QUARTERLY REPORT AS AT 30 September 2017

HYPO VORARLBERG BANK AG

CONTENTS

KEY FIGURES OF HYPO VORARLBERG BANK AG

Group reporting per IFRS:

in '000 EUR	(Notes)	30.09.2017	31.12.2016	Change in '000 EUR	Change in %
Total assets		13,138,266	13,324,387	–186,121	–1.4
Loans and advances to customers (L&R)		9,260,330	9,049,998	210,332	2.3
Amounts owed to customers (LAC)		5,270,024	5,282,097	–12,073	–0.2
Liabilities evidenced by certificates (LAC)	(12)	3,253,329	2,682,267	571,062	21.3
Own funds according to CRR	(20)	1,214,019	1,246,529	–32,510	–2.6
thereof Tier 1 capital	(20)	1,006,850	1,005,715	1,135	0.1
Total capital ratio according to CRR	(20)	16.15%	16.52%	–0.37%	–2.2

in '000 EUR	(Notes)	01.01.–30.09.2017	01.01.–30.09.2016	Change in '000 EUR	Change in %
Net interest income after loan loss provisions		123,691	166,197	–42,506	–25.6
Net fee and commission income	(3)	25,977	25,223	754	3.0
Net trading result (not including change in own credit risk)	(5)	10,187	18,062	–7,875	–43.6
Administrative expenses	(6)	–76,300	–74,653	–1,647	2.2
Operating result before change in own credit risk		61,715	126,210	–64,495	–51.1
Earnings before taxes		58,430	91,393	–32,963	–36.1

Key figures	(Notes)	01.01.–30.09.2017	01.01.–30.09.2016	Change absolute	Change in %
Cost-Income-Ratio (CIR)		57.34%	58.57%	–1.23%	–2.1
Return on Equity (ROE)		7.91%	17.92%	–10.01%	–55.8
Employees	(17)	717	718	–1	–0.1

The shareholders of Hypo Vorarlberg Bank AG as at 30 September 2017 are:

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

Rating*	Standard & Poor's	Moody's
Long-term for liabilities with state deficiency guarantee	–	A3
liabilities without state deficiency guarantee	A	Baa1
Short-term	A–1	P–2

* In October 2017, Standard & Poor's (S&P) announced their rating for Hypo Vorarlberg: "A" for non-current liabilities and "A–1" for current liabilities, with a stable outlook. The Bank is currently rated "Baa1" by Moody's, also with a stable outlook. This makes Hypo Vorarlberg one of the best-rated banks in Austria

GROUP MANAGEMENT REPORT IN ACCORDANCE WITH IFRS AS AT 30 SEPTEMBER 2017

BANKING ENVIRONMENT

Global economy and euro zone

The global purchasing manager indices in the manufacturing sector currently presents a robust picture of the world economy. The expected US economic performance for the third quarter of 2017 was surprisingly positive despite the turbulent hurricane season. After two increases in interest rates in the first half of 2017, the US Federal Reserve (Fed) left interest rates unchanged in the third quarter, but prepared financial markets for the possibility of a further increase by the end of the year.

Good sentiment continued in the European economic area as well. In the third quarter, momentum increased slightly, also positively impacting the labour market. Inflation picked up as well, but remained below the target of the European Central Bank (ECB) of almost 2%. Despite this positive development, at the meeting of the international central banks in Jackson Hole ECB president Mario Draghi remained silent, with regard to an imminent exit from the expansionary monetary policy, not least because of the strength of the Euro. As a result, yields on bond markets dropped sharply. The hesitation of the ECB also unsettled stock market investors for many weeks. This trend was in sharp contrast to the pronounced economic optimism. For example, ifo business climate index reached a new all-time high.

On the other hand, lower liquidity in the summer and increased investor caution resulting from diplomatic dissonance between North Korea and the US tended to impact negatively. Since September, which many shareholders recall as a terrible month, stock markets recovered. It was then that institutional buyers used the depressed prices levels to buy up stocks with good dividends. Investors generated good returns investing in the domestic stock market, in emerging countries as well as in European small and mid caps.

Austria

According to the latest flash estimate by the Austrian Institute of Economic Research (WIFO), Austria's economy grew by 0.8% quarter-on-quarter in the third quarter of 2017, after 0.8% in the penultimate three months. GDP growth was driven primarily by strong consumer demand, expanded corporate investments and exports. Industrial activity gathered pace, value creation in goods manufacturing recorded the highest increase since 2010. In the third quarter, inflation inched upwards. In September 2017, inflation in Austria averaged 2.4% for the year.

Commodities and currencies

The evident recovery of the economy led to an increased demand even on the commodities market. Especially industrial metals gained strongly as did crude oil prices. The price of North Sea Brent even posted a two-year high in September 2017. With increasing geopolitical risks, gold was rediscovered as a safe haven. The accented weakness of the dollar was a factor in a considerable increase in the gold price. Towards the end of the third quarter, together with burgeoning fantasy on interest rate hikes, this segment saw profit taking. The upward trajectory of the euro continued into the third quarter, while the US dollar and Swiss franc declined again. Compared with the beginning of 2017 the US dollar was priced approximately 10% weaker against the euro, while the Swiss franc depreciated by around 6%.

BUSINESS PERFORMANCE

Income statement

As at 30 September 2017, Hypo Vorarlberg Bank AG generated earnings before taxes of TEUR 58,430 (30 September 2016: TEUR 91,393).

The operating result before changes in the Bank's own credit risk was TEUR 61,715 in the third quarter of 2017, considerably below the result in the same period the previous year (30 September 2016: TEUR 126,210). The previous year's result was positively influenced by significant reversals of valuation allowances, particularly in connection with the HETA solution, while the key negative factor on the 2017 result was from equity consolidation.

While the high level of liquidity reflects full confidence among customers, the ECB's policy of negative interest rates had an impact on Hypo Vorarlberg's net interest income. Net interest income of TEUR 120,312 was generated as of 30 September 2017 (30 September 2016: TEUR 124,637). At the same period of the previous year, provisions were reversed resulting in a positive figure of TEUR 3,379 for loan loss provisions (30 September 2016: TEUR 41,560). Net interest income after loan loss provisions decreased from TEUR 166,197 in the previous year to TEUR 123,691 (-25.6%). The Bank recognised sufficient provisions for all identifiable risks.

Hypo Vorarlberg's net fee and commission income developed positively in the first nine months of 2017. Net fee and commission income amounted to TEUR 25,977 as at 30 September 2017, thus increasing by 3.0% (2016: TEUR 25,223). The net trading results (without changes in the Bank's own risk) decreased from TEUR 18,062 to TEUR 10,187, which is primarily attributable to measurement effects.

The headcount of 717 employees (full time equivalents) has remained essentially the same as last year (–0.1%), while staff costs decreased slightly from TEUR 45,728 to TEUR 45,364. Material expenses came to TEUR 26,950, up 8.0% on the level of the same quarter in the previous year (TEUR 24,958), this was primarily caused by higher IT costs. Total administrative expenses as at 30 September 2017 amounted to TEUR 76,300, a 2.2% rise year on year (30 September 2016: TEUR 74,653).

Net result from equity consolidation totalled TEUR –17,908 in the first three quarters of 2017 (30 September 2016: TEUR 2,464). The negative net result is attributable to a write-down of the investment in HYPO EQUITY Unternehmensbeteiligungen AG in the first quarter. Reasons behind this write-down were the stalled exit process and the associated liquidity requirement of a portfolio company, in which HUBAG holds an interest. In the third quarter of 2017, Hypo Vorarlberg acquired a further stake in HUBAG and now holds 79.19% of the voting rights.

Adjusted for taxes, Hypo Vorarlberg reported consolidated net income of TEUR 41,363 as at 30 September 2017 (30 September 2016: TEUR 70,064).

