HYPO VORARLBERG

SEMI-ANNUAL REPORT 2018

TOP PERFORMANCE IS OUR MOTIVATION

CONTENTS

KEYFIGURES 2018
GROUP REPORTING PER IFRS

TEUR	Notes	30.06.2018	31.12.2017	Change in TEUR	Change in %
Total assets		13,208,909	13,182,520	26,389	0.2
Loans and advances to banks		94,170	421,693	-327,523	-77.7
Loans and advances to customers		9,415,518	9,486,485	-70,967	-0.7
Deposits from banks		1,677,599	1,628,637	48,962	3.0
Deposits from customers		5,192,722	5,326,897	-134,175	-2.5
Issued bonds		4,770,072	4,698,951	71,121	1.5
Own funds according to CRR	(27)	1,358,394	1,328,358	30,036	2.3
thereof Tier 1 capital	(27)	1,142,288	1,093,275	49,013	4.5
Total capital ratio according to CRR	(27)	17.84 %	18.01 %	-0.17 %	-0.9

TEUR	Notes	01.01.-30.06.2018	01.01.-30.06.2017	Change in TEUR	Change in %
Net interest income	(6)	81,689	80,717	972	1.2
Net fee and commission income	(7)	15,546	17,685	-2,139	-12.1
Administrative expenses	(10)	-49,421	-47,732	-1,689	3.5
Earnings before taxes		42,375	34,838	7,537	21.6
Income after taxes		32,538	24,126	8,412	34.9

Keyfigures	Notes	01.01.-30.06.2018	01.01.-30.06.2017	Change absolut	Change in %
Cost-Income-Ratio (CIR)		66.07 %	59.18 %	6.89 %	11.6
Return on Equity (ROE)		7.60 %	6.46 %	1.14 %	17.8
Human resources	(25)	716	717	-1	-0,1

The shareholders of Hypo Vorarlberg Bank AG (Hypo Vorarlberg) as at 30 June 2018 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 senior debt	A+	A3
Short-term	A-1	P-2
Outook	stable	stable

* In May 2017, Standard & Poor's (S&P) announced a new rating for Hypo Vorarlberg: "A+" with a stable outlook. The bank is currently rated "A3" by Moody's and this rating will remain in place for the time being. This makes us one of the best-rated banks in Austria.

GROUP MANAGEMENT REPORT
IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS AT 30 JUNE 2018

BANKING ENVIRONMENT

Global economy and euro zone
The optimism of last year was also shown in the growth forecasts at the beginning of the year. Despite monthly fluctuations, the levels of US purchasing manager indices were significantly above the expansion threshold. The US unemployment rate remained at around 4%, the lowest level since 2000. The US tax reform by President Trump created new upside fantasy for investments and consumption. Economic sentiment for Germany and the euro area had been improving on an ongoing basis. Coupled with the conditions for the global economy and monetary policy that are still favourable, the signs of a continuing upturn were good. In February, Jerome Powell replaced former Fed Chairman Janet Yellen and confirmed the planned continuation of the gradual interest rate hikes. At the start of March, political course took a new direction in Italy. Investors looked forward to the elections due to the strong eurosceptic parties. In the second quarter, bad economic news accumulated. Various economic and sentiment indicators weakened. Combined with the slower momentum of activity since the beginning of the year, major economic research institutes decided to lower growth forecasts. However, robust growth in the US was enough of a reason for the Federal Reserve Bank to increase interest rates, yet the US president was relying increasingly on confrontation and protectionism. The threat of a trade war increased uncertainty on the financial markets.

Stock and bond markets
At the beginning of the year, the record on the stock markets continued, with a record high for the Dow Jones, a 26-year high for the Japanese Nikkei index and also the DAX hitting a new all-time high at the end of January. Shortly thereafter, the strong euro triggered a shift in sentiment with a three-year high. Significantly higher US unit labour costs provided another low blow for stock market prices and fuelled interest rate hikes. The DAX lost more than 10% of its all-time high at its peak. In February, investors used the low prices as a first buying opportunity. In March, US President Trump announced the introduction of tariffs on steel and aluminium imports with reference to national security, triggering a potential downward spiral for world trade. Precedence was given to China, which in turn threatened with corresponding reactions. However, the European stock markets benefited from the weaker euro, but corporate profits and prospects remained moderate – in contract to US taxpayers profiting from the tax reform. At the end of May, there were significant setbacks again.

The trade conflict took shape and the formation of a government from two eurosceptic parties in Italy served as a catalyst. The US interest rate held up better than their counterparts in Europe and Asia. The trend towards significantly higher yields observed at the beginning of the year already came to a halt in February. In addition to the concerns of an escalation in the trade dispute with the US, decreasing fears of rising inflation in the US were also responsible. Some leading indicators also disappointed in Europe, raising doubts about the further growth potential of the euro area. The political uncertainty in Italy developed in phases as a central disruptive factor. The premiums rose sharply for Italian issuers, with the Italian stock index losing just as significantly as the prices of the Italian 10-year bonds in May. Yield spreads on corporate bonds also partially increased significantly in the course of the threat of a trade dispute, but also eased somewhat during the recovery phases. Bonds in developing countries developed in a disappointing fashion. The strong US dollar and therefore attractive real US yields negatively impacted the local currencies in emerging markets. Export-oriented emerging markets also suffered as a result of the trade conflict that the US initiated.

Austria
According to the latest flash estimate by the Austrian Institute of Economic Research (WIFO), Austria's GDP grew by 0.7% quarter on quarter in the second quarter of 2018. Consumer demand remained strong, corporate investments were also further expanded. In addition to domestic demand, foreign trade also continued to make a positive contribution to growth. Export-based industrial activity performed well, although a slight weakening has recently been observed. WIFO is expecting GDP growth of 3.2% in 2018. Leading indicators point to an increasing flattening of momentum, thus GDP will show significantly weaker growth in 2019 (+2.2%). Increased uncertainty regarding the economic policy environment outside Austria raises downward risks.

While HICP inflation was still at 2.2% in 2017, the inflation rate will drop to 2.0% in 2018, according to a forecast by the Oesterreichische Nationalbank (OeNB). This development is due to the lower price increases expected for energy and food and the fact that the past increases in commodity prices did not continue either.

Commodities and currencies
At the beginning of the year, the positive forecasts for crude oil were based on the globally growing demand for oil and the OPEC successful cartel discipline and the extended production cuts until the end of 2018. The price of oil of the North Sea brand Brent actually continued its course of recovery - regardless of individual setbacks. At the start of the second quarter, there were still some indications of a further upward trend in the precious metal gold. In particular, driving factors of the crisis currency were the trade conflict with the US and the volatile stock markets. However, the stronger US dollar turned out to be a spoilsport and the gold price fell to approximately USD 1,250 as at the end of June 2018. In the first quarter, the US dollar still showed depreciating tendencies against the euro. However, after the trend turnaround in the second quarter, the half-year balance sheet showed an appreciation against the euro of almost 3%. Despite the fluctuations, the Japanese yen has increased approximately 4% since the beginning of the year. Since the start of the year, the Swiss franc has also joined the candidates for appreciation at a premium of around 1%.

BUSINESS PERFORMANCE

Owing to the first-time adoption of IFRS 9 in 2018, Hypo Vorarlberg Bank AG (hereinafter also referred to as Hypo Vorarlberg) has defined a new structure for the balance sheet and income statement in conjunction with the changes in regulatory reporting. However, due to the new measurement categories as per IFRS 9, the figures for the previous year as at 31 December 2017 are not necessarily appropriate for a year-on-year comparison because their measurement and their allocation to a measurement category was in accordance with the provisions of IAS 39.

Income statement

As at 30 June 2018, Hypo Vorarlberg generated earnings before taxes of TEUR 42,375 (30 June 2017: TEUR 34,838) and was thus 21.6% above the result for the first half of 2017.

While the high level of liquidity reflects full confidence among customers, the ECB's policy of negative interest rates also has an impact on Hypo Vorarlberg's net interest income. Net interest income of TEUR 81,689 was generated as of 30 June 2018, which is slightly above the previous year's result (30 June 2017: TEUR 80,717).

In the first six months of 2018, Hypo Vorarlberg's net fee and commission income developed weaker year-on-year. Net fee and commission income amounted to TEUR 15,546 as at 30 June 2018 and thus decreased by 12.1% (2017: TEUR 17,685). The result from financial instruments at fair value changed from TEUR 9,528 to a negative value (TEUR -3,937), which was primarily attributable to measurement effects.

Total operating income was TEUR 89,521 in the second quarter of 2018, significantly below the net income for the same period of the previous year (30 June 2017: TEUR 104,020), which is primarily due to the change in the net result from other financial instruments at fair value.

