HYPO TIROL BANK

Unsere Landesbank

Annual Report 2017

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Men and women are equally important to us. To make contents better readable and understandable, any gender specific phrasing was waived. The gender used in the text applies to both genders equally.

Mag. Johannes Haid, Mag. Wilfried Stauder, Johann Peter Hörtnagl und Mag. Alexander Weiß

Dear ladies and gentlemen!

It is time to reflect on an exciting year that was characterised by many changes. Driven by economic and interest- related fantasies, international stock markets celebrated the year 2017 with a record high, and bitcoins conquered the covers of domestic magazines. However, the year 2017 was a rather quiet one for Hypo Tirol Bank AG. And that's a good thing!

Our business year was characterised by the further implementation of our goals. We reached these goals by being committed to our clients, by engaging motivated employees, by being successful due to consistent work and high quality service, and by being aware of our responsibility.

Success that can be measured by figures. The 2017 economic result accounted for 22 million Euros and was higher than intended. The balance sheet total remained stable and amounted to 7.1 billion Euros. The core capital rate increased by 0.81 % - since 2012, it has increased by a total of 5.01 %. As far as equity is concerned, Hypo Tirol Bank is one of the best mid-range banks in Austria. Credit risk provision also declined from 26.4 million Euros in 2015 to 10.7 million Euros in 2017 (balance sheet date).

Effort that becomes noticeable by building confidence. The additional upgrades by both, Moody's and Standard & Poor's underscored the positive growth (at moderate risk) in the core market; thus, the forecast improved and was changed from stable to positive. Moody's especially acknowledged the consistent decrease in credit risk and confirmed the outstanding situation in relation to liquidity and capital resources. Developments, which are also acknowledged by the market itself: it only took a couple of hours, to issue a 250 million Euros mortgage bond on the international capital market in Mai 2017 – a milestone in connection with Hypo Tirol Bank's liquidity management and the basis for the financing of the expired regional liability.

Service that can be experienced on digital and personal level. The service, provided by Hypo Tirol Bank, will continue to focus on the personal relationship between clients and employees. Simultaneously, we invest in new products and our digital future. Clients, who are between 12 and 25 years old, are offered the perfect start into an independent "financial life" by means of the free "U25" account. Since 2017, it has been possible to open such an account online any time by sending a video legitimation. Our online banking service also offers some innovations. You can easily and conveniently transfer an existing account to Hypo Bank – and a branch office - via hypo@home.

Responsibility that we assume by being the federal state bank. Based on a credit volume of nearly 5.3 billion Euro, Hypo Tirol Bank is an important financial provider regarding any kind of investment and entrepreneurial development. In the context of the 2017 "Impulse für Tirol" campaign (impulse for the Tyrol) an amount of 400 million Euros was invested in pioneering projects launched by Tyrolean small and medium-sized companies.

As an awarded apprentice employer ("Ausgezeichneter Tiroler Lehrbetrieb") we actively take responsibility for the next generation. Currently, 16 apprentices are being trained to become a banking clerk, and nine young people are offered the opportunity to enter into job life in the context of a trainee programme. In doing so, we safeguard banking expertise in the Tyrol on the long run.

In 2017, a sustainability report was published for the first time in accordance with the Sustainability and Diversity Improvement Act. This report perfectly illustrates all the tasks we fulfil as a regional bank – even beyond figures.

We would like to express our gratitude to all those who joined us on our way in 2017. We would like to thank our clients for their confidence, our employees for their enthusiasm and professional attitude, and our partners and owners for their loyalty.

Altogether we will continue to walk this way „in a relaxed atmosphere".

Mag. Wilfried Stauder,
Chairman of the Supervisory Board

Johann Peter Hörtnagl,
Chairman of the Managing Board

Mag. Johannes Haid,
Managing Board

Mag. Alexander Weiß,
Managing Board

CONSOLIDATED FINANCIAL REPORT 2017

I. Report on Business Development and Economic Situation

I. 1. Hypo Tirol Bank. Our Federal State Bank

According to the motto “we are the federal state bank and by providing most modern banking service we take care of both, people and the economy” it is the goal of Hypo Tirol Bank AG to be economically successful and competitive in the core market comprising North, East, and South Tyrol as well as Vienna. At the same time, the federal state bank generates additional value for clients, employees, the Province of the Tyrol and its citizens. A strengthened capital base allows the bank to be a highly professional, customer oriented financial service company with high-income, which safeguards its independence in a sustainable manner. In addition, All Hypo Tirol Bank AG transactions are carried out in accordance with demanding ecological and social requirements and it therefore supports a sustainable market economy.

As a Tyrolean traditional bank, Hypo Tirol Bank AG has always been a perfect companion for its clients.

- It is an expert with knowledge of the local economy.
- It operates closely to its clients and their daily lining environment.
- It is devoted to the region, its people and their traditions.
- It is highly committed to the economic, social, cultural and scientific concerns and achievements of the country and its people.

I. 2. Report on the Branch Offices

Being a regional bank, Hypo Tyrol Bank AG focuses on the core market comprising North, East, South Tyrol and Vienna.
As far as the retail sector is concerned, Hypo Tyrol Bank provides service for private clients, smaller corporate clients, liberal professions and investment clients in relation to all financial matters. The branch network comprises 20 branch offices.
In the centres for corporate clients located in North, East, South Tyrol and Vienna, specialists are always at the disposal of entrepreneurs.
Expert teams working in the field of private banking, liberal professions and public institutions combine their proficiency to support ambitious investors, freelancers and regional authorities alike.
All employees working in the “WohnVision Tirol” centres, act as supraregional contact persons for all Tyrolean people who would like to make their dream of a privately-owned home come true.

I. 3. Economic Conditions in 2017

Market Review 2017

Regarding the global economic boom, we witnessed consolidation. At the same time, inflation was moderate which had positive effects on consumption and the willingness to invest.

During 2017, the global economy clearly accelerated. For many years, the economic situation has never been as pleasing as now. In the Euro area, low interest rates and a moderate inflation rate have resulted in a significant increase in customer confidence. Besides consumption, the export sector and the increase in the field of corporate investments were the main drivers of growth.

Since Mr. Macron won the presidential election in France on 7 May, political risks have taken a back seat in the Euro area. Apart from that, the European Union represents itself in quite a strong state, even though the negotiations on Great Britain’s EU withdrawal are slowly progressing. In the Euro area, GDP increased by +2.7% in the first quarter (year-on-year) and the upswing has considerably gained in width. Thus, growth speed even exceeded the one of the US. The conditions in the US also improved. The unemployment rate further decreased during the year and reached 4.0%, which supported private consumption. In addition, the housing market also developed quite pleasingly. Following the adoption of the reform package on 20 December, the clouds in the economic heaven continued to disappear. Most threshold countries also faced positive economic growth.
The pleasing economic condition resulted in a strong increase regarding the value of share prices. As far as EUR government bonds are concerned, earnings were lower, and the price development had to face several fluctuations in 2017. Due to the expansive monetary policy of the European Central Bank, money market investments showed a negative result. Since the USD was were weak in comparison to the EUR, raw materials also achieved a negative result in the end of the year.

The satisfying economic situation in connection with decent company profits led to an increase in share prices. However, due to exchange losses, EUR investors experienced a more moderate annual result.

Most stock markets started quite well in 2017, especially, February was marked by strong price increases. During summer, most indices showed a sideward tendency. The reason for that was the high security demanded by investors, because the “Brexit” negotiations had appeared to be rather difficult. In the USA, the situation was challenging because President Trump had progressively been under pressure in relation to the Russian affairs. In the beginning of September, everything cleared up. The growing economy in connection with the new tax reform in the US once again had positive effects on share prices. Particularly, in September and October, the prices grew considerably and finally, in the end of the year a very pleasing result could be reported. However, headwinds were caused by the development of the exchange rates. From the EUR investors point of view, the weak USD and JYP had major impact on the development of global share prices. Nevertheless, in the end most regions achieved additional value. Shares from the Asian-Pacific region and threshold countries achieved double-digit increases.

Bond markets faced a turbulent year with high price fluctuations. Respectable economic data on the one hand and a high security demand on the other hand were the driving forces in this respect.

In the Euro area GDP growth in the fourth quarter of 2016 amounted to +1,8% (year-on-year) and was better than expected. In addition, in January, the prices increased significantly from +1.1% to +1.8% (annual rate). In view of such a strong economic environment, the beginning of the year was rather difficult for capital markets because increasing yields resulted in lower bond prices. Following a short recovery phase in February, bond prices were pressurised again in the first part of March. Once again, the American central bank increased the key interest rate by 0.25% on 15 March, to react to the positive economic situation. In the middle of March, the prices on the international bond markets began to increase again. The excessive supply on crude oil markets augmented and oil trading prices started to concede. As a result, inflation expectations on the market dropped, which caused the rise of bond prices. In June, another turnaround was reported. The positive estimation in relation to the economic development made by Mario Draghi and the indication of an imminent slow-down of the bond purchase programme on the part of the European Central Bank (ECB) resulted in significantly declining bond prices. In the middle of July there was another turning point. Thus, capital market yields decreased in the second half of the year, because – despite the positive economic development - the inflation rate was clearly lower than the target-value set by the ECB of approximately 0.2%. Moreover, the risk-aversion of investors grew due to the escalation of the conflict between North Korea and the US. Shortly before the turn of the year, the yields increased again which resulted in declining quotations.

As far as EUR government bonds are concerned, an average change in value amounting to +0.39% was reported in 2017. EUR company bonds were much better off, as they benefited from the ECB purchasing programme. High yield bonds also scored well thanks to the investors, who had been searching for higher rates of return. Bonds in USD suffered severely from the depreciation of the USD against the EUR and increasing key interest rates in the US.

In comparison to most currencies, the value of the Euro increased significantly. Political uncertainties affected the USD.

In Europe, the economic boom gained in width. Besides the core countries, the periphery countries of the EUR also benefited from the declining unemployment rate. Sentiment indicators were rising remarkably. In this context, the EUR got increasingly stronger. However, “Brexit” negotiations, which were everything but satisfying, did not have any significant negative impact on the single currency. Even though, the key interest rate was raised by the central bank three times in 2017, the USD had to suffer a clear loss in value. The Trump-Russia affair also affected the “Greenback”. In addition, the euphoria in relation to the implementation of Trump’s tax reduction and infrastructure programme died away. Moreover, the value of JPY and CHF decreased as well.

Economic Development in our Market Areas – Review 2017

Austria – strong investment cycle in addition to high consumer demand result in strong economic growth

In Austria, the economy developed quite pleasingly. Economic growth for 2017 was predicted to amount to +2.9%. For the first time in years it would nearly hit the +3% mark. There are several reasons for that. On one hand, the international economy is still accelerating, which means that Austria as an open economy clearly benefits from foreign trade. On the other hand, Austria has had the strongest investment cycle for years. Many companies have increasingly invested in equipment such as new machines or vehicles. In addition, investment in the construction industry runs at full speed, owing to rising real estate prices and the high demand for one-bedroom properties. Low interest rates were the reason why most Austrian people were more willing to spend money. In December, the increase in consumer prices amounted to +2.3%; in comparison to other European countries, the rate was rather high.
In 2017, the unemployment rate also changed: after it had continuously increased over the past five years, it finally started to fall in the last months of the year. In total it decreased (on a national basis) by -0.5% to 8.5%.

Province of the Tyrol – pleasing economic development and declining rate of unemployment

During the year, the economic situation in the Tyrol improved remarkably. A high (export) demand combined with dynamic private consumption resulted in full order books for companies. Particularly, manufacturing plants benefited from the pleasing order situation. The low interest level and a moderate depreciation of money also supported consumption. The investment willingness of companies increased step by step. Economic performance grew by +3.5%.
In the past year (2017) the atmosphere on the employment market was consistently positive. According to the AMS (Tyrolean job centre) averagely 20,343 people were registered as unemployed – less than in 2016. As employment increased at the same time, the rate of unemployment dropped from 6.0% to 5.8% (year-on-year), which is a respectable value in comparison with the rest of Austria.

South Tyrol – decent business and consumption environment

GDP in the South Tyrol in 2017 was predicted to rise by +1.9 %. The business environment reacted correspondingly and can be described as very positive. Most companies could increase their turnover and invested, particularly in new machinery and plants. Consequently, the employment sector was positively affected, which represented a major benefit for the South Tyrolean population.
Consumption developed very pleasingly as well. Consumers were quite confident thanks to the positive labour market development and the financial situation of their own families.

I. 4. Business Development

Company Key Figures

in kEUR	2017	2016	Change in %
Balance sheet total in kEUR	7 057 610	7 632 172	-7.53
Receivables from clients in kEUR	5 346 223	5 213 594	2.54
Liabilities to clients in kEUR	3 187 448	3 474 076	-8.25
Liabilities evidenced by certificate in kEUR	1 325 859	1 636 815	-19.00
Equity according to CRR in kEUR	584 641	566 910	3.13
of which Tier 1 in kEUR	519 091	504 703	2.85
Net interest income after risk provision in kEUR	65 889	104 284	-36.82
Net commission income in kEUR	26 367	26 338	0.11
Administrative expenses in kEUR	72 673	74 041	-1.85
Operative result in kEUR	22 015	38 262	-42.46
Core capital ratio in %	14.51	13.70	0.81
Equity ratio in %	16.34	15.38	0.96
Return on equity (IFRS) in %	4.11	6.85	-2.74
Return on equity (IFRS) in % (without stability fee, deposit insurance and resolution funds)	5.19	10.95	-5.76
Cost-income-ratio (IFRS)	67.20	70.53	-3.33
Cost-income-ratio (IFRS) in % (without stability fee, deposit insurance and resolution funds)	63.79	63.94	-0.14
Number of employees according to capacities	512	519	-1.35

Balance Sheet Development

In the past business year, the balance sheet total amounted to EUR 7.1 billion: it was 7.53% lower than the balance sheet total of the previous year (previous year: EUR 7.6 billion). This decline was expected. The essential single balance sheet items illustrate the following situation:

Receivables from credit institutions
On 31 December 2017, receivables from credit institutions amounted to EUR 109.0 million (previous year: EUR 270.1 million.). Thus, they decreased by EUR 98.1 million.

Receivables from clients
At the balance sheet date, receivables from clients accounted for EUR 5.4 billion (previous year: EUR 5.2 billion). The decline regarding the volume of receivables in Italy was compensated by an increase in Austria. In total, receivables from clients grew by EUR 132.6 million respectively by 2.54%.

Financial assets – AFS
At the balance sheet date, financial assets available for sale amounted to EUR 824.8 million (previous year: EUR 812.0 million). With a slight increase by 1.58%, the amount nearly remained on a constant level in comparison to the previous year.

Financial assets – HTM
Financial assets held to maturity decreased by EUR 15.4 million, with the decline referring to all types of business. On 31 December 2017, the accounting value amounted to EUR 19.9 million (previous year: EUR 35.3 million).

Liabilities to credit institutions
In the past business year, liabilities to credit institutions increased by EUR 749.7 million to EUR 931.7 million (previous year: EUR 182.0 million). In this context, most liabilities refer to liabilities to the Austrian National Bank.

Liabilities to clients
In the past business year, liabilities to clients declined by EUR 286.6 million to EUR 3,187.4 million (previous year: EUR 3,474.1 million). In this context, time deposits decreased by EUR 536.1 million, and savings deposits by EUR 534.0 million, whereas giro accounts increased by EUR 216.9 million.

Liabilities evidenced by certificate
Liabilities evidenced by certificate primarily resulted from debentures (61.03%) from debentures. On 31 December 2017, the total sum of liabilities evidenced by certificate accounted for EUR 1,325.9 million (previous year: EUR 1,636.8 million). Thus, in comparison to the previous year, the amount decreased by 19.0%.

Liabilities evidenced by certificate – designated at fair value
The item liabilities evidenced by certificate – designated at fair value was reduced again in the past business year and accounted for EUR 795.8 million (previous year: 1,430.5 million).

Details regarding derivative financial instruments
Herewith we refer to the details described in the consolidated financial statements note (8) “Trading assets and derivatives”. Further illustrations regarding the portfolios are specified in the following notes:

- (59) Positive market values from derivative hedging instruments
- (60) Trading assets and derivatives
- (75) Negative market values from derivative hedging instruments
- (76) Derivatives

Capital Resources

Based on regulation (EUR) no. 575/2013 (Capital Requirements Regulations – CRR) and the directive regarding the access to operations of financial institutions (Capital Requirements Directive 4 – CRD IV), consolidated capital resources and consolidated prudential capital requirements shall be determined in accordance with the IFRS but according to prudential consolidation circles. Within Hypo Tirol Bank AG, the supervisory consolidation circle corresponds to the consolidations circle according to IFRS.

Eligible equity in accordance with CRR/CRD IV increased by EUR 17.7 million in comparison to the previous year; in consideration of all deduction items it accounted for 584.6 million on 31 December 2017 (previous year: EUR 566.9 million). Within this period, required equity decreased by EUR 8.6 million. At the balance sheet date, the equity ratio amounted to 16.34% (previous year: 15.38%) and thus, increased by 0.96 percentage points. Consequently, Hypo Tirol Bank AG fulfils all corporate group requirements regarding equity as stated in CRR/CRD IV. Equity surplus accounted for EUR 298.5 million. (previous year: EUR 272.1 million).

At the balance sheet date, core capital (Tier I) accounted for EUR 519.1 million (previous year: EUR 504.7 million). Supplementary equity (Tier II) in consideration of deduction items according to section 66 (own shares supplementary capital) amounted to EUR 65.6 million (previous year: EUR 62.2 million). At the balance sheet date, the core capital ratio accounted for 14.51% (previous year: 13.7%).

Achievements

Following the trend of previous years, in 2017, Hypo Tirol Bank AG once again pursued the determined strategy to focus on the Tyrolean core market (North-, East and South Tyrol) and Vienna and to cut risk positions. By doing so, it was possible to clearly reduce risk provision, which is also reflected by the positive business development.

Net interest income after risk provision
In the past business year, net interest income after risk provision declined by EUR 38.4 million to EUR 65.9 million (previous year: EUR 104.3 million). As expected, last year's one-off effect, which triggered the income from credit risk provision, could not be achieved again.

Trading result
In the past business year, the trading result developed rather positively and increased by EUR 0.2 million finally accounted for EUR 0.3 million (previous year: EUR 0.1 million).

Administrative expenses
In the past business year, it was again possible to reduce administrative expenses. In 2017, expenses accounted for 72.7 million (previous year: EUR 74.0 million.). This decline meets the expectations of the management and complies with the determined professional goals and the strategy to optimise the utilisation of personnel capacities.

Result prior to taxation
The result prior to taxation in the past business year accounted for EUR 22.0 million (previous year: EUR 38.3 million). After the decoction of tax on income and profit in the amount of EUR 3.0 million (previous year: EUR 11.8 million) the result after taxation amounted to EUR 19.0 million. (previous year: EUR 26.5 million).

I. 5. Business Development in Single Business Sectors

Private Clients

In the branch offices of Hypo Tirol Bank AG, comprehensive financial service is provided for private clients, smaller corporate clients, liberal professions and investment clients. In this context, emphasis is put on fruitful client relations as well as on attracting potential clients from the classic retail segment. With regard to the financing of private housing, Hypo Tirol Bank AG and the specialists, who work in the "WohnVision" centres, aim at being the appropriate contact persons for all Tyrolean people. Due to the increased employment of online-banking and electronic media, the interaction with clients who ae between 18 to 30 years old shall be intensified. For clients, who are between 30 to 55 years old, Hypo Tirol Bank AG wants to become the principal financial institution, instead of being a subordinate bank. Moreover, additional strategic focus is put on the client segment of liberal professions. Based on the revival of networks and the increased acquisition of new clients, the market share shall be enlarged.

Economic Forecast 2018
The overall objective for 2018 is to enlarge the client portfolio. This goal shall be reached by finding a balance between active and passive products via intensifying investment business. In order to offer better service for wealthy clients, the branch office staff will be supported by private banking experts (dual service). The age group of 18 – 30-year olds will be concentrated on, to set the course for the future. The number of clients in the younger target group shall be increased by progressively emphasising on the expansion of digital service, the presence in social media and the development of targeted sales offers. Apart from that, the system of recommendation and systematic contacting with defined desired clients shall help to multiply the number of clients.

Private Banking

The clientele comprises wealthy private clients whose investment volume amount to a minimum of EUR 500,000. This includes private clients as well as corporate clients. Close cooperation with the specialists from the corporate client and securities sector of the in-house treasury department, is essential in this respect.

Asset management in all its facets
Private banking is more than just gaining profit via investment. It means to take on anticipatory responsibility. Individuality is a major issue in this respect – not only with regard to consulting, also in terms of finding appropriate product solutions. It takes time, expertise and market knowledge to find the ideal investment strategy. The Hypo Tirol Bank AG specialists are always up to date as far as the development of financial markets is concerned. The investment strategy is continuously adapted to current market developments and the client's objectives. In return, the client is regularly informed about asset development. Apart from that, it goes without saying that current tax conditions are always considered as well.

Economic Forecast 2018
Our experts have set themselves the goal to increase the investment volume. The goal shall be reached by means of acquiring desired clients. In this context, it is essential to regularly optimise the range of products and services including professional asset management and asset consulting services and the determination of individual strategies to find the appropriate portfolio and to implement all details correspondingly.
In addition, dual service offered for private and corporate clients and freelancers in all regions shall be intensified. This will have positive impact on the volume and the profit of the branch offices and corporate client centres.

Free Professions

The clientele of this special segment comprises, as the name suggests, Tyrolean freelancers, with the focus being put on physicians, lawyers, tax accountants and public accountants.

Financial expertise provided for doctors and freelancers
From the first step of becoming self-employed, all Hypo Tirol Bank

AG experts are reliable companions and manage all banking-related issues. Regarding complex financing requirements, our consultants have gained major experience and will develop comprehensive financing plans. They support their clients by providing demand orientated solutions for each stage of life.

Moreover, our experts make use of a vast network covering all industries that might be helpful for freelancers in the context of their daily business activities. This network is targeted to the needs of the clients. On the initiative of the federal state bank the club called "die Praxismacher" (practice founders) was established especially for those clients who need to establish a practice. This network of experts offers support in the field of financing, insurance, real estate, accounting as well as project planning, interior architecture, furniture and inner design, medical equipment and technology.

Economic Forecast 2018
Tyrolean freelancers represent a strategically important target group for the Tyrolean state bank. Due to the regional proximity, the clients are taken care of by the branch office staff. The experts working in the branch office "Universitätsklinik" focus on the expansion and maintenance of networks. Recommendations and the acquisition of desired clients shall help to increase the market share. The target group of young doctors represents a decisive key factor, due to the connection that has historically developed between Hypo Tirol Bank AG and this special target group. The goal is to harmonise the age structure in this client group to form a solid basis for the future of the state bank.

Corporate Clients

Hypo Tirol Bank AG is a partner of the Tyrolean economy. According to its assignment, it takes on responsibility for the Tyrol as a business location. In this context, it focuses on small and medium-sized enterprises (SME) operating in the core market. These companies represent the pillars of wealth in the Tyrol. As a result of the long-lasting close cooperation with domestic real estate developers, Hypo Tirol Bank AG has made a major contribution to the creation of new living space for the people living in our country.

The staff members working in the corporate client sector are experts In relation to financing strategies, liquidity management, and sophisticated investment. They join their clients from the foundation of a company to the successful transfer of business. This kind of expertise allows Hypo Tirol Bank AG to support Tyrolean companies to seize their opportunities in the best possible way in order be competitive on regional and international level alike.

Hypo Tirol Bank AG provides sufficient liquidity for domestic companies and their future oriented investment projects. In this way, it has been possible to constantly increase financial volumes over the past years. It goes without saying that the bank focuses on long term success in this respect. As an independent regional credit institution with a clearly defined market area, Hypo Tirol Bank AG is well informed about market developments and other market participants, and thus, can anticipate chances and risks appropriately. Apart from that, our clients benefit from short decision processes.

Economic Forecast 2018
The segment of corporate clients will continue to make a major contribution to the total result. Due to the expected increase of the Euribor and enduring strong competition, a moderate decline in gross profit is anticipated. The reason for this is the decrease in active interest income. The problem will be tackled by improving passive margins and increasing net commission income. The synergetic collaboration with the private banking sector and Hypo Tirol Versicherungsmakler GmbH is essential and guarantees a win-win-situation for both, the financial institution and the clients.