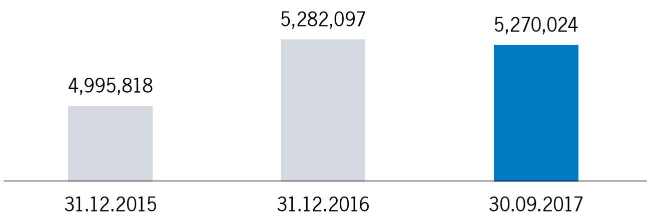
The Cost-Income Ratio (CIR) of 57.34% and the total capital ratio according to CRR of 16.15% underline the fact that Hypo Vorarlberg is a healthy, successful and efficient bank.

Balance sheet development

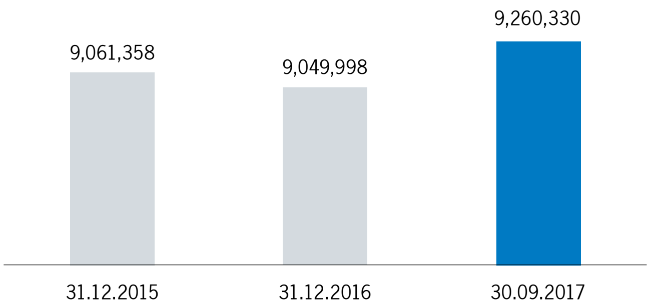
Total consolidated assets decreased 1.4% to TEUR 13,138,266 in the third quarter of 2017 (31 December 2016: TEUR 13,324,387). Of this amount, TEUR 9,260,330 is attributable to loans and advances to customers, up 2.3% on 31 December 2016. Liabilities to customers declined slightly by 0.2% from TEUR 5,282,097 to TEUR 5,270,024.

Financial liabilities designated at fair value declined by 52.7% to TEUR 1,336,772 as at 30 September 2017 (31 December 2016: TEUR 2,826,384). It relates predominantly to high volume repayments with the state guarantee being discontinued.

Development of liabilities to customers (in '000 EUR)



Development of loans and advances to customers (in '000 EUR)



Own funds
The paid-in capital of Hypo Vorarlberg amounted to TEUR 165,453. Own funds totalled TEUR 1,214,019 as at 30 September 2017 (31 December 2016: TEUR 1,246,529). The total capital ratio is 16.15 % (31 December 2016: 16.52 %). With a Tier 1 capital (T1) ratio of 13.39 % (31 December 2016: 13.33 %) and a Common Equity Tier 1 (CET 1) ratio of 13.26 % (31 December 2016: 13.21 %), Hypo Vorarlberg already fulfils the highest level of the Basel III standards applicable since 1 January 2014. These figures are comfortable in light of the risk profile. The Managing Board continues to pay particular attention to strengthening the Bank's capital adequacy in order to ensure an excellent credit rating and hence favourable refinancing conditions for the future.

Panama Papers
Following the publication of the "Panama Papers" in early April 2016, with which Hypo Vorarlberg was also linked, the FMA examined the Bank's offshore business as part of a special investigation. After a commission of enquiry called for by the Vorarlberg SPÖ political party was curtailed due to a lack of significant findings, a final report was issued and supplemented by minority reports from individual parties in early 2017.

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

Rating of Hypo Vorarlberg
Since October 2015, Standard & Poor's (S&P) has rated Hypo Vorarlberg as "A–" for non-current liabilities and "A–2" for current liabilities (outlook: stable). In October 2017, due to higher capitalisation among other matters, the Bank improved its S&P rating by one notch: "A" for non-current liabilities and "A–1" for current liabilities with positive outlook. The Bank is currently rated "Baa1" by Moody's, with a stable outlook. This makes Hypo Vorarlberg one of the best-rated financial institutes in Austria.

As the first bank in Vorarlberg, Hypo Vorarlberg has also received an outstanding rating in the sustainability sector. Oekom research AG, one of the leading rating agencies in the sustainable investment sector, has awarded the Bank with the "C" rating in oekom Corporate Rating from May 2017 and therefore ranked in the Prime sector. With this result, market-traded securities of Hypo Vorarlberg qualify as environmentally and socially ethical investments.

DEVELOPMENT BY SEGMENT

Corporate Customers/Public Sector
The Corporate Customer business at Hypo Vorarlberg developed stably in the third quarter of 2017. Despite conservative measurement in the lending business, risk costs are low and point to the excellent condition of companies in the Bank's market areas.

In the second quarter, Hypo Vorarlberg brought a pioneering innovation onto the market: "Hypo Office Banking" (HOB). It is thus the first Austrian bank to provide an international, multibank online payment transaction application. HOB enables companies to manage all their national and international accounts in one web-based system.

In the first three quarters of 2017, Hypo Vorarlberg achieved a pleasing earnings and volume performance across all markets in the Corporate Customers segment. Net interest income as at 30 September 2017 amounted to TEUR 68,662, up 2.8 % compared to the previous year (2016: TEUR 66,881). Net fee and commission income increased to TEUR 9,564, up significantly in comparison to the end of September 2016 (TEUR 8,935). Loan loss provisions remained at a low level. As in the previous year, Hypo Vorarlberg reported a positive figure in the third quarter. Overall, the Corporate Customers segment generated earnings before taxes of TEUR 54,305 as at 30 September 2017 (2016: TEUR 52,839), an upturn of 2.8 %.

Private Customers
In its Private Company business, Hypo Vorarlberg offers its customers top quality advisory services. Personal customer relationships continue to be the focus – especially in residential construction financing and demanding investments.

Due to low interest rates, long-term financing for the creation of housing is in high demand in the Private Customers segment. Both the number of financing arrangements and the average financing amounts are steadily rising. The demand for long-term interest rate fixing is also high. Borrowers are able to fix interest rates for up to 15 years. At the same time, customer requirements are becoming increasingly individual. The Bank is responding to this with innovative solutions such as the Hypo-Lebenswert-Kredit or the Hypo-Lebenszeit-Kredit. Energy-saving investments are supported with the Hypo-Klimakredit. In the area of financing, the level of unscheduled repayments remains high. In line with a decision of the Austrian Supreme Court on dealing with negative interest rates, Hypo Vorarlberg refunded its customers overpaid interest.

While borrowers are benefiting from low interest rates, investors are being driven to find alternatives to the usual forms of investment. To achieve a return above the rate of inflation, investors with a medium and long-term horizon also have to consider more risky investment forms. Hypo Vorarlberg is meeting customer demand for returns and security with its own innovative asset management products.

Due to the advancement of digitalisation and changing customer requirements, the Bank is also continuously expanding its digital service range. The aim is to connect existing branches with the digital world in a way that enables customers to benefit from optimum interaction between technology and people. We remain confident that personal consulting will remain indispensable in future – especially for high-volume financing or extensive investments.

Despite substantial challenges – low and negative interest rates, extensive regulations and the trend towards digitisation – Hypo Vorarlberg achieved solid net fee and commission income in the Private Customers segment of TEUR 13,294 as at 30 September 2017 (2016: TEUR 13,071). Net interest income amounted to TEUR 22,432, thus significantly decreasing year-on-year (2016: TEUR 26,761) because margin on deposits declined again as a result of negative interest rates.

Administrative and other expenses are very high, due to the high project and investment costs. These include investments in digital development and payments to the deposit protection fund and the single resolution fund. Overall, the Private Customers segment generated earnings before taxes of TEUR 1,861 in the period under review (2016: TEUR 6,232).

Private Banking and Asset Management
In Private Banking and Wealth Management, Hypo Vorarlberg attaches importance to long standing and trusting relationships with its customers. As sparring partners for the customers, advisors listen to them and take time in order to gain the trust and understanding required for long-term and robust investment concepts. Excellent service, high-quality advice and attentiveness when handling customer assets result in valuable recommendations.

