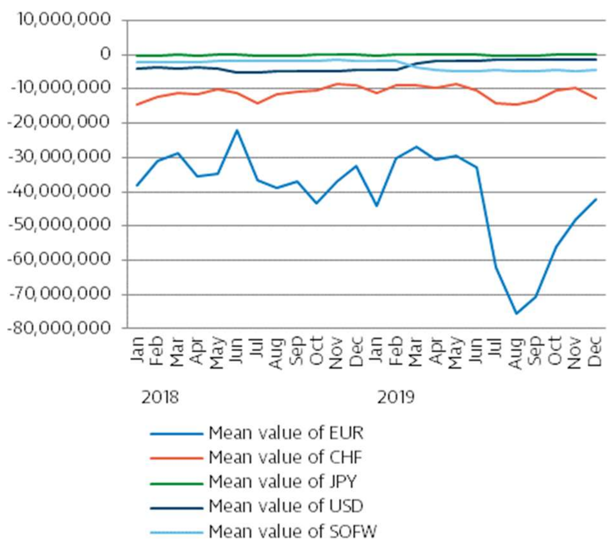
VaR for the individual risk types developed over the past two years as follows.

TEUR 2018	Mean value of VaR total	Mean value of VaR interest	Mean value of VaR-FX	Mean value of VaR	Mean value of VaR credit spreads
January	8,199	6,924	1,940	253	spreads
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

TEUR 2019	Mean value of VaR total	Mean value of VaR interest	Mean value of VaR-FX	Mean value of VaR	Mean value of VaR credit spreads
January	8,073	6,254	1,423	39	4,642
February	8,603	5,241	1,352	36	6,608
March	9,254	6,679	1,378	40	6,846
April	9,417	7,692	1,383	38	5,723
May	10,375	9,212	1,199	38	5,053
June	11,724	10,701	1,160	37	4,875
July	12,948	11,657	1,157	30	4,858
August	16,996	16,171	1,320	32	5,686
September	16,302	19,002	1,156	32	6,064
October	14,465	17,635	963	36	6,235
November	15,032	16,946	988	38	5,897
December	12,560	14,742	979	35	5,861

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



(62) 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.
- Sustainability is becoming increasingly important in lending business and investment of the bank's assets.
- 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 Lebenszeitkredit 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 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.

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 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 directly deducted from loans and advances. In contrast, loan loss provisions for off-balance sheet items (guarantees, endorsement liabilities, credit commitments) are shown as provisions for guarantees and commitments. 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 31/12/2018	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	unrated	Total
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

TEUR 31/12/2019	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	unrated	Total
Corporate customers	797,627	2,280,451	4,846,057	115,054	122,660	889	8,162,738
Private customers	329	956,431	1,172,417	58,018	27,814	29,119	2,244,128
Financial markets	2,982,941	537,540	78,465	0	0	56,757	3,655,703
Corporate Center	142,493	716,288	1,034,914	152,019	98,764	267,859	2,412,337
Total exposure	3,923,390	4,490,710	7,131,853	325,091	249,238	354,624	16,474,906

Regions broken down by rating (maximum default risk)

TEUR 31/12/2018	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 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

TEUR 31/12/2019	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	unrated	Total
Austria	1,767,537	2,771,907	4,747,948	160,789	114,001	48,270	9,610,452
Italy	3,484	177,064	664,426	128,666	90,175	5,189	1,069,004
Germany	200,393	552,446	1,023,887	5,645	23,000	43	1,805,414
Switzerland and Liechtenstein	230,453	443,847	465,148	27,072	18,883	23,245	1,208,648
Other foreign countries	1,721,523	545,446	230,444	2,919	3,179	277,877	2,781,388
Total exposure	3,923,390	4,490,710	7,131,853	325,091	249,238	354,624	16,474,906

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	31/12/2019	31/12/2018
Financial intermediaries	3,653,468	3,504,189
Consumers/private customers	2,459,681	2,332,728
Public sector	1,803,374	1,967,722
Real estate	2,603,713	2,510,248
Services	1,923,040	1,821,856
Trading	780,989	805,834
Metals/machinery	368,982	341,832
Construction	640,470	600,259
Transport/communications	349,183	309,015
Tourism	527,950	538,400
Water and energy utilities	171,688	186,019
Other goods	115,519	115,914
Vehicle construction	180,158	145,151
Petroleum, plastics	111,815	105,222
Other industries	784,876	770,222
Total exposure	16,474,906	16,054,611

Exposure in rating class 5

TEUR	31/12/2019	31/12/2018
Corporate customers - exposure	122,660	107,865
Corporate customers – valuation allowance	41,123	31,566
Private customers - exposure	27,814	29,176
Corporate customers – valuation allowance	5,371	4,434
Corporate Center - exposure	98,764	85,687
Corporate Center - valuation allowance	23,409	23,610
Total – exposure	249,238	222,728
Total - valuation allowance	69,903	59,610

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 248,726 as at 31 December 2019 (2018: TEUR 224,068), accounting for 1.51 % (2018: 1.40 %) 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 (2018: no property) were acquired by the Hypo Immobilien & Leasing Group; six properties (2018: seven properties) were sold at TEUR 1,978 (2018: TEUR 4,841).