Public Institutions

The partnership with public- and government-related institutions has developed over time, and it has become the mission of the federal state bank to foster this partnership. The staff members working in the public institution department are experts in handling the specific requirements of this clientele and they score due to the provision of on-site customer service.

The bank supports local authorities and their investment projects by offering an individually designed product portfolio. Since every project also includes the expansion of infrastructure and the creation of new living space, all Tyrolean people benefit from that cooperation.

As far as professional liquidity management is concerned, the consultants support their clients by compensating liquidity shortages and investing financial resources. Interest- and currency management tools are decisive factors for secure budget planning. In terms of optimizing the transaction of payments, our consultants also find individual solutions for the respective requirements of their clients.

Economic Forecast 2018
The leading market position in the core market shall be further strengthened. Due to the enduring market pressure – key word: discounter principle in relation to public investment – a smaller decline in active margins must be anticipated. This effect shall be intercepted by raising payment fees and passive profit to increase the gross profit of this organisational unit. Therefore, it is the declared objective to establish Hypo Tirol Bank AG as a holistic financial partner for public institutions. Close customer relations and a demand-oriented range of products and services shall help to implement this project.

Hypo Tirol Versicherungsmakler GmbH - Insurance Broking Company

The insurance brokers concentrate on the segment of free professions and corporate clients as well as on sophisticated private clients. Therefore, the close cooperation with the respective internal sales units is self-evident. In this way, Hypo Tirol Bank AG can offer its clients comprehensive financial service under one roof. At the same time, existing profit potentials within the Hypo Tirol Group can be managed in optimum manner.

Being an independent insurance broker and a 100% subsidiary of Hypo Tirol Bank AG, Hypo Tirol Versicherung guarantees its clients flexible and tailor-made solutions. A comprehensive and structured risk analysis serves as the basis for ideal insurance protection. In this context, the brokers of Hypo Tirol Bank AG entirely evaluate risk potentials. All possibilities are examined – even products beyond the insurance business. Therefore, comprehensive and individual risk management concept was established, which corresponds to the client's individual prerequisites and possibilities
Economic Forecast 2018

Since increasing profit also means increased production expenses, moderate growth is intended. In the context of broking business. This objective shall be achieved by providing active and holistic service for corporate clients coming from the industrial sector in the context of broking business.

Italian Branch Office

In Italy, Hypo Bank Tirol is operated as an EU-branch office and sales unit. The entire transaction service is managed by North Tyrol.

The focus is put on sophisticated investment, as well as on financing and transaction solutions for freelancers and companies. The objective is to e new and moderate business transactions.

The investment products offered by Hypo Tirol Bank AG are marketed by the South Tyrolean branch offices, a network of freelance consultants and 11 partner banks located in Northern Italy. In this way, clients can benefit from the proximity to the Austrian financial centre in the best possible way

Economic Forecast 2018
According to the company's strategy, corporate client business in the core market of the South Tyrol shall be strengthened. This goal is based on a defined client portfolio with the focus being put on property developers and companies of the tourism industry. Especially in the field of financing, private banking and payment transactions, Hypo Tirol Bank AG wants to become the first alternative to the main credit institutions.

Vienna

In the capital of Austria, Hypo Tirol Bank AG is represented by one branch office, which acts as a specialist bank in the Vienna banking area. The product and service range is more or less the same as in the core market. However, the strategic business areas relate to sophisticated investment as well as to private and public housing, rather than to the classic retail business. In addition, the segment of free professions is also covered by highly qualitative consulting experts.

Economic Forecast 2018
In 2018, top priority will again be given to the strategy to concentrate on "sophisticated investment" and "commercial housing". Therefore, a continuous and structured acquisition process is required, which shall be guaranteed by the efficient use of internal and external networks.

Hypo Immobilien Betriebs GmbH (real estate company)

Hypo Immobilien Betriebs GmbH was founded in 2013. It is a 100% subsidiary of Hypo Tirol Bank AG and is responsible for the entire leasing and real estate business. The scope of task comprises the handling of approvals and the management of the Hypo Tirol Group property, which is held by the financial institution itself and by other property companies. The utilisation of property can be kept on a steady high level.

Economic Forecast 2018
The utilisation of the real estate portfolio managed by Hypo Tirol Bank AG shall be kept on a high level. Leasing business will concentrate on corporate clients, communities and freelancers.

Treasury

Asset Management
During 2017, the global economy accelerated significantly. The economic situation in Europe and the US has not been better for years. The pleasing environment resulted in an increase in the value of shares. However, the result for EUR government bonds was not as good due to strong price fluctuations throughout the year. Even though crude oil prices increased, raw materials (evaluated in EUR) showed a clear negative outcome which primarily was caused by a weak USD.
As far as asset management is concerned, strong growth was reported in the first quarter. The clients that had been offered asset management products and investment funds benefited from our active investment rate spread throughout the year: in those months, which can be described as positive for the stock exchanges (March to May and September to October), actively managed shares were highly weighted. On a global basis, the outstanding performance compared to competition was the result of the Hypo share-strategy to allocate appropriately.

Bank Book Control
The refinancing of high maturities resulting from liabilities, which ended on 30 September, was in the centre of all activities. The Tyrolean private clients and institutional large-scale clients showed their high degree of trust. This aspect was supported by the introduction of new, innovative investment products and the positive rating development.
Regarding the bank's own investment, we made use of the enduring stabile situation on the capital market to realise further profit in several sections. In 2018, we will continue to follow the conservative investment policy.
As for 2018, we expect the ECB to change its casual monetary policy. Associated with a strong economy and a positive inflation trend we expect short-term and long-term interest to increase.

Treasury Sales
Despite the enduring low interest level throughout the year, a major part of bond maturities in the retail sector could be absorbed by means of attractive new issues. Besides retail issues, the expansion of client deposits in treasury sales (more than a 30.0% year-on-year increase) was part of the liquidity plan.
In the course of a consulting campaign, our clients were presented the optimal asset mix. In this context, the consultants made use of the HYPOrtfolio approach, which had been introduced in the previous year. Since investment strategies are partly implemented via investment funds, the total portfolio of fund products could be increased by 12%, and all that against the trend in the industry. Investors increasingly complete their portfolio by investing in gold. According to this trend, the most important gold products are now available online under hypo@home.

Economic Forecast 2018
The way how the ECB handles the purchasing programme and how the central bank deals with the development of interest rates will have major impact on the development of interest and share markets. A forceful approach would probably soften the yield and share markets. A hesitant approach concerning tapering and key interest increases would probably stimulate the market on a superficial level. However, it would also support a possible bubble formation. Risks to the outlook are based on possible unexpected or escalating geopolitical conflicts as well as on undefined eco-political situations resulting from nationalisation tendencies (e.g. USA, Brexit, Spain/Catalonia).

II. Report on Anticipated Corporate Developments and Risks

II. 1. Economic Forecast 2018

Outlook 1st half-year 2018

Basic economic scenario:
Considerable global growth; in Europe the upswing is broadly supported. Inflation grows in a moderate manner.

Recently, international organisations, such as the OECD have adjusted their economic forecasts upwards. According to our opinion, global growth in 2018 will culminate with a rate of 3.5% to 4.0%. The economic prospects are still very positive. In the Euro area, the purchasing manager indexes of most countries have reached a record level. From the historic point of view, such indexes have always served as reliable early indicators for economic development. Therefore, a factual economic growth rate in the common currency area amounting to roughly 2.0% and more is very realistic. In 2017, the year-on-year economic performance rose by 2.3%. The consequence of this respectable economic development is a declining unemployment rate. In Austria, the labour market also developed better than expected over the last few months. This boosts private consumption. In addition, profitable times for the export industry can be predicted as well.
The development of inflation shows a more differentiated picture. Despite strong economic dynamics and comprehensive measures that were taken by the most important central banks, it does not seem to increase. It fluctuates around 1.5%. Especially the ECB is quite annoyed about the situation because it would prefer to see a value around 2.0%, maybe a little bit below. However, energy prices significantly increased in the fourth quarter of 2017. Added to this, there is an increasing lack of skilled employees in many places. In our opinion, both factors will lead to a moderate growth of the inflation rate in 2018.

Consequences for Investment Policy
Both, the ECB and the US central bank (FED) have started to reduce the expansive momentary policy. The FED already began to minimise the balance sheet total in the fourth quarter of 2017, by not entirely replacing mature securities. Since January 2108, the ECB has already reduced its monthly bond purchases from EUR 60 billion to EUR 30 billion. The purchasing programme shall be completed by the end of the third quarter. In this respect, increasing capital market yields can be anticipated. Especially, bond prices with long maturity might be put under pressure. Company bonds still offer higher profits than government bonds. However, due to the reduction of the purchases on the part of the ECB, the bond segment might come under pressure. In our opinion, convertible bonds can still be considered attractive because they benefit from increasing share prices. In the medium run, inflation-linked bonds might also be in the centre of attention, because currently inflation is expected to be low and already a moderate rise concerning these expectations might lead to an increase in prices.
Shares will probably still benefit from the search for yields. Anyway, if company profit grows, the prices will be pegged. Shortly before the turn of the year, the US government enacted the tax reform which is so important for the Republicans and President Trump. Consequently, companies will experience a huge tax relief, which should have positive impact on profit development. Despite such solid conditions, we will still consider certain risk factors. These include the smouldering conflict regarding North Korea, the instable situation in the Middle East and the current investigations in the US concerning President Trump and his Russian relations. History has shown, that US shares have always had a high value.
As far as raw materials are concerned, the prospects are still mixed. After a difficult year, there is a better chance that prices might increase. Energy prices are rising significantly now, which might be a result of the strong winter in Norah Amerika, the riots in Iran and the production cutback on part of the OPEC. It is unlikely that these trends will conanine in spring. Apart from that we consider noble metal to be the most attractive raw material segment.
According to our estimation, the USD will be between 1.23 to 1.30 to the EUR. A supporting factor in this respect might be that the US central bank will increase the key interest rate more often in 2018 than expected on the market. Tax relief might result in reflux of capital in the US and thus in a strengthening of the USD. On the other hand, vague American politics and the rapidly growing debt level of the Unites States represent stress factors.

Economic development in our market areas in 2018
In the beginning of 2018, the global economic environment presents itself very pleasing. Therefore, the prospects in relation to the Austrian economy are very remarkable. In this context, investment expenses as well as foreign trade are supposed to be supportive factors. In addition, consumption will also play a decisive role. It is likely that private consumption will decline slightly, while government spending will tend to increase. Foreign trade will benefit from a general revival of global trade and from the respectable economic prospects for Eastern and Central Europe. These regions are of special importance for Austrian exporters. Because of the satisfying economic situation, a further decline in the rate of unemployment, which accounts for 5.5% at the moment (according to EUROSTAT evaluation), towards 5.0% can be anticipated. The infiltration rate is expected to amount to +2.0%. Strong market pressure might result from increasing rentals and service demand.
In the Tyrolean economy the mood was quite good in the beginning of 2018. The business climate index of the Chamber of

Commerce has recently reached an all-time high amounting to 65 percentage points. The solid situation primarily results from respectable results that were achieved in the industrial sector, transport and the construction industry. It is likely that many leading companies will make higher investments than in the previous year. For 2018 we expect an economic growth rate of approximately 3.0%. Consequently, a further decline in the rate of unemployment can be anticipated; it is possible that in the course of the year a value of 5.3% will be reached.
The economic situation in Italy can also be described as stationary. After GDP increased by +1.5% in the past year, a lower value is anticipated for 2018, because it currently looks like the dynamics of consumption and exports will weaken slightly. Inflation will probably still be below the average in the Euro area and account for +1% to 1.5%. In this context, the outcome of the parliamentary elections represents an instability factor. There is the risk that a coalition, formed by many parties, will suspend necessary reforms.
The situation in the South Tyrol can be portrayed as relatively decent. In the past year gross national product increased by 1.9%; as for 2018, a similar value can be anticipated. This fact will be supported by the confidence on the part of the consumers and the positive atmosphere regarding the companies. In addition, a further rise of the employment rate is expected.

II. 2. Anticipated Corporate Development

In compliance with the corporate strategy and planning guidelines in relation to the 2018 business year, controlled growth including the following cornerstones was defined for Hypo Tirol Bank AG.
- Focusing on the core market comprising North, East and South Tyrol and Vienna
- Strengthening of customer relations
- Reducing capital commitment
- Continuous cutting of administration expenses
- Further reducing the NPL rate
- Increasing the core capital rate

In comparison to 2017, an increase in the result prior to tax is predicted for 2018. This increase results from a rise in banking businesses and the effects caused by the instruction of IFRS 9. Due to the low interest level, the volume of client investment develops – according to plan - slightly backwards. As far as the volume of receivables is concerned, a moderate increase is anticipated for North, East and South Tyrol and Vienna, while the credit portfolio outside of the core market will be further reduced. As a result, the 2018 balance sheet total will portray an insignificant increase.
Since, over liquidity in connection with the early refinancing of mature issues with liability ceases to apply in 2018, net interest income will develop positively. This positive development is influenced by an increase in the client business sector and a decline in refinancing costs.
As for administrative expenses, a further reduction will be implemented according to the strategic plan. Continuous optimisations will lead to growing efficiency regarding sinking costs.
A rise in the other operative result is also predicted for the forthcoming year. This positive development results from higher contributions in relation to the leasing business with clients and from an increase in the real estate business concerning the company’s own properties.

II. 3. Major Risks and Uncertainties

Financial Risks and Risk Management

Risk management
The risk management that is implemented and regularly developed within Hypo Tirol Bank AG aims at corresponding to the requirements of ICAAP (Internal Capital Adequacy Assessment Process) as well as ILAAP (Internal Liquidity Adequacy Assessment Process). Risk management is especially used to safeguard long-term success for Hypo Tirol Bank AG.

In this respect, the conditions for efficient risk management are defined by the total risk strategy, whereas the risk culture and the risk appetite framework are defined by the Managing Board. Among others, this includes the risk management process, which comprises the following strategies.
- Risk identification
- Risk quantification
- Risk aggregation
- Risk monitoring and controlling

The objective of this systematic risk management process is to safeguard capital- and liquidity adequacy which corresponds to the risk appetite.
In this context, the following major risks are quantified and actively controlled in order to guarantee such capital adequacy:

Risks
Credit risk incl. CCR
Market risk Interest rate risk, Price risk, Foreign currency risk, Alternative investments, Credit value adjustment, Credit spread risk
Liquidity risk
Macroeconomic risk From credit risk incl. risk reducing measures, Market risk, Liquidity risk
Operational risk
Risk from other assets
Risk capital from participating interest relevant to the group strategy
Concentration risk
Risk buffer Model risk & quality of data

Subsequently, these risks are aggregated (total risk) and compared with the risk capacity. The limits for single risks and risk capacity are determined by the Managing Board and monitored on a monthly basis. In case current developments or predictions require the implementation of measures, such measures are defined and implemented in terms of active risk control in a timely manner.

Credit risk and counter party credit risk

Hypo Tirol Bank AG defines credit risks as default risks arising out of non-securitized receivables and securitised receivables from third parties. The risks comprise receivables for Hypo Tirol Bank, which will not be paid as stated in the terms of the contract, i.e. amount, time. Credit risks may also result from specific forms of product design or from the application of measures to minimize credit risks.
Credit risk within Hypo Bank Tirol AG is evaluated on the basis of the going concern view and the liquidity view in compliance with the same method. Counter party credit risk (CCR) is considered within the quantification of credit risk.
Credit risk (default risk) is controlled by credit risk management, which assesses the financial recovery and operation of the non-performing loans portfolio.

Division of the portfolio by creditworthiness
The regular evaluation of our debtors' creditworthiness is a systematic process and essential for controlling credit risk. The composition of the portfolio is evaluated on a quarterly basis and presented to the decision makers.
The proportion of the volume of receivables can be assigned to the above-mentioned creditworthiness segment with outstanding creditworthiness and good creditworthiness further increased compared to the previous years and currently amounts to roughly 50%.
The proportion of the default segment could be further decreased by managing the portfolio in consistent, sustainable and active manner; therefore, the non-performing loans rate developed positively and could be further reduced in the 2017 business year. In this context, the corporate group refers to note (57) – credit risk provision, in which receivables from credit institutions and clients in compliance with internal rating classes are illustrated.

Division of the portfolio by regions
In the 2017 business year, Hypo Tirol Bank AG succeeded in further expanding the volume of receivables in the defined core market comprising North, East and South Tyrol and Vienna and in reducing the volume outside the defined core market. This is particularly illustrated in note (57) risk provision in relation to receivables from clients by region.

Foreign currency proportion – receivables from clients
In 2017, The positive development of the previous years was achieved as well, and thus foreign currency volume was further reduced. Due to the specifications defined in our foreign currency strategies, no new transactions in foreign currency with private clients and only to a very restricted extent with corporate clients is intended. Top priority is given to the further and consistent reduction of foreign currency volume. The illustration of foreign currency volumes divided by balance sheet items can be found in note (88).

Development of repayment vehicle loans
The strategy of Hypo Tirol Bank AG to continuously reduce the portfolio of repayment vehicle loans was further pursued in 2017. The reduction was positively influenced by defined restriction in relation to the granting of new loans and the management of the existing portfolio. In addition, the requirements concerning the disclosure of information were adapted to the new supervisory requirements.

Development of the Nostro securities portfolio
In 2017, Nostro securities were also reduced by EUR 280 million. This development was associated with the reduction of capital market maturities in 2017, because after this special event, the demand for highly liquid assets on the part of Hypo Tirol Bank was lower but the quality of the assets remained on the same level. The development of Nostro securities (divided by evaluation criteria) is illustrated in notes (60), (61), (62) and (63).

Reducing credit risk - collateral
In order to minimise the risk of loss, Hypo Tirol Bank AG aim at securing the volume of receivables in adequate manner. In this context, real estate collateral is the most important type of collateral. It is evaluated in compliance with the defined corporate standards and used in accordance with the existing catalogue in order to secure credit exposures.
A respective monitoring process, which is carried out by an independent institution, was established to ensure recoverability. The high quality of mortgage cover funds is also reflected by the external rating (Aa2 according to Moody's).

Risk provision policy

Early warning system
In order to identify credit risk potentials as soon as possible, Hypo Tyrol Bank AG established an early warning procedure which is based on qualitative and quantitative risk criteria. The system allows to identify risks at an early stage and thus, appropriate measures can be taken in timely manner.

Non-performing loans (NPL)
Within Hypo Tirol Bank AG non-performing loans include loans in default in the supervisory category of receivables and restructuring and operating cases. Due to the consistent management of the Italian portfolio it was possible to achieve nearly the same positive result as last year, that is to say the NPL-rat within the corporate group was significantly reduced again. At the key date (31 December 2016), the corporate group's NPL rate amounted to 7.6% and at the key date (31 December 2017) it amounted to 5.8%

Risk provision policy
Risk provision standards are documented in a separate system. The system describes the responsibilities and particularly the process to evaluate the required amount of the respective special allowance. For further information please see note (18).

The management of overdue receivable without specific allowance, (for further details also see note (57) – analysis of receivables – overdue – no allowance) and credits with contractual adaptations which shall be understood as forbearance measures (concessions in relation to credit terms in order to prevent impairment) regarding an active risk provision policy (concessions for clients suffering financial difficulties are illustrated under note (57)) are also included in the risk provision policy of Hypo Tirol Bank AG.

Market risk and interest rate risk

Definition
Hypo Tirol Bank AG describes market risk as the danger of losses which result from changes in market prices. The term market risk refers to the following risk categories:

- Interest rate risk
- Security price risk
- Foreign currency risk
- Credit spread risk

- Credit valuation adjustment (CVA)
- Alternative investment risk
- Risk arising out of termination rights

Market risk control
Market risk control is managed by the treasury department. In this context, special attention is given to a balanced asset/liability management process in consideration of the resulting impact on the financial statement in accordance with the Austrian Commercial Code and IFRS. As far as interest rate risk is concerned, a risk report in connection with the bank's net interest income is evaluated beyond the cash value perspective.

In order to reduce interest rate risk, Hypo Tirol Bank AG carries out hedge accounting in compliance with IAS 39, which allows to secure fixed interest loans, emissions and securities of the bank's own portfolio as well as fair value hedges. In the 2017 business year, the interest rate positioning of securities was controlled by means of participating in the "Targeted Longer-Term Refinancing Operations" (TLTRO II) established by the ECB. The foundation for market risk control is formed by the Interest rate positioning and the interest rate risk which are evaluated on a monthly basis.

Interest rate risk and plus 200 base points interest shock

Interest rate risk is divided in interest curve risk, interest rate re-fixing risk, base risk and interest option risk. Since Hypo Tyrol bank AG manages only one small scale trading book, interest risk distinguishes between positions included in the trading book and positions not included in the trading book.

As far as fluctuation in profit or economical values as stipulated in section 448 b, CRR, are concerned, a change concerning the cash value of Hypo Tirol Bank AG is evaluated on the basis of a plus 200 base points upwards trend of the interest curve.

Liquidity risk

Definition
Insolvency risk is the risk that current or future payments cannot be made or made in full, or in a timely manner or cannot be made without having to suffer unacceptably high losses. Liquidity risk distinguishes between short-term liquidity risk (up to one year) and long-term refinancing risk (more than one year).

Liquidity risk control
Within Hypo Tirol Bank AG short-term liquidity risk is quantified and monitored on the basis of the key figures of liquidity coverage potential (A'LCP) and the supervisory key figures of liquidity coverage ratio (LCR). The LCR forecast is integrated into liquidity risk management as an early warning instrument. In addition, LCR, liquidity buffer and liquidity sensitive products are monitored on a daily basis by means of the liquidity risk data board. Refinancing risk is quantified via structural liquidity risk and the supervisory key figure of NSFR (Net Stable Funding Ratio) and monitored via a refinancing monitoring system (comparison of planned/actual data). In 2017, the LCR key figure accounted for averagely 259%.

Within Hypo Tirol Bank AG, liquidity control is managed by the treasury department.

Operational risk

Definition
Within Hypo Tirol Bank AG operational risk is defined as the danger of loss caused by the inappropriateness or failure of internal procedures, individuals, systems or external events. Strategic risks and reputation risks are not included.
The following instruments are employed to control operational risks:

- Organisational structure
- Damage date base
- Risk inventories (self-assessment)
- OP-risk learning programme

The use of these tools ensures a comprehensive control of operational risks within Hypo Tirol Bank AG. In addition, the following methods are applied to minimise operational risks:
- Internal control systems
- Clearly documented internal guidelines ("instructions")
- Allocation and limitation of decision making competences
- Separation of functions ("four eyes principle") and avoiding of interest conflicts regarding essential risk-relevant processes
- Continuous assurance and improvement of employee's skills in the context of vocational education and training (human resource development)
- Employment of modern technologies
- Risk insurance

Real estate and participation risk

Definition
Real estate risk within Hypo Tirol Tank AG is the risk that prices of real estate change and consequently lead to a negative result in the profit and loss account (risk of vacancies, loss of rent, and deterioration of profit/cost relation). The risk in relation to property participation is added to real estate risk ("at equity"). Participation risk within Hypo Tirol Bank AG is the risk of loss resulting from financing by mans of equity capital (private equity) and/or borrowed capital (in connection with credit risk). In addition, Hypo Tirol Bank AG also includes the risk of loss resulting from market-evaluated participations (listed shares) and their price changes (in connection with market risk).

Excessive Debt Risk

Definition
Hypo Tirol Bank AG defines the debt quota as the quotient from the measured quantity of core capital and the overall risk position quantity.

The control of the key figure is safeguarded by the integration into the planning process and by the limitation of the same.

Macro-economic risk

Definition
Macro-economic risks are loss potentials resulting from exposure against macro-economic risk factors. Risk factors are i.e. unemployment rate, GDP development, etc., and their respective impact on different business sectors of the bank. Hypo Tirol Bank AG assumes that risks from macro-economic environment are substantially reflected in the following factors:

- Currency risk
- Possibility of default on the part of the clients
- Recoverability of credit collateral
- Market volatilities

In order to determine risk values for macro-economic risks, these parameters are stressed, and additional unexpected losses are calculated in the context of this scenario.

Risk from other assets

Definition
Risks from other assets are values that do not have substantial influence on the amount of the assets in the balance sheet and that cannot be assigned to any other balance sheet item. Any change or default imposes a risk for Hypo Tirol Bank AG. They include accruals and deferrals of derivatives pre-paid liability fees, deposits for leasing objects.