Demand for asset management strategies and investment products is growing because of the economically and politically challenging environment. The regular adjustment of the portfolio via the specially designed "Hypo Vermögensoptimierung", which is an asset optimisation process, gives both private and corporate investors the security of investing in line with the market environment. A large number of asset classes allows for flexible investing and for target returns to be achieved on a risk-optimised basis. The assets managed by Asset Management amounted to TEUR 848,327 in total as at 30 September 2017. A total of 2,914 mandates were managed.

On this basis, the Bank will continue expanding Wealth Management, which is the top segment of its investment business.

International performance standards in Asset Management
The auditing company PricewaterhouseCoopers Zürich reviews the compliance of our Asset Management based on the Global Investment Performance Standards (GIPS) ® on a regular basis. The last review as at year-end 2016 was carried out in spring 2017. Since 2005, Hypo Vorarlberg has been the first and is still the only Austrian bank whose Asset Management is certified according to these international standards.

Financial Markets/Treasury
Financial Markets again achieved a very pleasing performance in the third quarter of 2017. Ongoing narrowing of credit spreads combined with high investor demand for fixed income investment opportunities offered issuers almost ideal conditions to participate on the capital market with new issues. In September, Hypo Vorarlberg again took advantage of the opportunity to tap the capital market with a public EUR transaction. This concluded refinancing planning in the public sector for 2017, at the same time partially refinancing the high level of maturities resulting from the maturing issues with a state deficiency guarantee.

In the third quarter, Hypo Vorarlberg carried out ten new issues with a total volume of around TEUR 905,000. These included seven private placements, one retail issue and a senior unsecured green bond with a volume of TEUR 300,000. With the successful placement of its green bond, Hypo Vorarlberg is a trailblazer among the Austrian banks, having taken the opportunity of combining sustainable aspects of the business with targeted investor demand. In addition, the security is the first green bond of an Austrian bank to be listed on the Vienna Stock Exchange. Energy-efficient homes and commercial properties in Vorarlberg are financed or refinanced with proceeds from the bond issue.

A net volume of approximately TEUR 143,700 was invested in bonds by ALM/Investment in the reporting period. The weighted remaining term of these new investments is 4.3 years. The volume of nostro bonds totalled TEUR 2,679,000 as at the end of September 2017.

In the third quarter of 2017, Hypo Vorarlberg's readily available short-term liquidity declined as scheduled by more than EUR 1 billion to what remained a positive value. Over the past few months, extensive arrangements were made for higher liquidity requirements in the reporting quarter as a result of the expiry of numerous issues with a state deficiency guarantee. These measures were effective as evidenced by the LCR ratio, which at all times is well over the 100% mark which is the legal requirement as of 2018.

Securities sales in the branches amounted to around TEUR 269,300 in the third quarter of 2017, equivalent to a year-on-year upturn of approximately TEUR 84,500 or 45.7%. This TEUR 269,300 trading volume corresponds roughly to the average of the past few years. Investment interest continues to focus more on shares, certificates and warrants. Interest in bond investments remains low.

The volume under management in Fund Service amounted to TEUR 7,057,000 (–0.47%) in the third quarter of 2017. Two public funds were merged due to cost reasons, one public fund is still in liquidation.

As at 30 September 2017, Hypo Vorarlberg managed a total of 1,031 swaps, interest rate options and currency options with a nominal volume of around TEUR 9,200,000. In the third quarter of 2017, cash collateral of partner banks changed from TEUR 34,400 to TEUR 65,400 due to market value changes.

Overall, the first three quarters of 2017 were very positive for the Financial Markets division and projects such as green bond and preparations for synthetic securitisation were implemented as planned. Financial Markets generated a result before taxes of TEUR –2,274 as at 30 September 2017. As in the previous year, the negative figure is attributable primarily to remeasurement effects. The further development will largely depend on events on the financial markets.

Corporate Center/Leasing and Real Estate
In addition to the Bank's core business segments, the Corporate Centre item includes the property and leasing business, insurance services and strategic investments.

Hypo Vorarlberg's entire Austrian and Swiss leasing and real estate business is bundled in Dornbirn-based Hypo Immobilien & Leasing GmbH. Additional locations are Bregenz, Bludenz, Feldkirch and Vienna. The company's range of real estate services extends from real estate brokerage through property appraisal, construction management and property management to facility management. It offers optimal financing solutions involving vehicle, movables and real estate leasing for private customers and SMEs. In the area of leasing, sales activities via bank employees in Eastern Austria were supplemented by the launch of direct sales throughout Austria.

The area of property appraisal is being expanded further in Vienna. Since the end of 2015, the Vienna team of Hypo Immobilien & Leasing GmbH has been based in the Zacherlhaus building together with the Bank. The team in Vienna is now supported by a dedicated real estate broker.

Hypo Vorarlberg Leasing AG is a subsidiary of Hypo Vorarlberg. The company has its head office in Bolzano and has branch offices in Como and Treviso. Hypo Vorarlberg Leasing develops leasing solutions, particularly in the real estate, renewable energy and municipality sectors. It offers its products and services on the Northern Italian market.

The Corporate Centre reported earnings before taxes of TEUR 4,538 (2016: TEUR 40,470) as at 30 September 2017. The decline in earnings is attributable to a partial write-down of the investment in HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) in the first quarter of 2017. In connection with the injection of liquidity, Hypo Vorarlberg acquired a majority share in the company. Closing took place in the third quarter. On the basis of purchasing shares, the Bank increased its holding in HUBAG from 43.28% to 79.19%.

OUTLOOK

Economic environment

According to WIFO, Austria's GDP grew by 0.8% year-on-year in the third quarter of 2017. Growth is broad-based and gaining momentum from both Austria and abroad. The Austrian Economic Chamber (WKO) anticipates GDP growth totalling 2.8% as a whole in 2017. According to the Austrian Economic Chamber's estimates (consumer price index calculated on a national basis), inflation is expected to amount to 1.9% in 2017, meaning that gross income per capita is stagnating in real terms.

Focus areas for 2017/2018

Although the economic and legal environment is forcing a realignment throughout the entire banking industry, the Managing Board will continue to pursue Hypo Vorarlberg's established, broad-based business model. New regulations require banks to build up additional equity and secure a cost-optimal liquidity supply, while costs are rising steadily.

Low and negative interest rates and new technological challenges for banks and their services are also bringing about changes. To ensure the profitability of Hypo Vorarlberg in the long term, growth markets outside our home market of Vorarlberg are to be increased.

A project has been implemented in cooperation with a consulting agency in order to strengthen the brand's profile. As a result of this project, the Bank has been operating under a shortened brand name (Hypo Vorarlberg) and a new company name (Hypo Vorarlberg Bank AG) since 2 October 2017. Subsequently, the new brand profile will be implemented comprehensively at the Bank and its subsidiaries.

In its corporate customer business, the Bank will continue to supply its business customers – medium sized and large companies in Austria, Southern Germany and Eastern Switzerland – with financing. However, the Managing Board expects to see weaker demand for credit in the fourth quarter of 2017 than in previous years. Low risk costs are anticipated on account of the solid economic situation of companies in the Bank's market areas. Customer proximity and high-quality consulting form the basis for all business relationships; at the same time, the digital service range is being further expanded.

As a result of its consulting-intensive services, Hypo Vorarlberg also stands out in the Private Customers segment. Its customers benefit from individual solutions in residential construction financing and for securities transactions including Asset Management. The Bank is still expecting high demand in the financing sector, especially for the creation of housing.

In Private Banking and Asset Management, Hypo Vorarlberg has developed an excellent reputation for itself in recent years. Building on this, the Wealth Management division will be advanced further, including installing an advisory desk as of 1 January 2018. In its investment business, the Bank's primary objective is to conserve its customers' wealth in real terms.