The headcount of 716 employees (full time equivalents) has remained essentially the same as last year (-0.1%), while staff costs increased slightly from TEUR 30,478 to TEUR 31,523. Material expenses came to TEUR 17,898 and were approximately the same as the level of the same quarter in the previous year (TEUR 17,254). Total administrative expenses amounted to TEUR 49,421 as at 30 June 2018, a 3.5% rise year on year (30 June 2017: TEUR 47,732).

At the same period of the previous year, provisions were reversed resulting in a positive figure of TEUR 6,620 for loan loss provisions (30 June 2017: TEUR 4,338). The Group recognised sufficient provisions for all identifiable risks.

Net result from equity consolidation totalled TEUR 208 (30 June 2017: TEUR -21,820). The negative value from the previous year is based on a one-time effect that was attributable to a write-down of the investment in HYPO EQUITY Unternehmensbeteiligungen AG in the first quarter of 2017. 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 net income of TEUR 32,538 as at 30 June 2018 (30 June 2017: TEUR 24,126).

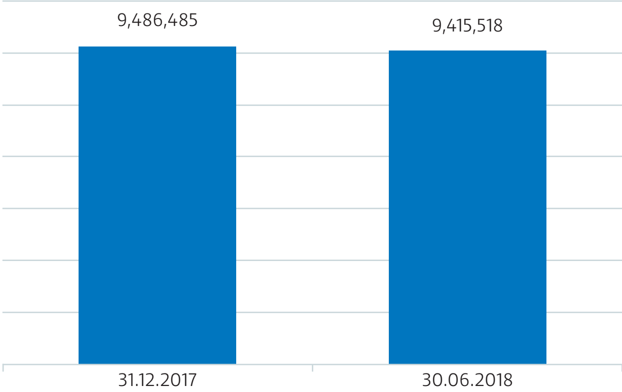
The Cost-Income Ratio (CIR) of 66.07% and the total capital ratio of 17.84% underline the fact that Hypo Vorarlberg is a healthy, successful and efficient bank.

Balance sheet development

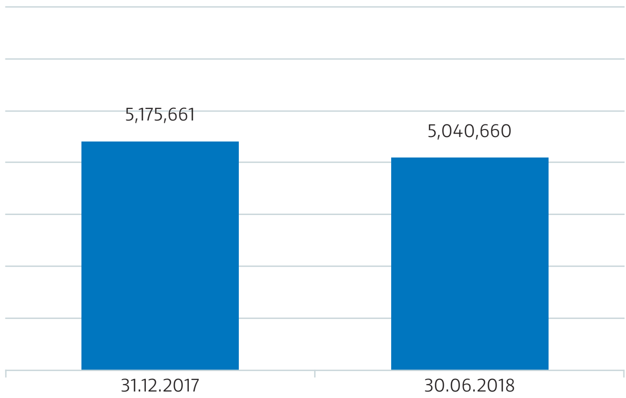
Total consolidated assets increased slightly by 0.2% to TEUR 13,208,909 as at the end of the second quarter of 2018 (31 December 2017: TEUR 13,182,520). TEUR 11,143,901 of this was attributable to financial assets at cost, up 2.7% on the previous year. The loans and credits to customers across all measurement categories dropped from TEUR 9,486,485 to TEUR 9,415,518.

There was only a slight change in financial liabilities at cost from TEUR 10,355,434 to TEUR 10,351,166.

Development in loans and credits to customers in '000 EUR



Development in demand deposits and savings deposits of customers (at cost) in '000 EUR



Own funds

The paid-in capital of Hypo Vorarlberg amounted to TEUR 165,453. Own funds totalled TEUR 1,358,394 as at 30 June 2018 (31 December 2017: TEUR 1,328,358). The total capital ratio is 17.84% (31 December 2017: 18.01%). With a T1 Capital ratio (T1) of 15.00% (31 December 2017: 14.82%) and a CET1 capital ratio of 14.35% (31 December 2017: 14.69%), 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.

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

Ratings of Hypo Vorarlberg

Since October, Hypo Vorarlberg has been rated by Standard & Poor's (S&P). In October 2017, due to higher capitalisation among other matters, the Bank improved its rating by one notch: "A" for non-current liabilities and "A–1" for current liabilities with positive outlook. In May 2018, S&P increased the rating for non-current liabilities by one notch to "A+" (outlook: stable), a "A-1" rating was confirmed for current liabilities. For the Managing Board, this new uplift highlights in particular Hypo Vorarlberg's stable economic situation and acknowledges the ongoing efforts to expand capitalisation.

Hypo Vorarlberg is currently rated "A3" by Moody's, with a stable outlook. The short-term rating is P-2. 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 first half of 2018. Despite conservative measurements in the lending business, risk costs are low and point to the excellent condition of the companies in the Bank's market areas.

In the previous year, 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.

The demand for credit from corporate customers was somewhat weaker in the first half of 2018 than in the previous year, which resulted in high pressure on conditions in most markets. Nevertheless in the first half of 2018, Hypo Vorarlberg achieved a pleasing earnings and volume performance. This resulted in an improvement in net interest income. Net interest income as at 30 June 2018 amounted to TEUR 51,038, up 12.0 % compared to the previous year (2017: TEUR 45,589). In contrast, net fee and commission income fell slightly from TEUR 6,359 in the previous year to TEUR 6,313. This is due to a weaker net income from securities which was attributable to impacts from MIFID II and a weak stock market. In all other segments, net fee and commission income increased slightly. The development of loan loss provisions remained at a low level. As in the previous year, Hypo Vorarlberg reported a positive figure in the second quarter. Overall, the Corporate Customers segment generated earnings before taxes of TEUR 45,761 as at 30 June 2018 (2017: TEUR 40,367), up 13.4 %.

Private Customers
In its Private Company business, Hypo Vorarlberg offers its customers top quality advisory services. Personal customer relationships continue to be the focus.

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 20 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.

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.

On 25 May 2018, Hypo Vorarlberg had promptly implemented and integrated the comprehensive new data protection regulations. In particular, the tightening of the General Data Protection Regulation (GDPR) concerns the accountability and obligation to provide proof in handling personal data and the reporting obligation in case of data breaches. In 2017, Hypo Vorarlberg had already started making the steps necessary to meet the new regulations promptly.

Despite substantial challenges – low and negative interest rates, extensive regulations and the trend towards digitisation – Hypo Vorarlberg achieved net fee and commission income in the Private Customers segment of TEUR 8,208 as at 30 June 2018 (2017: TEUR 8,983). Net interest income amounted to TEUR 14,703, thus decreasing year-on-year (2017: TEUR 15,570) 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 1,874 in the period under review (2017: TEUR 1,115).

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 high 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 totalled TEUR 812,990 as at 30 June 2018. A total of 2,720 mandates were managed.

Asset Management of Hypo Vorarlberg has also further expanded the sustainable asset management sector. The Hypo Weltportfolio Aktien umbrella fund is currently certified with the SRI label. Until the end of 2018, further Hypo Vorarlberg funds are expected to be certified and all individual securities in the asset management mandates are expected to be replaced, which do not comply with Hypo Vorarlberg's sustainability criteria. Additionally, the use of digital asset management is being checked.

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 Zurich 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
In the first half of 2018, the capital market was very pleasing despite major political uncertainties and short-term volatility on the stock market. The trade war threatened by the US president has so far triggered only minor distortions on the market and in the economy. Capital market issuers continued to discover a very pleasing issuance market - with strong support from the central banks. The ECB's comments on the bond purchase programme and on monetary policy suggest a delay in the interest rate hikes, thus no interest rate hikes by the ECB are expected in summer 2019.

Active/passive management and investments (APM & Investments)
A net volume of approximately EUR 227.1 million was invested in bonds by the APM & Investments unit in the first half of 2018. The weighted remaining term of these new investments was 6 years. An average A+ rating resulted in an average margin of 0.22%. The total volume of nostro bonds as at 30 June 2018 amounted to EUR 2,547 million.

Funding & Investor Relations
In the reporting period, 13 new issues with a total volume of approximately EUR 206 million were carried out for refinancing purposes, of which 11 private placements. One of these private placements was an additional Tier 1 bond in the amount of EUR 40 million, which was issued as part of a measure to strengthen capital. EUR 36.4 million supplementary capital bonds were exchanged for Additional Tier 1 bonds. The remaining EUR 3.6 million was also issued to Additional Tier 1.

Money, foreign exchange and interest rate derivatives trading
Readily accessible short-term liquidity only changed marginally from the 2017 reporting date to 30 June 2018 and was just below zero. However, the level has been subject to strong fluctuations over the past six months. Given the prevailing negative interest rates, such readily accessible short-term liquidity is certainly beneficial. However, Hypo Vorarlberg has sufficient collateral to respond to outflows of liquidity at any time. Trading in foreign exchange and interest rate derivatives has been muted in the first half of the year.