Risk management organisation

The Managing Board determines the overall risk strategy, the specified risk appetite framework, the risk limits and the risk manual of Hypo Tirol Bank AG, which documents on the risk management process. Hence, the strategy is concluded by the Supervisory Board.
Within the corporate group's Managing Board, the determined manager, who is responsible for business transactions, takes the responsibility for the further development of risk management and takes the leading position in the context of strategic risk management and in risk controlling. Risk controlling shall report to the Managing Board.
The Supervisory Board, respectively its subcommittee (risk committee) is responsible for the regular monitoring of the corporate management and the continuous evaluation of the risk management system operated by Hypo Tirol Bank AG.
In this respect, the Managing Board informs the Supervisory Board respectively the risk committee in pre-defined intervals about the risk situation of the corporate group and the risk management analysis. By doing so, the monitoring function administered by the Supervisory Board/risk committee is safeguarded.
The risk controlling executive department is responsible for the development and the continuous improvement process of risk management systems. It identifies, qualifies, monitors and controls major risks and risk covering potentials as well as short term liquidity to safeguard capital- and liquidity adequacy. In this context, proposals regarding risk and portfolio control are made and monitoring is conducted on the basis of defined internal reports. While risk management in production units is basically performed on the single item level risk controlling deals with risk management on portfolio level.
The central internal committee, which is responsible for active bank-wide control, organises the bank-wide control meeting on a monthly basis. The members of this committee are the General Managing Board, the head of the treasury department, the head of the accounting department, the head of the controlling department, the head of the audit executive department as well as the head of the risk controlling executive department.
The work of the committee is complemented by a comprehensive reporting system; in this context, reports are forwarded to the decision makers at least once a month.

Procedure for quantifying risks and risk cover potentials

Typo of risk/parameter	Going concern view	Liquidation view
Confidence level	95 %	99.9 %
Period of observation	1 year	1 year
Credit risk: classic credit risk	Modell strongly complies with IRB approach of CRR	Modell strongly complies with IRB approach of CRR
Credit risk: counter party credit risk	Values of liquidation view are scaled to confidence level	Risk value from pillar I for CCR
Market risk: **Interest rate risk** **Price risk** **Foreign currency risk**	Historical value at risk	Historical value at risk
Market risk: **Credit spread risk**	Historical value at risk by using indices	Historical value at risk by using indices
Market risk: **Alternative risk**	Simulation	Simulation
Market risk: **CVA**	Values of liquidation view are scaled to confidence level	Risk values from pillar I for CVA
Liquidity risk	Increased refinancing under spread shock	Increased refinancing under spread shock
Macroeconomic risk	Stress tests on components of credit, market and liquidity risk	Stress tests on components of credit, market and liquidity risk
Operational risk	Values of liquidation view are scaled to confidence level	Risk values from pillar I (base indicator approach)
Risk from other assets	Values of liquidation view are scaled to confidence level	Risk values from pillar I (risk weight approach)
Risk capital from corporate participation	Mixed approaches: IRB approach, risk weight approach	Mixed approaches: IRB approach, risk weight approach
Concentration risk: **Concentration of names** **Concentration of sectors**	Granularity adjustment for concentration of names. Values of liquidation view are scaled to confidence level for branch concentrations.	Granularity adjustment for concentration of names. Risk value for branch concentration evaluated by means of the Herfindahl-Hirschmann-Index.
Risk buffer **Unknown risks and model risk**	Percentage of other risks, minimum value	Percentage of other risks, minimum value

Risk report

Risk capacity
The quantification of risks and risk cover potentials is carried out on the basis of the going concern view and the liquidation view on a monthly basis. Internal monthly reports are presented in the bank-wide management meeting and by the defined reporting system.

Going concern view

Economic capital	ø 2017	ø 2016
Credit risk	22.1 %	19.1 %
Market risk	15.7 %	15.3 %
Liquidity risk	4.4 %	4.6 %
Macro-economic risk	5.3 %	2.9 %
Operational risk	5.9 %	4.8 %
Risk from other assets	4.4 %	5.4 %
Real estate and corporate participation risk	1.5 %	1.7 %
Concentration risk	0.2 %	0.0 %
Risk buffer	3.5 %	2.7 %
Economic risk total	**63.0 %**	**56.6 %**
Risk cover potential	100.0 %	100.0 %
Available cover assets	**37.0 %**	**43.5 %**

Liquidation view

Economic capital	ø 2017	ø 2016
Credit risk	31.4 %	32.3 %
Market risk	10.5 %	13.9 %
Liquidity risk	2.5 %	3.4 %
Macro-economic risk	7.5 %	5.7 %
Operational risk	3.3 %	3.4 %
Risk from other assets	2.5 %	3.8 %
Real estate and corporate participation risk	2.2 %	3.1 %
Concentration risk	0.1 %	0.0 %
Risk buffer	2.5 %	3.0 %
Economic risk total	**62.5 %**	**68.6 %**
Risk cover potential	100.0 %	100.0 %
Available cover assets	**37.5 %**	**31.4 %**

Short-term Liquidity Risk
Short-term liquidity risk is quantified and monitored within one day (intraday liquidity) but also via the daily liquidity dashboard. In this respect, liquidity sensitive products, intraday liquidity, daily LCR as well as conditioning on the liabilities side are monitored and reported to the Managing Board and the treasury department.

Stress test results
Stress tests represent one of the key elements to identify and quantify imminent risks. Stress tests for single risk types – bank wide stress tests and reverse stress tests – were established by Hypo Tirol Bank AG and serve as essential control tools. Stress test results are discussed in the internal committees, in the supervisory board and in the risk committee and corresponding measures are taken, if applicable.

Ad-hoc report
As far as special issues are concerned or in case separate reports are required for particular developments, the reports are established by the risk controlling department and thus made available for decision-makers.

Particular developments in 2017 and forecast for 2018

The successful refinancing of maturities during 2017, the positioning of a sub-benchmark bond, as well as the positive trend regarding the NPL rate demonstrate the sustainable and positive development of Hypo Tirol Bank AG in 2017.

This kind of sustainable success achieved by Hypo Tirol Bank AG is also reflected by the fact that the bank's rating was upgraded by both Standard & Poors and Moody's. At the same time the forecast was upgraded from stabile to positive.

As for 2018, the rating tools that were developed in the booking community will be implemented, the methods to control interest rate risk will be further developed and top priority will be given to the preparation regarding increasing capital rates. The continuous development of data quality will also be in the centre of attention.

II. 4. Report on the major characteristics of the internal control and risk management system, in particular with regard to the preparation of the financial statements

Definitions

The risk management system administered within the corporate group includes all activities which help to identify, analyse and evaluate business risks and to take appropriate measures accordingly to prevent such risks from affecting the company in a negative way.

With regard to the internal control system (ICS), risk management is mainly employed in the context of methodical risk evaluation, which forms an essential basis for the internal control system.

The internal control system represents all principles, procedures and measures which contribute to protect the assets of the company, to guarantee proper preparation of the financial statement and to ensure compliance with all legal provisions.

Hypo Tirol Bank AG describes the internal control and risk management system concerning the preparation of financial statements as a system that was designed to guarantee the proper, reliable and timely preparation of internal and external financial statements in accordance with all legal provisions. In this context, the process of preparing financial statements is not limited to regular reporting of interim and end-of-year financial statements, it also comprises orderly bookkeeping records of all relevant data regarding their origin, their processing and their adopting into the internal company reports and external financial statement.

Objectives

The managing board of Hypo Tirol Bank AG is responsible for the establishment and maintenance of an appropriately equipped internal control and risk management system (ICS).

In order to exercise this responsibility properly, an ICS coordinator has been appointed. The area of responsibilities of this function comprises the standardisation and systematisation of all existing internal control systems and the summary of individual measures and the subsequent transfer to an overall and unified internal control system. The evaluation of the effectiveness of the internal control system is based on the criteria specified in the working paper „Internal Control - Integrated Framework“ published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The purpose of the ICS in relation to the preparation of financial statements is to recognise risks inherent to the process and to properly prepare an annual financial statement in compliance with all regulations by employing a control system.
Thus, the established ICS contains specifications, directives and guidelines which

- regulate the orderly recording of transactions and the keeping of orderly records in order to ensure the correct interpretation of business cases,
- ensure sufficient security so that business cases can be recorded as required in order to guarantee the preparation of the financial statement in accordance with the respective legal provisions, and
- ensure sufficient security with regard to preventing, reducing and discovering errors and irregularities which might have substantial effect on the financial reports.

The ICS manual, which shall be understood as methodical approach for implementing a cross-department, unified internal control system, serves as the basis for these requirements, directives and guidelines. Our internal control system does not primarily focus on the establishment of additional controls which aim at implementing and maintaining legal or other internal requirements or requirements relating to the supervision of banks. The major issue in this respect is, whether the controls as a whole can build a system. To accomplish that, an appropriate process model is required, which is explained in the ICS manual. This process model is based on the international example of five components of the COSO Framework (control environment, risk assessment, control activities, information, communication and monitoring).

Components of the ICS in the context of the preparation of the financial statement

The control environment serves as the framework in which the ICS can be operated. The major instruments of the control environment are regulations of structural and operational processes which adhere to the separation-of-functions principle and the four-eye principle. The separation-of-functions and the four-eye principles represent core elements of the internal control system. Placing several sensitive activities in one hand or depending exclusively on self-control may be a stimulus to abstraction. The structural and operational organisation helps Hypo Tirol Bank AG to counteract such risks.

Furthermore, standardised qualification and training programmes held for staff members guarantee that the qualification level which is required for the respective position is guaranteed. The foundations of the control environment, however, are laid by integrity and the Code of Ethics and Conduct of each and every employee. In particular, the power of setting the right example on the part of managers and executives of Hypo Tirol Bank AG is of utmost importance in this context. In addition, several accompanying instruments were established in this respect, which are revised on an annual basis.

Risk recognition and risk assessment are both built on the control environment, which forms the basis for other IKS components. The point of origin for effective risk assessment is found in our bank’s corporate objectives. Pursuant to the overriding goals, the risks which are part and parcel of the selected business model, the processes are defined and recorded. Risk assessment with regard to the strategic dimensions of the COSO model is conducted by the risk management department on an annual basis. According to such risk assessment IKS-relevant processes are defined within Hypo Tirol Bank AG.

With regard to efficient risk assessment in the context of preparing the financial statements, our corporate objectives in relation to financial reporting serve as the starting point. The foremost goal of financial reporting is the process of preserving and informing. The legally fixed principle of communicating a true and fair view of the assets, the financial position and the profit situation is given top priority in this respect.
In order to minimize the risk of substantial misstatements in describing transactions in the process of preparing financial statements, the following steps have been taken:

- first of all, the risks which should be minimized have been identified,
- key controls (ICS controls) have been defined, which are described and documented by means of appropriate control activities, and
- the results have been recorded in a sectorial risk control matrix to ensure the proper operation of the total process.

A detailed understanding of the process of preparing financial statements is the foundation for identifying major risks. For that reason, process documentation (process flow charts) in form of transparent and logical illustration of various sequences of the preparation of financial statements is of utmost importance. Apart from that, process documentation clearly regulates the areas of responsibility for each individual step and its interfaces and illustrates all employed (critical) systems in a transparent manner.

A business process of Hypo Tirol Bank AG can be described as ICS-relevant if it has direct, immediate and substantial impact on financial reporting, the assets of Hypo Tirol Bank AG or the compliance with legal provisions. In this respect, special emphasis is put on loan business and the bank's financial investments portfolio. Consequently, these activities have been defined as ICS-relevant processes. The process of preparing financial statements, which is another ICS-relevant process, is responsible for the numerical illustration of these business processes. In particular, the presentation of inherent risks in connection with the loan business and the bank's own portfolio is of special importance.

The purpose of control activities is to ensure the actual implementation of measures taken by Hypo Tirol Bank AG in order to control risks and to reach the business goals. For effectiveness purposes, such control activities are directly integrated into business processes and illustrated in the respective process documentation and the corresponding risk-control matrix. In addition, the documentation of controls is an essential part of the ICS.

Regarding the computerised processing of our business activities we are supported by the General Computing Centre (ARZ - Allgemeines Rechenzentrum). In this connection, we employ our own developments, based on state-of-the-art technology, as well as tried and tested standard products. ARCTIS software solution is the central host system, which is used for the daily banking business. Standard solutions such as GEOS, SAP, etc. serve as subsystems. Cognos Consolidator (consolidation software) supports the preparation of financial statements. In addition, access regulations, strict data security specifications and automatic adjustment controls are just a few examples for our control measures which are applied in the entire IT landscape of Hypo Tirol Bank AG.

In order to use the ICS efficiently, specific and wide-ranging information and communication channels have been designed for all important business areas, so that staff members are supplied with adequate information which is necessary to carry out the required controls. In this context and for transparency reasons, the ICS manual is accessible for all employees via Intranet. In particular, the explicit illustrations of controls in the process documentation (process flow charts, working directives, etc.), for the preparation of financial statements - and also for all other risk-relevant and ICS-relevant processes – and in the risk control matrices creates awareness in the minds of all involved employees.

Information channels have been designed in such a way that all relevant information can be distributed in reliable, timely and objective manner. For internal communication, corresponding procedures and tools have been institutionalised, such as Portal News, Intranet, managing board e-mails, document distribution via Intranet platforms, as well as internal seminars and training workshops.

Moreover, institutional information channels in the context of management reports help to make business activities and their corresponding inherent risks transparent and demonstrate the development of earnings. Members of the managing and supervisory board or shareholders are provided with information in compliance with institutional standards. The managing board has the obligation to submit quarterly prepared reports on profit and risk situations to the supervisory board and the auditing committee.

An additional prerequisite for the effectiveness of our ICS is to maintain the functioning of the control measures on the long run. Thus, the ICS of the corporate group is regularly monitored in order to guarantee the compliance with the defined processes and controls and to adjust as applicable, whenever the circumstances or the environment are subject to changes. In this context, executive managers play an important role.

The monitoring of the ICS is carried out on various levels. On the process level, the monitoring of the ICS and the annual review is guaranteed by means of organisational regulations within the company. Managers are responsible for the monitoring of the actual execution of the controls by making random tests.

The managing board ensures a comprehensive company-wide monitoring of the ICS by defining the necessary structural mechanisms (assigning responsibilities, creating suitable information systems, etc.) and reporting processes, e.g. the illustration of control results. In addition, the ICS coordinator prepares an annual report on ICS-relevant processes, review results and planned measures to further develop the ICS.

Furthermore, the bank's internal audit controls the ICS in the course of its review. This internal audit has the following responsibilities:

- Independent and objective audits, as well as consulting and supervisory tasks with regard to the quality assurance of the ICS
- Evaluation of the qualification and efficiency of the ICS
- Suggestions regarding further development

In the course of exercising their own responsibilities, the supervisory board and the audit committee also regularly inform themselves about the status of the ICS, e.g. in the context of rotational meetings with the managing board.

III. Sustainability Report

Due to the establishment of a separate report in accordance with the Sustainability and Diversity Improvement ACT (NaDiVeG), the sustainability report hereunder is obsolete.

IV. Report on Research and Development

As far as research and development are concerned, no branch specific statements were made.

Innsbruck, 26 March 2018

HYPO TIROL BANK AG
Managing board

Johann Peter Hörtnagl Mag. Johannes Haid Mag. Alexander Weiß

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I. Profit and Loss Account

in kEUR	Notes	2017	2016	in kEUR	Change in %
Interest and similar income		134,129	169,505	-35,376	-20.9
Interest and similar expenses		-57,587	-83,946	26,359	-31.4
NET INTEREST INCOME	**(37), (42)**	**76,542**	**85,559**	**-9,017**	**-10.5**
Credit risk provision	(38), (43)	-10,653	18,725	-29,378	n.a.
NET INTEREST IINCOME AFTER RISK PROVISION		**65,889**	**104,284**	**-38,395**	**-36.8**
Commission income		31,553	32,459	-906	-2.8
Commission expenses		-5,186	-6,121	935	-15.3
Net commission income	**(39), (44)**	**26,367**	**26,338**	**29**	**0.1**
Trading result	(40), (45)	344	54	290	>100
Result from hedge accounting	(46)	1,468	1,606	-138	-8.6
Result from financial instruments – at fair value through profit or loss	(41), (47)	5,360	-1,927	7,287	n.a.
Result from other financial instruments	(48)	-2,801	646	-3,447	>100
Result from associated companies	(49)	427	238	189	79.4
Administrative expenses	(50)	-72,673	-74,041	1,368	-1.8
Other income	(51)	17,927	21,935	-4,008	-18.3
Other expenses	(52)	-20,293	-40,871	20,578	-50.3
Result prior to taxation		**22,015**	**38,262**	**-16,247**	**-42.5**
Tax on income and profit	(53)	-3,004	-11,798	8,794	-74.5
Result after taxation		**19,011**	**26,464**	**-7,453**	**-28.2**

II. Statement of Comprehensive Income

in kEUR	2017	2016	Change in kEUR	Change in %
Result after taxation	**19,011**	**26,464**	**-7,453**	**-28.2**
Data which can be reclassified in the profit and loss account				
Evaluation of financial assets - AFS - included in other income	-3,257	-840	-2,417	>-100
Reclassification of evaluation results from disposed of financial assets - AFS to net income for the period	3,013	2,646	367	13.9
Reclassification of evaluation results from impairment of financial assets - AFS to net income for the period	91	228	-137	-60.1
Deferred tax from evaluation of financial assets - AFS included in other income	38	-508	546	>100
	-115	**1,526**	**-1,641**	**>-100**
Data which cannot be reclassified in the profit and loss account				
Actuarial profit/loss	187	-1,000	1,187	>100
Deferred tax from evaluation of actuarial profit/loss included in other income	-47	250	-297	>-100
Credit rating induced fair value change - own liabilities	-13,442	-46,837	33,395	-71.3
Deferred tax not affecting income from credit rating induced fair value change - own liabilities	3,361	11,709	-8,348	-71.3
	-9,941	**-35,878**	**25,937**	-72.3
Other income after tax on income and profit	**-10,056**	**-34,352**	**24,296**	**-70.7**
Total result	**8,955**	**-7,888**	**16,843**	**>100**

III. Balance Sheet

Assets

in kEUR	Notes	2017	2016	in kEUR	Change in %
Cash assets reserve	(16), (54)	**42,659**	**277,660**	**-235,001**	**-84.6**
Receivables from credit institutions	*(17), (55)*	*108,986*	*207,102*	*-98,116*	*-47.4*
Risk provision	*(18), (57)*	*0*	*0*	*0*	*n.a.*
Receivables from credit institutions after risk provision		**108,986**	**207,102**	**-98,116**	**-47.4**
Receivables from clients	*(17), (24), (56)*	*5,485,996*	*5,388,248*	*97,748*	*1.8*
Risk provision	*(18), (57)*	*-139,773*	*-174,654*	*34,881*	*-20.0*
Receivables from clients after risk provision		**5,346,223**	**5,213,594**	**132,629**	**2.5**
Positive market values from derivative hedging instruments	*(11), (58)*	**11,446**	**10,864**	**582**	**5.4**
Trading assets and derivatives	*(8), (59)*	**70,413**	**152,991**	**-82,578**	**-54.0**
Financial assets – designated at fair value	(9), (60)	**432,525**	**734,054**	**-301,529**	**-41.1**
Financial assets – AFS	(12), (61)	**824,835**	**811,994**	**12,841**	**1.6**
Financial assets – HTM	(13), (62)	**19,888**	**35,335**	**-15,447**	**-43.7**
Financial assets – L&R	(14), (63)	**0**	**2,851**	**-2,851**	**-100.0**
Interests in associated companies	(4), (64)	**10,159**	**9,876**	**283**	**2.9**
Investment properties	(20), (65)	**87,819**	**73,742**	**14,077**	**19.1**
Intangible assets	(21), (66)	**1,893**	**1,849**	**44**	**2.4**
Tangible assets	(22), (67)	**56,725**	**58,543**	**-1,818**	**-3.1**
Other assets	(25), (68)	**17,901**	**24,265**	**-6,364**	**-26.2**
Non-current assets and disposal groups held for sale	(26), (69)	**15,480**	**9,611**	**5,869**	**61.1**
Deferred tax assets	(27), (70)	**10,658**	**7,841**	**2,817**	**35.9**
TOTAL ASSETS		**7,057,610**	**7,632,172**	**-574,562**	**-7.5**

Liabilities and Equity

in kEUR	Notes	2017	2016	Change in kEUR	Change in %
Liabilities to credit institutions	(28), (71)	**931,718**	**182,027**	**749,691**	**>100**
Liabilities to clients	(28), (72)	**3,187,448**	**3,474,076**	**-286,628**	**-8.3**
Liabilities evidenced by certificate	(28), (73)	**1,325,859**	**1,636,815**	**-310,956**	**-19.0**
Negative market values from derivative hedging instruments	(11), (74)	**4,727**	**7,344**	**-2,617**	**-35.6**
Derivatives	(7), (8), (75)	**91,209**	**129,584**	**-38,375**	**-29.6**
Financial liabilities – designated at fair value	(9), (76)	**795,785**	**1,430,473**	**-634,688**	**-44.4**
Provisions	(29), (77)	**34,029**	**46,774**	**-12,745**	**-27.2**
Other liabilities	(30), (78)	**64,856**	**72,696**	**-7,840**	**-10.8**
Current tax liabilities	(27), (79)	**984**	**2,383**	**-1,399**	**-58.7**
Deferred tax liabilities	(27), (70)	**875**	**1,406**	**-531**	**-37.8**
Subordinate and supplementary capital	(31), (80)	**75,715**	**103,144**	**-27,429**	**-26.6**
Equity	(IV), (33), (81)	**544,405**	**545,450**	**-1,045**	**-0.2**
TOTAL LIABILITIES AND TOTAL EQUITY		**7,057,610**	**7,632,172**	**-574,562**	**-7.5**

IV. Equity Changes

in kEUR	Subscribed capital	Capital reserves	AFS reserves after taxation	Actuarial profit/ loss after taxation	Credit rating induced fair value change - own liabilities	Cumulative income	Total equity
As at 2016-01-01	**50,000**	**311,233**	**11,578**	**-3,822**	**0**	**189,330**	**558,319**
Early application of IFRS 9.7.1.2				0	58,959	-58,959	**0**
Income after taxation	0	0	0	0		26,464	**26,464**
Other income after taxation	0	0	1,526	-750	-35,128	0	**-34,352**
Total result 2016	**0**	**0**	**1,526**	**-750**	**23,831**	**-32,495**	**-7,888**
Other adjustments	0	0				0	**0**
Dividends paid	0	0				-100	**-100**
Change in scope of consolidation						-4,881	**-4,881**
As at 2016-12-31	**50,000**	**311,233**	**13,104**	**-4,572**	**23,831**	**151,854**	**545,450**
As at 2017-01-01	**50,000**	**311,233**	**13,104**	**-4,572**	**23,831**	**151,854**	**545,450**
Early application of IFRS 9.7.1.2					0	0	**0**
Income after taxation	0	0	0	0		19,011	**19,011**
Other income after taxation	0	0	-114	140	-10,082	0	**-10,056**
Total result 2016	0	0	-114	140	-10,082	19,011	**8,955**
Other adjustments	**0**	**0**				**0**	**0**
Dividends paid	0	0				-10,000	**-10,000**
Change in scope of consolidation	0	0				0	**0**
As at 2017-12-31	**50,000**	**311,233**	**12,990**	**-4,432**	**13,749**	**160,865**	**544,405**

For further details regarding equity please see notes (33) and (81).