Digitalisation and changing customer behaviour require not only new products, but also new business models. For this reason, Hypo Vorarlberg has set itself the aim of connecting the existing branches with new technology in a way that enables customers to benefit from optimum interaction. Personal consulting will remain indispensable in the future – especially in the areas of major financing and extensive investments. For this reason, consulting expertise and training will be key issues in 2017 and beyond. The Bank remains clearly committed to its branches as an important sales channel. In order to focus on customers and the highest possible level of service – and also as a sign of esteem towards its customers – the Bank offers flexible appointments outside regular business hours.

The online service range is being expanded on an ongoing basis. The new online banking system which launched in autumn 2016 is regularly updated with new functions and customers have been able to buy products online since summer 2017.

Expected earnings development in 2017

Hypo Vorarlberg continues to pursue cautious risk and accounting policies and will make corresponding additions to loan loss provisions.

The Managing Board has always paid particular attention to a sustainable liquidity policy. The Bank thus holds extensive liquidity reserves to allow the lending volume to further expand organically, meaning that a broad stabilisation of net interest income can be expected, albeit on a lower level than in the last few years. The Managing Board expects net fee and commission income to stabilise in 2017. Interest-related business will remain a stable pillar of the Bank's earnings development in 2017, but is expected to decline on account of the low/negative interest rate policy.

In September 2017, the majority of the Vorarlberg state guarantees for certain liabilities of the Bank expired. Thus, at the end of the third quarter, higher volumes were due for repayment. To refinance these maturities, the Bank had already carried out prefunding in recent years and bought back outstanding issues prematurely from the market. The remaining volume is being replaced in the course of new issuing activity and refinancing via the ECB (TLTRO).

In 2017, operating expenses will rise moderately overall and staff costs are also expected to increase slightly. In 2017, the Bank also had made investments to further expand its digital service range in addition to implementing a new brand profile at all locations, resulting in higher costs. The costs for the deposit protection fund and the single resolution fund are still high. Furthermore, the implementation of new regulations, such as MiFiD II, also has high costs. As a result of the amendment of the bank levy and the high-one off payment in 2016, the bank levy for 2017 is significantly lower again (approximately TEUR 2,500).

Overall, the performance in the first three quarters of 2017 was satisfactory. The Managing Board is confident of achieving the anticipated earnings, which will nevertheless be much lower than the previous year's. The known economic and domestic political events require increased vigilance.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS AT 30 SEPTEMBER 2017
I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD OF 1 JANUARY TO 30 SEPTEMBER 2017

Income statement

in ’000 EUR	(Notes)	01.01.– 30.09.2017	01.01.– 30.09.2016	Change in ’000 EUR	Change in %
Interest and similar income		189,080	194,340	–5,260	–2.7
Interest and similar expenses		–68,768	–69,703	935	–1.3
Net interest income	(2)	**120,312**	**124,637**	**–4,325**	**–3.5**
Loan loss provisions		3,379	41,560	–38,181	–91.9
Net interest income after loan loss provisions		**123,691**	**166,197**	**–42,506**	**–25.6**
Fee and commission income		28,509	27,583	926	3.4
Fee and commission expenses		–2,532	–2,360	–172	7.3
Net fee and commission income	(3)	**25,977**	**25,223**	**754**	**3.0**
Net result on hedge accounting	(4)	–418	5,134	–5,552	–
Net trading result (not including change in own credit risk)	(5)	10,187	18,062	–7,875	–43.6
Net result from other financial instruments		744	4,979	–4,235	–85.1
Administrative expenses	(6)	–76,300	–74,653	–1,647	2.2
Other income		19,470	12,956	6,514	50.3
Other expenses		–23,728	–34,152	10,424	–30.5
Result from equity consolidation*		–17,908	2,464	–20,372	–
Operating result before change in own credit risk		**61,715**	**126,210**	**–64,495**	**–51.1**
Result from change in own credit risk		–3,285	–34,817	31,532	–90.6
Earnings before taxes		**58,430**	**91,393**	**–32,963**	**–36.1**
Taxes on income		–17,067	–21,329	4,262	–20.0
Consolidated net income		**41,363**	**70,064**	**–28,701**	**–41.0**
Of which attributable to:					
Parent company shareholders		41,473	70,058	–28,585	–40.8
Non-controlling interests		–110	6	–116	–

* The negative net result from equity consolidation is attributable to a partial write-down of the investment in HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) in the first quarter.

Statement of comprehensive income

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016	Change in '000 EUR	Change in %
Consolidated net income	**41.363**	**70.064**	**-28.701**	**-41.0**
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	–60	15	–75	–
Changes to AFS revaluation reserve	–412	55	–467	–
of which changes in measurement	–162	746	–908	–
of which changes in holdings	–388	–672	284	–42.3
of which income tax effects	138	–19	157	–
Total items which can be reclassified to consolidated net income	**–472**	70	–542	–
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	40	–81	121	–
of which changes in measurement	55	–117	172	–
of which income tax effects	–15	36	–51	–
Total items which cannot be reclassified to consolidated net income	**40**	**–81**	**121**	**–**
Other income after taxes	**–432**	**–11**	**–421**	**>100.0**
Total comprehensive income	**40,931**	**70,053**	**–29,122**	**–41.6**
Of which attributable to:				
Parent company shareholders	41,041	70,047	–29,006	–41.4
Non-controlling interests	–110	6	–116	–

II. BALANCE SHEET DATED 30 SEPTEMBER 2017

Assets

in '000 EUR	(Notes)	30.09.2017	31.12.2016	Change in '000 EUR	Change in %
Cash and balances with central banks		297,213	338,000	–40,787	–12.1
Loans and advances to banks		500,006	575,289	–75,283	–13.1
Loans and advances to customers		9,260,330	9,049,998	210,332	2.3
Positive market values of hedges	(7)	75,927	98,811	–22,884	–23.2
Trading assets and derivatives	(8)	202,032	309,314	–107,282	–34.7
Financial assets – designated at fair value	(9)	774,069	802,208	–28,139	–3.5
Financial assets – available for sale	(10)	682,980	769,093	–86,113	–11.2
Financial assets – held to maturity	(11)	1,033,971	1,103,893	–69,922	–6.3
Shares in companies valued at equity		4,153	34,750	–30,597	–88.0
Investment property		61,388	59,158	2,230	3.8
Intangible assets		33,370	2,011	31,359	>100.0
Property, plant and equipment		72,539	74,912	–2,373	–3.2
Tax assets		4,059	824	3,235	>100.0
Deferred tax assets		9,167	9,198	–31	–0.3
Other assets		127,062	96,928	30,134	31.1
Total Assets		**13,138,266**	**13,324,387**	**–186,121**	**–1.4**

Liabilities and shareholders' equity

in '000 EUR	(Notes)	30.09.2017	31.12.2016	Change in '000 EUR	Change in %
Amounts owed to banks		1,502,046	560,377	941,669	>100.0
Amounts owed to customers		5,270,024	5,282,097	–12,073	–0.2
Liabilities evidenced by certificates	(12)	3,253,329	2,682,267	571,062	21.3
Negative market values of hedges	(7, 13)	126,955	146,847	–19,892	–13.5
Trading liabilities and derivatives	(8, 14)	176,532	233,043	–56,511	–24.2
Financial liabilities – designated at fair value	(15)	1,336,772	2,826,384	–1,489,612	–52.7
Provisions		46,459	49,257	–2,798	–5.7
Tax liabilities		3,252	19,521	–16,269	–83.3
Deferred tax liabilities		7,621	2,678	4,943	>100.0
Other liabilities		80,712	77,962	2,750	3.5
Subordinated capital		242,868	389,015	–146,147	–37.6
Shareholders' equity		1,091,696	1,054,939	36,757	3.5
Of which attributable to:					
Parent company shareholders		1,081,775	1,054,897	26,878	2.5
Non-controlling interests		9,921	42	9,879	>100.0
Total Liabilities and shareholder's equity		**13,138,266**	**13,324,387**	**–186,121**	**–1.4**