Securities trading
Securities sales in the branches amounted to around EUR 446.7 million in the first half of 2018, down by around EUR 120.4 million or 21.2% as against the first six months of 2017. Low interest rates in the EUR investment area, volatile markets and the introduction of MiFID II regulations have resulted in a reluctance to invest in securities.

Fund Service
In the first half of 2018, the volume under management grew from EUR 7,090 million to EUR 7,924 million as against the same period of the previous year, corresponding to a growth of 11.77%. A major customer with a special fund and four public funds was gained. Furthermore, a special fund and a public fund were newly launched. An additional segment was established for an existing fund during this period.

Swap group
As at 30 June 2018, the swap group managed 1,049 swaps, interest rate options and currency options with a total nominal value of approximately EUR 9.57 billion. This is an increase of EUR 60 million. The level of cash collateral deceased from EUR -45.6 million to EUR -69.7 million. A negative net means cash collateral received by the counterparty.

The Treasury segment generated earnings before taxes of TEUR -9,608 as at 30 June 2018. As in the previous year, the negative figure is attributable primarily to remeasurement effects (net result from other financial instruments at fair value). The further development will largely depend on events on the financial markets.

Corporate Centre/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 4,348 (2017: TEUR -9,576) as at 30 June 2018. The negative figure in the previous year 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 of 2017. On the basis of purchasing shares, the Bank increased its holding in HUBAG from 43.28% to 79.19%.

OUTLOOK FOR 2018

Economic environment

According to a forecast by the Austrian Economic Chamber (WKO), Austria's economy will continue its strong growth course in 2018. The WKO expects GDP to rise by 3.2% in 2018 and 2.2% in 2019. According to estimates, inflation is expected to amount to 2.0% in 2018 (consumer price index calculated on a national basis).

Focus areas for 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. The online service range is being expanded on an ongoing basis.

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 and a new company name since 2 October 2017 and is now implementing its new brand profile at all its locations and 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 second half of 2018 than in the previous year. 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 2018 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.

Expected earnings development in 2018
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 slightly above the level of the previous year. Despite the persistently negative and low interest rates, interest-related business will also be a stable pillar of the Group's earnings development in 2018.

Net fee and commission income will be impacted by liability fees which fall due in 2018 in connection with strategic measures to reduce the burden on own funds (EIB/EIF guarantee). At present, the introduction of MiFID II will also have a negative impact on net fee and commission income. Mandatory application of IFRS 9 as at 2018 is affecting the measurement of various items in the consolidated financial statements. Material expenses as well as staff costs are expected to increase slightly.

Performance in the first few months of 2018 was satisfactory and the Managing Board is confident of achieving the anticipated earnings, which will approximately be at the level of the previous year. The known economic and political events require increased vigilance.

I. STATEMENT OF COMPREHENSIVE INCOME

IN ACCORDANCE WITH IFRS AS AT 30 JUNE 2018

Income statement

TEUR	(Notes)	01.01.- 30.06.2018	01.01.- 30.06.2017 1*) adjusted	Change in TEUR	 in %
Interest and similar income according to the effective interest method		128,305	103,221	25,084	24.3
Interest and similar income other		31,885	25,761	6,124	23.8
Interest and similar expenses		-78,501	-48,265	-30,236	62.6
Net interest income	**(6)**	**81,689**	**80,717**	**972**	**1.2**
Dividend income		843	780	63	8.1
Fee and commission income		19,082	19,278	-196	-1.0
Fee and commission expenses		-3,536	-1,593	-1,943	>100.0
Net fee and commission income	**(7)**	**15,546**	**17,685**	**-2,139**	**-12.1**
Net result from financial instruments at cost and OCI	(8)	3,334	943	2,391	>100.0
Net result from financial instruments at fair value	(9)	-3,937	9,528	-13,465	-
Other income		7,401	10,992	-3,591	-32.7
Other expenses		-15,355	-16,625	1,270	-7.6
Total operating income		**89,521**	**104,020**	**-14,499**	**-13.9**
Administrative expenses	(10)	-49,421	-47,732	-1,689	3.5
Depreciation and amortisation	(11)	-4,553	-5,211	658	-12.6
Provisions for losses on loans and advances		6,620	4,338	2,282	52.6
Result from equity consolidation		208	-21,820	22,028	-
Result from change in own credit risk		N.A.	1,243	-	-
Earnings before taxes		**42,375**	**34,838**	**7,537**	**21.6**
Taxes on income		-9,837	-10,712	875	-8.2
Income after taxes		**32,538**	**24,126**	**8,412**	**34.9**
Consolidated net income		**32,538**	**24,126**	**8,412**	**34.9**
Of which attributable to:					
Parent company shareholders		32,053	24,121	7,932	32.9
Minority interests		485	5	480	>100.0

In 2017, the result from equity consolidation is attributable to the write-down of an investment by HYPO EQUITY Unternehmens-beteiligungen AG (HUBAG). Reasons behind this write-down are the stalled exit process and the associated liquidity requirement of a company in the biotechnology sector.

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

Statement of comprehensive income

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017 1*) adjusted	Change in TEUR	 in %
Consolidated net income	**32,538**	**24,126**	**8,412**	**34.9**
Other comprehensive income (OCI)	**2,758**	**-314**	**3,072**	**-**
OCI without recycling	**2,758**	**40**	**2,718**	**>100.0**
Actuarial income	0	55	-55	-
Measurement of own credit risk for liabilities at fair value	3,677	N.A.	-	-
Income tax effects	-919	-15	-904	>100.0
OCI with recycling	**0**	**-354**	**354**	**-**
Foreign currency translation	**0**	**-14**	**14**	**-**
Changes to AFS revaluation reserve	**N.A.**	**-454**	**-**	**-**
of which recognised in shareholders' equity in the net trading result	N.A.	-210	-	-
of which reclassified in profit and loss	N.A.	-244	-	-
Income tax effects	**0**	**114**	**-114**	**-**
Consolidated net income	**35,296**	**23,812**	**11,484**	**48.2**
Minority interests	0	5	-5	-
Parent company shareholders	35,296	23,807	11,489	48.3

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

II. BALANCE SHEET
DATED 30 JUNE 2018

Assets

TEUR	(Notes)	30.06.2018	31.12.2017	Change in TEUR	Change in %
Cash and balances with central banks		387,620	351,061	36,559	10.4
Trading assets	(12)	172,114	190,940	-18,826	-9.9
Financial assets – at fair value (SPPI)	(13)	753,740	N.A.	753,740	100.0
Financial assets – at fair value (option)	(14)	406,163	744,665	-338,502	-45.5
Financial assets – at fair value (OCI)	(15)	0	686,598	-686,598	-
Financial assets – at cost	(16)	11,143,901	10,846,885	297,016	2.7
Positive market values of hedges	(17)	69,156	73,985	-4,829	-6.5
Investments		4,815	4,195	620	14.8
Property, plant and equipment		70,793	72,808	-2,015	-2.8
Investment property		64,246	64,219	27	0.0
Intangible assets		33,864	33,914	-50	-0.1
Tax assets		4,537	1,037	3,500	>100.0
Deferred tax liabilities		10,527	8,984	1,543	17.2
Other assets		87,433	103,229	-15,796	-15.3
Assets		**13,208,909**	**13,182,520**	**26,389**	**0.2**

Total liabilities and shareholders‘ equity

TEUR	(Notes)	30.06.2018	31.12.2017	Change in TEUR	Change in %
Trading liabilities	(18)	162,482	163,621	-1,139	-0.7
Financial liabilities at fair value (option)	(19)	1,293,547	1,310,885	-17,338	-1.3
Financial liabilities at cost	(20)	10,351,166	10,355,434	-4,268	-0.0
Negative market values of hedges	(21)	111,680	119,041	-7,361	-6.2
Provisions		34,481	37,566	-3,085	-8.2
Tax liabilities		13,641	9,804	3,837	39.1
Deferred tax liabilities		7,067	8,841	-1,774	-20.1
Other liabilities		82,493	58,749	23,744	40.4
Shareholders’ equity		1,152,352	1,118,579	33,773	3.0
Of which attributable to:					
Parent company shareholders		1,142,271	1,108,017	34,254	3.1
Minority interests		10,081	10,562	-481	-4.6
Total liabilities and shareholders‘ equity		**13,208,909**	**13,182,520**	**26,389**	**0.2**

III. STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

TEUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Accumulated other comprehensive income	Total parent company share-holders	Non controlling interests	Total share holders' equity
Balance 31 December 2016	**165,453**	**48,874**	**832,026**	**8,548**	**1,054,901**	**38**	**1,054,939**
Adjustment to previous years [1])	0	0	863	0	863	0	863
Balance 1 January 2017	**165,453**	**48,874**	**832,889**	**8,548**	**1,055,764**	**38**	**1,055,802**
Consolidated net income	0	0	24,121	0	24,121	5	24,126
Other income	0	0	-14	-300	-314	0	-314
Comprehensive income 2017	**0**	**0**	**24,107**	**-300**	**23,807**	**5**	**23,812**
Other changes	0	0	-264	0	-264	0	-264
Dividends	0	0	-13,698	0	-13,698	0	-13,698
Balance 30 June 2017	**165,453**	**48,874**	**843,034**	**8,248**	**1,065,609**	**43**	**1,065,652**
Balance 31 December 2017	**165,453**	**48,874**	**884,473**	**9,217**	**1,108,017**	**10,562**	**1,118,579**
Adjustment to previous years [2])	0	0	23,162	-21,166	1,996	0	1,996
Balance 1 January 2018	**165,453**	**48,874**	**907,635**	**-11,949**	**1,110,013**	**10,562**	**1,120,575**
Consolidated net income	0	0	33,023	0	33,023	-485	32,538
Other income	0	0	0	2,758	2,758	0	2,758
Comprehensive income 2018	**0**	**0**	**33,023**	**2,758**	**35,781**	**-485**	**35,296**
Other changes	0	0	-10	-58	-68	4	-64
Dividends	0	0	-3,455	0	-3,455	0	-3,455
Balance 30 June 2018	**165,453**	**48,874**	**937,193**	**-9,249**	**1,142,271**	**10,081**	**1,152,352**

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

1) Adjustment due to an audit in accordance with Section 2 (1) No. 2 RL-KG (see note 5)
2) Adjustment due to application of IFRS 9 (see note 4)

IV. CONDENSED CASH FLOW STATEMENT

Cashflows from operating activities

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Consolidated net income	32,538	24,126
Non-cash items included in consolidated net income	-36,211	-56,943
Change in assets from operating activities	15,891	-211,129
Change in liabilities from operating activities	-4,791	953,537
Interest received	132,440	108,734
Interest paid	-77,869	-45,965
Income tax paid	-7,984	-16,347
Cash flows from operating activities	**54,014**	**756,013**

Cashflows from investing activities

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Cash inflow from the sale/repayment of financial instruments		
Financial instruments	209,655	282,683
Property, plant and equipment and intangible assets	139	1,333
Subsidiaries	0	3,402
Cash outflows for investments in financial instruments		
Financial instruments	-231,921	-209,713
Property, plant and equipment and intangible assets	-1,118	-1,070
Interest received	17,830	26,357
Dividends and profit distributions received	843	781
Cash flows from investing activities	**-4,572**	**103,773**

Cashflows from financing activities

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Cash changes in subordinated capital	-4,064	688
Dividends	-3,455	-13,698
Interest paid	-5,365	-696
Cash flows from financing activities	**-12,884**	**-13,706**

Reconciliation to cash and balances with central banks

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Cash and balances with central banks at 1 January	**351,061**	**338,000**
Cash flows from operating activities	21,476	756,013
Cash flows from investing activities	-4,572	103,773
Cash flows from financing activities	-12,884	-13,706
Effect of exchange rate changes	1	0
Cash and balances with central banks at 30 June	**355,082**	**1,184,080**

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

Hypo Vorarlberg Bank AG (hereinafter also referred to as Hypo Vorarlberg) 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 (24). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

As at 30 June 2018, the interim report was prepared in accordance with the International Accounting Standards (IAS) adopted and published by the International Accounting Standards Board (IASB) and International Financial Reporting Standards (IFRS) – including interpretations applicable by the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC).

The provisions of IAS 34 were used for the interim report. This does not include all information required in the full financial statements, and should therefore be read in conjunction with the consolidated annual financial statements as at 31 December 2017. The Banking Group's interim report has not been audited or reviewed by an auditor.

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

The same accounting standards observed in preparing the interim financial statements dated 31 December 2017 were applied to the consolidated annual financial statements - except for the changes due to IFRS.

(2) STANDARDS APPLICABLE FOR THE FIRST TIME

In November 2009, the IASB published IFRS 9 "Financial Instruments", which is the first step of a project to replace IAS 39 "Financial Instruments: Recognition and Measurement". On 24 July 2014, the IASB issued the updated version of IFRS 9, which supplements the previous version of the 2013 standard with new provisions on accounting for impairments of financial assets and includes revised regulations on the classification and valuation of financial instruments. In addition, there are new provisions for publishing, which are expected to provide more meaningful and relevant disclosures to users of financial statements. The current version of IFRS 9 was endorsed by the EU in European law in November 2016 and is effective for reporting periods starting on 1 January 2018 for the first time. First-time application is accompanied by various regulations for the reconciliation of the IAS 39 closing balance to the IFRS 9 opening balance. In addition to IFRS 9, IFRS 15 "Revenue from Contracts with Customers" came into effect as at January 2018. This standard includes regulations on how and when income is recognised that is not related to IFRS 9. Thus, this standard had no impact on the consolidated financial statements of Hypo Vorarlberg Bank AG, thus all accounting policies that are not affected by the IFRS 9 standard have remained unchanged.

(3) CHANGES TO ACCOUNTING POLICIES

Since 2015, Hypo Vorarlberg Bank AG has been implementing a centrally managed, IFRS 9 program with various sub-projects which the entire Managing Board is responsible for, for example, classification and measurement, impairments, hedge accounting, motivation and novation, reporting etc. The IFRS 9 programme was supported by experts in the areas of methodology, obtaining data, modelling, IT and accounting. The implementation of IFRS 9 resulted in a measurement of all financial instruments. Furthermore, an impairment methodology was developed to classify and calculate expected credit default risk provisions. Back in 2015, the development of this method of impairment and its subsequent implementation and depiction in our IT systems was also started in addition to the development and definition of business models.

Classification and valuation:

IFRS 9 introduced new regulations for the classification and measurement of financial assets within the scope of IAS 39. Subsequently, all financial assets based on the company's business model are used to manage its financial assets and the cash flow characteristics of each company. Accordingly, a financial asset should be measured at amortised cost if the aim of the business model is to hold the financial assets to generate contractual cash flows and the terms of the contract of the financial asset result in cash flows excluding repayments and interest payments. If a financial asset is held both to collect the contractual cash flows and available for sale and the contractual cash flows of the financial asset are only repayments and interest payments, it is measured at fair value through other comprehensive income. To date, Hypo Vorarlberg Bank has no financial assets available for sale. All financial assets that come under one of these two categories are subsequently measured at fair value through profit or loss. Hypo Vorarlberg Bank AG does not use the option of measuring equity securities at fair value through profit or loss on the date of the first-time adoption of IFRS 9.

Accounting of impairment of financial assets:
The new provisions on accounting for impairments fundamentally changes their recognition. Accordingly, at each reporting date companies are required to recognise risk provisions by recognising an impairment loss or recognising a loan loss provision expected to occur within the next 12 months (12 month expected credit losses) (i.e. based on the likelihood of default within the next twelve months). In terms of subsequent measurement, the credit defaults which are expected to occur within the next twelve months should be replaced by lifetime expected credit losses if the default risk has increased significantly since the date of initial recognition. Risk provisions for credit defaults are measured on the basis of credit defaults that are expected to occur within the next twelve months if it is evident that the credit quality has improved again and the criterion of increased default risk is no longer fulfilled. If a financial asset is in default, a scenario-weighted requirement for specific valuation allowances must be calculated, which is based on the expected returns of the expected collateral. For defaulted low-volume exposures, the allowance is calculated using a simplified procedure based on the expected credit losses over the overall term. Firstly, as part of the sub-project impairments in accordance with IFRS 9, the focus was on estimating the key parameters. These are primarily loss given default (LGD) for the business segment and types of collateral and the probability of default (PD) based on the current rating and modelled expected migration probabilities - including any macroeconomic input factors. For this purpose, the default expected is calculated over the entire term of the financial instrument. The secured and unsecured returns expected are calculated at the respective default date expected in the future with the losses expected. In the future, it will be necessary to validate the parameters used via regular backtesting. Secondly, in addition to the theoretic principles and parameterisation, the implementation of an IT solution for the calculation and accounting of risk provisions, taking the parameters above into account is being worked on intensively.

Hedge accounting:
In addition, the IASB provides changes in hedge accounting while the methods and the type of accounting remain unchanged. However, the focus is on operating risk management. The previous rigid limits which had to be effective within a hedging relationship to recognise them in the balance sheet no longer apply either. Instead, new cumulative requirements regarding effectiveness are classified as qualitative requirements for hedge accounting in which there must be an economic relationship between the hedged item and the hedging instrument, the default risk is not dominating and the hedging ratio has been selected appropriately. IFRS 9 includes an option, whereby hedges can continue to be presented in accordance with IAS 39. Hypo Vorarlberg Bank AG will not exercise this option and present hedge accounting in accordance with IFRS 9 as at 1 January 2018.