V. Cash Flow Statement

in kEUR	2017	2016
Income after tax	**19,011**	**26,464**
Items non-affecting cash flow and transfer to cash flow from operating business activities included in the result		
Depreciation and appreciation to assets	6,565	12,857
Allocation and dissolution of reserves and risk provisions	-47,626	-96,151
Incomet from sale of assets	2,014	-6,410
Tax on income and profit	-3,004	-10,274
Correction net interest income	-72,994	-82,951
Profits from associated companies	427	238
Unrealised foreign currency profits and losses	-16,975	2,803
Change of assets and liabilities from current business activities after correction of items non-affecting cash flow		
Receivables from credit institutions	97,822	-22,481
Receivables from clients	-61,937	131,023
Positive market values from derivative hedging instruments	410	-4,845
Trading assets and derivatives and financial assets at fair value	358,711	51,172
Other assets	-8,251	-246
Liabilities to credit institutions	749,905	-437,678
Liabilities to clients	-283,920	578,899
Liabilities evidenced by certificate and financial liabilities at fair value	-950,822	24,302
Negative market values from derivative hedging instruments	-1,755	-3,918
Derivatives	-46,398	-27,043
Other liabilities	-9,526	14,777
Interests received	160,270	184,775
Interests paid	-80,982	-99,415
Net total from payments of tax on income and profit and tax refunds	-1,895	-444
Cash flow from current business activities	**-190,950**	**235,454**
Cash inflow from sale/liquidation of		
Financial assets – HTM, AFS, L&R and interests	237,364	179,230
Subsidiaries	3,203	11,056
Tangible assets, intangible assets and investment properties	-10,862	24,490
Cash outflow due to investments in		
Financial assets – HTM, AFS, L&R and interests	-228,290	-290,939
Tangible assets and intangible assets	-7,545	-3,041
Cash flow from investment activities	**-6,130**	**-79,204**
Cash flow-affecting changes subordinated and supplementary capital	-27,921	406
Dividends paid	-10,000	-100
Called-in participation capital/capital contribution by the Province of the Tyrol	0	0
Cash flow from financing activities	**-37,921**	**306**
Payment instruments at the end of the previous period	**277,660**	**121,104**
Cash flow from current business activities	-190,950	235,454
Cash flow from investment activities	-6,130	-79,204
Cash flow from financing activities	-37,921	306
Payment instruments at the end of the period	**42,659**	**277,660**

Payment instruments correspond to cash assets [see notes (16) and (54)].

VI. Notes

Principles of the Consolidated Financial Statements

Hypo Tirol Bank AG and its subsidiaries offer their clients a comprehensive range of financial services. The core business comprises corporate client business, private client business as well as leasing business. In addition, clients are offered a wide range of services in the field of insurance and real estate. The corporate group's core market is the Tyrol, which is extended by the Province of the South Tyrol in Northern Italy. In the Eastern part of Austria, the financial institution is represented by its branch office in Vienna.

The bank is a public limited company seated in Innsbruck and is listed in the companies register Innsbruck, Austria (FBN 171611w). The bank's address is Meraner Strasse 8, 6020 Innsbruck.

The present consolidated financial statements were prepared in accordance with the Austrian Banking Act article 59a, in combination with the Austrian Commercial Code article 245 and according to International Financial Reporting Standards as applicable in EU countries.

Apart from the consolidated balance sheet and the consolidated profit and loss account and the comprehensive income statement, these financial statements also include equity changes, the cash flow statement and the notes. Segmental reports are included in the notes and illustrated in note (87).

The reporting currency is Euro (€). Unless specifically indicated otherwise, all amounts are shown in thousands of Euro (kEUR). This might lead to marginal discrepancies in the illustration of percentages.

Methods of Accounting and Evaluation

(1) Principles

The consolidated financial statements were prepared by using the principle of evaluation on the basis of historical acquisition and production costs, with the exception that financial instruments in the categories "designated at fair value", "AFS - available for sale" and all derivative financial instruments are evaluated on a fair value basis.

The preparation of the consolidated financial statements was based on the going-concern assumption. Income and expenses are deferred pro rata over time and listed in the net profit or loss for the period to which they are attributable on an economical basis.

The fundamental accounting and evaluation methods, which have been used for preparing the present consolidated financial statements, are described in the following. Unless stated otherwise, the methods are consistently and continuously employed across the group. In this connection, assets and liabilities, contingent assets and liabilities at the balance sheet date, as well as income and expenses in the reporting period are evaluated and recognised in compliance with IFRS requirements.

The transfer of the result from the consolidated profit and loss account to the total result with detailed illustration of other income was prepared in a separate statement (see section II, "Statement of Comprehensive Income").

Cash flow from operating business activities is determined by using the indirect method. More precisely, the consolidated result is first adjusted by non-cash items, in particular evaluation results and provisions. The item „other adjustments" largely contains interest and income tax payments in the business year, which are illustrated in the section cash flow from current business activities.

The section cash flow from investment activities illustrates payments into and out of the account regarding items, which are basically used for long term investment or utilisation.

Financing activities include equity and cash flows from subordinate and supplementary capital.

Hypo Tirol Bank AG considers the significance of the cash flow statement as rather limited. Neither does the cash flow statement replace planning in relation to liquidity or financing nor is it used as a steering tool.

(2) Changes regarding financial reporting standards

In the course of accounting and evaluating, all International Financial Reporting Standards required by the EU and applicable at the key date and during the reporting period are applied. Standards and interpretations which will become effective on 1 January 2018 or later, as well as standards and interpretations that are not mandatory in the EU have not been applied.

Following the adoption of IFRS 9 "financial instruments" in EU law in November 2016 and in compliance with IFRS 9.7.1.2 regarding fiscal years starting before 1 January 2018, Hypo Tirol Bank AG started making use of its right to illustrate profit and loss from own credit risk of financial liabilities designated at fair value regarding fiscal years beginning before 1 January 2018, in other income already from 1 January 201t6 on. The remaining regulations of IFRS 9 will not be applied ahead time.

New standards and clarifications that have already been published and adopted by the EU and that are to be applied in the fiscal year for the first time:

Amendments to IAS 12: with the amendments to IAS 12 "income taxes" the IASB clarifies that the devaluations to a lower market value of debt instruments measured at fair value, which result from market interest rate changes, lead to deductible temporary differences. The amendments shall be applicable on a retrospective basis to fiscal years beginning on or after 1 January 2017. These and the remaining amendments and standards, which have become mandatory in the EU on 1 January 2017, have no substantial influence on the consolidated financial statements of Hypo Tirol bank AG.

The following new and amended standards have already been published; nonetheless, their application has not yet become mandatory:

In November 2009, the IASB published **IFRS 9 "Financial Instruments"** which was the first step towards replacing IAS 39 "Financial Instruments: Recognition and Measurement". On 24 July 2014, the IASB published a revised version of IFRS 9 of 2013, which added new regulations for accounting and impairment of financial assets including revised regulations to classify and evaluate financial instruments. Apart from that new disclosure regulations were introduced, to provide users of financial statements with meaningful and relevant notes. The revised version of IFRS 9 was adopted into EU law in November 2016 and shall be applicable for the first time to reporting periods, beginning on or after 1 January 2018. This first-time application is accompanied by several provisions regulating the transition of the final balance sheet according to IAS 39 to the opening balance sheet according to IFRS 9.

Since 2015, Hypo Tirol Bank AG has been running a centrally managed IFRS 9 programme, whose members directly report to the Managing Board. It comprises several subprojects such as business models and evaluations, modifications, impairment, hedge accounting and reporting. The IFRS 9 programme is supported by experts working in the field of methodology, data acquisition, IT and financial reporting. Due to the implementation of IFRS 9, all financial instruments affected by classification and evaluation regulations pursuant to IFRS 9, were evaluated. Apart from that an impairment procedure was developed, which serves as a tool to classify and calculate expected default risk provisions. Already in 2015, business models were developed and defined, and the development of the impairment procedure was initiated in order to implement it via IT systems. In the course of the IFRS 9 programme, a final parallel operation for IFRS 9 impairment on the basis of data available on 31 December 2917.was performed.

Classification and Evaluation:
IFRS 9 introduces new classification and evaluation regulations of financial assets within the scope of IAS 39. According to this, all financial assets are classified on the basis of the given business model of a company for controlling its financial assets and the characteristics of payment flow of the respective financial assets. In accordance with this, a financial asset shall be measured on the basis of continuous acquisition costs, if the goal of the business model of the respective company foresees holding the financial assets, thereby bringing about contracted payment flow and fulfilling the contracted terms of the financial assets which exclusively show redemptions and interest payments. If a financial asset is held to collect and to realise contractual payment flows of the financial asset, and if the contractual payment flows of the financial asset only represent the return of the nominal value and the interest regarding the outstanding nominal value, measurement on a fair value basis via other income is applied. All instruments which cannot be assigned to one of the categories are consequently evaluated on a fair value basis with effect on net income.

Hypo Tirol Bank AG does not make use of its right to illustrate equity at fair value without effect on net income at the date of the first-time application of IFRS 9.

Accounting and impairment of financial assets:
The new regulations regarding the accounting of impairment fundamentally change their recognition. According to this, companies shall measure risk provision by evaluating impairment or by creating provisions in the amount of the credit loss that is expected within the following 12 months (12 month expected credit loss) – (based on the probability of loss within the following 12 months). In the course of the subsequent measuring, credit loss, which is expected to occur within the following 12 months, shall be replaced by the credit loss expected for the entire term (lifetime expected credit loss criteria). Risk provision for credit loss is again measured on the basis of credit loss, which is expected to occur within the following 12 months, if credit quality has improved sustainably and lifetime expected loss criteria are no longer fulfilled. With regard to receivables from the delivery of goods and services or active contractual items a simplified procedure, which is based on the lifetime expected credit loss criteria, can be applied. In case credit loss occurs, the demand for single allowances must be determined, based on the expected reflow in consideration of expected the expected realisation of collateral.

In the context of the impairment sub-project in compliance with IFRS 9, special emphasis was put on the estimation of fundamental parameters. They particularly include LGD (loss given default) values for segments and types of collateral and probability of default data based on current ratings and modified expected migration probabilities – in consideration of possible macroeconomic factors. The expected loss of the financial instrument is evaluated for the entire term. Expected secured and unsecured reflows are calculated via expected losses for the expected future date of loss. It will be required to validate the employed parameters on a regular basis. Besides, the specification of theoretical principles and parameterisations, an IT solution to calculate and account risk provision by using the parameters mentioned above has been implemented.

Hedge Accounting:
In addition, the IASB introduced amendments in relation to hedge accounting, whereas the methods and the kind of illustration on the balance sheet remain unchanged. However, corporate risk management is emphasised on. Furthermore, the hitherto existing strict limits which had to be effective within a hedge in order to illustrate it on the balance sheet, have been removed. Instead of that, there are new cumulative requirements in relation to the efficiency, as it forms part of qualitative prerequisites for hedge accounting. This means that an economic link between basic transaction and hedge shall exist, default risk shall not be dominating, and the hedging rate shall be selected accordingly. The accounting of macro hedges was excluded from IFRS 9 and a separate project was focused on. All other regulations under IAS 39 shall be applicable until further notice. IFRS 9 includes a right according to which hedges may still be illustrated according to IAS 39. Hypo Tirol Bank AG does not make use of this right and decided to illustrate hedge accounting pursuant to IFRS 9 from 1 January 2018 onwards.

Transitional provisions und reporting
The comprehensive notes that will be required from 2018 on, especially with regard to credit risk and hedge accounting are currently being prepared. This leads to an implementation demand in connection with the preparation of the supervisory financial report in accordance with the amended FINREP IFRS 9 template. Increased IFRS 9 risk provision will result in a reduction of IFRS equity. For that reason, Hypo Tirol Bank AG will probably make use of the regulations as stipulated in CRR section 473a, according to which the consequences from financial risk provision according to IFRS 9 on regulatory cap8ital will have full effect in five years. In general, IFRS 9 shall be applied on a retrospective basis. Hypo Tirol Bank AG will make use of the exception, not to adjust comparative information for previous periods according to IFRS in 2018.

The discussed amendments do not only have substantial influence on the illustration of the consolidated financial statement, but also on the principles of accounting. Hypo Tirol Bank AG anticipates that the introduction of IFRS 9 will reduce equity capital by EUR -5.3 million, with EUR -1.8 million resulting from the new impairment model and EUR -3.5 million from the classification provisions. These evaluation effects will partially be balanced by tax effects in the amount of EUR 0.9 million. We assume that the introduction of IFRS 9 will reduce the strong core capital ratio of the corporate group by 15 base points.

In connection with the new provisions stipulated in IFRS 9, additional disclosure requirements regarding the notes shall be required on the basis of **IFRS 7 "Financial Instruments: Disclosures"**. The provisions shall be applicable to reporting periods beginning on or after 1 January 2018. Due to the significance of these standards for Hypo Tirol Bank AG, the implementation of these standards shall be guaranteed by their incorporation into the IFRS 9 project. Thus, the standards will be analysed in detail and consequently all required implementation measures will be taken accordingly.

The IASB published **IFRS 16 "Leases".** The basic idea behind the new standard is that the all leases and the corresponding contractual rights and obligations shall be recognised in the balance sheet of the leasee. The former distinction between operating leases and finance leases required by IAS 17 will no longer be needed. As far as the lessor is concerned, the provisions of the new standard are similar to the previous IAS 17 requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases. For classifications according to IFRS 16, the criteria of IAS 17 were adopted. In addition, IFRS 16 includes a number of further regulations regarding illustration and notes as well as sale-and-leaseback transactions. The new provisions shall be applicable to fiscal years beginning on or after 1 January 2019. Generally, Hypo Tirol Bank AG acts as a lessor. Therefore, the corresponding effects of the amendments regarding illustration and notes are currently being analysed.

Apart from that, the remaining standards, which have been adopted by the EU, have no substantial influence on income, assets or the financial situation of Hypo Tirol Bank AG.

Standards and amendments that have not yet been adopted by the EU

IFRS 9 "Financial Instruments"

In October 2017, the IASB published amendments to IFRS 9 "financial instruments". These amendments allow companies to measure prepayable financial assets with so-called negative compensation (two-way break clauses) at amortised cost or at fair value through other comprehensive income if a such compensations represent material interest payments and debts in an appropriate amount. At the present time, such financial instruments do not pass the payment flow test and thus, are evaluated at fair value. These amendments will become effective for business years beginning on or after 1 January 2019. These, and the remaining standards which have not been adopted by the EU are already applied by Hypo Bank Tirol, however according to our actual estimation, they have no substantial influence on the profit situation and the financial position of Hypo Bank Tirol AG.

(3) Essential Decisions, Assumptions and Estimates

In the context of preparing the consolidated financial statement, the management has the obligation to make estimates and assumptions which influence the balance sheet approach for the reporting period, the disclosure of profits and expenses and the information contained in the appendix. Changes regarding essential estimates and assumptions concerning the future developments that result from inherent uncertainties, might lead to substantial changes concerning the balance sheet approaches for the following business years; such estimates and assumptions involve: assessing the sustainability of financial assets, determining fair value, evaluating provisions and the approach and assessment of deferred income taxes. The methods regarding such estimates and subjective evaluation of assumptions are illustrated herein. The illustration of the parameters and detailed uncertainties will be explained in the notes referring to the respective balance sheet item.
The assumptions were based on propositions, which are founded on the latest available state of knowledge. The expected future business developments were based on the respective circumstances at the time of preparing the financial statements and on realistic prospects regarding the future developments of the global and branch-specific environment. Some amounts may deviate from original estimates due to deviating development assumptions and developments that are beyond the control of the management.

For further details regarding stress tests see sections: "financial risks and risk management".

A) *Credit Risk Provision*

With regard to individual allowance, possible impairment is formed on the basis of the cash value of the expected future cash flow in case objective evidence is available [see note (18)]. The estimation of expected cash flows requires assumptions considering the amount and the time of future payments. This also applies to impairment on portfolio level. These assumptions, together with estimates and evaluations of indicators which lead to loan risk provision, are based on past experiences gained in the loan business and are regularly controlled and amended, if necessary, in order to diminish any possible differences between risk provision and actual credit loss.

The amount and the development of risk provision are described in note (57).

B) *Impairment of Financial Assets Available for Sale (AFS)*

Estimates regarding the significance of impairment are based on assumptions. Defined thresholds concerning fair value changes and time related aspects, serve as reference in terms of assessing significant or prolonged impairment (see note (12)).

Accounting values of financial assets – AFS as well as impairment are illustrated in note (61).

C) *Determination of Fair Value by Using Evaluation Methods*

Financial instruments that are not quoted in an active market are evaluated in accordance with recognized and customary mathematical methods, such as the cash value method or other suitable evaluation methods (option price models). Such evaluation models are substantially influenced by underlying assumptions. Therefore, fair value shall be understood as a key-date related estimate.

In case, the transaction price deviates from another observed market price at the time when the financial instrument is added, a „day-one profit or loss“ (consistent with the following evaluation of the financial instrument) shall be illustrated. However, profit or loss after addition can only be determined if it is based on the change of a factor which would be recognised by market participants in terms of pricing.

For further details regarding employed evaluation models and the influence of underlying assumption please see note (6).

Market values and accounting values of financial instruments are illustrated in note (82) “fair value”.

D) Provisions

Provisions are employed for uncertain liabilities against third parties in the amount of the expected claim {see note (29)}. The provided amount represents the best possible estimate of the costs that are required to fulfil such an obligation.

For detailed information regarding accounting values of provisions and their development please see note (77).

E) Deferred Income Tax

The evaluation of deferred tax obligations and deferred tax assets considers the tax consequences resulting from the fact how the Group expects to realise its assets at the balance sheet date or to fulfil its obligations. Such expectations represent the best possible estimates.

The use of active deferred taxes depends on the possibility to earn enough taxable income within the context of the respective tax law. In order to evaluate, how likely the future availability of active deferred taxes is, certain aspects such as past earnings and tax strategies should be considered. In case the actual results deviate from these estimates or if these estimates have to be adjusted to future periods, the active deferred taxes must be devalued in profit-affecting manner. Currently, the corporate group’s tax planning period amounts to five years.

Quantitative details regarding deferred income tax are described in note (70): “Deferred Tax Assets and Obligations”

(4) Principles of Consolidation

The principles of consolidation basically comprise the following methods to illustrate participating interest:

1. Control: full consolidation (IFRS 10, IFRS 3)
2. Associated companies and joint ventures: equity method (IFRS 10, IFRS 11, IAS 28, IFRS 3)

In compliance with IFRS 10.6 an investor has control over an associated company, if he or she is subject to fluctuating yields within the associated company, or is entitled to own them and if he or she has the ability to include such yields by power of deposition over the associated company

Substantial influence represents the possibility to take part in the financial and business-related decision-making process of the associated company without having control or joint control over the company (IAS 28.3, 28.5.).

Joint Control is an agreement according to which two or more parties have joint control. Joint control in this context is understood as the contractually agreed share of control of an agreement and is given only, if decisions regarding substantial activities require the unanimous approval by the parties having such control (IFRS 11.4, 7.).

In order to limit the complexity of the principles of consolidation, the following subjects are explained in detail:

- Control – subsidiaries (IFRS 10),
- Joint agreement (IFRS 11) and
- Associated companies (IAS 28) as well as
- Changes in the cycle of consolidation in the course of the business year

A) Subsidiaries

The consolidated financial statements include the financial statements of the parent company, and the financial statements of those companies influenced by the parent company, including structured companies (see subsidiaries). Hypo Tirol Bank AG gains control in the even that:

- It can exercise a dominating influence on subsidiaries,
- it is subject to fluctuating yields from interests and
- it can influence the amount of the yields due to its exercising power.

In case facts and conditions indicate that one or more of the above mentioned three criteria of influence have changed Hypo Tirol Bank AG shall re-evaluate, whether it has dominating influence on a subsidiary or not.

Even if Hypo Tirol Bank AG has no majority voting right, it still controls the subsidiary, if it has the practical option to determine the significant activities of the subsidiary on a unilateral basis. In the course of the evaluation process, whether the voting rights are adequate with regard to the respective subsidiary, Hypo Tirol Bank AG considers all facts and conditions. These include:

- the extent of the voting rights of Hypo Tirol Bank AG in relation to the extent and the distribution of the voting rights of other proxy holders,
- potential voting rights of Hypo Tirol Bank AG of proxy holders of other parties,
- rights resulting from other contractual agreements and
- other facts and conditions which indicate that Hypo Tirol Bank AG has the practical option or does not have the option

to determine significant activities at the point of time, when specific decisions must be made in consideration of the voting behaviours of earlier general assemblies.

A subsidiary is concluded in the consolidated financial statements for a period starting from the point of time, at which Hypo Tirol Bank AG controls the subsidiary to the point of time at which the control exercised by Hypo Tirol Bank AG ends. In this context, the results of the acquired or sold subsidiary in the course of the year are recorded in the group's profit and loss account and in other results according to period from the actual date of acquisition to the actual date of sale.
The profit or loss and any component of other results shall be assigned to the shareholder of the parent company and to the shareholders not exercising control. This shall also apply if it results in a negative balance for the shareholders not exercising control

If required, the financial statements of the subsidiary are modified in order to adjust the accounting and evaluation methods to the methods applied by the corporate group.

All intragroup financial assets, debts, equity capital, income, expenses and cash flows in connection with business truncation between companies of the group are completely eliminated in the context of the consolidation process.

The balance sheet date (key date) of the bank's consolidated financial statements corresponds to the balance sheet date of all companies included in the consolidated financial statements.

Changes regarding the participation rate in relation to subsidiaries

Changes concerning the participation rate within the corporate group in relation to subsidiaries which do not result in the loss of control over the respective subsidiary are balanced in compliance with IFRS 10:23 as equity capital transaction resulting in neither profit nor loss. The difference between the amount, by which die shares (not controlled) are adjusted and the fair value of the disbursed or received services is immodesty recorded in equity capital and assigned to the partners of the parent company. There were no effects on the net profit or loss for the period or on balanced assets or liabilities or the company value which had been estimated in the course of the first consolidation.

In case Hypo Tirol Bank AG loses control over a subsidiary, the profit or loss from deconsolidation is recorded on a profit affecting basis. It is calculated from the difference between

- the total amount of fair value of received services and fair value of retained shares and
- the accounting value of assets (including business value and company value), the debts of the subsidiary and all shares which are not controlled.

All amounts in connection with the respective subsidiary are illustrated in "Other Result" and are balanced like the sale of assets, that is to say by reclassification in the profit and loss account or by direct transfer to revenue reserves.

Acquisition of subsidiaries

The acquisition of businesses is accounted on the basis of the purchase method. The compensation transferred in the course of a corporate merger is evaluated on a fair value basis. Fair value results from the total of the fair value applicable at the time of acquisition, transferred assets, liabilities of the former owners of the acquired company and from equity capital instruments determined by the corporate group in exchange for the control over the acquired company. All transaction expenses in relation to the company merger are reported on a profit affecting basis at the time of incurrence.

The business and company value results from the surplus from the total of the transferred compensation, the amount of all non-controlled share in the acquired company and the fair value of the equity capital share of the acquirer in the acquired company (if issued) via the balance, fair values determined at the time of acquisition concerning the acquired identifiable assets and liabilities assumed. In case of a negative difference – even after re-evaluation – the amount is accounted immediately as profit affecting income.

Company values are reviewed with regard to recoverability at least once a year and in case indicators for impairment are existent. In case of determination of such impairment, it is depreciated subsequently [see note (23)].

Shares of non-controlling shareholders, who currently own property rights and grant the owner the right to obtain a proportion of the net assets of the company in case of liquidation, are either evaluated on a fair value basis at the time of inflow or on the basis of the respective proportion of identifiable net assets. This voting right can be exercised in the course of every company merger. Other components of shares of non-controlling shareholders are evaluated on a fair value basis or on the basis of measure of value resulting from other standards.

In case the first balance of the company merger has not been completed at the end of the fiscal year, provisional amounts are reported for such items.

If new data become available within the evaluation period that clarify the situation at the time of acquisition, the revisionary amounts will be corrected, or additional assets or liabilities will be calculated, where applicable.

B) Joint arrangement

A joint arrangement is as an arrangement under which two or more contracting parties exercise joint control. IFRS 11 IFRS 11 distinguishes between two types of joint arrangements (joint activities and joint ventures) and defines the different rights and obligations of the respective arrangements. In this context, the structure, the legal form of the arrangement, the terms of contract defined by the involved parties and other relevant facts and conditions, if appropriate shall be determined. If two or more companies find an arrangement under which they have immediate rights from assets and obligations from liabilities, we talk about joint activities. A joint venture is defined as joint agreement, under which the parties have joint control and have rights from net income of the company in which they hold a share. Balance sheets for joint activities differ from those of joint ventures. Holdings in joint ventures shall be reported by using the equity method. The balance sheet regarding joint activities is established in such a manner that each joint partner reports his or her financial assets (including the share in jointly held assets), liabilities (including the share in loss of liabilities) as well as income (including the share in income from sale of products or services offered by the joint arrangement) and expenses (including the share in jointly created expenses). In this respect, financial assets, liabilities, income and expenses shall be reported in accordance with the relevant International Financial Reporting Standards.

IFRS 11 shall be considered in a dynamic manner and significantly depends on the possibility of control, For that reason, Hypo Tirol Bank AG assesses if there are any facts for joint arrangements, whenever a subsidiary is acquired or a change affects the corporate group's share in existing subsidiaries, Hypo Tirol Bank AG prepares the account for two companies (joint ventures) according to IFRS 11.24 (the same regulations shall apply as for associated companies (see section C).