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 2019 or in the reference year.

Past due but non-impaired receivables

TEUR Length of time overdue	31/12/2019	31/12/2018
Less than 1 day	15,927,557	15,659,387
1 to 60 days	188,953	85,663
61 to 90 days	2,385	2,240
More than 90 days	106,773	84,593
Total exposure	**16,225,668**	**15,831,883**

Loans and advances with forbearance measures

TEUR	31/12/2019	31/12/2018
Non-financial companies	26,089	33,338
Private households	2,292	4,314
Loans and advances with forbearance measures on performing loans	**28,381**	**37,652**
Public sector	562	0
Financial intermediaries	0	953
Non-financial companies	48,196	44,925
Private households	4,037	3,283
Loans and advances with forbearance measures on non-performing loans	**52,795**	**49,161**
Total loans and advances with forbearance measures	**81,176**	**86,813**

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. As of the end of 2018, the reference portfolio had a volume of TEUR 330,902.

TEUR	31/12/2019	31/12/2018
Senior tranche	198,350	256,404
Mezzanine tranche	52,385	67,717
First loss tranche	3,353	4,633
Total reference portfolio	**254,088**	**328,754**

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.

(63) LIQUIDITY RISK

Liquidity risk management is conducted to ensure the Bank's ability to pay its obligations at all times (operating liquidity) and simultaneously minimise costs associated with holding cash. The Group monitors its liquidity buffer on an ongoing basis. This includes instruments and markets available for refinancing and assets that are convertible into cash (tactical liquidity management). As part of strategic liquidity management, the Group manages the maturities of its assets and liabilities and defines a corresponding issuance strategy. Monitoring involves gap analyses and forecasting the issue volume required for the calendar year. The Group tries to identify potential risks by carrying out regular stress tests. Contingency plans are in place to ensure the Bank's continued solvency in the event of a liquidity crisis.

The Bank employs the following control instruments to identify and contain liquidity risks:

Operational
- Limiting weekly liquidity gaps on the money market
- Ratios of amounts payable and receivable within three months

Strategic
- Limiting cumulative annual liquidity gaps on the capital market
- Forecasting the issue volume required for the calendar year
- Liquidity value at risk

Stress tests
- Liquidity needs versus buffer in crisis situation

The Group is aware of the key significance of the capital market for funding. Relationships with investors are established and maintained through regular road shows. The Group aims for a diverse issuance policy with regard to markets, instruments and investors.

The Bank's liquidity buffer 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), (33) and (36). 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 (34) to (35), (37) and (40). 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
31/12/2018	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

TEUR	Assets		Liabilities		Total
31/12/2019	Assets	Derivatives	Liabilities	Derivatives	
January 2020	1,047,010	187,706	-752,474	-189,089	293,153
February 2020	183,493	26,161	-128,612	-25,159	55,883
March 2020	380,749	87,740	-103,133	-88,608	276,748
April 2020	127,457	259,519	-698,232	-274,931	-586,187
May 2020	67,043	17,706	-90,895	-11,423	-17,569
June 2020	245,479	22,720	-146,576	-26,064	95,559
July 2020	123,005	27,736	-87,814	-21,605	41,322
August 2020	108,667	18,191	-74,200	-18,202	34,456
September 2020	202,399	13,046	-76,480	-14,386	124,579
October 2020	113,433	3,684	-91,272	-2,308	23,537
November 2020	79,129	22,785	-77,822	-16,830	7,262
December 2020	63,096	17,832	-320,053	-16,749	-255,874

Development of maturities on the capital market

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

TEUR	Assets		Liabilities		Total
31/12/2019	Assets	Derivatives	Liabilities	Derivatives	
2020	3,056,868	708,447	-2,676,114	-711,364	377,837
2021	1,823,179	155,982	-2,131,412	-143,008	-295,259
2022	1,537,707	95,294	-1,239,912	-82,502	310,587
2023	1,196,671	71,701	-717,335	-63,293	487,744
2024	1,237,034	192,354	-1,187,723	-192,671	48,994
2025	772,061	354,769	-959,203	-346,050	-178,423
2026	728,629	92,500	-764,885	-88,665	-32,421
2027	557,095	43,300	-826,765	-34,964	-261,334
2028	565,466	57,082	-228,584	-49,557	344,407
2029	554,028	34,716	-538,501	-25,485	24,758
2030	323,413	27,107	-200,097	-17,703	132,720
2031	304,519	25,747	-249,686	-15,665	64,915

(64) 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 security and crisis management manual are 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 for 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 to minimise legal risks, where necessary in consultation with specialist lawyers.