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Subscri-bed capital	Capital reserve	Retained earnings and other reserves	Revalua-tion reserve	Reserves from currency transla-tion	Total parent company share-holders	Non-control-ling inte-rests	Total Sharehol-ders' equity
Balance 1 January 2016	**165.453**	**48.874**	**747.606**	**7.162**	**–3**	**969.092**	**48**	**969.140**
Consolidated net income	0	0	70.058	0	0	70.058	6	70.064
Other income	0	0	11	–24	2	–11	0	–11
Comprehensive income 2016	**0**	**0**	**70.069**	**–24**	**2**	**70.047**	**6**	**70.053**
Other changes	0	0	–138	0	0	–138	0	–138
Dividends	0	0	–3.699	0	0	–3.699	0	–3.699
Dividends to third parties	0	0	0	0	0	0	–12	–12
Balance 30 September 2016	**165.453**	**48.874**	**813.838**	**7.138**	**–1**	**1.035.302**	**42**	**1.035.344**

in '000 EUR	Subscri-bed capital	Capital reserve	Retained earnings and other reserves	Revalua-tion reserve	Reserves from currency transla-tion	Total parent company share-holders	Non-control-ling inte-rests	Total Sharehol-ders' equity
Balance 30 September 2017	165,453	48,874	832,025	8,551	–1	1,054.902	38	1,054,940
Consolidated net income	0	0	41,473	0	0	41,473	–110	41,363
Other income	0	0	–61	–372	1	–432	0	–432
Comprehensive income 2017	**0**	**0**	**41,412**	**–372**	**1**	**41,041**	**–110**	**40,931**
Consolidation changes	0	0	0	0	0	0	9.993	9,993
Other changes	0	0	–265	0	0	–265	0	–265
Dividends	0	0	–13,903	0	0	–13,903	0	–13,903
Balance 30 September 2017	**165,453**	**48,874**	**859,269**	**8,179**	**0**	**1,081,775**	**9,921**	**1,091,696**

In accordance with Austrian banking regulations, the Company's share capital and issued participation capital are shown as subscribed capital.

IV. CONDENSED CASH FLOW STATEMENT

Cashflows from operating activities

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Consolidated net income	40,843	70,064
Non-cash items included in consolidated net income	–59,790	–38,754
Change in assets from operating activities	–215,350	57,954
Change in liabilities from operating activities	76,735	–624,735
Interest received	185,148	184,938
Interest paid	–81,268	–95,726
Income tax paid	–30,580	–38,751
Cash flows from operating activities	**–84,262**	**–485,010**

Cashflows from investing activities

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Cash inflow from the sale/ repayment of Financial instruments		
Financial instruments	440,502	272,188
Property, plant and equipment and intangible assets	1,343	900
Subsidiaries	3,402	0
Cash outflows for investments in financial instruments		
Financial instruments	–258,605	–280,173
Property, plant and equipment and intangible assets	–8,240	–10,237
Subsidiaries	–4,392	0
Interest received	32,674	31,417
Dividends and profit distributions received	975	2,860
Cash flows from investing activities	**207,659**	**16,955**

Cashflows from financing activities

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Cash changes in subordinated capital	–149,580	8,400
Dividends	–13,903	–3,711
Interest paid	–701	–70
Cash flows from financing activities	**–164,184**	**4,619**

Reconciliation to cash and balances with central banks

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Cash and balances with central banks at 1 January	**338,000**	**712,491**
Cash flows from operating activities	–84,262	–485,010
Cash flows from investing activities	207,659	16,955
Cash flows from financing activities	–164,184	4,619
Cash and balances with central banks at 30 June	**297,213**	**249,055**

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

The same accounting standards observed in preparing the consolidated annual financial statements dated 31 December 2016 were applied to the consolidated interim financial statements.

The Banking Group's quarterly report has not been audited or reviewed by an auditor.

All amounts are stated in thousand Euro (TEUR or '000 EUR) unless specified otherwise.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(2) NET INTEREST INCOME

in '000 EUR	01.01.– 30.06.2017	01.01.– 30.06.2016
Income from cash and balances with central banks	–1,297	–1,106
Income from loans and advances to banks	2,904	9,142
Income from loans and advances to customers	109,901	116,312
Income from leasing business	16,086	17,023
Income from hedging instruments	22,206	18,410
Income from derivatives, other	16,411	10,098
Income from debt securities	21,892	21,602
Income from shares	804	974
Income from investments in associated companies	173	1,885
Income from investments, other	189,080	194,340
Interest and similar income	–702	–2,400
Expenses from amounts owed to banks	–15,027	–26,000
Expenses from amounts owed to customers	–23,778	–23,429
Expenses from liabilities evidenced by certificates	–26,279	–27,433
Expenses from hedging instruments	–532	–470
Expenses from derivatives, other	3,580	15,682
Expenses from liabilities designated AFV	–6,030	–5,653
Expenses from supplementary capital	–68,768	–69,703
Net interest income	**120,312**	**124,637**

(3) NET FEE AND COMMISSION INCOME

in '000 EUR	01.01.– 30.09.2017	01.01.– 30.09.2016
Lending and leasing business	3,753	3,427
Securities business	12,003	11,830
Giro and payment transactions	9,281	8,912
Other service business	3,472	3,414
Fee and commission income	**28,509**	**27,583**

in '000 EUR	01.01.– 30.09.2017	01.01.– 30.09.2016
Lending and leasing business	–791	–544
Securities business	–832	–883
Giro and payment transactions	–892	–898
Other service business	–17	–35
Fee and commission expenses	**–2,532**	**–2,360**

(4) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	01.01.– 30.09.2017	01.01.– 30.09.2016
Adjustment to loans and advances to banks	–3,079	4,143
Adjustment to loans and advances to customers	–10,698	15,282
Adjustment to financial instruments available for sale	–9,815	7,457
Adjustment to liabilities to banks	168	–498
Adjustment to liabilities to customers	5,594	–20,494
Adjustment to securitised liabilities	20,801	–53,864
Adjustment to subordinated capital	1,896	–5,921
Net result from adjustment to underlying transactions from hedging	**4,867**	**–53,895**
Measurement of hedging instruments for loans and advances to banks	3,161	–3,088
Measurement of hedging instruments for loans and advances to customers	11,392	–15,772
Measurement of hedging instruments for available for sale financial instruments	10,174	–7,497
Measurement of hedging instruments for liabilities to banks	–179	513
Measurement of hedging instruments for liabilities to customers	–5,993	22,076
Measurement of hedging instruments for securitised liabilities	–21,639	55,758
Measurement of hedging instruments for subordinated capital	–2,201	7,039
Net result of the measurement of hedging instruments	**–5,285**	**59,029**
Net result on hedge accounting	**–418**	**5,134**

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

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Trading results	3,902	4,712
Result from the valuation of financial instruments – HFT	–56	–60
Result from the valuation of derivatives	–37,105	–25,040
Result from the valuation of financial instruments – AFV	43,446	38,450
Net trading result (not including change in own credit risk)	**10,187**	**18,062**

(6) ADMINISTRATIVE EXPENSES

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

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Staff costs	–45,364	–45,728
Material expenses	–26,950	–24,958
Depreciation/amortisation of property, plant and equipment and intangible assets	–3,986	–3,967
Administrative expenses	**–76,300**	**–74,653**