C) Shares in associated companies

An associated company is a company over which the group exerts a substantial influence; substantial influence is the opportunity to make financial and business-related decisions of the company, in which the interest is held. In this context, neither controlling nor joint management regarding the decision- making processes exists.

In order to illustrate results, assets and liabilities of associated companies the equity method is applied, except shares are classified "available for sale". In such cases IFRS 5 „non-current assets held for sale and discontinued operations" shall be applied and they are accounted as such.

Pursuant to the equity method, shares in associated companies are included in the balance sheet at acquisition costs, which are adjusted by changes concerning the corporate group's share in the profit and loss and in other results from associated companied subsequent to the time of acquisition. Losses of associated companies that exceed the corporate group's share in the respective associated company are not recorded. Such recording is only carried out if the corporate group has entered into legal or factual commitments or settles payments instead of the associated company.

As soon as an associated company fulfils all requirements accordingly, the share in the respective associated company is balanced in compliance with the equity method. Any acquisition cost surplus concerning the purchase of shares higher than the acquired share of identifiable assets, liabilities and contingent liabilities at fair value is recorded as business or company value. The business or company value is part of the accounting value and is no longer tested separately in order to verify impairment.

Subsequent to re-evaluation, any surplus of the group's share of identifiable assets, liabilities and contingent liabilities at fair value that is higher than the acquisition cost of the purchased share is recorded as profit.

In order to verify impairment indicators, the regulations of IAS 39 are applied. If impairment tests must be carried out, the investment book value (including business and company value) is assessed for recoverability in accordance with IAS 36. Therefore, the recoverable amount of the share, more precisely the higher amount resulting from value of use and fair value less sales costs, is compared with the investment book value. The calculated impairment requirement is offset against the investment book value. Impairment losses regarding the assets contained in the investment book value including business and company value are not listed. If the recoverable amount increases in the forthcoming years, value recovery is carried out in compliance with IAS 36.

The corporate group will discontinue the equity method as soon as the group's share is no longer considered an associated company or if the share pursuant to IFRS 5 is classified as "held for sale". If the corporate group returns a share in the formerly associated company and if this share represents a financial asset in compliance with IAS 39, it is evaluated at the time of its first recording on a fair value basis. The difference between the previous accounting value of the associated company (at the time when the equity method was discontinued) and the fair value of the retained shares, and other income from the sale of a part of shares in associated companies, shall be considered in the course of determining capital gains/losses. In addition, within the corporate group all amounts concerning the respective associated company included in other result will be accounted in the same manner that would be required, if the associated company directly sold its assets or liabilities. Consequently, when the equity method is discontinued, a profit or loss, which is recorded by the associated company in other result, and which is reclassified in the profit and loss account in case of sale of assets or liabilities, shall be reclassified by the corporate group form equity capital to the profit and loss account.

If the corporate group's participation rate in an associated company changes, and the Group still applies the equity method, the proportion of the profit or loss previously recorded in other result, which is allotted to the participation rate, is reclassified on a cost or profit affecting basis. This reclassification shall be applied if such profits or losses must be reclassified on a cost and profit affecting basis when the corresponding assets and liabilities are sold.

In the event that an associated company employs alternating accounting and evaluation methods, appropriate adaptions to IFRS requirements are made in the context of ancillary accounts. The balance sheet date of all associated companies corresponds to the balance sheet date of the parent company.

D) *Changes in the scope of consolidation in the 2017 fiscal year*

Associated companies:

- In the 2017 fiscal year there were no changes in relation to associated companies.

Fully-consolidated subsidiaries:

- **Landhaus-Parkgaragen Gesellschaft m.b.H**, and **Landhaus-Parkgaragen Gesellschaft m.b.H. & Co.KG**, both seated in Innsbruck were included in the consolidated financial statements.

(5) Currency Translation

The consolidated financial statements are prepared in Euro, which is the functional currency of all companies of the corporate group.

Since 2011, all financial statements of the companies that are included in the consolidated financial statements have been prepared in Euro.

Monetary assets and liabilities denominated in foreign currencies are converted at the European Central Bank's rate at the balance sheet date.

Non-monetary items are converted in accordance with the evaluation standards of their respective category. Non-monetary items which are recorded at their historic acquisition costs are converted at the rate on the day of acquisition. Non-monetary items at fair value are converted on an analogue basis to monetary items at the current rate at the balance sheet date. Income and expenses are converted at the rate on that date which they are recorded in the result for the period.

Financial Instruments

All financial assets and liabilities, including all derivative financial instruments, are entered in the balance sheet at fair value at the time of acquisition; at that particular time, they are assigned to one of the following evaluation categories. Basically, the balance sheet items correspond to the evaluation categories of financial instruments. Thus, the explanations of the evaluation categories are found in the corresponding balance sheet items. Receivables from and liabilities to clients are exempt from that rule. Receivables and liabilities which are voluntarily evaluated on a fair value basis are also recorded in these balance sheet items. The inclusion of financial assets and liabilities occurs at their trading date. The subsequent evaluation depends on the classification.

For more detailed information regarding stress tests referring to financial instruments, please see section "financial risk and risk management".

(6) Fair Value

Pursuant to IFRS 13, fair value is the price received for the sale of an asset, or the price paid for the transfer of a liability in an orderly transaction between market participants in common market conditions at the measurement date in the main market or in the most favourable market. In this context, fair value is either directly observed or estimated by using evaluation techniques. The evaluation technique that is considered most appropriate for the respective circumstances and that provides sufficient evaluation data shall be applied. The overall objective is to keep the employment of significant observable inputs relatively high, which leads to the evaluation hierarchy (fair value hierarchy). It divides inputs, used to measure fair value, into three levels. In the context of the fair value hierarchy, quoted prices (unadjusted) in active markets for identical assets or liabilities are given top priority (level 1 inputs), while inputs for assets or liabilities that are not based on observable market data (unobservable inputs) are given lowest priority (level 3 inputs).

Level 1 inputs are prices quoted (not adjusted) for identical assets or liabilities in active markets that are accessible for an entity at the measurement date, Basically, the markets with the largest trading volumes are considered in his respect (main market). In case stock market prices are not available in the main market, the most favourable market can be considered in order to measure fair value.

Financial instruments with a fair value that is measured on the basis of level 1 inputs are liquid equity instruments and liquid government and company bonds.

Level 2 inputs are market price quotations (other than those described as level 1 inputs) for assets or liabilities that are to be observed either directly or indirectly. In case prices of active markets are not available, fair value is measured on the basis of evaluation techniques. If a single financial instrument shows real-time, actual transactions, such transaction prices serve as fair value indicators. In case no transactions of identical financial instruments are available, transaction prices of basically identical financial instruments are used. With regard to complex and individual product design, such deviation of transaction prices of comparable financial instruments shall not be possible. For that reason, evaluation models based on observable market data shall be used. Within the group, fair value for financial instruments with fixed payments is evaluated on the basis of the discounted cash flow method or for financial instrument with optional components evaluated on the basis of optional price models

If fair value is evaluated by means of the discounted cash flow method, the payment flows are discounted at the applicable market interest rate (actual swap curve) for the remaining time. In the corporate group, cash values are determined by discounting the cash flows for linear derivatives, e.g. interest rate swaps, cross currency swaps, forward rate agreement). With regard to financial instrument with optional components, the Black/Scholes Model (Plain Vanilla OTC Options to interest and currency) is used to evaluate fair value. Complex financial instruments are evaluated by using the Hull-White Model.

In case evaluations are made on the basis of real-time, actual transactions or on the basis of basically identical financial instruments, financial instruments are divided into segments and a term-related spread is evaluated via the credit curve applicable to the particular segment. Such a segmentation or evaluation of corresponding spreads has sub-spatial influence on the discount interest rate and consequently on fair value.

Financial instruments with a fair value evaluated on the basis of level 2 inputs are hedging instruments with a positive respectively negative market value, derivatives, liabilities to clients, liabilities evidenced by certificate as well as subordinate and supplementary equity capital each designated at fair value.

Level 3 inputs: In some cases, the fair value of financial instruments cannot be calculated. Neither via market prices nor on the basis of valuation models which are completely based on observable market data. For such financial instruments, initial parameters are based on other relevant sources of information or must be estimated according to appropriate assumptions. In this category, the corporate group primarily evaluates customer requirements designated at fair value. A significant and non-observable input factor in this context is an internal rating. The worse the creditworthiness of the client, the higher the corresponding interest rate is which influences the discount rate that is necessary to evaluate fair value.

The classification of financial instruments is regularly assessed by people in charge, who will carry out reclassifications, if appropriate.

If requirements regarding classifications within the hierarchy of evaluation are not fulfilled anymore, the group will publish the number of sub-classifications between level 1 and 2, the number of sub-classifications regarding level 3, the reasons for the sub-classifications as well as the method to evaluation such sub-classifications. Sub-classifications regarding single levels are illustrated and discussed separately (for level 1 and 2 and level 3).

For further details regarding the fair value of financial instruments (fair value statements, level categorisation, transfer calculation of financial instruments in level 3 category, sensitivity analysis of non-observable parameters, and re-classifications) see note (82).

(7) Fair Value Derivatives

In the context of fair value measurement for derivatives, the counterparty default risk and the risk of the reporting company have to be considered. Therefore, the adjustment deriving from credit risk (CVA – credit value adjustment) has to be subtracted from the fair value of the derivative. In order to consider counterparty default risk, the expected exposure for future periods must be evaluated. According to the expected exposure the credit value adjustment for each contracting party can be calculated using the respective probability of default and the loss in case of default (depending on the respective counterparty). The expected exposure is evaluated in the corporate group by way of market risk adjustment factors in consideration of collateral agreements made with the counterparty. The probability of default is evaluated on the basis of credit spreads. If such spreads for the counterparty are observed in the market, they are taken into consideration; in any other case bond spreads are used. In a few cases, in which spreads regarding the counterparty are not definable, peer-group spreads are used. The amount of the loss in case of default is evaluated on the basis of empirical studies conducted by Moody's.

(8) Trading Assets and Derivatives

Securities acquired for trading purposes and all derivatives, unless they are used for hedge accounting, are illustrated in this item. Trading assets and derivatives are evaluated at fair value.

The results of evaluation and sale regarding the trading assets are illustrated in the profit and loss account in the trading result. Income from interest and dividends are presented in net interest income.

(9) Financial Assets and Liabilities – Designated at Fair Value

This balance sheet item illustrates financial assets and liabilities that are evaluated on a fair value basis irrevocably and voluntarily at the time they are acquired (designated at fair value). In the corporate group, these are financial instruments which are controlled as a corporate unit, based on economic hedge accosting with another financial instrument designated at fair value and for which hedge accounting is not applied {see note (11)}. In order to avoid accounting mismatch, these financial instruments are voluntarily evaluated at fair value.

Apart from that, all financial assets and liabilities with embedded derivatives are also evaluated voluntarily on a fair value basis.

The evaluation result from of own credit risk changes are shown (not affecting profit) in other income. The result from evaluation and sale are shown in the profit and loss account in the section "results from financial instruments – at fair value through profit or loss" in the profit and loss account. Transfer of interest and dividends are illustrated in net interest income.

(10) Embedded Derivatives

Embedded derivatives are derivatives, which are part of an original financial instrument and which are inseparably linked to it. With regard to the corporate group, such derivatives are bonds at indexed rates and, to a minor degree, stock bonds (bonds with a right to redemption in shares).

The embedded derivative is separated from its original financial instrument and, like an isolated free derivative, it is separately entered in the balance and evaluated on market value (fair value) basis, if:

- the economic characteristics and risks of the embedded derivative are not closely connected to the economic characteristics and risks of the basic contract, and
- an independent instrument with the sane condition like the embedded derivative would meet the definition of a derivative, and
- the structured financial instrument is not evaluated on a net income affecting basis at fair value.

At the balance sheet date, all financial instruments with embedded derivatives were evaluated on profit affecting basis at fair value.

(11) Hedge Accounting

With regard to the fair value hedge of specified financial assets and liabilities, the corporate group employs derivatives. Hedging instruments may face one or more similar basic transactions. Hedge accounting relations may include basic transactions on both, the assets side and the liabilities side of the balance sheet, whereas on the assets side of the balance sheet only fixed-rate assets - evaluation category AFS can be considered as basic transaction, and on the liabilities side of the balance sheet only fixed-rate engagements can be considered as basic transaction. The interest risk is the risk hedged. Only rate swaps are designated as hedges. Hedges are documented at the time they are established. The documentation mainly covers the identification of the basic business and the hedging instrument and the nature of the risk being hedged. In addition, the method which is used to determine the effectiveness of hedging transactions is documented.

Hedges are reviewed at the time of establishment to see how effective they are and subsequently, they are reviewed on a monthly basis. In this context, effectiveness is the relationship between the fair value change arising out of the basic business being hedged and the change of fair value of the hedging derivative itself (regarding the risk hedged). The corporate Group only reports hedges, if they are expected to be highly efficient over their entire term. Hedging is deemed to be highly efficient, if for the entire term, the ratio of the changes in value of the basic business and the hedge is between 0.8 and 1.25. If hedges are no longer considered to be highly effective, they are dissolved.

Derivatives used for hedging purposes are shown at their fair value as prevailing market values from derivative hedges – see notes (58) and (74). The evaluation changes of hedges together with market changes of the basic business, which shall be added to the hedged risk, are included in profit or loss for the period as results from hedge accounting. The non-effective component of the evaluation change is shown in results from hedge accounting – see note (47). This is calculated on the basis of the net total, the changes in market value of the hedging instruments, which are underlying the risk hedged, and the basic business transaction.

(12) Financial Assets – Available for Sale (AFS)

Financial assets – available for sale contain all non-derivative financial instruments that have not been assigned to categories, such as designated at fair value, HTM, L&R. within the Group, debt securities which have not been assigned to another category, are usually assigned to this category. To a small extent, equity securities and investment fund certificates have also been assigned to this category.

Financial instruments available for sale are evaluated on a fair value basis. The evaluation results are recorded in other income from AFS reserves, corrected by deferred tax.

In case of impairment, AFS reserves are adjusted by the impaired amount and are recorded in the profit and loss account under results from financial assets. The amount of impairment is the difference between acquisition costs and fair value.

With regard to foreign capital instruments, the corporate group considers impairment of value as profit affecting, if there is objective evidence which permits the expectation of negative impact on future payment flows from the financial instrument. Only credit-rating induced decrease of fair value can be assigned. Objective evidence for such impairment is, for example, major financial difficulties of the debtor, default or delay of interest or redemption payments, possible insolvency proceedings or other restructuring measures of the debtor. If the market value drops by at least 20% of the acquisition costs, this is considered to be an indicator of credit risk-induced decrease of fair value, and objective evidence of impairment in the corporate group shall be analysed.

As far as equity instruments are concerned, the assessment of impairment is primarily based on a significant or sustained decrease in market value below acquisition costs. If the market value of equity instruments drops by at least 10% of the acquisition costs, this is considered to be an indicator of impairment and consequently it shall be analysed within the corporate group, whether there is objective evidence indicating that the expenses for the equity instrument may not be returned. A significant and sustained decrease is always assumed, if the market value in the course of one business year drops at least 20%, or in the course of 2 years drops at least 10% below acquisition costs.
An appreciation in value of such income affecting impairment is balanced under foreign capital instruments in income from financial instruments. For equity instruments, the appreciation in value is balanced under equity capital in AFS reserves.

If financial assets are sold, cumulative evaluation results reported under equity are dissolved and reported in the profit and loss account under result from financial assets.

Interest and dividend income are illustrated in net interest income.

(13) Financial Assets – Held to Maturity (HTM)

This category contains non-derivative financial assets listed in an active market with fixed or determinable payments and fixed terms. Such financial assets are acquired with the intention and ability to hold them to maturity.

Designated fixed-rate securities are evaluated at continuous acquisition costs. In the event that acquisition costs differ from their redemption value, the difference is dissolved or credited in accordance with the effective interest method via the profit or loss for the period. In case an identifiable event occurs, which leads to the fact that expectations of future cash flows from an instrument decrease, impairment is recorded.

Effects on results from evaluation and sale of financial instruments are shown under result from financial assets. Interest is shown in net interest income.

(14) Financial Assets – Loans and Receivables (L&R)

This balance sheet item includes all non-derivative financial instruments with fixed, determinable payments, for which there is no active market; irrespective of whether those financial instruments are original or were acquired in the sec-notary market.

Loans and receivables are evaluated at continuous acquisition costs. In case of impairment of value {see note (19) loan risk provisions}, the acquisition costs are adjusted with effect on profits and presented in the profit and loss ac-count under section result

from financial instruments.
Demarcated interests are included in the net profit or loss for the period in net interest income. Premiums and discounts are spread over their term in accordance with the effective interest method via the net profit or loss for the period and included in net interest income.

(15) Other Liabilities

This category comprises all financial liabilities which are not evaluated voluntarily on a fair value basis via the net profit or loss for the period. They are evaluated at continuous acquisition costs. Premiums or discounts are included in net interest income with effect on profits over their maturity via the effective interest method.

(16) Cash and Cash Equivalents

Cash and cash equivalents designated in the cash flow statement correspond to the balance sheet item "'cash reserves" and consist of cash balances and credit balances with central banks. The assets at central banks are dedicated to the minimum reserve which must be held as assets at the Austrian National Bank in accordance with ECB directives. The minimum reserves are part of the stock of payment instruments, which in the interpretation of the Austrian National Bank, can be considered as the basis for current payment transactions. For that reason, the minimum reserve fulfils the definition "cash and cash equivalents" and is therefore presented in the cash reserve.

(17) Receivables from Credit Institutions and Clients

In this balance sheet item, issued credits are assigned in accordance with the respective business partner as receivables from clients. At the time they are added, receivables are classified as loans and receivables or as receivables evaluated voluntarily at fair value. Impairments are presented as risk provisions.

(18) Credit Risk Provision

Substantial risks in relation to the banking business are considered by means of allowances to an appropriate extent. In terms of risk provision, the categories are divided into individual and portfolio evaluation adjustments as well as lump sum allowances. Risks resulting from off-balance sheet credits are considered by means of provisions.
Individual allowances were made in accordance with consistent standards within the group to cover the credit risks in relation to receivables from clients and credit institutions. Significant receivables amounting to more than kEUR 200 are reviewed annually to verify impairment of value. Individual loans must be adjusted if observable events have occurred which suggest that not all interest and capital redemption liabilities can be met on time.

Such events include:

- Deferment of payment or waiver of payment obligations of the debtor
- Initiation of sanctions
- Delayed payment
- Impending insolvency or over-indebtedness
- Application to open insolvency procedures
- Failure of rescue measures

The degree of allowance depends on the difference between outstanding receivables, included accrued interest, and cash value of the payments that are expected to be received for the respective receivable, in consideration of valuable collateral. This is calculated on the basis of the original interest rate.

With regard to insignificant receivables up to a value of kEUR 200, an individual allowance on the basis of default probabilities, obtained from historical time series, is calculated (general allowance).

Unwinding (cash value effect) is shown in the profit and loss account - not as allowance but as interest income.

In addition, credit risks that already occurred but are not identifiable, are considered in form of portfolio allowances. Such portfolio allowances are calculated for the entire "living" business. The extent of the portfolio allowance is based on default probabilities differentiated by rating classes.

Details on default probabilities according to rating classes and regarding stress tests can be found in the notes on financial risks and on risk management (see pp. 80-84).
If the payment of receivables is questioned, they are considered by establishing risk provision. In case further payments cannot be expected with the utmost probability, a receivable is classified as irrecoverable. An irrecoverable, already adjusted receivable is deleted from the accounts by using risk provision. If no individual allowance exists for such a receivable, it is directly depreciated with direct effect on profits. Payments for depreciated receivables are recorded in the net profit or loss for the period.

(19) Real Pension Transactions (Repos) and Securities Transactions

Real pension transactions are combinations of cash purchases or sales of securities with simultaneous forward sale or repurchase with the same contracting party. Securities held on a repurchase basis in repo transactions (cash sales) continue to be reported and evaluated as securities stocks in the consolidated financial statement. The inflow of liquidity from repo business is illustrated as liability to credit institutions or clients in the balance sheet, depending on the counterparty. Agreed interest payments are recorded as interest expenses on maturity.

(20) Investment Properties

Investment property, more precisely, real estate which is held in the long term to obtain rental income and/or to increase its value is shown in this balance sheet item. It is evaluated at continuous acquisition costs. Rental income is included under other income. In case real estate is used for a different purpose, I. e. the property is no longer used for the bank's own business activities but rented out; such real estate is reclassified from tangible assets to investment properties.

Investment properties are depreciated on a straight-line basis over its expected working life. This depreciation is included in other expenses.
The asset depreciation range in the current business year - like in the past business year – can be illustrated as follows:

Asset depreciation range	Years
Buildings	25–50

At every balance sheet date, the presence of possible indicators of impairment is investigated. For the fiscal year, no such indicators were identified.

In case impairment indicators are identified, impairment is evaluated according to the impairment model for non-financial assets; see note (23).

(21) Intangible Assets

The item “intangible assets” comprises purchased software as well as licensing rights and an acquired client stock. All intangible assets have a limited operating life.

These assets are evaluated at their acquisition cost less scheduled depreciation and impairment. Assets are depreciated on a straight-line basis over their expected operating life.

The asset depreciation range in the current business year - like in the past business year – can be illustrated as follows:

Asset depreciation range	Years
Large scale projects (e.g. ARZ-Software, GEOS, SAP)	8
Other software and licensing rights	4
Client stock	7

At every balance sheet date, the presence of possible impairment indicators is investigated. For the fiscal year, no such indicators were identified.

In case impairment indictors are identified, impairment is determined according to the impairment model for investment properties; see note (23).

(22) Tangible Assets

Tangible assets are evaluated at acquisition or production costs less scheduled depreciation and impairment.
Scheduled depreciation is applied on a straight-line basis over the asset’s estimated operating life. In this context operating life is determined in consideration of the estimated physical depreciation, technical aging and legal and contractual limitations.

The asset depreciation range in the current business year - like in the past business year – can be illustrated as follows:

Asset depreciation range	Years
Buildings	25–50
Factory and office equipment	5–10
Construction work in leased business premises	15
IT hardware	3–5

At every balance sheet date, the presence of possible impairment indicators is investigated. For the fiscal year, no such indicators were identified.

In case impairment indictors are identified, impairment is determined according to the notes on impairment for investment properties; see note {23).

(23) Impairment Model for Non-Financial Assets

In case impairment indicators are identified, the recoverable amount must be determined and compared with the accounting value. The recoverable amount is the higher amount resulting from both amounts from fair value less sales costs and value in use.

Fair value concerning **investment properties** is evaluated on the basis of annually updated evaluations of internal, generally certified and qualified experts for real estate evaluation.
With regard to properties, fair value is determined by using the comparative value analysis which is based on actual sales prices (in timely and physical proximity). If such comparative values are not available in a sufficient number, the real estate value is calculated on the basis of possible strains of the recoverable floor space with value share via residual value analysis.
Developed properties are rental properties. The value is determined in the course of a profit analysis based on actually received rentals, provided they have been received in a market-conform and sustainable manner. As far as empty property is concerned, fictional profits are scheduled bas on similar rentals currently prevailing on the market.
Fair value is derived from the results of evaluation processes, assessed according to the respective market condition and adjusted, if appropriate.
The determination of valuation rates is based on land charge register inquires, regular market observations, regular adaptations of brokers, property developers and property managers as well as market date from the corporate group’s rental of real estate.
The appropriate capitalisation interest rate is determined on the basis of ranges published in specific literature (e.g. ÖVI-Immobilienbewertung - Austrian property evaluation authority) in due consideration of the respective market situation, significant location data and the characteristics of the property.

With regard to **tangible assets**, fair value of premises is determined according to the procedures mentioned above in section “investment properties”
As far as all other tangible assets are concerned – such as factory and office equipment and IT hardware, fair value is determined in connection with market transactions of similar factory and office equipment or IT hardware solutions in due consideration of technological aging

(24) Leasing

Leasing arrangements are evaluated in accordance with the allocation of economic risks and chances of lessor and lessee regarding the leased object.

Leasing arrangements are divided into financial and operating leasing. With regard to financial leasing, all the risks and opportunities associated with the property are transferred to the lessee, and thus the object leased is considered in the lessee’s accounts. Operating leasing exists, if leasing assets are assigned to the lessor.

In this context, the corporate group as lessor currently offers both, financial leasing for the rental of movable property, and operating leasing for the rental of investment properties.

Leasing arrangements, in which the corporate group is the lessee, play a subordinate role in the Group.