(65) 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 Österreichische Nationalbank on a quarterly basis.

In 2019, 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 %. Among others, in 2019, an additional capital conservation buffer of 2.50 % (2018: 1.88 %) was created that increased continuously until 2019. Hypo Vorarlberg Bank AG met the regulatory capital requirements in accordance with CRR both in the year under review and the previous year.

The amount of regulatory capital held by the Bank Group is determined by Central Accounting and consists of three tiers. CRR provides appropriate transitional regulations for the period from 2014 to 2021. The Group does not apply these transitional regulations.

Common equity tier 1 capital – CET1

This includes the eligible and paid-in capital instruments, share premium accounts related to these instruments, retained earnings, eligible profit/ loss for the year, accumulated other comprehensive income, and other reserves. 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. 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. 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. 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, 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 according to CRR

Total risk exposure according to CRR

TEUR	31/12/2019	31/12/2018
Risk weighted exposure amounts	8,010,756	7,284,299
Risk exposure amount for settlement and delivery risks	25	0
Total risk exposure amount for position, foreign exchange and commodities risks	619	242
Total risk exposure amount for operational risk	420,969	440,523
Total risk exposure amount for credit valuation adjustment	23,799	30,642
Total risk exposure amount	8,456,168	7,755,706

Common equity tier 1 capital (CET1) according to CRR

TEUR	31/12/2019	31/12/2018
Capital instruments eligible as CET1 capital	206,826	206,826
Retained earnings	861,972	806,135
Accumulated other comprehensive income	-5,568	-1,630
Other reserves	132,567	128,472
Minority interests	27	34
Adjustments to CET1 due to prudential filters	-3,002	-7,492
Intangible assets	-2,796	-2,486
Common equity tier 1 capital (CET1)	1,190,026	1,129,859

Additional tier 1 capital (AT1) according to CRR

TEUR	31/12/2019	31/12/2018
Capital instruments eligible as AT1 capital	50,000	50,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	5	7
Additional tier 1 capital (AT1)	50,005	50,007

Tier 2 capital (T2)

TEUR	31/12/2019	31/12/2018
Capital instruments and subordinated loans eligible as T2 capital	269,635	199,888
Instruments issued by subsidiaries that are given recognition in T2 capital	7	9
Tier 2 capital (T2)	269,642	199,897

Composition of own funds according to CRR and capital ratios

TEUR	31/12/2019	31/12/2018
Common equity tier 1 capital (CET1)	1,190,026	1,129,859
Additional tier 1 capital (AT1)	50,005	50,007
Tier 1 capital	1,240,031	1,179,866
Tier 2 capital (T2)	269,642	199,897
Own funds	1,509,673	1,379,763
CET1 capital ratio (CET1)	14.07 %	14.57 %
Surplus of CET1 capital	809,498	780,852
T1 capital ratio (T1)	14.66 %	15.21 %
Surplus of T1 capital	732,661	714,523
Total capital ratio	17.85 %	17.79 %
Surplus of total capital	833,179	759,307

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(66) 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. 1–15 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the notes to the consolidated financial statements.

(67) 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 (42).

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 (33).

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 (43).

The balance sheet items “Financial liabilities at fair value (option)” and “Financial liabilities at amortized 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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LFVO	4	6	32,031	32,844
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) LAC	4	13	301,925	203,234
Additional tier 1 capital according to Part Two Title I Chapter 3 (EU-Reg. 575/2013) - LAC	2	2	50,533	50,534

TEUR	Average interest		Average remaining term	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LFVO	1.760 %	1.693 %	8.6	9.3
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	3.531 %	3.609 %	6.5	5.7
Additional tier 1 capital according to Part Two Title I Chapter 3 (EU-Reg. 575/2013) - LAC	6.074 %	6.074 %	no maturity	no maturity

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, EUR 99,988,000, fixed interest rate 5.0%, term 2012 to 2022, no call or conversion option, repaid at end of term at nominal value
- Subordinated bond ISIN AT0000A1GTF4, EUR 49,857,000, fixed interest rate 4.5 %, term 2015 to 2025, no call or conversion option, repaid at end of term at nominal value.
- Subordinated bond ISIN AT0000A1YQ55, EUR 50,000,000, fixed interest rate 3.1 %, term 2017 to 2027, no call or conversion option, repaid at end of term at rate of 100.
- Subordinated bond ISIN CH0461238948, CHF 100,000,000, fixed interest rate 1.625 %, term 2019 to 2029, no call or conversion options, repaid at end of term at rate of 100.