Of which staff costs

in '000 EUR	01.01.–30.09.2017	01.01.–30.09.2016
Wages and salaries	–34,616	–34,268
Statutory social security contributions	–9,137	–8,881
Voluntary social benefits	–659	–718
Expenses for retirement benefits	–958	–1,819
Social capital	6	–42
Staff costs	**–45,364**	**–45,728**

C. NOTES TO THE BALANCE SHEET

(7) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	30.09.2017	31.12.2016
Positive market values of fair value hedges	60,835	81,664
Deferred interest on derivative hedges	15,092	17,147
Positive market values of hedges	**75,927**	**98,811**

Nominal values of fair value hedges – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Interest rate swaps	4,812,363	3,833,147
Cross currency swaps	181,813	195,006
Interest rate derivatives	**4,994,176**	**4,028,153**
Derivatives	**4,994,176**	**4,028,153**

Positive market values of fair value hedges – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Interest rate swaps	59,218	80,796
Cross currency swaps	1,617	868
Interest rate derivatives	**60,835**	**81,664**
Derivatives	**60,835**	**81,664**

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

(8) TRADING ASSETS AND DERIVATIVES

Trading assets and derivatives – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Investment certificates	710	661
Positive market values of derivative financial instruments	182,308	271,093
Deferred interest	19,014	37,560
Trading assets and derivatives	**202,032**	**309,314**

Nominal values from derivatives – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Interest rate swaps	3,011,306	4,015,900
Cross currency swaps	1,058,075	1,283,800
Interest rate options	214,132	230,273
Interest rate derivatives	**4,283,513**	**5,529,973**
FX forward transactions	339,004	291,676
FX swaps	80,221	238,380
FX opitions	315	3,161
Currency derivatives	**419,540**	**533,217**
Derivatives	**4,703,053**	**6,063,190**

Positive market values from derivatives – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Interest rate swaps	154,648	220,582
Cross currency swaps	20,190	44,269
Interest rate options	2,275	2,345
Interest rate derivatives	**177,113**	**267,196**
FX forward transactions	4,512	2,994
FX swaps	674	727
FX opitions	8	176
Currency derivatives	**5,194**	**3,897**
Derivatives	**182,307**	**271,093**

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

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

in '000 EUR	30.09.2017	31.12.2016
Debt securities of public issuers	175,045	190,524
Debt securities of other issuers	112,957	142,843
Shares	57,518	0
Investment certificates	2,721	2,770
Other equity interests	25	5,410
Loans and advances to customers	422,517	454,932
Deferred interest	3,286	5,729
Financial assets – at fair value	**774,069**	**802,208**

(10) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Debt securities of public issuers	326,314	329,611
Debt securities of other issuers	311,835	391,179
Shares	110	110
Investment certificates	5,821	5,835
Other equity interests	19,864	19,913
Deferred interest	8,023	11,209
Other equity investments	10,986	11,208
Other investments in affiliated companies	27	28
Financial assets – available for sale	**682,980**	**769,093**

(11) FINANCIAL ASSETS HELD TO MATURITY (HTM)

Financial assets held to maturity – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Debt securities of public issuers	267,762	282,147
Debt securities of other issuers	755,350	795,733
Supplementary capital of other issuers	0	10,000
Deferred interest	10,859	16,013
Financial assets – held to maturity	**1,033,971**	**1,103,893**

(12) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

Liabilities evidenced by certificates – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Mortgage bonds	1,612,467	1,127,574
Municipal bonds	41,045	42,470
Medium-term fixed-rate notes	1,429	1,827
Bonds	1,560,531	1,260,247
Housing construction bonds	24,351	57,176
Bonds issued by Pfandbriefbank	0	175,876
Deferred interest	13,506	17,097
Liabilities evidenced by certificates	**3,253,329**	**2,682,267**

(13) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	30.09.2017	31.12.2016
Negative market values of fair value hedges	112,831	130,969
Deferred interest on derivative hedging instruments	14,124	15,878
Negative market values of hedges	**126,955**	**146,847**

Negative market values of fair value hedges – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Interest rate swaps	89,696	96,764
Cross currency swaps	23,135	34,205
Interest rate derivatives	**112,831**	**130,969**
Derivatives	**112,831**	**130,969**

The nominal values of the hedging instruments are shown in Note (7). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(14) TRADING LIABILITIES AND DERIVATIVES

Trading liabilities and derivatives – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Negative market values of derivative financial instruments	171,613	228,421
Deferred interest	4,919	4,622
Trading liabilities and derivatives	**176,532**	**233,043**

Negative market values from derivatives – breakdown by type of business

in '000 EUR	30.09.2017	31.12.2016
Interest rate swaps	107,906	134,705
Cross currency swaps	58,099	88,626
Interest rate options	1,535	1,903
Interest rate derivatives	**167,540**	**225,234**
FX forward transactions	4,020	2,570
FX swaps	46	441
FX options	8	176
Currency derivatives	**4,074**	**3,187**
Derivatives	**171,614**	**228,421**

The nominal values of the derivative financial instruments are shown in Note (8).

(15) FINANCIAL LIABILITIES – DESIGNATED AT FAIR VALUE (LAFV)

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

in '000 EUR	30.09.2017	31.12.2016
Amounts owed to banks at fair value	29,512	149,837
Amounts owed to customers at fair value	155,000	559,628
Mortgage bonds at fair value	25,456	26,206
Municipal bonds at fair value	699,218	734,990
Bonds at fair value	145,862	1,025,826
Housing construction bonds at fair value	199,819	199,672
Bonds issued by Pfandbriefbank at fair value	7,638	40,189
Supplementary capital at fair value	56,906	55,633
Deferred interest	17,361	34,403
Financial liabilities at fair value	**1,336,772**	**2,826,384**

D. FURTHER IFRS INFORMATION

(16) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities

in '000 EUR	30.09.2017	31.12.2016
Liabilities from financial guarantees	368,538	318,242
Other contingent liabilities	26,315	29,054
Contingent liabilities	**394,853**	**347,296**

Credit risks per section 51 (14) Austrian Banking Act (BWG)

in '000 EUR	30.09.2017	31.12.2016
Credit commitments and unutilised credit lines	1,931,573	1,836,215
Credit risks	**1,931,573**	**1,836,215**

(17) HUMAN RESOURCES

	01.01.–30.09.2017	01.01.–30.09.2016
Full-time salaried staff	621	625
Part-time salaried staff	86	84
Apprentices	8	7
Full-time other employees	2	2
Average number of employees	**717**	**718**

(18) DISCLOSURES ON FAIR VALUE

Fair value hierarchy for financial instruments recognised at fair value

in '000 EUR 31.12.2016	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	97,487	1,324	98,811
Trading assets and derivatives	661	251,026	57,627	309,314
Financial assets – at fair value	71,713	571,374	159,121	802,208
Financial assets – available for sale	714,900	0	54,193	769,093
Total assets	**787,274**	**919,887**	**272,265**	**1,979,426**
Reclassification of assets from levels 2 and 3 to level 1	7,500	–7,500	0	0
Reclassification of assets from levels 1 and 3 to level 2	0	171,149	–171,149	0
Derivative hedging instruments	0	136,488	10,359	146,847
Trading liabilities and derivatives	0	220,083	12,960	233,043
Financial liabilities – at fair value	428,047	683,453	1,714,884	2,826,384
Total liabilities	**428,047**	**1,040,024**	**1,738,203**	**3,206,274**
Reclassification of assets from levels 2 and 3 to level 1	0	0	0	0
Reclassification of assets from levels 1 and 3 to level 2	–361,059	365,444	–4,385	0

in '000 EUR 30.09.2017	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	69,815	6,112	75,927
Trading assets and derivatives	710	135,108	66,214	202,032
Financial assets – at fair value	50,667	532,514	190,888	774,069
Financial assets – available for sale	624,782	5,020	53,178	682,980
Total assets	**676,159**	**742,457**	**316,392**	**1,735,008**
Reclassification of assets from levels 2 and 3 to level 1	13,205	–13,205	0	0
Reclassification of assets from levels 1 and 3 to level 2	0	0	0	0
Derivative hedging instruments	0	104,072	22,883	126,955
Trading liabilities and derivatives	0	149,990	26,542	176,532
Financial liabilities – at fair value	128,906	325,550	882,316	1,336,772
Total liabilities	**128,906**	**579,612**	**931,741**	**1,640,259**
Reclassification of liabilities from levels 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from levels 1 and 3 to level 2	0	0	0	0