Sale-and-leaseback transactions were not carried out by the corporate group.

Financial Leasing:
Lessor: the lessor designates the leasing receivables under receivables at their net investment value (cash value). Interest income is obtained on the basis of constant return which also includes the outstanding net investment value. Interest income from such transactions is shown in net interest income.

Operating Leasing
Lessor: leased assets, which are assigned to the lessor, are designated under investment properties and are determined in accordance with the described principles. Leasing profits are recorded on a straight-line basis over the contactual maturity.

(25) Other Assets

The item "other assets" primarily includes value added tax receivables from the Italian state resulting from the acquisition of leasing properties and receivables other than from banking transactions.

Moreover, other assets also include real property and buildings which primarily were used as collateral by borrowers and which are now to be realised in disposing of impaired commitments (rescue acquisitions). These assets are shown as "assets held as collateral" and are evaluated as reserves in accordance with IFRS 5 [see note (26)]. In this context, expenses and income are presented in other expenses and income as "income or expenses concerning assets received as collateral".

(26) Non-Current Assets, Disposal Groups and Liabilities to Disposal Groups Held for Sale

Non-current assets or disposal groups, which comprise assets and liabilities, are classified as held for sale if the corresponding accounting value is primarily realised through sale and not through continued use. The Managing Board must have agreed the obligation to sell the asset. In this context it is anticipated that the sales process will be completed within one year subsequent to classification.

Generally, such assets or disposal groups are scheduled on the basis of the lower value resulting from their accounting value and fair value less sales costs. Possible impairment costs of a specific disposal group are first assigned to the business or company value and subsequently to remaining assets and liabilities on a pro rata basis – with the exception that no loss is assigned to stock, financial assets, deferred tax, assets in connection with employee benefits or financial properties which are still evaluated in accordance with the general financial reporting standards. Impairment costs in connection with the first classification "held for sale" as well as profits and losses that might occur later in the course of new evaluation are illustrated in profit and loss.

Intangible assets and tangible assets are no longer depreciated as scheduled. As soon as an associated company is classified "held for sale" it is also no longer balanced in accordance with the equity method.

In the event that a disposal group is realised, the main groups of assets and liabilities held for sale up to, are illustrated in the notes (69).

(27) Current and Deferred Tax

Current income tax claims and obligations are evaluated at current tax rates at which payments to or refunds by tax authorities are expected. Receivables from current income tax are illustrated, due to their insignificance in the corporate group, under the item "other assets". To a large extent, tax receivables assigned in other assets are consumer taxes. Current income tax obligations are illustrated separately on the liabilities' side.

Deferred income tax claims and obligations are based on temporary differences between value approaches of assets and obligations in the balance sheet in compliance with IFRS and value approaches which apply for taxation purposes. They are evaluated on the basis of the tax rate that is expected to be applied at the time they are dissolved. For further details please see note (70).

Active deferred taxes are scheduled if there are sufficient passive deferred taxes within the same tax unit or it is likely that taxable profits will arise within the same tax unit in the future. This also applies to scheduling active deferred taxes to fiscal losses brought forward.

Active and passive deferred taxes are charged against each other if it is permissible to offset actual tax refund claims against actual tax debts and the deferred taxes refer to the same tax authority.

Actual profit-based tax expenses are shown in the consolidated profit and loss account under "Income tax". The effects of creating or dissolving deferred taxes are also included in this item, except they refer to items included in other results. In such a case they are created or dissolved against AFS reserves via illustration in other income.

(28) Liabilities

All liabilities to credit institutions are assigned to the category "other liabilities". Liabilities to clients and liabilities evidenced by certificate are assigned to either "other liabilities" or to "designated at fair value".

As far as, liabilities designated at fair value are concerned, the market value change resulting from own credit risk is illustrated in other income in compliance IFRS 9.7.1.2. in this context, the difference between the market value of the financial instrument and the market value based on current interest forward curves without risk surcharge is calculated.

(29) Provisions

Provisions for social capital comprise reserves for pensions, severance payments, and length of service awards. These provisions are evaluated by the collective expectation method based on actuarial certificates. The liabilities resulting from a performance-oriented pension scheme correspond to the cash value of the obligation less fair value of the plan assets available. Because the corporate group does not stipulate plan assets, the cash value of the obligation exceeds the fair value of the plan assets in all cases. The resulting liability is included in the balance sheet 8n the item "provisions".

Pensions:
Within Hypo Tyrol Bank AG, there are several pensioners and survivors who are entitled to a performance-oriented bank pension. The pension scheme is based on the final salary defined in a company agreement. All entitled pensioners have already retired and thus do not pay any further contributions. It is not intended to end this agreement. Active staff members are not entitled to bank pensions.

Severance payment:
Staff members, who joined the company before 31 December

2002, are entitled to severance payments under certain conditions, especially if they retire. Severance payment is regulated in article 23 of the Austrian Salaried Employees Act. The amount depends on the employee's number of years in service up to a maximum of an annual salary, whereas the amount is calculated on the basis of the final salary. This system is a performance-oriented pension plan. Severance payment provisions are made to cover these claims. This regulation shall not apply to staff member who joined the company after 31 December 2002. With regard to such staff members, monthly contributions are made to a staff pension fund. Apart from that employees are not entitled to any further payments.

Length-of-service award:
Employees shall receive one month's salary as a length-of-service award after 25 years of service and two months' salary after 35 years of service. Length-of service payments are based on the collective agreement, which specifies the requirements for length-of service payments and the respective amount.

The evaluation of social capital cash values is based on several actuarial assumptions, such as:

- Domestic actuarial interest rate flow 1.80% (2016: 1.70%)
- Annual valorisations, collective agreement and career-based salary 2.5% (2016: 2.5%) regarding provisions for severance payments, length-of-service awards and occupational disability and invalidity risks
- Fluctuation rate according to separate chart, whereas length of service related fluctuation probabilities of 13% in the first service year to up to 0% in the 15th service year have been considered.
- Annual valorisations 1.5% (2016: 1.5%) regarding provisions for pensions.
- Table values AVÖ 2008-P (generation related tables for employees in consideration of a surcharge due to out-dated values).

Actuarial assumptions are unprejudiced, coordinated with each other and represent the best possible estimation of the corporate group. Nevertheless, each assumption bears a risk in which changes of inflowing parameters would lead to a deviating balanced provision. In particular, in the context of calculating social capital, the corporate group points out the sensitivity of severance payment and pension provision parameters. For that reason, distortions of substantial influencing variables (discount interest rate and salary and pension valorisation) are illustrated by way of a sensitivity analysis in note (77). Based on experience and observations, the remaining variables (fluctuation rate or death probability) can be weighted as valid parameters with low distortion potential. In addition, length of service provision can also be regarded riskless as it is projectable and provides reliable actuarial parameters

As far as contribution-based pension schemes are concerned, provisions are not required. The payments regarding a contribution-based scheme are paid to a pension fund and are evaluated as expenses on a current basis. Apart from that, there are no other obligations involved.

Other provisions for contingent liabilities to third parties are made if there is a reliably assessable, legal or de facto obligation to third parties. Provisions are made in the amount which would have to be paid on a reasonable consideration to meet the liability on the balance sheet date.

A detailed overview of balanced provisions as well as an illustration of the provision development in the course of specific periods, and the above-mentioned sensitivity analyses can be found in note (77).

(30) Other Liabilities

The item "other liabilities" basically presents liabilities which to a large extent do not result from banking businesses (basically, liabilities from delivery of goods and services to clients).

(31) Subordinate and Supplementary Capital

This item shows subordinate capital (Tier II) in accordance with CRR/CRD IV. Capital is evaluated at continuous acquisition costs.

(32) Trust Transactions

Assets and liabilities held by the Group in its own name but for the account of another party are not included in the balance sheet. In this context, incurred refunds regarding such businesses are shown as commission income in the profit and loss account.

(33) Equity

Equity comprises capital provided to the bank (subscribed capital plus capital reserves) and earned capital (profit reserves, reserves from currency translation and reserves formed on a profit-neutral basis from evaluations pursuant to IAS 39 and consolidated profits and earnings brought forward). Available for sale reserves summarize evaluation changes of the AFS stock which are not profit affecting after consideration of deferred tax. Actuarial gains and losses include evaluation effects in compliance with IAS 19 "employee benefits" after consideration of deferred tax.

Subscribed capital comprises 2,400,000 registered shares with restricted transferability of EUR 7.50 each and hence amounts to EUR 18,000,000.00, as well as a capital contribution amounting to EUR 32,000,000.00 from business funds in 2009.

(34) Financial Guarantees

A financial guarantee is a contract under which the guarantor is obliged to make certain payments in order to compensate the beneficiary for losses incurred because a debtor fails to meet his or her payment obligations under the original or amended terms of a debt instrument in time.

Obligations under financial guarantees are recorded as soon as the guarantor becomes a contracting party, that is, the time of accepting the guarantee offer. The firs evaluation is on a fair value basis at the time they are recorded.
After that, the bank's obligations are evaluated on the basis of the higher value of the initial evaluation less straight-line dissolution, which is used to allocate the guarantee provisions over the term of the financial guarantee and which is shown in the profit or loss for the period and in the risk provision for possible use.

(35) Accumulation of Financial Assets and Liabilities

Financial assets and liabilities are accumulated and designated in the balance sheet if there is an enforceable right to offset the amounts against our business partner and if transactions are settled on a net basis or if liabilities are settled at the same time as assets are realised.

According to IFRS 7, the corporate group is obliged to prepare statements concerning the netting out of financial instruments under Master Netting Agreement or similar agreements, even though the underlying instruments are not offset in the balance. Regarding instruments for which offsetting agreements have been made, but which are not offset in the balance, balancing effects are presented accordingly in note (84).

(36) Retirement of Financial Assets and Liabilities

The retirement of a financial asset is considered when the contractually agreed claims relating to cash flows from the financial asset have been eliminated or transferred. Furthermore, the retirement of a financial asset is considered when certain events occur, under which the corporate group has assumed the obligation to pay the cash flows from the asset to a third party.

The above-mentioned assets are disposed of from the financial statement if all major risks and opportunities which are associated with the ownership of such assets have been transferred.

In case of transactions for which all major risks and opportunities associated with the ownership of the financial asset have neither been retained nor transferred, the corporate group deletes the transferred asset value from the statement, once the power of disposition has been transferred.
A financial liability is disposed of from the financial statement if the associated obligation has been paid or suspended,

The corporate group enters transactions in which it transfers assets that are recorded in balance sheet, but retains all major risks and opportunities associated with these assets. In the corporate group, such transactions are only repos (see note {19} and note {93}).

Notes on the Statement of Comprehensive Income

(37) Net Interest Income

Net Interest income is depreciated in accordance with the effective interest method and is only recorded if there is sufficient probability that the amounts will accrue to the company and if the amount can be determined on a reliable basis. In this contest, income which mainly represents payment for the use of capital (interest-similar income) is assigned to net interest income. In addition, income from participations is included in this item as well. Interest expenses are shown in line with interest income.

Dividends are also presented in net interest income as soon as legal entitlement arises.

(38) Risk Provision

This item illustrates additions to allowances and provisions, respectively profits from dissolving allowances and provisions as well as income subsequently received for receivables that have been depreciated in connection with credit business.

(39) Net Commission Income

Net commission income comprises the balance from income and expenses regarding the service business. Above all, this includes profit and expenses regarding services from payment transactions, from share business, from loan and leasing businesses and from currency, foreign currency and precious metals business, as well as other service businesses. Net commission income and expenses are recorded appropriate to the period, after the entire provision of service.

(40) Trading Result

The trading result presents the evaluation results of the category “held for trading”. Interest and dividend profit from financial assets and liabilities of these evaluation categories are shown in net interest income. Furthermore, income from trading with securities is also included.

(41) Income from Financial Instruments – at Fair Value Through Profit or Loss

Income from financial instruments - at fair value through profit or loss shows the evaluated results from categories ‘designated at fair value’ as well as the evaluated results from bank book derivatives prior to changes in won credit risk. Interest and dividend income from financial assets and obligations of this evaluation category are reported under net interest income. Furthermore, the results from trading with securities are also illustrated. Pursuant to IFRS 9.7.1.2, the evaluation effect resulting from changes to own credit risk were illustrated directly in equity for the first time in 2016.

Notes on the Profit and Loss Account

(42) Net Interest Income

in kEUR	2017	2016
Interests and similar income from receivables from credit institutions	675	285
Interests and similar income from receivables from clients	81,781	90,733
Interests and similar income from bonds	24,553	31,519
Interests and similar income from leasing receivables	6,818	6,088
Interest gains from derivatives	11,469	26,694
Earnings from shares and other non-fixed securities	349	462
Earnings from participating interest in associated non-consolidated companies	0	5,477
Other earnings from participating interest	3,896	3,374
Other income	4,588	4,873
Interests and similar income	**134,129**	**169,505**
Interests and similar expenses for liabilities to credit institutions	-1,525	-1,147
Interests and similar expenses for liabilities to clients	-16,780	-29,568
Interests and similar expenses for liabilities evidenced by certificate	-30,968	-45,984
Interests and similar expenses for supplementary/subordinate capital	-3,211	-3,922
Other expenses	-5,103	-3,325
Interest and similar expenses	**-57,587**	**-83,946**
Net interest income	**76,542**	**85,559**

Negative interest is illustrated in other income in the amount of kEUR 4,588 as well as in other expenses in the amount of kEUR 5,103. Negative interest effects for Hypo Tirol Bank resulted from receivables from/liabilities to credit institutions, derivatives and repos. Interest income and expenses from derivatives are netted.

Net interest income classified by evaluation categories of financial assets and liabilities can be described as follows:

in kEUR	2017	2016
Trading assets and derivatives	28,883	51,650
Financial assets – designated at fair value	14,465	19,918
Financial assets – HTM	901	1,511
Financial assets – AFS	7,980	8,489
Loans and receivables	89,970	99,324
Participations	3,896	8,852
Interest income	**146,095**	**189,744**
Derivatives	-15,688	-22,134
Financial liabilities – designated at fair value	-24,516	-42,340
Liabilities evidenced by certificate	-29,349	-39,711
Interest expenses	**-69,553**	**-104,185**
Net interest income	**76,542**	**85,559**

Interest income from financial assets not evaluated on a fair value basis amounted to kEUR 94,766 (2016: kEUR 109,687) The corresponding interest expenses for financial liabilities amounted to KEUR 29,349 (2016: kEUR 39,711).

Interest from impaired assets amounted to kEUR 3,380 (2016: kEUR 3,428).

Interest income and expenses are not netted.

(43) Credit Risk Provision

in kEUR	2017	2016
Addition to allowances	-36,568	-30,687
Dissolutions of allowances	26,726	46,983
Direct depreciation of receivables	-2,407	-7,885
Earnings from income from depreciated receivables	943	1,464
Additions to provisions	-3,478	-8,923
Dissolution of provisions	4,131	17,773
Credit risk provision	**-10,653**	**18,725**

All profit affecting items of credit provision refer to allowances for receivables from clients and credit risk provisions. [see note (57) and (77)].

The loss from credit business results from direct depreciation of receivables, income from depreciated receivables, income from depreciated receivables and the use of generated provisions. In 2017, the loss amounted to kEUR 46,114 (2016: kEUR 68,110).

(44) Net Commission Income

in kEUR	2017	2016
Commission income from credit/leasing businesses	5,784	6,163
Commission income from securities businesses	10,399	10,393
Commission income from paperless clearing businesses and money transactions	12,067	12,294
Commission income from other service businesses	3,303	3,609
Commission income	**31,553**	**32,459**
Commission expenses for credit/leasing businesses	-721	-834
Commission expenses for securities businesses	-1,681	-1,700
Commission expenses for paperless clearing businesses and money transactions	-1,572	-2,149
Commission expenses for other service businesses	-1,212	-1,438
Commission expenses	**-5,186**	**-6,121**
Net commission income	**26,367**	**26,338**

Net commission income included income from trust transactions in the amount of kEUR 83 (2016: kEUR 65). Commission expenses included expenses from trust transactions in the amount of kEUR 75 (2016: kEUR 46).

(45) Trading Result

in kEUR	2017	2016
Share related businesses	-186	-218
Currency related businesses	3,687	2,107
Interest related businesses	-3,157	-1,835
Trading result	**344**	**54**

(46) Income from Hege Accounting

Income from hedge accounting shows evaluation results from effective hedge accounting.

The result is structured as follows:

in kEUR	2017	2016
Income from secured basic businesses	2,284	-5,097
Income from derivatives used as hedging instruments	-816	6,703
Income from hedge accounting	**1,468**	**1,606**

(47) Income from Financial Instruments – at Fair Value Through Profit or Loss

in kEUR	2017	2016
Evaluation result financial instruments "designated at fair value"	19,564	20,765
Evaluation result derivatives	-14,204	-22,692
Result from financial instruments – at fair value through profit or loss	**5,360**	**-1,927**

The categorisation of income from financial instruments “designated at fair value” corresponding to the balance sheet item, in which financial assets and liabilities are presented, is structured as follows:

in kEUR	2017	2016
Receivables from clients	-8,078	-9,049
Financial assets – designated at fair value	-17,925	-12,339
Liabilities to clients	15,290	17,526
Financial liabilities – designated at fair value	30,277	24,627
Evaluation result for financial instruments designated at fair value	**19,564**	**20,765**

(48) Income from Other Financial Instruments

in kEUR	2017	2016
Realised profit from asset sale	2,642	7,135
Realised losses from asset sale	-5,091	-4,068
Additions	0	913
Impairment financial instruments and participating interest	-352	-3,334
Income from other financial instruments	**-2,801**	**646**

Income from other financial instruments, divided by evaluation categories is structured as follows:

in kEUR	2017	2016
Profit/loss from financial assets – AFS	403	1,290
Profit affecting value changes due to outflows of AFS reserves of financial assets – AFS	1,358	1,357
Appreciation (+) / impairment (-) from financial assets – AFS	-92	-148
Profit/loss from participating interest and others	-4,524	3,900
Appreciation (+) / impairment (-) from participating interest	29	-6,288
Income from financial assets – AFS	**-2,826**	**111**
Profit/loss from financial assets – HTM	0	0
Appreciation (+) / impairment (-) from financial assets – HTM	0	524
Income from financial asset – HTM	**0**	**524**
Profit/loss from financial assets – L&R	25	51
Appreciation (+) / impairment (-) from financial assetsn – L&R	0	-40
Income from financial asset – L&R	**25**	**11**
Income from other financial instruments	**-2,801**	**646**

Income from the repurchase of own issues accounted for kEUR -102 (2016: kEUR -36).

(49) Income from Associated Companies

in kEUR	2017	2016
Result from associated companies	427	238

(50) Administrative Expenses

in kEUR	2017	2016
Personnel expenses	-45,389	-46,720
Material expenses	-23,223	-23,489
Depreciation on material expenses and intangible assets	-4,061	-3,832
Administrative expenses	**-72,673**	**-74,041**

Personnel expenses

in kEUR	2017	2016
Salaries and wages	-33,555	-33,907
Legal social expenses	-8,762	-8,675
Voluntary social expenses	-729	-759
Pension scheme expenses	-1,505	-1,631
Expenses for severance payments and pensions	-838	-1,748
Personnel expenses	**-45,389**	**-46,720**

Expenses for severance payments and pensions include payments to the corporate staff and self-employment provision fund in the amount of kEUR 197 (2016: kEUR 175).

The company strategy followed by Hypo Tirol Bank AG aims at reducing the balance sheet total and the number of employees. This policy is also reflected in the illustrated decline in personnel expenses.

Material expenses

in kEUR	2017	2016
Building expenses	-3,666	-3,271
IT expenses	-7,064	-6,573
Communication expenses	-1,306	-1,694
Expenses for human resource development	-432	-316
Advertising and representation expenses	-2,980	-3,596
Legal and consulting expenses	-3,021	-3,218
Costs for legal structure	-1,608	-1,741
Other material expenses	-3,146	-3,080
Material expenses	**-23,223**	**-23,489**

Legal and consulting expenses and/or costs for legal structures included expenses for auditors (Ernst & Young chartered accountants Wirtschaftsprungsgesellschaftmbh, Wien) in the amount of kEUR 274 (2016: TEUR 239). Expenses for auditors were divided into expenses (costs for legal structures) for auditing the individual financial statements and the consolidated financial statements amounting to kEUR 226 (2016: kEUR 232)) and into expenses for other confirmation services amounting to kEUR 48 (2016: kEUR 7).

Depreciation on tangible and intangible assets

in kEUR	2017	2016
Factory and office equipment	-1,314	-1,382
Real estate	-1,678	-1,575
Intangible assets	-1,069	-875
Depreciation on tangible and intangible assets	**-4,061**	**-3,832**

(51) Other Income

Other income comprises the following items:

in kEUR	2017	2016
Income from leasing business	4,201	4,781
Income from real estate sales	468	4,192
Rental income from investment properties	6,691	4,420
Income from assets received as collateral	498	456
Other income	6,069	8,086
Other income	**17,927**	**21,935**

(52) Other Expenses

Other expenses comprise the following items:

in kEUR	2017	2016
Leasing business expenses	-4,452	-7,608
Loss from real estate sales	-34	-855
Depreciation on investment properties	-2,533	-2,647
Expenses in connection with investment properties	-3,966	-2,111
in connection with real estate rented out	-3,757	-2,105
in connection with real estate not rented out	-209	-6
Expenses in connection with assets received as collaterals	-572	-133
Operational damages	-191	-94
Other expenses	-8,545	-27,423
Other expenses	**-20,293**	**-40,871**

Other expenses include stability fees in the amount of kEUR 1,356 (2016: kEUR 6,534). In addition, other expenses include expenses for deposit insurance in the amount of kEUR 1,399 and expenses in relation to the resolution fund in the amount of kEUR 3,030. Moreover, in 2016 a one-time special stability fee payment accounting for kEUR 12,042 were recorded in other expenses. This basically explains the year-on-year decrease in other expenses.

(53) Tax on Income and Profit

in kEUR	2017	2016
Current tax claims	-2,051	-2,871
Deferred tax	-953	-8,927
Tax on income and profit	**-3,004**	**-11,798**

Current taxes are based on the taxable results regarding this fiscal year in accordance with the local tax rates applicable to each company of the corporate group. Corporate tax for Austrian companies amounts to 25 percent. This tax rate serves as the basis for the following offsetting and reconciliation. The offsetting and reconciliation illustrates the connection between the calculated and the recorded income taxes.

in kEUR	2017	2016
Result prior to taxation	22,015	38,262
Applicable tax rate	25 %	25 %
Calculable income tax	**-5,504**	**-9,566**
Tax effects		
from tax free income from participating interest	944	780
from other tax-free income	3	14
from previous years	1,640	-2,069
from deviating tax rates abroad	355	365
from other non-deductible expenses	-343	-468
from other differences	3,254	-854
from non-active losses brought forward	-3,353	0
Designated income tax	**-3,004**	**-11,798**

Deferred tax expenses in the fiscal year amounting to kEUR 953 and deferred tax expenses of the previous year amounting to kEUR 8,927 entirely resulted from creating or dissolving temporary differences and the accounting of deferred tax in relation to losses brought forward.

Notes on the Balance Sheet

(54) Cash Reserve

in kEUR	2017	2016
Cash in hand	25,709	26,009
Deposits at central banks	16,950	251,651
Cash reserve	**42,659**	**277,660**

Pursuant to ECB directives, kEUR 14,923 (2016: kEUR 30,866) of the deposits at central banks are dedicated to the minimum reserve.

(55) Receivables from Credit Institutions

Receivables from credit institutions are assigned to the category „loans and receivables“ and are evaluated on the basis of continuous acquisition costs.

Receivables from credit institutions by business type

in kEUR	2017	2016
Interbank accounts	54,403	175,068
Money market business	40,807	14,777
Loans to banks	13,710	14,222
Other receivables	66	3,035
Receivables from credit institutions	**108,986**	**207,102**

Receivables from credit institutions by region

in kEUR	2017	2016
Austria	**48,769**	**119,616**
Foreign countries	**60,217**	**87,486**
Germany	36,238	40,307
Italy	5,885	6,305
Other foreign countries (incl. CEE)	18,094	40,874
Receivables from credit institutions	**108,986**	**207,102**

Receivables from credit institutions by maturity

in kEUR	2017	2016
Maturity: daily	59,219	108,159
Up to 3 months	36,059	35,629
3 months to 1 year	9,998	57,607
1 year to 5 years	1,855	1,536
More than 5 years	1,855	4,171
Receivables from credit institutions	**108,986**	**207,102**

(56) Receivables from Clients

Receivables from clients accounting for kEUR 280,700 (2016: kEUR 377,989)) were assigned to the category “financial assets - designated at fair value”. The remaining receivables in the amount of kEUR 5,205,296 (2016: kEUR 5,010,259) were recorded in the category “loans and receivables”.