Additional tier 1 capital was generated in the amount of EUR 10,000,000 in 2016 by issuing the Hypo Vorarlberg additional tier 1 bond 2016, ISIN AT0000A1LKA4. The distribution corresponds to 5.87 % p.a. for the first 10 years and subsequently to the six-month Euribor plus 5.30 % p.a. (annual payment). It can be called by the issuer after 10 years and subsequently on an annual basis. In 2018, additional tier 1 capital in the amount of EUR 40,000,000 was generated by issuing the Hypo Vorarlberg additional tier 1 bond 2018, ISIN AT0000A20DC3. The distribution corresponds to 6.125 % p.a. for the first 12 years and one month and subsequently to the six-month Euribor plus 5.00 % p.a. (semi-annual payment). It is redeemable for the first time at the issuer’s discretion after 12 years and one month, and subsequently on an annual basis. The accrued interest as at the reporting date amounts to TEUR 320 (previous year: TEUR 321) for both bonds. The bonds are unsecured and subordinated and have an indefinite term.

In 2020, bonds and other fixed-income securities in accordance with Section 64 (1) No. 7 BWG totalling TEUR 428,609 (2019: TEUR 397,587) and issued bonds totalling TEUR 687,809 (2019: TEUR 880,000) 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 (47).

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.

In 2019, the interest expense for subordinated liabilities according to Section 64 (1) No. 13 BWG was TEUR 9,497 (2018: TEUR 9,673).

The disclosure pursuant to Section 64 (1) No. 15 BWG can be read in note (69). The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service. As at 31 December 2019, the trading portfolio includes investment funds of TEUR 151 (2018: TEUR 176).

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 (41) and (65).

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 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 amortized cost and OCI	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

TEUR 2019	Austria	Switzerland	Italy	Czech Republic
Net interest income	147,865	8,187	13,489	0
Dividend income	1,451	0	0	0
Net fee and commission income	36,055	597	-186	0
Net result from financial instruments at amortized cost and OCI	-12	-2	0	0
Net result from financial instruments at fair value	12,051	372	13	0
Administrative expenses	-86,299	-4,678	-5,306	-8
Impairments	-6,020	-284	-1,281	0
Earnings before taxes	87,004	3,823	875	-10
Taxes on income	-18,816	-666	-1,834	0
Number of full-time equivalent employees	660	19	40	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 are no longer operational and are to be liquidated.

The return on total assets in accordance with Section 64 (1) No. 19 BWG is 0.66 % (previous year: 0.36 %).

(68) 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 – IZDTower, 1220 Vienna per Section 266 UGB.

TEUR	2019	2018
Expenses for auditing the consolidated financial statements	202	211
Expenses for other auditing services	38	38
Expenses for other services	11	12
Total fees	**251**	**261**

(69) 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 31/12/2019	Listed 31/12/2019	Not listed 31/12/2018	Listed 31/12/2018	Total 31/12/2019	Total 31/12/2018
Debt securities at fair value (non-SPPI)	94,736	150,962	114,353	167,866	245,698	282,219
Debt securities at fair value (option)	65,806	0	67,119	0	65,806	67,119
Debt securities at amortized cost	2,404,159	83,544	2,402,390	89,997	2,487,703	2,492,387
Equity securities trading assets	151	0	176	0	151	176
Equity securities at fair value (non-SPPI)	27,893	0	85,954	5	27,893	85,959
Total securities	**2,592,745**	**234,506**	**2,669,992**	**257,868**	**2,827,251**	**2,927,860**
of which non-current assets	2,581,885	234,506	2,656,469	257,868	2,816,391	2,914,337
of which current assets	10,709	0	13,347	0	10,709	13,347
of which trading assets	151	0	176	0	151	176

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 51,511 (2018: TEUR 60,011). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was TEUR 15,199 (2018: TEUR 13,969). At 31 December 2019, subordinated capital in the portfolio securities had a nominal value of TEUR 468 (2018: TEUR 2,544).

(70) 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	UGB Share-holders' equity	UGB Net result	UGB Total assets	Date of fiancial statements
HV-Finanzdienstleistungs- und Immobilien GmbH, DE-Kempten	100.00	175	-23	198	31/12/2019
Hotel Widderstein Besitz & Verwaltungs GmbH, Dornbirn	100.00	104	12	104	31/12/2019
"ATZ" Besitz- und VerwaltungsGmbH, Dornbirn	100.00	603	913	603	31/12/2019
Total		**882**	**902**	**905**	

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	UGB Share-holders' equity	UGB Net result	UGB Total assets	Date of fiancial statements
"Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	33.33	37	0	423	31/12/2019
CAMPUS Dornbirn II Investment GmbH, Dornbirn	30.00	4,769	313	19,963	31/12/2018

VI. MANAGING BOARD
AND 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

Karl Fenkart
State official, Lustenau

Eduard Fischer
Entrepreneur, Offsetdruckerei Schwarzach Ges.m.b.H., Dornbirn

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

Karlheinz Rüdisser
Deputy State Governor of Vorarlberg (retired), Lauterach

Birgit Sonnbichler
Entrepreneur, Dornbirn

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

Andreas Hinterauer
Works council delegate

Elmar Köck
Works council delegate

Gerhard Köhle
Works council delegate

Peter Niksic
Works council delegate

As of March 2020

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 2019. The share of voting rights corresponds to the equity interest.