(4) FIRST APPLICATION OF IFRS 9

The extensive disclosures in the notes which will be required from 2018 in particular on credit risk and hedges are currently being prepared. This also implies an implementation effort in connection with the preparation of the regulatory financial statements to complete the amended IFRS 9 templates. Hypo Vorarlberg Bank AG does not exercise the provisions of Article 473a CRR.

In conjunction with the new requirements of IFRS 9, additional disclosure requirements in the notes are required by IFRS 7 "Financial Instruments: Disclosures". The regulations are mandatory for financial years beginning on or after 1 January 2018. Due to the major significance of this standard for the Group, the implementation is achieved through integration in the IFRS 9 project, in which the regulations of this standard are analysed in detail and necessary implementation steps are ensured.

In retrospect, the effects expected from the application of IFRS 9 in note (4) to the 2017 financial statements are very different from the actual effects of the transition. The reason for this was that the simulation calculations of the effects of first-time application for the new impairment provisions are calculated based on regulatory input factors and also on an economic cycle. By adjusting the default loss ratio to the current level observable in conjunction with the expected development in the near future, this resulted in a significantly lower requirement for risk provisions than assumed at the last balance sheet date.

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

ASSETS TEUR	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Positive market values of hedges	Trading assets and derivatives	Financial assets – designated at fair value	Financial assets – available for sale	Financial assets – held to maturity
Cash and balances with central banks	313,584	37,477						
Trading assets					190,940			
Financial assets – at fair value (SPPI)								
Financial assets – at fair value (option)						744,665		
Financial assets – at fair value (OCI)							686,598	
Financial assets – at cost		413,420	9,330,521					1,101,503
Positive market values of hedges				73,985				
Investments								
Property, plant and equipment								
Investment property								
Intangible assets								
Tax assets								
Deferred tax assets								
Other assets								
Total	**313,584**	**450,897**	**9,330,521**	**73,985**	**190,940**	**744,665**	**686,598**	**1,101,503**

ASSETS TEUR	Shares in companies valued at equity	Investment property	Intangible assets	Property, plant and equipment	Tax assets	Deferred tax assets	Other assets	Total assets
Cash and balances with central banks								351,061
Trading assets								190,940
Financial assets – at fair value (SPPI)								0
Financial assets – at fair value (option)								744,665
Financial assets – at fair value (OCI)								686,598
Financial assets – at cost							1,441	10,846,885
Positive market values of hedges								73,985
Investments	4,195							4,195
Property, plant and equipment				72,808				72,808
Investment property		64,219						64,219
Intangible assets			33,914					33,914
Tax assets					1,037			1,037
Deferred tax assets						8,984		8,984
Other assets							103,229	103,229
Total	**4,195**	**64,219**	**33,914**	**72,808**	**1,037**	**8,984**	**104,670**	**13,182,520**

LIABILITIES AND SHAREHOLDERS' EQUITY TEUR	Amounts owed to banks	Amounts owed to customers	Liabilities evidenced by certfi-cates	Negative market values of hedges	Trading lia-bilities and derivatives	Financial liabilities – designated at fair value	Provisions	Tax liabilities
Trading liabilities					163,621			
Financial liabilities at fair value (option)						1,310,885		
Financial liabilities at cost	1,598,964	5,175,661	3,296,773					
Negative market values of hedges				119,041				
Provisions							37,566	
Tax liabilities								9,804
Deferred tax liabilities								
Other liabilities								
Shareholders' equity								
Of which attributable to:								
Parent company shareholders								
Minority interests								
Total	**1,598,964**	**5,175,661**	**3,296,773**	**119,041**	**163,621**	**1,310,885**	**37,566**	**9,804**

LIABILITIES AND SHAREHOLDERS' EQUITY TEUR	Deferred tax liabilities	Other liabilities	Subordinat-ed capital	Share-holders' equity	Of which attributable to:	Parent company shareholders	Non-controlling interests	Total
Trading liabilities								163,621
Financial liabilities at fair value (option)								1,310,885
Financial liabilities at cost		11,832	272,204					10,355,434
Negative market values of hedges								119,041
Provisions								37,566
Tax liabilities								9,804
Deferred tax liabilities	8,841							8,841
Other liabilities		58,749						58,749
Shareholders' equity				1,118,579				1,118,579
Of which attributable to:								
Parent company shareholders						1,108,017		1,108,017
Minority interests							10,562	10,562
Total	**8,841**	**70,581**	**272,204**	**1,118,579**		**1,108,017**	**10,562**	**13,182,520**

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

TEUR	31.12.2017	Reclassification	Remeasurement according to IFRS9	01.01.2018
Cash and balances with central banks	351,061	0	1	351,062
Trading assets	190,940	18	1	190,959
Financial assets at fair value (SPPI)	0	702,214	20,302	722,516
Financial assets at fair value (option)	744,665	-309,454	2,959	438,170
Financial assets at fair value (OC)	686,598	-686,598	0	0
Financial assets at cost	10,846,885	292,592	-21,971	11,117,506
Positive market values of hedges	73,985	-18	-1	73,966
Investments	4,195	1,246	0	5,441
Property, plant and equipment	72,808	0	0	72,808
Investment property	64,219	0	0	64,219
Intangible assets	33,914	0	0	33,914
Tax assets	1,037	0	0	1,037
Deferred tax assets	8,984	0	0	8,984
Other assets	103,229	0	0	103,229
Total assets	**13,182,520**	**0**	**1,291**	**13,183,811**

TEUR	31.12.2017	Reclassification	Remeasurement according to IFRS9	01.01.2018
Trading liabilities	163,621	182	64	163,867
Financial liabilities at fair value (option)	1,310,885	0	0	1,310,885
Financial liabilities at cost	10,355,434	0	-1,281	10,354,153
Negative market values of hedges	119,041	-182	0	118,859
Provisions	37,566	0	2	37,568
Tax liabilities	9,804	0	0	9,804
Deferred tax liabilities	8,841	0	515	9,356
Other liabilities	58,749	0	-4	58,745
Shareholders' equity	1,118,579	0	1,996	1,120,575
Of which attributable to:				
Parent companyshareholders	1,108,017	0	0	1,108,017
Minority interests	10,562	0	0	10,562
Total	**13,182,520**	**0**	**1,291**	**13,183,811**

Reconciliation of measurement categories from IAS 39 to IFRS 9

ASSETS TEUR	Measurement category IAS 39	Carrying amount 31.12.2017	Measurement category IFRS 9	Carrying amount 01.01.2018
Cash and balances	amortised cost	351,061	amortised cost	351,062
Trading assets	at fair value through profit or loss	190,940	at fair value through profit or loss	190,941
Financial assets at fair value (SPPI)	at fair value through profit or loss	288,081	at fair value through profit or loss	288,171
Financial assets at fair value (option)	at fair value through profit or loss	434,231	at fair value through profit or loss	437,172
Financial assets at cost	at fair value through profit or loss	22,353	at fair value through profit or loss	20,690
Financial assets – at fair value (option)		**744,665**		**746,033**
Financial assets at fair value (SPPI)	at fair value through profit or loss	77,073	at fair value through profit or loss	77,073
Financial assets at cost	at fair value through profit or loss	608,279	at fair value through profit or loss	594,582
Investments	at fair value through profit or loss	1,246	at fair value through profit or loss	1,246
Financial assets – at fair value (OCI)		**686,598**		**672,901**
Financial assets at fair value (SPPI)	amortised cost	337,060	amortised cost	357,272
Financial assets at fair value (option)	amortised cost	980	amortised cost	998
Financial assets at cost	amortised cost	10,508,845	amortised cost	10,502,234
Financial assets – at cost		**10,846,885**		**10,860,504**
Trading assets	at fair value through profit or loss	17	at fair value through profit or loss	17
Positive market value of hedges	at fair value through profit or loss	73,968	at fair value through profit or loss	73,968
Positive market values of hedges		**73,985**		**73,984**
Investments	**at fair value through profit or loss**	**4,195**	**at fair value through profit or loss**	**4,195**

LIABILITIES AND SHAREHOLDERS' EQUITY TEUR	Measurement category IAS 39	Carrying amount 31.12.2017	Measurement category IFRS 9	Carrying amount 01.01.2018
Trading liabilities	**at fair value through profit or loss**	**163,621**	**at fair value through profit or loss**	**163,685**
Financial liabilities at fair value (option)	**at fair value through profit or loss**	**1,310,885**	**at fair value through profit or loss**	**1,310,885**
Financial liabilities at cost	**at fair value through profit or loss**	**10,355,434**	**at fair value through profit or loss**	**10,354,153**
Trading liabilities	at fair value through profit or loss	182	at fair value through profit or loss	182
Negative market value of hedges	at fair value through profit or loss	118,859	at fair value through profit or loss	118,859
Negative market value of hedges		**119,041**		**119,041**