Receivables from clients by business type (prior to risk provision)

in kEUR	2017	2016
Current account	535,200	562,263
Cash	105,973	49,934
Credits	3,006,577	2,862,127
Credits on bill of exchange	0	0
Covered communal loans	768,961	727,164
Covered bond loans	557,097	610,051
Other loans	0	19,645
Leasing receivables	488,214	533,785
Other receivables	23,974	23,279
Receivables from clients	**5,485,996**	**5,388,248**

Receivables from clients by region

in kEUR	2017	2016
Austria	**4,723,819**	**4,485,902**
Foreign countries	**762,177**	**902,346**
Germany	125,102	158,792
Italy	603,881	711,891
Other foreign countries (incl. CEE)	33,194	31,663
Receivables from clients	**5,485,996**	**5,388,248**

Receivables from clients by maturity

in kEUR	2017	2016
Maturity: daily	134,250	134,315
Up to 3 months	333,052	325,819
3 months to 1 year	753,026	681,977
1 year to 5 years	1,733,138	1,666,408
More than 5 years	2,532,530	2,579,729
Receivables from clients	**5,485,996**	**5,388,248**

Receivables from clients by client sector

in kEUR	2017	2016
Central state and public sector	603,264	574,714
Corporate clients	3,666,629	3,629,686
Private households	1,191,211	1,154,150
Others	24,892	29,698
Receivables from clients	**5,485,996**	**5,388,248**

Gross and net investment values in leasing business

in kEUR	2017	2016
Gross investment value	535,885	590,942
Financial income not realised	-47,671	-57,157
Net investment value	**488,214**	**533,785**
Non-guaranteed residual values	**35,855**	**44,266**
Accumulated allowance	**-10,668**	**-15,091**

Accumulated allowances in leasing business are illustrated in the item “risk provisions in connection with receivables from clients”.

Net investment values in leasing business by maturity

in kEUR	2017	2016
Maturity daily	0	0
Up to 3 months	12,009	10,641
3 months to 1 year	47,480	46,595
1 year to 5 years	183,804	202,342
More than 5 years	244,921	274,207
Net investment value	**488,214**	**533,785**

Gross investment values in leasing business by maturity

in kEUR	2017	2016
Up to 3 months	14,270	13,253
3 months to 1 year	55,055	53,799
1 year to 5 years	208,718	232,438
More than 5 years	257,842	291,452
Gross investment value	**535,885**	**590,942**

Minimum leasing payments from non-callable operating leasing contracts as lessor were not collected.

(57) Credit Risk Provision

At the balance sheet date, no risk provision in connection with receivables from credit institutions was established by the corporate group.
Risk provision in relation to HETA ASSET RESOLUTION AG can be illustrated separately as follows:

Development of risk provision in connection with receivables from resolution unit of former credit institution:

in kEUR	2017	2016
As at 01.01.	0	-20,988
Currency differences	0	4
Consumption	0	5,020
Liquidation	0	19,870
Addition	0	-3,906
Risk provision in connection with receivables from resolution unit of former credit institution	**0**	**0**

Development of risk provision in connection with receivables from clients

Risk provision in the amount of kEUR 139,773 (2016: kEUR 174,654)) was recorded in the category “loans and receivables”, evaluated on the basis of continuous acquisition costs.

in kEUR	2017	2016
As at 01.01.	-174,654	-236,634
Currency differences	73	-42
Consumption	44,650	61,689
Liquidation	26,726	27,113
Addition	-36,568	-26,780
Risikovorsorge zu Forderungen an Kunden	**-139,773**	**-174,654**

Risk provision in connection with receivables from clients by region

in kEUR	2017	2016
Austria	**-30,215**	**-38,455**
Foreign countries	**-109,558**	**-136,199**
Germany	-5,486	-6,641
Italy	-103,795	-128,714
Other foreign countries (incl. CEE)	-277	-844
Risk provision in connection with receivables from clients	**-139,773**	**-174,654**

Development of risk provision in connection with receivables from clients

in kEUR	As at 01.01.	Currency translation	Consumption	Liquidation	Additions	As at 31.12.
2016						
Credit risks – receivables > kEUR 500	-216,901	-42	59,882	23,721	-24,799	-158,139
Credit risks – receivables < kEUR 500	-10,074	0	1,807	1,156	-1,570	-8,681
Portfolio provision	-9,659	0	0	2,236	-411	-7,834
Total	**-236,634**	**-42**	**61,689**	**27,113**	**-26,780**	**-174,654**
2017						
Credit risks – receivables > kEUR 200	-158,139	54	43,515	26,038	-34,685	-123,217
Credit risks – receivables < kEUR 200	-8,681	19	1,135	321	-1,189	-8,395
Portfolio provision	-7,834	0	0	367	-694	-8,161
Total	**-174,654**	**73**	**44,650**	**26,726**	**-36,568**	**-139,773**

Development of risk provision in connection with receivables from clients by client sector

in kEUR	As at 01.01.	Currency translation	Consumption	Liquidation	Additions	As at 31.12.
2016						
Public sector	-2	0	0		-2	-4
Corporate clients	-226,214	-11	60,365	24,937	-25,206	-166,129
Private households	-10,388	-31	1,324	2,155	-1,442	-8,382
Other	-30	0	0	21	-130	-139
Total	**-236,634**	**-42**	**61,689**	**27,113**	**-26,780**	**-174,654**
2017						
Public sector	-4	0	1		0	-3
Corporate clients	-166,129	66	43,372	25,730	-34,274	-131,235
Private households	-8,382	7	1,219	979	-2,289	-8,466
Other	-139	0	58	17	-5	-69
Total	**-174,654**	**73**	**44,650**	**26,726**	**-36,568**	**-139,773**

Additions include unwinding in the amount of kEUR 404 (2016: kEUR 136) which was reclassified in the profit and loss account from risk costs to interest income.

In consideration of risk provisions, receivables from credit institutions, receivables from the resolution unit of former credit institution and receivables from clients can be reclassified as follows:

	Receivables from clients		Receivables from credit institutions	
in kEUR	**2017**	**2016**	**2017**	**2016**
Receivables with non-specific allowance	5,176,145	4,982,356	108,986	207,102
Overdue receivables - no allowance	4,558	6,593	0	0
Individual allowance for receivables	305,293	399,299	0	0
Risk provision	-139,773	-174,654	0	0
Receivables	**5,346,223**	**5,213,594**	**108,986**	**207,102**

Receivables with specific allowance included receivables, for which specific allowance has been created and receivables, for which a lump-sum allowance has been created.

Within the corporate group, credit quality of receivables with non-specific allowance from credit institutions and clients is evaluated in accordance with internal rating classifications:

	Receivables from clients		Receivables from credit institutions	
in kEUR	**2017**	**2016**	**2017**	**2016**
Outstanding creditworthiness (ratings 1A – 2B)	1,491,688	1,417,613	28,800	85,236
Very good creditworthiness (ratings 2C – 2E)	1,145,223	1,052,399	37,655	78,810
Good creditworthiness (ratings 3A – 3B)	1,277,072	1,273,169	40,689	647
Medium creditworthiness (ratings 3C – 3E)	1,126,173	1,038,502	1,842	42,409
Weak creditworthiness (ratings 4A – 4B)	56,835	128,660	0	0
Very weak creditworthiness (ratings 4C – 4E)	79,154	72,013	0	0
Receivables with non-specific allowance	**5,176,145**	**4,982,356**	**108,986**	**207,102**

In the event of default payment of 90 days (Basel III), receivables are assigned to the internal rating category 5A and thus to „overdue receivables – no allowance". If default payment causes impairment, such receivables are re-categorised to receivables with specific allowance.

The analysis of receivables in the category „overdue receivables – no allowance" illustrates the following situation:

	Receivables from clients	
in kEUR	**2017**	**2016**
3 months to 6 months	2,480	1,391
6 months to 1 year	2,078	3,134
More than 1 year	0	2,068
Overdue receivables - no allowance	**4,558**	**6,593**

In case of default payment less than 90 days, that is 1 day to 3 months, receivables are not assigned to this category; in the fiscal year they amounted to kEUR 34,177 (2016: kEUR 41,774).

The analysis of forbearance measures by client sector can be illustrated as follows:

in kEUR	2017	2016
Private households	2,987	3,291
Corporate clients	32,143	40,281
Total concessions on performing loans	**35,130**	**43,572**
Private households	**157**	**2,055**
Corporate clients	54,357	36,378
Total concessions on non-performing loans	**54,514**	**38,433**
Total concessions	**89,644**	**82,005**

All extension agreements are adaptations or modifications of originally concluded agreements. As far as receivables of the category "concessions on performing loans" are concerned, allowance is required at the moment.
Indicators for weak creditworthiness and corresponding required allowances are reflected in the internal rating class "default" which is divided into rating classes 5B to 5E. Ratings 5B to 5E show the development of commitments which start off at risk, then lead to deferrals or the withholding of payments due to impending insolvency or indebtedness of the client, and finally lead to potential bad debts because insolvency proceedings have been opened.

The analysis of specific allowance for receivables regarding the 2017 fiscal year illustrates the following situation:

	Receivables from clients		Receivables from credit institutions	
in kEUR	**2017**	**2016**	**2017**	**2016**
Rating level 5B	113,184	93,004	0	0
Rating level 5C	177,541	279,482	0	0
Rating level 5D	13,983	25,788	0	0
Rating level 5E	585	1,025	0	0
Specific allowance for receivables	**305,293**	**399,299**	**0**	**0**
Risk provision	-139,773	-174,654	0	0
Net asset value of specific allowance for receivables	**165,520**	**224,645**	**0**	**0**

In order to reduce risks, specific measures are taken, especially by means of collateral. The main forms of collateral used include mortgages, guarantees and other assets.
Accountable collateral – evaluated in accordance with supervisory law principles - reduced the default risks of overdue receivables without allowance and receivables with specific allowance as follows:

in kEUR	2017	2016
Collateral for overdue receivables without specific allowance	3,130	6,748
Collateral for receivables with specific allowance	177,499	242,100

(58) Positive Market Values from Derivate Hedging Instruments

Interest swaps are the only hedging instruments employed.

in kEUR	2017	2016
Positive market values from assigned effective fair value hedges	11,446	10,864

Positive market values from derivative hedging instruments by maturity

in kEUR	2017	2016
3 months to 1 year	161	0
1 year to 5 years	5,574	8,108
More than 5 years	5,711	2,756
Market values from derivative hedging instruments	11,446	10,864

Assets and liabilities serve as underlying transaction, whereas on the assets side fixed rate securities businesses AFS and on the liabilities side fixed rate liabilities can be considered.

On 31 December 2017, the accounting value of hedged AFS positions accounted for kEUR 246,350 (2016: kEUR 147,201), the accounting values of receivables from clients accounted for kEUR 160,249 (2016: kEUR 0). and the accounting value of hedged liabilities accounted for kEUR 1,445,050 (2016: kEUR 849,741).

(59) Trading Assets and Derivatives

Trading assets by business type

in kEUR	2017	2016
Investment share certificates	299	240
Positive market values from derivatives	58,513	119,584
Accrued interest to trading assets	11,601	33,167
Trading assets	**70,413**	**152,991**

Trading assets by maturity

in kEUR	2017	2016
Up to 3 months	8,615	17,094
3 months to 1 year	9,272	44,944
1 year to 5 years	21,538	36,448
More than 5 years	30,689	54,265
Without maturity	299	240
Trading assets	**70,413**	**152,991**

Derivatives

in kEUR	Nominal value 2017	Nominal value 2016	Positive market values 2017	Positive market values 2016	Negative market values 2017	Negative market values 2016
Derivatives "held for trading"						
FX-future transactions	370,076	291,620	13,430	2,060	1,307	2,328
FX-options	0	0	0	0	0	0
Currency derivatives	**370,076**	**291,620**	**13,430**	**2,060**	**1,307**	**2,328**
Interest swaps	1,917,016	3,610,526	43,112	114,266	73,466	105,507
Interest options	0	0	0	0	0	0
Future transactions	518,215	534,468	1,970	3,250	2,265	3,058
Futures	0	0	0	0	0	0
Interest derivatives	**2,435,231**	**4,144,994**	**45,083**	**117,516**	**75,732**	**108,565**
Credit default swaps	0	15,000	0	0	0	153
Options	0	0	0	8	0	0
Asset value dependent derivatives	**0**	**15,000**	**0**	**8**	**0**	**153**
Trading assets	**2,805,307**	**4,451,613**	**58,513**	**119,584**	**77,039**	**111,046**

Default risks of trading assets are assessed in the corporate group by using the internal rating system. Trading assets are rated inclusive of their interest demarcation. Internal rating levels correspond to the rating categories as stated in note (57) and are used to assess the default risks for all financial assets and liabilities on a standard basis. “Top creditworthiness” is a sub-category of rating class “outstanding creditworthiness” and corresponds to rating levels 1A to 1E.

2017

The illustrated values are accounting values.

in kEUR	For trading purposes	Derivatives	Trading assets
Top creditworthiness	0	25,367	25,367
Outstanding creditworthiness	0	11,742	11,742
Very good creditworthiness	0	30,377	30,377
Good creditworthiness	0	620	620
Medium creditworthiness	0	514	514
Weak creditworthiness	0	1,494	1,494
Very weak creditworthiness	0	0	0
No rating	299	0	299
Total	**299**	**70,114**	**70,413**

2016

in kEUR	For trading purposes	Derivatives	Trading assets
Top creditworthiness	3	95,657	95,660
Outstanding creditworthiness	4	11,388	11,392
Very good creditworthiness	1	39,019	39,020
Good creditworthiness	0	1,065	1,065
Medium creditworthiness	0	811	811
Weak creditworthiness	0	4,803	4,803
Very weak creditworthiness	0	0	0
No rating	232	8	240
Total	**240**	**152,751**	**152,991**

(60) Financial Assets – Designated at Fair Value

Financial assets – designated at fair value by business type

in kEUR	2017	2016
Bonds of public issuers	254,859	299,255
Bonds of other issuers	170,651	424,356
Interest accrued	7,015	10,443
Financial assets – designated at fair value	**432,525**	**734,054**

Financial assets – designated at fair value by maturity

in kEUR	2017	2016
Up to 3 months	12,494	105,423
3 months to 1 year	16,845	45,418
1 year to 5 years	270,343	281,432
More than 5 years	132,843	301,781
Financial assets - designated at fair value	**432,525**	**734,054**

Default risks of financial assets – designated at fair value are evaluated in accordance with internal rating categories as follows:

in kEUR	2017	2016
Top creditworthiness	431,250	725,726
Outstanding creditworthiness	0	5,795
Very good creditworthiness	1,275	2,533
Good creditworthiness	0	0
Medium creditworthiness	0	0
Weak creditworthiness	0	0
Total	**432,525**	**734,054**

(61) Financial Assets – AFS

Participating interest and shares in associated companies of minor significance in the amount of kEUR 5,474 are evaluated at continuous acquisition costs:

Financial assets – AFS by business type

in kEUR	2017	2016
AFS bonds of public issuers	246,198	262,895
AFS bonds of other issuers	505,778	450,931
AFS shares	1,360	2,445
AFS other holding rights	25,839	26,547
Interest accrued regarding AFS-portfolio	4,382	5,482
Participating interest – other companies	38,622	47,663
Shares in associated companies	2,656	16,031
Financial assets - AFS	**824,835**	**811,994**

Financial assets – AFS by maturity

in kEUR	2017	2016
Up to 3 months	41,201	25,660
3 months to 1 year	50,276	128,344
1 year to 5 years	396,262	389,954
More than 5 years	268,619	175,350
Without maturity	68,477	92,686
Financial assets - AFS	**824,835**	**811,994**

The changes regarding AFS reserves, which are recorded in the profit or loss for the period and in other income, are illustrated in section II statement of comprehensive income.

In the expired fiscal year, impairments for securities “AFS” in the amount of kEUR 90 (2016: kEUR 228) were reclassified from ASF reserves to the profit and loss account.

The development of impairments for financial assets – AFS, which was considered in the profit and loss account, can be described as follows:

in kEUR	Impairment on 01-01.	Currency translation	Inflows in business year	Transfers Consolidation	Outflows in business year	Impairment on 12-31
2016						
Bonds of other issuers	-7,490	0	0	0	7,319	-171
Shares	-302	0	-139	0	36	-405
Investment certificates	-887	0	-88	0	18	-957
Participating interest - other companies	-2,868	0	-3,708	0	41	-6,535
Shares in associated companies	-3,416	0	-2,581	0	0	-5,997
Financial assets -- AFS	**-14,963**	**0**	**-6,516**	**0**	**7,414**	**-14,065**
2017						
Bonds of other issuers	-171	0	0	0	126	-45
Shares	-405	0	-85	0	90	-400
Investment certificates	-957	0	-5	0	0	-962
Participating interest - other companies	-6,535	0	-325	0	3,850	-3,010
Shares in associated companies	-5,997	0	-322	0	1,052	-5,267
Financial assets -- AFS	**-14,065**	**0**	**-737**	**0**	**5,118**	**-9,684**

Default risk of financial assets – AFS is evaluated in accordance with internal rating levels and illustrates the following situation:

in kEUR	2017	2016
Top creditworthiness	728,259	679,677
Outstanding creditworthiness	19,658	28,393
Very good creditworthiness	20,792	23,213
Good creditworthiness	548	478
Medium creditworthiness	997	509
Weak creditworthiness	487	483
No rating	12,816	15,547
Participating Interest - other companies	38,622	47,663
Shares in associated companies	2,656	16,031
Total	**824,835**	**811,994**

(62) Financial Assets – HTM

Financial assets – HTM by business type

in kEUR	2017	2016
HTM-bonds of public issuers	11,858	16,849
HTM-bonds of other issuers	7,496	17,488
Interest accrued regarding HTM-portfolio	534	998
Financial assets – HTM	**19,888**	**35,335**

Financial assets – HTM by maturity

in kEUR	2017	2016
Up to 3 months	10,354	10,316
3 months to 1 year	0	5,139
1 year to 5 years	8,644	18,985
More than 5 years	890	895
Financial assets - HTM	**19,888**	**35,335**

In the fiscal year the number of HTM sales was insignificant, consequently “Tainting Rules” were not applied.

The development of impairment illustrates the following situation:

in kEUR	Impairment on 01-01.	Currency translation	Inflows in business year	Transfers Consolidation	Outflows in business year	Impairment on 12-31
2016						
Bonds of public issuers	0	0	0	0	0	0
Bonds of other issuers	-660	0	0	0	660	0
Financial assets - HTM	**-660**	**0**	**0**	**0**	**660**	**0**
2017						
Bonds of public issuers	0	0	0	0	0	0
Bonds of other issuers	0	0	0	0	0	0
Financial assets - HTM	**0**	**0**	**0**	**0**	**0**	**0**

With regard to impairments, which have been considered on a profit affecting basis in income from financial investments, financial assets – HTM are categorised as follows:

in kEUR	2017	2016
Non-impaired financial assets - HTM	19,888	35,335
Impaired financial assets – HTM	0	0
Impairment	0	0
Financial assets – HTM	**19,888**	**35,335**

Default risks of financial assets – HTM are evaluated in the corporate group in accordance with internal rating levels. HTM reserves are categorised as follows:

in kEUR	2017	2016
Top creditworthiness	19,888	35,335
Outstanding creditworthiness	0	0
Very good creditworthiness	0	0
Good creditworthiness	0	0
Medium creditworthiness	0	0
Weak creditworthiness	0	0
Very weak creditworthiness	0	0
Total	**19,888**	**35,335**

(63) Financial Assets – L&R

Financial assets – L&R by business type

in kEUR	2017	2016
L&R bonds	0	2,851
Interest accrued regarding L&R-portfolio	0	0
Financial assets – L&R	**0**	**2,851**

Financial assets – L&R by maturity

in kEUR	2017	2016
3 months to 1 year	0	0
1 year to 5 years	0	0
More than 5 years	0	2,851
Financial Assets – L&R	**0**	**2,851**

The development of impairment is described as follows:

in kEUR	Impairment on 01-01	Currency translation	Inflows in business year	Transfers Consolidation	Outflows in business year	Impairment on 12-31
2016						
Bonds	-258	0	-49	0	60	-247
Financial assets - L&R	**-258**	**0**	**-49**	**0**	**60**	**-247**
2017						
Bonds	-247	0	0	0	247	0
Financial assets - L&R	**-247**	**0**	**0**	**0**	**247**	**0**

With regard to impairments, which have been considered on a profit affecting basis in the result of financial investments, financial assets – L&R are categorised as follows:

in kEUR	2017	2016
Non-impaired L&R	0	1,501
Impaired L&R	0	1,597
Impairment L&R	0	-247
Loans & Receivables	**0**	**2,851**

Default risks of financial assets – L&R are evaluated in accordance with internal rating levels. L&R reserves are categorised as follows:

in kEUR	2017	2016
Top creditworthiness	0	2,851
Outstanding creditworthiness	0	0
Very good creditworthiness	0	0
Good creditworthiness	0	0
Medium creditworthiness	0	0
Weak creditworthiness	0	0
Very weak creditworthiness	0	0
Total	**0**	**2,851**

(64) Shares in Associated Companies

in kEUR	2017	2016
Shares in associated companies	**10,159**	**9,876**

Associated companies are accounted at equity. For details regarding the provisions for associated companies pursuant to IFRS 12.21 please see section VII.

(65) Investment Properties

Development of historical acquisition costs and comparison of accounting values

in kEUR	Acquisition value 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows and recategoris. assets AFS in business year	Acquisition value 12-31	Accounting value 12-31	Accounting value 01-01
2016								
Undeveloped real estate	6,469	0	0	-160	-1,585	4,724	3,566	5,196
Real estate/buildings rented out - land share	16,778	0	0	4,812	-3,517	18,073	14,399	15,627
Real estate/buildings rented out - building share	109,501	0	246	14,117	-25,742	98,122	55,621	67,562
Factory and office equipment rented out	422	0	45	19	-24	462	156	144
Facilities under construction	11	0	1	-12	0	0	0	11
Investment properties	**133,181**	**0**	**292**	**18,776**	**-30,868**	**121,381**	**73,742**	**88,540**
2017								
Undeveloped real estate	4,724	0	34	0	-80	4,678	3,600	3,566
Real estate/buildings rented out - land share	18,073	0	1,908	619	-2,823	17,777	16,096	14,399
Real estate/buildings rented out - building share	98,122	0	3,326	25,759	-11,246	115,961	67,854	55,621
Factory and office equipment rented out	462	0	43	447	-176	776	209	156
Facilities under construction	0	0	60	0	0	60	60	0
Investment properties	**121,381**	**0**	**5,371**	**26,825**	**-14,325**	**139,252**	**87,819**	**73,742**

Development of accumulated depreciation

in kEUR	Accumulated depreciation 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Accumulated depreciation 12-31
2016						
Undeveloped real estate	-1,273	0	0	115	0	**-1,158**
Real estate/buildings rented out - land share	-1,151	0	0	-2,523	0	**-3,674**
Real estate/buildings rented out - building share	-41,939	0	-2,608	-7,256	9,302	**-42,501**
Factory and office equipment rented out	-278	0	-39	-4	15	**-306**
Facilities under construction	0	0	0	0	0	**0**
Investment properties	**-44,641**	**0**	**-2,647**	**-9,668**	**9,317**	**-47,639**
2017						
Undeveloped real estate	-1,158	0	0	0	80	**-1,078**
Real estate/buildings rented out - land share	-3,674	0	0	0	1,993	**-1,681**
Real estate/buildings rented out - building share	-42,501	0	-2,473	-10,670	7,537	**-48,107**
Factory and office equipment rented out	-306	0	-59	-248	46	**-567**
Facilities under construction	0	0	0	0	0	**0**
Investment properties	**-47,639**	**0**	**-2,532**	**-10,918**	**9,656**	**-51,433**

Inflows in the fiscal year resulted from investments in parts of buildings rented out.

It was decided to provide factory and office equipment as ancillary service regarding investment properties. For that reason, these assets were also recorded hereunder.

No contractual obligations to purchase or establish investment properties and no fundamental obligations regarding repairing, maintenance and improvements were existent at the balance sheet date.