Fair value hierarchy for financial assets – breakdown by class

in '000 EUR 31.12.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	96,901	1,277	98,178
Cross currency swaps	0	586	47	633
Derivative hedging instruments	**0**	**97,487**	**1,324**	**98,811**
Interest rate swaps	0	202,085	54,454	256,539
Cross currency swaps	0	45,817	0	45,817
Interest rate options	0	1,157	1,243	2,400
Currency options	0	176	0	176
Foreign exchange forwards	0	1,791	1,930	3,721
Investment funds	661	0	0	661
Trading assets and derivatives	**661**	**251,026**	**57,627**	**309,314**
Bonds	68,943	257,688	8,837	335,468
Investment funds	2,770	0	0	2,770
Other	0	0	5,634	5,634
Loans and credit	0	313,686	144,650	458,336
Financial assets – designated at fair value	**71,713**	**571,374**	**159,121**	**802,208**
Bonds	711,853	0	20,146	731,999
Investment funds	3,047	0	2,788	5,835
Shares	0	0	110	110
Other	0	0	31,149	31,149
Financial assets – available for sale	**714,900**	**0**	**54,193**	**769,093**

in '000 EUR 30.09.2017	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	68.665	5.878	74.543
Cross curreny swaps	0	1.150	234	1.384
Interes rate options	0	0	0	0
Currency options	0	0	0	0
Foreign exchange forwards	0	0	0	0
Other derivatives	0	0	0	0
Derivative hedging instruments	**0**	**69.815**	**6.112**	**75.927**
Interest rate swaps	0	111.832	61.353	173.185
Cross curreny swaps	0	20.582	85	20.667
Interes rate options	0	813	1.462	2.275
Currency options	0	8	0	8
Foreign exchange forwards	0	1.873	3.314	5.187
Other derivatives	0	0	0	0
Bonds	0	0	0	0
Investment funds	710	0	0	710
Shares	0	0	0	0
Other	0	0	0	0
Trading assets and derivatives	**710**	**135.108**	**66.214**	**202.032**
Bonds	47.946	235.411	6.584	289.941
Investment funds	2.721	0	0	2.721
Shares	0	0	57.543	57.543
Other	0	0	0	0
Loans and credit	0	297.103	126.761	423.864
Financial assets - designated at fair value	**50.667**	**532.514**	**190.888**	**774.069**
Bonds	621.783	5.020	19.367	646.170
Investment funds	2.999	0	2.822	5.821
Shares	0	0	110	110
Other	0	0	30.879	30.879
Financial assets - available for sale	**624.782**	**5.020**	**53.178**	**682.980**

Fair value hierarchy for financial liabilities – breakdown by class

in '000 EUR 31.12.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	106,706	3,751	110,457
Cross currency swaps	0	29,782	6,608	36,390
Derivative hedging instruments	**0**	**136,488**	**10,359**	**146,847**
Interest rate swaps	0	131,804	8,566	140,370
Cross currency swaps	0	84,616	2,925	87,541
Interest rate options	0	1,838	108	1,946
Currency options	0	147	30	177
Foreign exchange forwards	0	1,678	1,331	3,009
Trading liabilities and derivatives	**0**	**220,083**	**12,960**	**233,043**
Deposits	0	0	716,141	716,141
Bonds	428,047	663,553	962,708	2,054,308
Subordinated capital	0	19,900	36,035	55,935
Financial liabilities – designated at fair value	**428,047**	**683,453**	**1,714,884**	**2,826,384**

in '000 EUR 30.06.2017	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	84,453	15,443	99,896
Cross currency swaps	0	19,619	7,440	27,059
Derivative hedging instruments	**0**	**104,072**	**22,883**	**126,955**
Interest rate swaps	0	88,855	24,180	113,035
Cross currency swaps	0	56,804	1,085	57,889
Interest rate options	0	1,433	102	1,535
Currency options	0	0	8	8
Foreign exchange forwards	0	2,898	1,167	4,065
Trading liabilities and derivatives	**0**	**149,990**	**26,542**	**176,532**
Deposits	0	0	188,132	188,132
Bonds	128,906	304,784	657,026	1,090,716
Subordinated capital	0	20,766	37,158	57,924
Financial liabilities – designated at fair value	**128,906**	**325,550**	**882,316**	**1,336,772**

Development of financial instruments in Level 3

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

in '000 EUR 2017	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassifica- tion to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	1,324	0	0	2,649	0	2,139	6,112
Trading assets and derivatives	57,627	0	0	19,285	0	–10,698	66,214
Financial assets – designated at fair value	159,122	57,543	–10,905	3,165	0	–18,037	190,888
Financial assets – available for sale	54,194	472	–284	0	0	–1,204	53,178
Total assets	**272,267**	**58,015**	**–11,189**	**25,099**	**0**	**–27,800**	**316,392**
Derivative hedging instruments	10,359	0	0	0	0	12,524	22,883
Trading liabilities and derivatives	12,960	0	0	16,980	0	–3,398	26,542
Financial liabilities – designated at fair value	1,714,884	8,000	–811,575	0	0	–28,993	882,316
Total liabilities	**1,738,203**	**8,000**	**–811,575**	**16,980**	**0**	**–19,867**	**931,741**

The changes in fair value given relate only to financial instruments which were still held in Level 3 at the end of the reporting period.

Disclosures regarding sensitivity of internal input factors

in '000 EUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Derivatives	198	376	–290	–547
Financial assets – designated at fair value	694	896	–496	–1,015
of which loans and credits	694	896	–496	–1,015
Financial assets – available for sale	69	176	–87	–218
Financial liabilities – designated at fair value	–5,377	–7,234	5,377	7,234
of which issues	–4,076	–4,800	4,076	4,800
of which time deposits	–1,301	–2,434	1,301	2,434
Total	**–4,416**	**–5,786**	**4,504**	**5,454**

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2017	68,662	22,432	4,763	24,455	120,312
	2016	66,881	26,761	4,988	26,007	124,637
Loan loss provisions	2017	2,832	919	–1,640	1,268	3,379
	2016	5,373	756	10,187	25,244	41,560
Net fee and commission income	2017	9,564	13,294	1,557	1,562	25,977
	2016	8,935	13,071	1,619	1,598	25,223
Result from hedge relationships	2017	0	0	–418	0	–418
	2016	0	0	5,134	0	5,134
Net trading result (not including change in own credit risk)	2017	–73	966	9,342	–48	10,187
	2016	1,715	1,034	15,683	–370	18,062
Result from other financial instruments	2017	0	0	-691	1,435	744
	2016	210	0	3,953	816	4,979
Administrative expenses	2017	–27,060	–33,076	–7,060	–9,104	–76.300
	2016	–25,748	-32,288	–6,987	–9,630	–74,653
Other income	2017	2,858	1,028	2	15,582	19,470
	2016	2,364	454	75	10,063	12,956
Other expenses	2017	–2,478	–3,702	–4,844	–12,704	–23,728
	2016	–6,891	–3,556	–7,983	–15,722	–34,152
Result from equity consolidation	2017	0	0	0	–17,908	–17,908
	2016	0	0	0	2,464	2,464
Operating result before change in own credit risk	**2017**	**54,305**	**1,861**	**1,011**	**4,538**	**61,715**
	2016	**52,839**	**6,232**	**26,669**	**40,470**	**126,210**
Result from change in own credit risk	2017	0	0	–3,285	0	–3,285
	2016	0	0	–34,817	0	–34,817
Earnings before taxes	**2017**	**54,305**	**1,861**	**–2,274**	**4,538**	**58,430**
	2016	**52,839**	**6,232**	**–8,148**	**40,470**	**91,393**
Assets	2017	6,033,975	1,939,859	3,606.486	1,557,946	13,138,266
	2016	5,772,814	1,994,650	3,992,595	1,564,328	13,324,387
Liabilities and shareholders' equity	2017	2,168,212	3,135,125	7,102,224	732,705	13,138,266
	2016	2,310,832	3,200,631	7,095,789	717,135	13,324,387
Liabilities (incl. own issues)	2017	1,774,291	3,048,088	6,793,027	431,164	12,046,570
	2016	1,912,516	3,109,884	6,820,063	426,985	12,269,448