Company name, place	Percentage of capital	Date of financial statement
“Hypo-Rent” Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00 %	31/12/2019
LD-Leasing GmbH, Dornbirn	100.00 %	31/12/2019
Hypo Vorarlberg Leasing AG, IT-Bozen	100.00 %	31/12/2019
HYPO VORARLBERG HOLDING (ITALIEN) G.m.b.H, IT-Bozen	100.00 %	31/12/2019
Hypo Vorarlberg Immo Italia srl, IT-Bozen	100.00 %	31/12/2019
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31/12/2019
Hypo Immobilien Besitz GmbH, Dornbirn	100.00 %	31/12/2019
“Immoleas IV“ Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31/12/2019
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00 %	31/12/2019
“HERA“ Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31/12/2019
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00 %	31/12/2019
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00 %	31/12/2019
Hypo Versicherungsmakler GmbH, Dornbirn	100.00 %	31/12/2019
Hypo Immobilien Investment GmbH, Dornbirn	100.00 %	31/12/2019
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00 %	31/12/2019
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100.00 %	31/12/2019
HIL Immobilien GmbH, Dornbirn	100.00 %	31/12/2019
HIL BETA Mobilienverwertung GmbH, Dornbirn	100.00 %	31/12/2019
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00 %	31/12/2019
HIL Baumarkt Triester Straße Immobilienleasing GmbH, Dornbirn	100.00 %	31/12/2019
HIL Real Estate alpha GmbH, Dornbirn	100.00 %	31/12/2019
HIL Real Estate International Holding GmbH, Dornbirn	100.00 %	31/12/2019
INPROX Praha Michle - HIL s.r.o., CZ-Prag	100.00 %	31/12/2019
INPROX Praha Letnany - HIL s.r.o., CZ-Prag	100.00 %	31/12/2019
“POSEIDON“ Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00 %	31/12/2019
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00 %	31/12/2019
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00 %	31/12/2019
D. TSCHERNE Gesellschaft m.b.H., Wien	100.00 %	31/12/2019
VKL IV Leasinggesellschaft mbH, Dornbirn	100.00 %	31/12/2019
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	100.00 %	31/12/2019
HYPO EQUITY Beteiligungs AG, Bregenz*)	100.00 %	30/09/2019
KUFA GmbH, Bregenz*)	100.00 %	30/09/2019
AURORA - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30/09/2019
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz*)	79.19 %	30/09/2019
ECOS Venture Capital Beteiligungs GmbH, Wien*)	79.19 %	30/09/2019
METIS - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30/09/2019
PAXO - Beteiligungs und Verwaltungs GmbH, Bregenz*)	79.19 %	30/09/2019
SOCE - AC Holding GmbH, Wien*)	79.19 %	30/09/2019
“HSL-Lindner” Traktorenleasing GmbH, Dornbirn	76.00 %	31/12/2019

*) The separate financial statements of these companies were prepared on 30 September 2019, as these companies’ financial years differ from the calendar year. The financial figures for the fourth quarter have been taken into consideration.

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 2019. The share of voting rights corresponds to the equity interest in each case.

Company name, place TEUR	Percentage of capital	Shareholders' equity	Total assets	Liabilities	Revenues
MASTERINVEST Kapitalanlage GmbH, Wien	37.50	4,601	8,881	4,280	1
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33	202	1,549	1,347	0
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33.33	41	42	1	-6

Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H. and IVKL 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 G.m.b.H. 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 2019. For the companies, net interest income is shown under revenues.

(71) 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	31/12/2019	31/12/2018
Assets	1,595	2,341
Financial assets	1,592	2,323
of which current	1,032	1,299
of which non-current	560	1,024
Other assets	3	18
Liabilities	1,367	2,099
Financial liabilities	1,351	2,071
of which current	41	290
of which non-current	1,310	1,781
Other liabilities	16	28
Shareholders' equity	228	242
of which non-controlling interests	55	58

TEUR	2019	2018
Net interest income	57	66
Other income	461	1,182
Other expenses	-458	-1,179
Earnings before taxes	21	72
Taxes on income	-5	-18
Income after taxes	16	54
of which non-controlling interests	-4	-13
Dividends/distributions	30	20
of which non-controlling interests	7	5

HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz

TEUR	31/12/2019	31/12/2018
Assets	11,394	59,801
Financial assets	1,007	58,910
of which current	345	448
of which non-current	662	58,462
Other assets	10,387	891
Liabilities	57	59,770
Financial liabilities	28	52,982
of which current	28	3,015
of which non-current	0	49,967
Provisions	0	140
Other liabilities	29	6,648
Shareholders' equity	11,337	31
of which non-controlling interests	2,360	-2,618

TEUR	2019	2018
Net interest income	-971	-2,190
Dividend income	2	434
Other income	7,502	1,858
Other expenses	-6	-10
Earnings before taxes	7,590	-31,731
Taxes on income	-3	1,955
Income after taxes	7,587	-29,775

(72) DISCLOSURES ON MATERIAL JOINT VENTURES AND ASSOCIATES

Financial information on material joint ventures and associates is presented in the tables below.

MASTERINVEST Kapitalanlage GmbH, Wien

TEUR	31/12/2019	31/12/2018
Assets	8,881	8,423
Financial assets	5,702	6,064
of which current	2,611	2,972
of which non-current	3,091	3,092
Other assets	3,179	2,359
Liabilities	4,280	3,746
Financial liabilities	2,724	2,584
of which current	2,724	2,584
Provisions	153	146
Other liabilities	1,403	1,016
Shareholders' equity	4,601	4,677

TEUR	2019	2018
Net interest income	1	1
Dividend income	37	36
Other income	508	555
Other expenses	-439	-393
Earnings before taxes	789	985
Taxes on income	-220	-247
Income after taxes	569	738
Dividends/distributions	645	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.

Vorarlberger Kommunalgebäudeleasing companies

TEUR	31/12/2019	31/12/2018
Assets	1,591	3,504
Financial assets	1,591	1,556
of which current	126	13
of which non-current	1,465	1,543
Other assets	0	1,948
Liabilities	1,348	1,623
Financial liabilities	1,346	1,353
of which current	0	7
of which non-current	1,346	1,346
Other assets	2	270
Shareholders' equity	243	1,881

TEUR	2019	2018
Net interest incom	-6	12
Other income	178	344
Other expenses	-632	-16
Earnings before taxes	-480	48
Taxes on income	-4	-4
Income after taxes	-484	44
Dividends/distributions	1,154	3,000

MANAGING BOARD
DECLARATION

We confirm that to the best of our knowledge the consolidated financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report presents business events, business results and the Group's position so as to provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report outlines the principal risks and uncertainties to which the Group is exposed.

We confirm that to the best of our knowledge the parent company's financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the parent company's assets and liabilities, financial condition, and results of operation, and that the management report presents business events, business results and the parent company's position so as to provide a true and fair view of its assets and liabilities, financial condition, and results of operation, and that the management report outlines the principal risks and uncertainties to which the parent company is exposed.

Bregenz, 30 March 2020

Hypo Vorarlberg Bank AG

The members of the Managing Board

Michel Haller Chairman of the Managing Board Risk Management	Johannes Hefel Member of the Managing Board Private Customers	Wilfried Amann Member of the Managing Board Corporate Customers

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 2019 and 2020, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory Board and the Managing Board, and adopted the necessary resolutions. In addition, the Supervisory Board dealt with the upcoming vacancy in the management and appointed a successor for Johannes Hefel. Philipp Hämmerle will start working for the bank on 1 May 2020, particularly taking on the responsibilities of a COO.

Supervisory Board committees
During 2019, the Audit and Risk Committee was divided into two separate committees at the authorities' request. The Audit and Risk Committee thus met twice in its original composition and once each in its new, separate forms. At their meetings, these two committees performed their control tasks to monitor the effectiveness of the internal control system, risk management system and Internal Audit. The Audit Committee dealt particularly intensively with financial reporting in the annual and quarterly financial statements. In addition, the Risk Committee conducted a review of the restructuring plan.

The Loan Committee met eleven times in the 2019 reporting year. It examined the loans and credits that required its consent. The main features of the lending policy were also agreed with the Loan Committee.

The Remuneration Committee fulfilled its responsibilities pursuant to Section 39c of the Austrian Banking Act (BWG) and met twice in 2019.

The Nomination Committee met eight times in 2019 and fulfilled its responsibilities pursuant to Section 29 BWG. With the support of an external consultant, the Nomination Committee focussed on the advertisement of the Managing Board position and the applications, and made corresponding proposals to the Supervisory Board.

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 2019 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 2019 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 2019.

Bregenz, March 2020

Chairman of the Supervisory Board

Jodok Simma

AUDITOR'S REPORT *)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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 31 December 2019, 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 31 December 2019 and its financial performance for the year then ended in accordance with the International Financial Reporting 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 judgement, were of most significance in our audit of the consolidated financial statements of the fiscal year 2019. 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. Valuation allowances for financial assets at amortized cost

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

*) 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.