(5) ADJUSTMENT TO PREVIOUS YEAR'S FIGURES

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

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

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

Errors in supplementary capital in nominal values of TEUR 10,000

TEUR	01.01.17	30.06.17	31.12.17
Carrying value bond			
reported	8,500	8,500	10,000
adjusted	9,650	9,969	10,000
Change	1,150	1,469	0
Net result from other financial instruments/ net result from financial instruments at cost and OCI			
reported	0	0	1,500
adjusted	1,150	319	350
Change	1,150	319	-1,150
Taxes on income			
reported	0	0	-376
adjusted	-288	-80	-88
Change	-288	-80	288
Tax liabilities			
reported	0	0	376
adjusted	288	367	376
Change	288	367	0

Errors in individual balance sheet and income statement items

TEUR	01.01.17	30.06.17	31.12.17
Financial assets - available for sale/ financial assets at fair value (OCI)			
reported	769,093	719,631	686,598
adjusted	770,243	721,100	686,598
Change	1,150	1,469	0
Net result from other financial instruments/ net result from financial instruments at cost and OCI			
reported		624	5,130
adjusted		943	3,980
Change		319	-1,150
Taxes on income			
reported		-10,632	-28,276
adjusted		-10,712	-27,989
Change		-80	288
Tax liabilities			
reported	19,521	11,767	9,804
adjusted	19,809	12,134	9,804
Change	288	367	0
Shareholders' equity			
reported	1,054,939	1,064,550	1,118,579
adjusted	1,055,802	1,065,652	1,118,579
Change	863	1,102	0

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Interest from Financial assets at fair value (OCI)	0	7,089
Interest from Financial assets at cost	127,682	92,545
Interest from Liabilities	622	3,587
Interest and similar income according to the effective interest method	**128,304**	**103,221**
Interest from Trading assets	7,212	10,650
Interest from Hedging instruments	15,082	14,426
Interest from Financial assets at fair value (SPPI)	1,291	0
Interest from Financial assets at fair value (option)	8,300	685
Interest and similar income	**31,885**	**25,761**
Expenses from Trading liabilities	-670	-355
Expenses from Hedging instruments	-17,729	-18,001
Expenses from Financial liabilities at fair value	-2,742	0
Expenses from Financial liabilities at cost	-56,162	-29,318
Expenses from Assets	-1,197	-591
Interest and similar expenses	**-78,500**	**-48,265**
Net interest income	**81,689**	**80,717**

(7) NET FEE AND COMMISSION INCOME

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Fee and commission income from financing	3,083	2,551
Fee and commission income from securities	7,800	8,154
Fee and commission income from accounting/payment transactions	6,510	6,056
Fee and commission income other	1,689	2,517
Fee and commission income	**19,082**	**19,278**

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Fee and commission expenses from financing	-1,333	-425
Fee and commission expenses from securities	-700	-591
Fee and commission expenses from accounting/payment transactions	-533	-563
Fee and commission expenses other	-970	-14
Fee and commission expenses	**-3,536**	**-1,593**

(8) RESULT FROM FINANCIAL INSTRUMENTS AT COST AND OCI

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Realised income on assets AC	7,446	322
Realised expenses on financial assets AC	-5,905	-1,362
Realised income on financial assets AC	2,962	1,639
Realised income on financial liabilities AC	-1,169	24
Realised result from financial instruments at fair value (OCI)	0	320
Realised income on financial assets OCI	0	1,933
Realised expenses on financial assets OCI	0	-1,613
Net result from financial instruments at cost and OCI	**3,334**	**943**

(9) RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Trading results	-3,247	4,279
Net result of the measurement of derivatives	4,980	-31,086
Net result of the financial assets at fair value (SPPI)	-4,375	-11,457
Net result of the financial liabilities at fair value (option)	53	48,154
Net result on hedge accounting	-1,349	-362
Net result from financial instruments at fair value	**-3,937**	**9,528**

Net result on hedge accounting

TEUR	01.01.- 30.06.2018	01.01.- 30.06.2017
Net result of hedging instruments	12,037	-9,856
Net result on underlying transactions	-13,386	9,494
Net result on hedge accounting	**-1,349**	**-362**

(10) ADMINISTRATIVE EXPENSES

Group administrative expenses consist of staff costs and material expenses.

TEUR	01.01.-30.06.2018	01.01.-30.06.2017
Staff costs	-31,523	-30,478
Materials expenses	-17,898	-17,254
Administrative expenses	**-49,421**	**-47,732**

Of which staff costs

TEUR	01.01.-30.06.2018	01.01.-30.06.2017
Wages and salaries	-23,972	-23,150
Statutory social security contributions	-6,327	-6,045
Voluntary social benefits	-714	-688
Expenses for retirement benefits	-578	-615
Social capital	68	20
Staff costs	**-31,523**	**-30,478**

(11) IMPAIRMENTS

TEUR	01.01.-30.06.2018	01.01.-30.06.2017
Impairments on property, plant and equipment	-3,243	-3,683
Impairments on investment property	-920	-1,291
Impairments on intangible assets	-390	-237
Depreciation and amortisation	**-4,553**	**-5,211**

C. NOTES TO THE BALANCE SHEET

(12) TRADING ASSETS

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
Trading assets Equity instruments	170	50
Trading assets Derivatives with a positive market value	171,944	190,890
Trading assets	**172,114**	**190,940**

Nominal values of derivatives – breakdown by type of business

TEUR	30.06.2018	31.12.2017
Interest rate swaps	3,050,922	3,112,292
Cross currency swaps	928,365	1,045,814
Interest rate options	178,655	211,246
Interest rate derivatives	**4,157,942**	**4,369,352**
FX forward transactions	478,177	326,656
FX swaps	62,215	72,937
FX options	0	315
Currency derivatives	**540,392**	**399,908**
Derivatives	**4,698,334**	**4,769,260**

Positive market values of derivatives – breakdown by type of business

TEUR	30.06.2018	31.12.2017
Interest rate swaps	154,281	159,119
Cross currency swaps	9,984	25,781
Interest rate options	2,090	2,213
Interest rate derivatives	**166,355**	**187,113**
FX forward transactions	5,265	3,443
FX swaps	324	331
FX options	0	3
Currency derivatives	**5,589**	**3,777**
Derivatives	**171,944**	**190,890**

(13) FINANCIAL ASSETS AT FAIR VALUE (SPPI)

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
AFV Equity instruments	87,021	N.A.
AFV Data securities of public issuers	123,003	N.A.
AFV Debt securities of other issuers	158,235	N.A.
AFV Loans and credits to customers	385,481	N.A.
Financial assets – at fair value (SPPI)	**753,740**	**N.A.**

(14) FINANCIAL ASSETS AT FAIR VALUE (OPTION)

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
FVO Equity instruments	0	64,009
FVO Data securities of public issuers	59,431	174,438
FVO Debt securities of other issuers	0	113,341
FVO Loans and credits to customers	346,732	392,877
Financial assets – at fair value (Option)	**406,163**	**744,665**

(15) FINANCIAL ASSETS AT FAIR VALUE (OCI)

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
OCI Equity instruments - without recycling	0	47,098
OCI Data securities of public issuers	0	323,861
OCI Debt securities of other issuers	0	315,639
Financial assets – at fair value (OCI)	**0**	**686,598**

(16) FINANCIAL ASSETS AT COST

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
AC Data securities of public issuers	797,980	524,183
AC Debt securities of other issuers	1,544,387	805,960
AC Loans and credits to banks	94,170	421,693
AC Loans and credits to customers	8,683,305	9,093,608
AC Trade receivables	24,059	1,441
Financial assets – at cost	**11,143,901**	**10,846,885**

(17) POSITIVE MARKET VALUES OF HEDGES

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

TEUR	30.06.2018	31.12.2017
Interest rate swaps	5,204,685	4,815,555
Cross currency swaps	229,234	176,007
Interest rate derivatives	**5,433,919**	**4,991,562**
Derivatives	**5,433,919**	**4,991,562**

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

TEUR	30.06.2018	31.12.2017
Interest rate swaps	68,248	72,238
Cross currency swaps	908	1,747
Interest rate derivatives	**69,156**	**73,985**
Derivatives	**69,156**	**73,985**

The Group did not enter into any cash flow hedge positions in 2018 or in the previous year.

(18) TRADING LIABILITIES

Breakdown by type of hedge

TEUR	30.06.2018	31.12.2017
Trading liabilities Derivatives with negative market value	162,482	163,621
Trading liabilities	**162,482**	**163,621**

Negative market values from derivatives – breakdown by type of business

TEUR	30.06.2018	31.12.2017
Interest rate swaps	98,496	106,745
Cross currency swaps	57,747	52,204
Interest rate options	1,355	1,542
Interest rate derivatives	**157,598**	**160,491**
FX forward transactions	4,788	3,081
FX swaps	96	46
FX options	0	3
Currency derivatives	**4,884**	**3,130**
Derivatives	**162,482**	**163,621**

The nominal values of the derivative financial instruments are shown in Note (12).