F. 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.

(19) OVERALL RISK MANAGEMENT

The Bank's operations involve the following risks:

- Credit risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods and currency or concentration risks in lending business.
- 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.
- Macroeconomic risk: This refers to loss potentials resulting from exposure to macroeconomic risk factors.
- Risk of excessive indebtedness: That means the risk of a low capital ratio.
- Money laundering and financing of terrorism: The Bank continues to counter this risk by all countermeasures provided.
- Model risks: This is the risk of significant underestimation of the capital backing for major risks in the risk-bearing capacity statement due to false input parameters, false premises, false models or incorrect application of these 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 may be classified as other risks.

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

The Bank reviews the effects of economic and market developments on the income statement and net assets on an ongoing basis.

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 Landesbank 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 the 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. Group risk controlling, controlling, and treasury departments are also present at committee meetings.

The strategies, procedures and approaches adopted for the management of risks are documented in writing. The Bank 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.

Non-performing loans correspond to the regulatory asset class of loans in arrears. In the third quarter of 2017, non-performing loans increased slightly from TEUR 293,527 to TEUR 302,390.

Maturity transformation is at a moderate level. The Bank's risk-bearing capacity was guaranteed at all times within the limits set by the Managing Board. In the third quarter, there were significant repayments on the Bank's own bonds. As the required liquidity had already been procured on a long-term basis, there were no specific incidents.

The value at risk (VaR) for general market risk compared to the previous year developed as follows:

VaR (99 % / 10 days) interest rate risk (mean)

in '000 EUR	2017	2016
January	12,740	15,126
February	12,049	16,090
March	10,023	16,997
April	10,463	16,144
May	9,379	15,791
June	7,815	16,263
July	7,737	18,808
August	9,042	18,659
September	8,925	17,309

VaR (99 % / 10 days) currency risk (mean)

in '000 EUR	2017	2016
January	2,024	2,504
February	1,883	1,296
March	1,522	1,585
April	1,526	1,640
May	1,444	1,585
June	1,325	1,732
July	1,669	1,782
August	1.713	1,814
September	2,259	1,442

VaR (99 % / 10 days) equity position risk (mean)

in '000 EUR	2017	2016
January	444	606
February	428	622
March	350	627
April	344	610
May	331	606
June	263	586
July	248	600
August	285	526
September	257	506

VaR (99 % / 10 days) credit spread risk (mean)

in '000 EUR	2017	2016
January	7,178	1,137
February	7.054	1,195
March	6,282	1,189
April	6,088	1,160
May	5,998	5,297
June	5,012	5,231
July	4,527	5,915
August	4,522	6,467
September	4,486	6,775

VaR (99 % / 10 days) overall market risk (mean)

in '000 EUR	2017	2016
January	11,644	15,355
February	11,104	16,354
March	9,891	17,648
April	10,081	16,154
May	9,513	16,234
June	8,840	16,361
July	8,948	18,453
August	9,498	18,273
September	9,701	16,670

(20) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

Regulatory own funds are calculated in accordance with the requirements of the CRR arising from EU Regulation No. 575/2013.

Total risk exposure according to CRR

in '000 EUR	30.09.2017	31.12.2016
Risk-weighted exposure amount	7,044,049	7,055,220
Total risk exposure amount for settlement/delivery	0	0
Total risk exposure amount for position, foreign exchange and commodities risks	409	492
Total risk exposure amount for operational risk	442,563	450,246
Total risk exposure amount for credit valuation adjustment	32,404	38,215
Total risk exposure amount	**7,519,425**	**7,544,173**

Common Equity Tier 1 capital (CET1) according to CRR

in '000 EUR	30.09.2017	31.12.2016
Capital instruments eligible as CET1 capital	184,327	184,327
Retained earnings	667,904	671,984
Accumulated other comprehensive income	8,549	8,549
Other reserves	128,472	128,472
Transitional adjustment due to grandfathered CET1 capital instruments	15,000	18,000
Minority interests given recognition in CET1 capital	23	17
Transitional adjustment due to additional minority interests	3	12
Adjustments to CET1 due to prudential filters	2,762	2,769
Intangible assets	–1,965	–1,960
Other transitional adjustments to CET1 capital	–7,836	–15,674
Common equity Tier 1 capital (CET1)	**997,239**	**996,496**

Additional Tier 1 capital (AT1) according to CRR

in '000 EUR	30.09.2017	31.12.2016
Capital instruments eligible as AT1 capital	10,000	10,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	5	4
Transitional adjustment due to additional recognition in AT1 capital of instruments issued by subsidiaries	–1	–2
Other transitional adjustments to AT1 capital	–393	–783
Additional Tier 1 capital (AT1)	**9,611**	**9,219**

Tier 2 capital (T2)

in '000 EUR	30.09.2017	31.12.2016
Capital instruments and subordinated loans eligible as T2 capital	207,164	240,810
Instruments issued by subsidiaries that are given recognition in T2 capital	7	6
Transitional adjustments du to additional recognition in T2 capital of instruments issued by subsidiaries	–2	–2
Tier 2 capital (T2)	**207,169**	**240,814**

Composition of own funds in accordance with CRR and capital ratios

in '000 EUR	30.09.2017	31.12.2016
Common equity Tier 1 capital (CET1)	997,239	996,496
Additional Tier 1 capital (AT1)	9,611	9,219
Tier 1 capital	**1,006,850**	**1,005,715**
Tier 2 capital (T2)	207,169	240,814
Own funds	**1,214,019**	**1,246,529**
CET1 capital ratio	13.26%	13.21%
Surplus of CET1 capital	658,864	657,009
T1 capital ratio	13.39%	13.33%
Surplus of T1 capital	555,684	553,065
Total capital ratio	16.15%	16.52%
Surplus of total capital	612,465	642,995

G. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(21) 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.

DECLARATION OF THE STATUORY REPRESENTATIVES WITH RESPECT TO THE INTERIM REPORT PER SECTION 87 (1) NO. 3 AUSTRIAN STOCK EXCHANGE ACT (BÖRSEG)

We confirm that to the best of our knowledge the condensed consolidated interim financial statements prepared in accordance with applicable accounting standards (IAS 34) provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group quarterly management report provides a true and fair view of the Group's assets and liabilities, financial condition, and results of operation in relation to key events in the first nine months of the fiscal year and the significance thereof with respect to both the condensed consolidated interim financial statements and to material risks and contingencies accruing in the remaining three months of the fiscal year.

This interim report was not subjected to an audit or reviewed by an auditor.

Bregenz, 21 December 2017

Hypo Vorarlberg Bank AG

The members of the Managing Board

Michel Haller
Chairman of the Managing board

Risk Management

Johannes Hefel
Managing Board member

Private Customers / Private Banking

Wilfried Amann
Managing Board member

Corporate Customers

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