1. VALUATION ALLOWANCES FOR FINANCIAL ASSETS AT AMORTIZED COST

Description:
To reflect the risk of losses in the portfolio of financial assets at amortized cost (EUR 11,892 million), the company recognised significant valuation allowances in its consolidated financial statements as at 31 December 2019 (EUR 101 million). These represent the Managing Board's best estimate of expected credit losses in the portfolio of financial assets at amortized cost at the balance sheet date.

In accordance with the regulations of IFRS 9, financial assets are measured at amortized cost depending on the classification of debt securities, 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 valuation allowances.

Valuation 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 level 3 loan receivables) or on the basis of a collective estimate (rule-based approach for level 1 and 2 loan receivables and for non-significant level 3 loan receivables).

In this regard, we refer to the information provided by the company's Managing Board in the notes to the Consolidated Financial Statements in notes (3) "Accounting Policies", (23) "Financial Assets at Amortized Cost" and (62) "Credit Risk".

The determination of the amount of valuation allowances is subject to considerable discretionary scope on the basis of the assumptions and estimates used. 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 valuation allowances recognized, we have assessed the significant processes and models in credit risk management, taking into account in particular the regulations of IFRS 9. 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 valuation allowances.

We have identified the internal control system, in particular the key controls for the purchase of debt securities 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 debt securities, loans, credits and trade receivables, we examined whether sufficient valuation allowances had been recognised. 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 valuation allowances on the basis of a collective estimate, we assessed the valuation models used and the parameters applied to determine whether they were suitable for determining appropriate allowances. We also examined the underlying data basis for its data quality and reconstructed the arithmetical accuracy of the valuation allowances.

In addition, we have checked whether the information provided by the company's Managing Board in the notes on the valuation allowances for debt securities, 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 2019, 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 total assets and that estimation uncertainties may arise with respect to the input parameters relevant to measurement, we have selected this area as a material audit issue.

In this regard, we refer to the information provided by the company's Managing Board in the notes to the Consolidated Financial Statements in note (56) "Disclosures on Fair Value" 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 company's Managing Board 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 recognition in accordance with the IFRS 9 categorisation.

In addition, we have examined whether the information provided by the company's Managing 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 and the 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 judgement 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 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 shareholders' meeting on 30 May 2018. We were appointed by the Supervisory Board on 22 June 2018. In addition, we were already elected as the auditor for the following financial year by the shareholders' meeting on 28 May 2019 and were appointed by the Supervisory Board on 2 September 2019 to audit the consolidated financial statements. We have been the auditors continuously 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. Ernst Schönhuber, Certified Public Accountant.

Vienna, 30 March 2020

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber
Certified Public Accountant

ppa Mag. Georg Fikar
Certified Public Accountant

BRANCHES AND CONTACT

BRANCH OFFICES
AND SUBSIDIARIES

HEADQUARTERS

Bregenz, Headquarters
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

Christoph Schwaninger
Head of Corporate and Internal Audit

Stefan Medenbach
Head of Digitisation

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

Karl-Heinz Strube
Head of Asset Management

Emmerich Schneider
Head of Participation Administration

Markus Seeger
Head of Group Risk Controlling

Johannes Tschanhenz
Head of Mid- and Backoffice Fonds,
Securities and Derivatives

BRANCH OFFICES

Bludenz, Am Postplatz 2
Christian Vonach, Branch Office Head and Head of Corporate Customers
Walter Hartmann, Branch Office Head Private Customers
Christoph Gebhard, Head of Private Banking

Dornbirn, Rathausplatz 6
Richard Karlinger, Branch Office Head and Head of Corporate Customers
Egon Gunz, Branch Office Head Private Customers and Head of Private Banking

Dornbirn, Messepark, Messestraße 2
Lena-Maria Schuler, Head of Service Customers

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

Höchst, Hauptstraße 25
Helgar Helbok, Branch Office Manager

Hohenems, Bahnhofstraße 19
Andreas Fend, Branch Office Head

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
Katharina Woletz, Head of Service and Private Customers

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

Wien, 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

REGIONAL HEAD OFFICE

St. Gallen, Schweiz, Bankgasse 1
Dieter Wildauer, Regional Manager Switzerland
Thomas Reich, Head of Back Office

SUBSIDIARIES IN AUSTRIA

Hypo Immobilien & Leasing GmbH
Dornbirn, Poststraße 11
Wolfgang Bösch, Managing Director
Peter Scholz, Managing Director