(19) FINANCIAL LIABILITIES AT FAIR VALUE (OPTION)

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
Deposits from banks - FVO	29,691	29,673
Deposits from customers - FVO	152,062	151,236
Issued bonds - FVO	1,111,794	1,129,976
Financial liabilities at fair value (option)	**1,293,547**	**1,310,885**

(20) FINANCIAL LIABILITIES AT COST

Breakdown by type of business

TEUR	30.06.2018	31.12.2017
Deposits from banks - AC	1,647,908	1,598,964
Demand deposits from customers - AC	3,802,885	3,932,426
Saving deposits from customers - AC	1,237,775	1,243,235
Issued bonds - AC	3,658,279	3,568,977
Trade payables - AC	4,319	11,832
Financial liabilities at cost	**10,351,166**	**10,355,434**

(21) NEGATIVE MARKET VALUES OF HEDGES

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

TEUR	30.06.2018	31.12.2017
Interest rate swaps	87,587	97,334
Cross currency swaps	24,093	21,707
Interest rate derivatives	**111,680**	**119,041**
Derivatives	**111,680**	**119,041**

The nominal values of the hedging instruments are shown in Note (17). The Group did not enter into any cash flow hedge positions in 2018 or in the previous year.

(22) LOAN LOSS PROVISIONS

TEUR	Balance 01.01.2017	Additions	Reversals	Utilisation	Currency translation	30.06.2017
Individual valuation allowances	-88,925	-6,783	9,473	8,859	75	-77,301
Portfolio valuation allowances	-15,450	-2,467	888	2	1	-17,026
Total	**-104,567**	**-9,250**	**10,384**	**8,861**	**76**	**-94,496**

TEUR 30.06.2018	Stage 1	Stage 2	Stage 3	Total
Receivables	-10,939	-15,377	-61,568	-87,884
Bonds	-536	0	-1,330	-1,866
Loan commitments, financial guarantees and other commitments given	1,221	169	1,050	2,440
Total	**-10,254**	**-15,208**	**-61,848**	**-87,310**

TEUR 30.06.2018	Stage 1	Stage 2	Stage 3	Total
Balance 1 January 2018	**-10,970**	**-13,674**	**-64,343**	**-88,987**
Additions	-2,151	-7,584	-4,781	-14,515
Reversal	1,506	624	13,732	15,862
Changes due to changed default risk	1,392	5,460	-6,439	413
Exchange rate	-31	-35	-15	-81
Balance 30 June 2018	**-10,254**	**-15,209**	**-61,846**	**-87,309**

D. FURTHER IFRS INFORMATION

(23) DISCLOSURES ON FAIR VALUE

Fair value hierarchy for financial instruments recognised at fair value

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

TEUR 30.06.2018	Level 1	Level 2	Level 3	Total
Trading assets	170	116,676	55,268	172,114
Financial assets – at fair value (SPPI)	96,196	168,501	489,043	753,740
Financial assets – at fair value (option)	17,969	41,462	346,732	406,163
Positive market values of hedges	0	69,050	106	69,156
Total assets measured at fair value	**114,335**	**395,689**	**891,149**	**1,401,173**
Reclassification of assets from level 2 and 3 to level 1	0	0	0	0
Reclassification of assets from level 1 and 3 to level 2	0	0	0	0
Trading liabilities	0	158,023	4,459	162,482
Financial liabilities at fair value (option)	117,078	318,942	857,527	1,293,547
Negative market values of hedges	0	105,186	6,494	111,680
Total liabilities measured at fair value	**117,078**	**582,151**	**868,480**	**1,567,709**
Reclassification of liabilities from level 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from level 1 and 3 to level 2	0	0	0	0

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

TEUR 31.12.2017	Level 1	Level 2	Level 3	Total
Derivatives	0	134,431	56,459	190,890
Equity instruments	50	0	0	50
Trading assets	**50**	**134,431**	**56,459**	**190,940**
Equity instruments	2,716	0	56,535	59,251
Bonds	47,802	241,715	0	289,517
Loans and credits	0	274,112	121,785	395,897
Financial assets – at fair value (option)	**50,518**	**515,827**	**178,320**	**744,665**
Equity instruments	3,045	0	35,874	38,919
Bonds	623,222	5,010	19,447	647,679
Financial assets – at fair value (OCI)	**626,267**	**5,010**	**55,321**	**686,598**
Positive market values of hedges	**0**	**73,898**	**87**	**73,985**
Assets	**676,835**	**729,166**	**290,187**	**1,696,188**
Derivatives	0	159,427	4,194	163,621
Trading liabilities	**0**	**159,427**	**4,194**	**163,621**
Deposits	0	0	180,911	180,911
Issued bonds	123,771	324,361	681,842	1,129,974
Financial liabilities at fair value (option)	**123,771**	**324,361**	**862,753**	**1,310,885**
Negative market values of hedges	**0**	**111,898**	**7,143**	**119,041**
Liabilities	**123,771**	**595,686**	**874,090**	**1,593,547**

TEUR 30.06.2018	Level 1	Level 2	Level 3	Total
Derivatives	0	116,676	55,268	171,944
Equity instruments	170	0	0	170
Trading assets	**170**	**116,676**	**55,268**	**172,114**
Equity instruments	4,712	10,978	71,331	87,021
Bonds	91,484	157,522	32,231	281,237
Loans and credits	0	0	385,482	385,482
Financial assets – at fair value (SPPI)	**96,196**	**168,500**	**489,044**	**753,740**
Bonds	17,969	41,462	0	59,431
Loans and credits	0	0	346,732	346,732
Financial assets – at fair value (option)	**17,969**	**41,462**	**346,732**	**406,163**
Positive market values of hedges	**0**	**69,049**	**107**	**69,156**
Assets	**114,335**	**395,687**	**891,151**	**1,401,173**
Derivatives	0	158,022	4,460	162,482
Trading liabilities	**0**	**158,022**	**4,460**	**162,482**
Deposits	0	0	181,753	181,753
Issued bonds	117,078	300,157	653,673	1,070,908
Other financial liabilities	0	18,784	22,102	40,886
Financial liabilities at fair value (option)	**117,078**	**318,941**	**857,528**	**1,293,547**
Negative market values of hedges	**0**	**105,259**	**6,421**	**111,680**
Liabilities	**117,078**	**582,222**	**868,409**	**1,567,709**

Changes in Level 3 financial instruments

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

TEUR 2018	Opening balance	Purchases/ issues	Sales/ repayments	Addition from Level 1 and Level 2	Reclassifi-cation to Level 1 and Level 2	Changes in fair value	Closing balance
Trading assets	56,459	0	0	0	0	-1,191	55,268
Financial assets – at fair value (SPPI)	480,055	8,640	-31,825	0	-11,252	43,425	489,043
Financial assets – at fair value (option)	365,240	0	-7,455	0	0	-11,053	346,732
Financial assets – at fair value (OCI)	0	0	0	0	0	0	0
Negative market values of hedges	87	0	0	0	-1	20	106
Level 3 assets measured at fair value	**901,841**	**8,640**	**-39,280**	**0**	**-11,253**	**31,201**	**891,149**
Trading liabilities	4,313	0	0	0	86	60	4,459
Financial liabilities at fair value (option)	862,753	10,000	-19,333	2,844	0	1,263	857,527
Negative market values of hedges	7,024	0	0	0	90	-620	6,494
Level 3 liabilities measured at fair value	**874,090**	**10,000**	**-19,333**	**2,844**	**176**	**703**	**868,480**

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

TEUR	Positive fair value change with alternative measurement parameters 30.06.2018	31.12.2017	Negative fair value change with alternative measurement parameters 30.06.2018	31.12.2017
Derivatives	166	195	-244	-285
Financial assets – at fair value (SPPI)	1,975	N.A.	-1,925	N.A.
of which securities	709	N.A.	-1,060	N.A.
of which loans and credits	1,266	N.A.	-865	N.A.
Financial assets – at fair value (option)	73	524	-45	-423
of which loans and credits	73	524	-45	-423
Financial assets – available for sale	0	65	0	-81
Financial liabilities at fair value (option)	-4,800	-5,230	4,800	5,230
of which issues	-3,711	-4,022	3,711	4,022
of which time deposits	-1,089	-1,208	1,089	1,208
Total	**-2,586**	**-4,446**	**2,586**	**4,441**

(24) SHAREHOLDERS OF HYPO VORARLBERG BANK AG

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

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

(25) HUMAN RESOURCES

	01.01.-30.06.2018	01.01.-30.06.2017
Full-time salaried staff	612	620
Part-time salaried staff	95	86
Apprentices	7	9
Cleaning staff/employees	2	2
Average number of employees	716	717

E. SEGMENT REPORTING

Reporting by business segment

TEUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2018	51,038	14,703	4,019	11,929	81,689
	2017	45,589	15,570	3,074	16,484	80,717
Dividend income	2018	0	0	355	488	843
	2017	0	0	502	278	780
Net fee and commission income	2018	6,313	8,208	980	45	15,546
	2017	6,359	8,983	1,063	1,280	17,685
Net result from financial instruments at cost and OCI	2018	0	0	3,395	-61	3,334
	2017	0	0	-548	1,491	943
Net result from financial instruments at fair value	2018	3,782	611	-9,100	770	-3,937
	2017	-453	691	9,030	260	9,528
Other income	2018	225	275	1	6,900	7,401
	2017	3,818	275	2	6,897	10,992
Other expenses	2018	-2,123	-2,644	-4,630	-5,958	-15,355
	2017	-3,020	-2,815	-5,038	-5,752	-16,625
Total operating income	**2018**	**59,237**	**21,153**	**-4,983**	**14,114**	**89,521**
	2017	**52,293**	**22,704**	**8,085**	**20,938**	**104,020**
Administrative expenses	2018	-16,856	-21,595	-5,179	-5,791	-49,421
	2017	-17,708	-21,173	-4,616	-4,235	-47,732
Depreciation and amortisation	2018	-385	-529	-26	-3,613	-4,553
	2017	-524	-749	-36	-3,902	-5,211
Loan loss provisions	2018	3,766	2,844	580	-570	6,620
	2017	6,306	333	-501	-1,800	4,338
Equity consolidation	2018	0	0	0	208	208
	2017	0	0	0	-21,820	-21,820
Result from change in own credit risk	2018	N.A.	N.A.	N.A.	N.A.	N.A.
	2017	0	0	0	1,243	1,243
Earnings before taxes	**2018**	**45,761**	**1,874**	**-9,608**	**4,348**	**42,375**
	2017	**40,367**	**1,115**	**2,932**	**-9,576**	**34,838**
Assets	2018	6,116,431	1,963,658	3,519,030	1,609,790	13,208,909
	2017	6,114,239	1,940,752	3,561,560	1,565,969	13,182,520
Liabilities and shareholders' equity	2018	2,191,214	3,102,493	7,089,411	825,791	13,208,909
	2017	2,175,131	3,159,631	7,152,800	694,958	13,182,520
Liabilities	2018	1,718,580	3,008,420	6,869,221	460,336	12,056,557
	2017	1,754,510	3,068,630	6,842,661	398,140	12,063,941

F. FINANCIAL RISKS AND RISK MANAGEMENT

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

(26) OVERALL RISK MANAGEMENT

The Group's operations involve the following risks:

- Credit risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods and currency or concentration risks in lending business.
- Market risk: 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 component. 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 Bank 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 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 risk management of Hypo Vorarlberg. 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 reviews the effects of economic and market developments on the income statement and net assets on an ongoing basis.

The overall risk management of the Group is based on a strict separation between Front Office and Back Office up to the level of the Managing Board. The principle of risk control is the consolidation of individual risks in Group Risk Controlling. The risk management functions of Hypo Vorarlberg are bundled under the responsibility of the Managing Board member responsible for risk management.

The Group's ICAAP and risk situation are addressed by the Asset Liability Management Committee (ALM). In this committee or in Managing Board meetings, the Managing Board decides on the type and level of limits for each type of risk, the risk measurement procedures and defines interfaces between Sales and Treasury with regard to the market interest method and the curves of the cost of liquidity.

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 Group 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 first half of the year, non performing loans decreased from TEUR 281,983 to TEUR 199,560.

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. The liquidity situation is very comfortable.

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)

TEUR	2018	2017
January	6,924	12,740
February	6,300	12,049
March	6,057	10,023
April	6,139	10,463
May	6,084	9,379
June	5,852	7,815

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

TEUR	2018	2017
January	1,940	2,024
February	1,907	1,883
March	1,972	1,522
April	1,841	1,526
May	1,796	1,444
June	1,968	1,325

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

TEUR	2018	2017
January	253	444
February	313	428
March	373	350
April	358	344
May	346	331
June	350	263

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

TEUR	2018	2017
January	3,369	7,178
February	3,281	7,054
March	3,338	6,282
April	3,170	6,088
May	3,069	5,998
June	3,544	5,012

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

TEUR	2018	2017
January	20,685	11,644
February	19,470	11,104
March	19,206	9,891
April	18,854	10,081
May	18,822	9,513
June	19,377	8,840

(27) 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

TEUR	30.06.2018	31.12.2017
Risk-weighted exposure amount	7,139,913	6,902,740
Total risk exposure amount for settlement/delivery	0	0
Total risk exposure amount for position, foreign exchange and commodities risks	554	353
Total risk exposure amount for operational risk	440,523	442,563
Total risk exposure amount for credit valuation adjustment	32,986	31,660
Total risk exposure amount	**7,613,976**	**7,377,316**

Common Equity Tier 1 capital (CET1) according to CRR

TEUR	30.06.2018	31.12.2017
Capital instruments eligible as CET1 capital	184,327	184,327
Retained earnings	776,483	754,302
Accumulated other comprehensive income	-9,375	9,219
Other reserves	128,472	128,472
Transitional adjustment due to grandfathered CET1 capital instruments	12,000	15,000
Minority interests given recognition in CET1 capital	38	30
Transitional adjustment due to additional minority interests	0	2
Adjustments to CET1 due to prudential filters	2,796	2,948
Intangible assets	-2,460	-2,510
Excess of deduction from AT1 items over AT1 capital (deducted in CET1)	0	0
CET1 instruments of financial sector entities where the institution does not have a significant investment	0	0
Other transitional adjustments to CET1 capital	0	-8,019
Common equity Tier 1 capital (CET1)	**1,092,279**	**1,083,771**

Additional Tier 1 capital (AT1) according to CRR

TEUR	30.06.2018	31.12.2017
Capital instruments eligible as AT1 capital	50,000	10,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	8	7
Transitional adjustment due to additional recognition in AT1 capital of instruments issued by subsidiaries	0	-1
Instruments of additional AT1 items of financial sector entities where the institution does not have a significant investment	0	0
Other transitional adjustments to AT1 capital	0	-502
Excess of deduction from AT1 items over AT1 capital (deducted in CET1)	0	0
Additional Tier 1 capital (AT1)	**50,008**	**9,504**

Tier 2 capital (T2)

TEUR	30.06.2018	31.12.2017
Capital instruments and subordinated loans eligible as T2 capital	216,096	235,076
Instruments issued by subsidiaries that are given recognition in T2 capital	10	9
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	0	-2
T2 instruments of financial sector entities where the institution does not have a significant investment	0	0
Other transitional adjustments to T2 capital	0	0
Tier 2 capital (T2)	**216,106**	**235,083**

Composition of own funds according to CRR and capital ratios

TEUR	30.06.2018	31.12.2017
Common equity Tier 1 capital (CET1)	1,092,279	1,083,771
Additional Tier 1 capital (AT1)	50,008	9,504
Tier 1 capital	**1,142,288**	**1,093,275**
Tier 2 capital (T2)	216,106	235,083
Own funds	**1,358,394**	**1,328,358**
CET1 capital ratio	14.35 %	14.69 %
Surplus of CET1 capital	751,737	751,792
T1 capital ratio	15.00 %	14.82 %
Surplus of T1 capital	687,535	650,635
Total capital ratio	17.84 %	18.01 %
Surplus of total capital	751,361	738,172

G. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(28) 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 STATUTORY REPRESENTATIVES WITH RESPECT TO THE INTERIM REPORT PER SECTION 125 (1) NO. 3 AUSTRIAN STOCK EXCHANGE ACT (BÖRSEG)

We confirm that to the best of our knowledge the condensed 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 half-year financial 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 six months of the financial year and the significance thereof with respect to both the condensed financial statements and to material risks and contingencies accruing in the remaining six months of the financial year. This interim report was not subjected to an audit or reviewed by an auditor.

Bregenz, 28 September 2018

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

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Principle of gender neutrality:
If personal designation is given in the masculine form in this report (e.g. employees), it refers to both women and men in the same way.

Global Investment Performance Standards (GIPS®) on page 8: The centralised portfolio management of Hypo Vorarlberg Bank AG having registered offices in Bregenz qualifies as a firm within the meaning of the Global Investment Performance Standards (GIPS®). The firm comprises all asset management mandates of private and institutional customers that are managed in the context of the bank's centralised investment process. It does not include decentralised organisational units and other units of the group that operate independently. The firm is in compliance with the GIPS®. For a list of all composites along with a detailed description, please contact Hypo Vorarlberg Bank AG at: T +43 (0) 50 414-0 or email us at info@hypovbg.at.

For more information on GIPS® please contact us at gips@hypovbg.at

Ambition unites people
with purpose with
Hypo Vorarlberg.

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