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

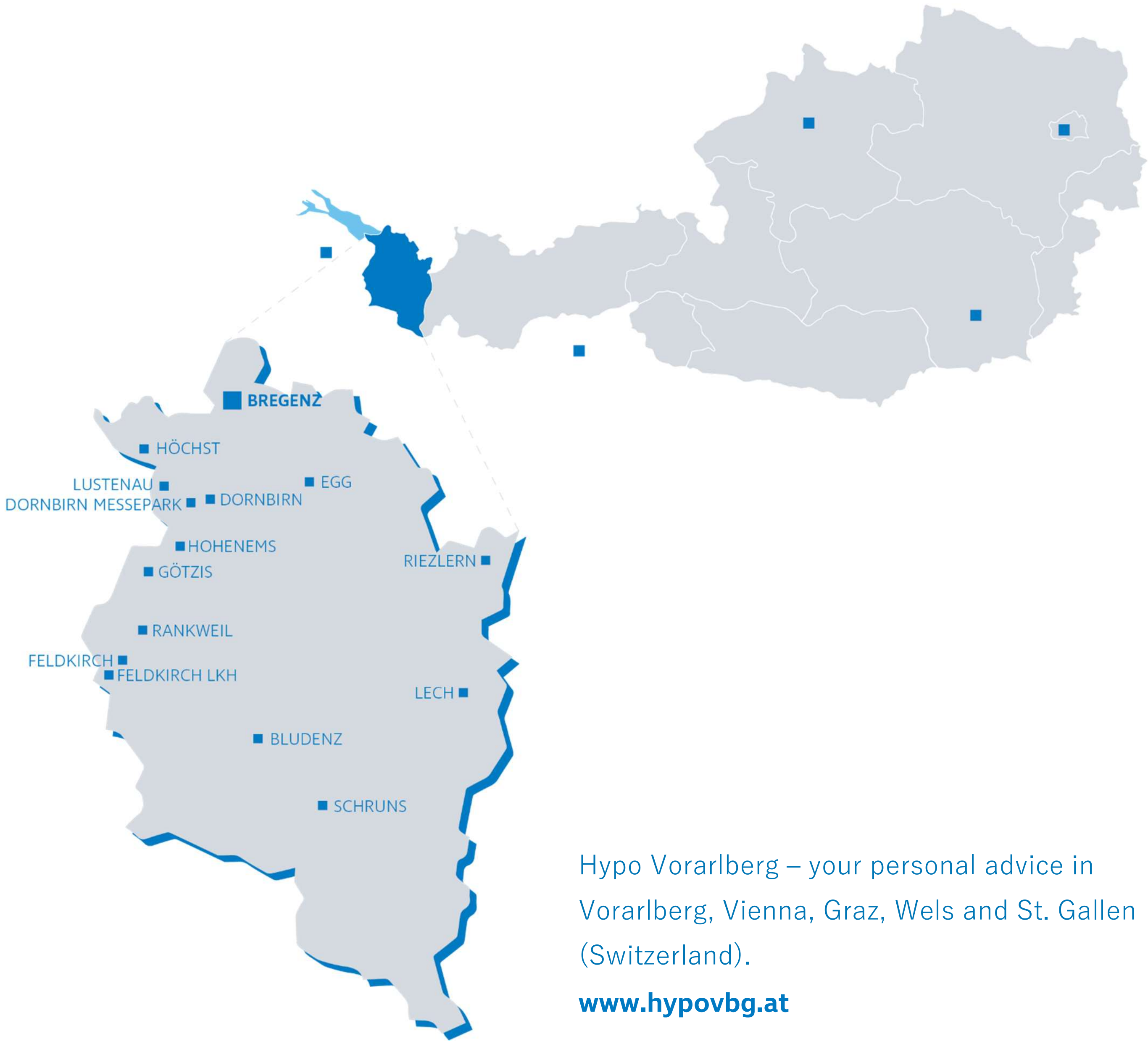
SUBSIDIARIES IN ITALY

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

Hypo Vorarlberg Immo Italia GmbH
Bolzano, Galileo-Galilei-Straße 10 H
Alexander Ploner, Delegate of the Board of Directors

ALWAYS CLOSE BY
LOCATIONS AND BRANCHES

In addition to our branches in Vorarlberg, we also have locations in the most important economic centres in Austria and in Eastern Switzerland. This way we can take care of our customers outside of Vorarlberg and, at the same time, personally convince others of the quality of our performance.



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

www.hypovbg.at

Imprint
Publisher and source: Hypo Vorarlberg Bank AG
Hypo-Passage 1, 6900 Bregenz, Austria, T +43 50 414-0
info@hypovbg.at, www.hypovbg.at
This annual report is also available as PDF: www.hypovbg.at
BLZ 58000, BIC / SWIFT HYPVAT2B, DVR 0018775,
UID ATU 36738508, FN 145586y
Edited by: Hypo Vorarlberg Bank AG, Bregenz / Austria
Photographs: Marcel Mayer, Manfred Oberhauser