On 31 December 2017, fair value of investment properties accounted for kEUR 109,064 (2016: kEUR 80,553). Fair value was measured on the basis of internal fair market value assessments at the balance sheet date. In the context of evaluating fair value of real estate, the current utilisation represents the most efficient and best possible use. Within the corporate group, investment properties are evaluated at continuous acquisition costs. Fair value is calculated for the purpose of impairment tests and for preparing the notes, however, in case no impairment is required, fair value does not have any effect on the consolidated balance sheet or on the consolidated profit and loss account. Fair value of investment properties was classified as fair value level 3, based on inputs of the used evaluation method [see note (23)].

(66) Intangible Assets

Development of historical acquisition costs and comparison of accounting values

in kEUR	Acquisition value 01-01	Currency translation	Inflows in business year	Transfers consolid.	outflows in business year	Acquisition value 12-31	Accounting value 12-31	Accounting value 01-01
2016								
Client base	1,557	0	0	0	0	1,557	76	152
Software	15,942	0	1,307	0	-237	17,012	1,773	1,289
Intangible assets	**17,499**	**0**	**1,307**	**0**	**-237**	**18,569**	**1,849**	**1,441**
2017								
Client base	1,557	0	0	0	0	1,557	6	76
Software	17,012	0	1,115	0	-528	17,599	1,887	1,773
Intangible assets	**17,499**	**0**	**1,115**	**0**	**-528**	**19,156**	**1,893**	**1,849**

Development of accumulated depreciation

in kEUR	Accumulated depreciation 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Accumulated depreciation 12-31
2016						
Client base	-1,405	0	-76	0	0	**-1,481**
Software	-14,653	0	-799	0	213	**-15,239**
Intangible assets	**-16,058**	**0**	**-875**	**0**	**213**	**-16,720**
2017						
Client base	-1,481	0	-70	0	0	**-1,551**
Software	-15,239	0	-999	0	526	**-15,712**
Intangible assets	**-16,720**	**0**	**-1,069**	**0**	**526**	**-17,263**

Software inflows in the amount of kEUR 1,115 refer to various software solutions that were acquired in the expired business year – in particular by Hypo Tirol Bank AG.

No contractual obligations to purchase or establish intangible assets and no fundamental obligations regarding repairing, maintenance and improvements were existent at the balance sheet date.

(67) Tangible Assets

Development of historical acquisition costs and comparison of accounting values

in kEUR	Acquisition value 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Acquisition value 12-31	Accounting value 12-31	Accounting value 01-01
2016								
Undeveloped real estate	483	0	0	0	0	483	483	483
Developed real estate owner-occupied – land value	13,566	0	0	-2,195	-855	10,516	9,840	12,061
Developed real estate owner-occupied - building value	83,314	0	410	-6,591	-2,579	74,554	41,717	49,375
Factory and office equipment	39,063	0	1,032	350	-1,705	38,740	6,503	6,748
Facilities under construction	70	0	0	0	-70	0	0	70
Tangible assets	**136,496**	**0**	**1,442**	**-8,436**	**-5,209**	**124,293**	**58,543**	**68,737**
2017								
Undeveloped real estate	483	0	0	0	0	483	483	483
Developed real estate owner-occupied – land value	10,516	0	24	0	0	10,540	9,864	9,840
Developed real estate owner-occupied - building value	74,554	0	26	132	-9	74,703	40,151	41,717
Factory and office equipment	38,740	55	1,007	5	-1,418	38,389	6,227	6,503
Facilities under construction	0	0	0	0	0	0	0	0
Tangible assets	**124,293**	**55**	**1,057**	**137**	**-1,427**	**124,115**	**56,725**	**58,543**

Factory and office equipment inflows basically referred to current replacement capital investments of Hypo Tirol Bank AG.
No contractual obligations to purchase or establish tangible assets or fundamental obligations regarding repairing, maintenance and improvements were existent at the balance sheet date

Development of accumulated depreciation

in kEUR	Accumulated depreciation 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Accumulated depreciation 12-31
2016						
Developed real estate owner-occupied - land value	-1,505	0	0	725	104	**-676**
Developed real estate owner-occupied - building value	-33,939	0	-1,575	2,246	431	**-32,837**
Factory and office equipment	-32,315	0	-1,382	-218	1,678	**-32,237**
Facilities under construction	0	0	0	0	0	**0**
Tangible assets	**-67,759**	**0**	**-2,957**	**2,753**	**2,213**	**-65,750**
2017						
Developed real estate owner-occupied - land value	-676	0	0	0	0	**-676**
Developed real estate owner-occupied - building value	-32,837	0	-1,678	-37	0	**-34,552**
Factory and office equipment	-32,237	0	-1,314	0	1,389	**-32,162**
Facilities under construction	0	0	0	0	0	**0**
Tangible assets	**-65,750**	**0**	**-2,992**	**-37**	**1,389**	**-67,390**

(68) Other Assets

in kEUR	2017	2016
Assets held as collateral for non-performing loans	0	0
Tax receivables	1,187	1,671
Accruals and deferrals	84	94
Other	16,630	22,500
Other assets	**17,901**	**24,265**

Tax receivables basically comprised current consumer taxes and activated corporate tax pre-payments of Hypo Tirol Bank AG in the amount of kEUR 615 and for Hypo Tirol Mobilenleasing II GmbH in the amount of kEUR 501 for fiscal years that have not yet been assessed

In 2017, other assets included kEUR 6,689 (2016: kEUR 8,098) from offset accounts.

(69) Non-Current Assets, Disposal Groups and Liabilities in Disposal Groups Held for Sale

In 2017, assets and disposal groups held for sale accounted for a total of kEUR 15,480 (2016: kEUR 9,611).

Nun-current assets:
Non-current assets amounting to kEUR 15,480 comprised properties which were sold in the 2017 fiscal year. The corporate group stopped looking for purchasers. Impairment was not determined, neither at the time of reclassification to „held for Sale“ nor at the balance sheet date (31 December 2017). This is based on the management's assumption that fair value – based on latest market prices of similar properties in similar locations and current purchasing offers – less sales costs will be higher than the accounting value. The change in comparison to the previous year resulted from a portfolio change. Fair value is classified level 3 on the basis of inputs [see note (23)].

(70) Deferred Tax Assets and Obligations

in kEUR	2016	2016
Evaluation of receivables and liabilities clients covered by security at fair value and evaluation of risk provision	7,666	11,901
Evaluation of derivatives at fair value	34,523	47,554
Evaluation of financial assets – designated at fair value and AFS at fair value	17,492	17,136
Evaluation of financial assets – HTM and L&R according to effective interest method	0	0
Evaluation of shares in associated companies according to equity method	0	0
Application of evaluation method at first consolidation and application of different depreciation approaches for investment properties and tangible assets	852	977
Evaluation of liabilities evidenced by certificate and financial liabilities– designated at fair value	0	2,800
Evaluation of provisions	179	7
Defered tax assets concerning losses brought forward	9,121	8,136
Deferred tax assets	**69,833**	**88,511**
Evaluation of receivables and liabilities covered by securities clients at fair value and evaluation of risk provision	9,804	12,427
Evaluation of derivatives at fair value	25,452	48,430
Evaluation of financial assets – designated at fair value and financial assets – AFS at fair value	11,435	15,233
Evaluation of financial assets – HTM and L&R according to effective interest method	8	17
Evaluation of shares in associated companies according to equity method	0	0
Application of evaluation method at first consolidation and application of different depreciation approaches for investment properties and tangible assets	229	188
Evaluation of liabilities evidenced by certificate and financial liabilities– designated at fair value	13,122	4,901
Evaluation of provisions	0	880
Deferred tax obligations	**60,050**	**82,076**
Deferred tax assets and obligations, per balance	**9,783**	**6,435**

Subsequent to balancing, the results were entered into the balance sheet as follows:

in kEUR	2017	2016
Deferred tax assets	69,833	88,511
Balancing	-59,175	-80,670
Deferred tax assets per balance	**10,658**	**7,841**

in kEUR	2017	2016
Deferred tax obligations	60,050	82,076
Balancing	-59,175	-80,670
Deferred tax obligations per balance	**875**	**1,406**

in kEUR	2017	2016
Deferred tax assets	10,658	7,841
Deferred tax obligations	875	1,406
Deferred tax assets and obligations per balance	**9,783**	**6,435**

Deferred tax assets in the amount of kEUR 47,497 (2016: kEUR 44,144) were not activated. They can be brought forward for an indefinite period of time.

(71) Liabilities to Credit Institutions

Liabilities to credit institutions are assigned to the evaluation category „other liabilities" and are evaluated on the basis of continuous acquisitions costs.

Liabilities to credit institutions by business type

in kEUR	2017	2016
Interbank accounts	212,887	27,159
Money market businesses	684,474	123,355
Trustee liabilities	33,732	29,931
Other liabilities	625	1,582
Liabilities to credit institutions	**931,718**	**182,027**

Liabilities to credit institutions by region

in kEUR	2017	2016
Austria	**734,016**	**107,527**
Foreign countries	**197,702**	**74,500**
Germany	179,449	28,984
Italy	1	2
Other foreign countries (incl. CEE)	18,252	45,514
Liabilities to credit institutions	**931,718**	**182,027**

Liabilities to credit institutions by maturity

in kEUR	2017	2016
Maturity: daily	72,661	67,046
Up to 3 months	183,150	38,004
3 months to 1 year	417	62,122
1 year to 5 years	675,490	13,596
More than 5 years	0	1,259
Liabilities to credit institutions	**931,718**	**182,027**

(72) Liabilities to Clients

Liabilities to clients amounting to kEUR 49,151 (2016: kEUR 596,280) were assigned to the category "financial liabilities evaluated at fair value on a profit affecting basis". The remaining liabilities amounting to kEUR 3,138,297 (2016: kEUR 2,879,016) were assigned to "other liabilities".

Liabilities to clients by business type

in kEUR	2017	2016
Current account	1,987,306	1,770,429
Time deposits	215,361	751,488
Other deposits	66,300	60,808
Savings deposits	729,202	666,179
Fixed-term savings pass books	189,279	225,172
Liabilities to clients	**3,187,448**	**3,474,076**

Liabilities to clients by region

in kEUR	2017	2016
Austria	**3,007,543**	**2,822,356**
Foreign countries	**179,905**	**651,720**
Germany	87,191	510,550
Italy	43,063	67,189
Other foreign countries (incl. CEE)	49,651	73,981
Liabilities to clients	**3,187,448**	**3,474,076**

Liabilities to clients by maturity

in kEUR	2017	2016
Maturity: daily	2,135,791	1,843,194
Up to 3 months	413,113	666,329
3 months to 1 year	431,909	798,326
1 year to 5 years	98,877	80,694
More than 5 years	107,758	85,533
Liabilities to clients	**3,187,448**	**3,474,076**

Liabilities to clients by sector

in kEUR	2017	2016
Public sector	491,788	708,382
Corporate clients	1,215,602	1,424,563
Private households	1,335,072	1,240,745
Other	144,986	100,386
Liabilities to clients	**3,187,448**	**3,474,076**

(73) Liabilities Evidenced by Certificate

Liabilities evidenced by certificate are evaluated at continuous acquisition costs.

Liabilities evidenced by certificate by business type

in kEUR	2017	2016
Debentures	809,201	581,444
Communal debentures	307,928	309,647
Bonds	201,107	728,144
Housing bonds	3,887	14,758
Bonds in the debentures sector	0	0
Interest accrued	3,736	2,822
Liabilities evidenced by certificate	**1,325,859**	**1,636,815**

Development of liabilities evidenced by certificate

in kEUR	2017	2016
As at 01-01	1,636,815	1,112,690
New assumption	266,086	605,889
Redemption	-572,818	-87,761
Currency changes	0	0
Changes accrued interest	587	2,318
Changes from fair value hedge accounting	-4,811	3,679
Liabilities evidenced by certificate	**1,325,859**	**1,636,815**

Liabilities evidenced by certificate by maturity

in kEUR	2017	2016
Maturity: daily	331	334
Up to 3 months	5,512	76,100
3 months to 1 year	73,497	484,031
1 year to 5 years	945,045	1,005,312
More than 5 years	301,474	71,038
Liabilities evidenced by certificate	**1,325,859**	**1,636,815**

Due to the maturity structure of liabilities, the corporate group's liquidity will be secured for the forthcoming years.

(74) Negative Market Values from Derivative Hedging Instruments

Interest swaps are the only hedging instruments employed.

in kEUR	2017	2016
Negative market values from assigned effective fair value hedges	**4,727**	**7,344**

The maturity of all market values is more than one year.

For further details in relation to basic transactions please see note (58).

(75) Derivatives

in kEUR	2017	2016
Negative market values from derivative financial instruments	77,039	111,046
Interest accrued	14,170	18,538
Derivatives	**91,209**	**129,584**

Derivatives by maturity

in kEUR	2017	2016
Up to 3 months	4,313	6,150
3 months to 1 year	3,533	5,949
1 year to 5 years	34,569	50,681
More than 5 years	48,794	66,804
Derivatives	**91,209**	**129,584**

(76) Financial Liabilities – Designated at Fair Value

Financial liabilities – designated at fair value by business type

in kEUR	2017	2016
Debentures	243,624	249,760
Communal debentures	68,489	111,552
Cash obligations	0	0
Bonds	288,408	780,084
Housing bonds	167,355	195,930
Bonds in the debentures sector	0	15,293
Subordinate liabilities	19,416	44,247
Supplementary capital	834	15,676
Interest accrued	7,659	17,931
Financial liabilities - designated at fair value	**795,785**	**1,430,473**

The redemption amount of financial liabilities – designated at fair value accounted for kEUR 761,458 (2016, kEUR 1,368,549). Consequently, the difference between accounting value and redemption amount accounted for kEUR 34,327 (2016: kEUR 61,924)

Development of financial liabilities – designated at fair value

in kEUR	2017	2016
As at 01-01	1,430,473	1,911,791
New assumption	74,153	128,492
Redemption	-668,293	-598,076
Currency changes	0	2,910
Changes accrued interest	-10,271	-11,588
Changes of evaluation at fair value	-30,277	-3,056
Financial liabilities - designated at fair value	**795,785**	**1,430,473**

Financial liabilities – designated at fair value by maturity

in kEUR	2017	2016
Up to 3 months	25,496	266,006
3 months to 1 year	61,411	396,467
1 year to 5 years	415,306	455,362
More than 5 years	293,572	312,638
Financial liabilities - designated at fair value	**795,785**	**1,430,473**

(77) Provisions

in kEUR	2017	2016
Provision for severance payments	13,768	13,796
Pension provision	5,090	5,619
Length of service provision	2,014	2,086
Credit risk provision	3,616	12,539
Other provisions	9,541	12,734
Provisions	**34,029**	**46,774**

Credit risk provision includes provisions such as provisions for guarantees and liabilities and other obligations resulting from the granting of credits which are uncertain in terms of maturity and amount. Other provisions include other personnel provisions, legal costs, liabilities as well as other provisions (for detailed information see "other provisions")

Provisions for negative interest from the previous year (kEUR 10,376) were used or dissolved in compliance with the Supreme Court's decision of June 2017.

Development of provisions for pensions, severance and length-of-service

in kEUR	Severance provision	Pension provision	Length-of-service provision
2016			
As at 01-01	12,776	6,185	2,028
Service costs	488	0	122
Interest expenses	285	131	45
Transfers	0	0	0
Payments	-831	-619	-141
Actuarial profit/loss	1,078	-78	32
Actuarial profits and losses from changed demographic assumptions	0	0	0
Actuarial profits and losses from changed financial assumptions	1,078	-78	32
As at 12-31	**13,796**	**5,619**	**2,086**
2017			
As at 01-01	13,796	5,619	2,086
Service costs	510	0	122
Interest expenses	232	91	35
Transfers	0	0	-24
Payments	-673	-530	-98
Actuarial profit/loss	-97	-90	-107
Actuarial profits and losses from changed demographic assumptions	0	0	0
Actuarial profits and losses from changed financial assumptions	-97	-90	-107
As at 12-31	**13,768**	**5,090**	**2,014**

Development of changed demographic and financial assumptions included in actuarial profits and losses:

in kEUR	2017	2016	2015	2014	2013	2012
Severance provision	**13,768**	**13,796**	**12,776**	**13,625**	**11,589**	**11,505**
Actuarial profits/losses	-97	1,078	-70	1,902	91	1,023
Actuarial profits and losses from changed demographic assumptions	*0*	*0*	*0*	*0*	*0*	*0*
Actuarial profits and losses from changed financial assumptions	*-97*	*1,078*	*-70*	*1,902*	*91*	*1,023*
Pension provision	**5,090**	**5,619**	**6,185**	**6,913**	**6,163**	**6,643**
Actuarial profits/losses	-90	-78	-141	1,315	106	871
Actuarial profits and losses from changed demographic assumptions	*0*	*0*	*0*	*0*	*0*	*0*
Actuarial profits and losses from changed financial assumptions	*-90*	*-78*	*-141*	*1,315*	*106*	*871*
Length-of-service provision	**2,014**	**2,086**	**2,028**	**2,019**	**1,680**	**1,614**
Actuarial profits/losses	-107	32	-162	306	5	198
Actuarial profits and losses from changed demographic assumptions	*0*	*0*	*0*	*0*	*0*	*0*
Actuarial profits and losses from changed financial assumptions	*-107*	*32*	*-162*	*306*	*5*	*198*

Sensitivity analysis of severance provision

Sensitivity discount rate

2016	ACTUAL	+1 %	-1 %
Discount rate	1.70 %	2.70 %	0.70 %
Severance provision in k €	13,796	12,358	15,496
2017	**ACTUAL**	**+1 %**	**-1 %**
Discount rate	1.80 %	2.80 %	0.80 %
Severance provision in k €	13,768	12,421	15,351

Sensitivity salary valorisation

2016	ACTUAL	+1 %	-1 %
Salary valorisation	2.50 %	3.50 %	1.50 %
Severance provision in k €	13,796	15,464	12,356
2017	**ACTUAL**	**+1 %**	**-1 %**
Salary valorisation	2.50 %	3.50 %	1.50 %
Severance provision in k €	13,768	15,323	12,418

Sensitivity analysis of pension provision

Sensitivity discount rate

2016	ACTUAL	+1 %	-1 %
Discount rate	1.70 %	2.70 %	0.70 %
Pension provision in k €	5,619	5,200	6,112
2017	**ACTUAL**	**+1 %**	**-1 %**
Discount rate	1.80 %	2.80 %	0.80 %
Pension provision in k €	5,090	4,699	5,552

Sensitivity pension valorisation

2016	ACTUAL	+1 %	-1 %
Pension valorisation	1.50 %	2.50 %	0.50 %
Pension provision in k €	5,619	6,108	5,195
2017	**ACTUAL**	**+1 %**	**-1 %**
Pension valorisation	1.50 %	2.50 %	0.50 %
Pension provision in k €	5,090	5,549	4,694

The sensitivity analysis illustrates – in case the actuarial assumptions of the discount rate and the salary and pension valorisations are subject to distortions (+/- 1.0%) – that the assignment of the balanced personnel and severance provisions was either too high or too low.

Other provisions

in kEUR	2017	2016
Other personnel provisions	3,594	4,901
Provisions for legal costs	1,074	2,585
Liability provisions	541	463
Remaining other provisions	4,332	4,785
Other provisions	**9,541**	**12,734**

Other personnel provisions:

Other personnel provisions included, among others, provisions for occupational disability and survivorship annuity in the amount of kEUR 112 (2016: kEUR 153).

Development of provisions

in kEUR	As at 01-01	Currency translation	Inflows	Deployment	Outflows	Other changes	As at 12-31
2016							
Severance provision	12,776	0	772	-841	0	1,089	13,796
Pension provision	6,185	0	131	-619	0	-78	5,619
Length-of-service provision	2,029	0	166	-141	0	32	2,086
Credit risk provision	8,201	0	7,925	-2,178	0	-1,409	12,539
Other provisions	30,766	0	14,839	-15,611	-18,315	1,055	12,734
Provisions	**59,957**	**0**	**23,833**	**-19,390**	**-18,315**	**689**	**46,774**
2017							
Severance provision	13,796	0	742	-673	-1	-96	13,768
Pension provision	5,619	0	91	-530	0	-90	5,090
Length-of-service provision	2,087	0	132	-98	0	-107	2,014
Credit risk provision	12,539	0	3,402	-8,068	0	-4,155	3,718
Other provisions	12,733	0	10,891	-12,790	-5,636	4,241	9,439
Provisions	**46,774**	**0**	**15,258**	**-22,159**	**-5,637**	**-207**	**34,029**

The amounts illustrated in „other changes“ primarily resulted from actuarial profits/losses as they are disclosed in the table “development of provisions for pensions, severance payments and length of service payments”.

Maturity-structure of provisions

in kEUR	Up to 1 year	More than 1 year
2016		
Severance provision	0	13,796
Pension provision	0	5,619
Length-of-service provision	0	2,086
Credit risk provision	11,091	1,448
Other provisions	9,203	3,531
Provisions	**20,294**	**26,480**
2017		
Severance provision	0	13,768
Pension provision	0	5,090
Length-of-service provision	0	2,014
Credit risk provision	2,527	1,089
Other provisions	6,175	3,366
Provisions	**8,702**	**25,327**

(78) Other Liabilities

in kEUR	2017	2016
Deliveries and services	62,946	70,861
Other liabilities	1,252	1,252
Accruals and deferrals	566	568
Other liabilities	**64,856**	**72,696**

The amount of kEUR 1,031 included in “other liabilities” refers to liabilities against employees of Hypo Tirol Bank AG.

(79) Current Income Tax Obligations

Current income tax obligations basically refer to obligations resulting from corporate taxes which have not yet been paid.

(80) Subordinate and Supplementary Capital

Subordinate and supplementary capital by business type

in kEUR	2017	2016
Subordinate capital	58,433	83,267
Supplementary capital	16,463	19,549
Interest accrued	819	328
Subordinate and supplementary capital by business type	**75,715**	**103,144**

Development of subordinate and supplementary capital

in kEUR	2017	2016
As at 01-01	103,144	102,670
New assumption	20,602	2,298
Redemption	-48,522	-1,892
Changes accrued interest	491	68
Subordinate and supplementary capital	**75,715**	**103,144**

Subordinate and supplementary capital by maturity

in kEUR	2017	2016
Up to 3 months	16,306	0
3 months to 1 year	0	48,087
1 year to 5 years	6,343	22,649
More than 5 years	53,066	32,408
Subordinate and supplementary capital	**75,715**	**103,144**

(81) Equity

in kEUR	2017	2016
Subscribed capital	50,000	50,000
Capital reserves	311,233	311,233
Tied-up capital reserves thereof	150,033	150,033
Capital reserves not tied-up	161,200	161,200
AFS reserves after taxation	12,990	13,104
Actuarial profits/losses after taxation	-4,432	-4,572
Credit risk induced fair value change own liabilities	13,749	23,831
Revenue reserves, corporate group profit/loss	160,865	151,854
Equity	**544,405**	**545,450**

The Illustration of equity was adjusted on a retrospective basis. Consequently, each item of “other income” was reported separately rather than under item ““new evaluation reserves incl. AFS reserves” (see details section IV “equity changes”)

Capital reserves
The designated capital reserves resulted from the transformation of Hypo Bank Tirol into a public limited company and from a subsidy made by the owner, the Province of the Tyrol, in the amount of EUR 220 million.

Revenue reserves
Revenue reserves are divided into legal reserves (KEUR 5,000) and other reserves deriving from the consolidated net profit. Furthermore, the difference from capital consolidation and effects of first application is recorded in revenue reserves.

Additional IFRS Information

(82) Fair Value

Fair Value of selected balance sheet items

The following chart compares accounting value and fair value of single balance sheet items:

ASSETS	Acc. value	Fair Value	Acc. value	Fair Value
in kEUR	**31.12,2017**	**31.12,2017**	**31.12,2016**	**31.12,2016**
Cash reserve	42,659	42,659	277,660	277,660
Receivables from credit institutions after risk provision	108,986	109,387	207,102	205,822
Receivables from clients after risk provision				
at fair value	280,700	280,700	377,989	377,989
at acquisition costs	5,065,523	5,071,395	4,835,605	4,729,320
Positive market values from derivative hedging instruments	11,446	11,446	10,864	10,864
Trading assets and derivatives	70,413	70,413	152,991	152,991
Financial assets – designated at fair value	432,525	432,525	734,054	734,054
Financial assets – AFS				
at fair value	819,361	819,361	750,817	750,817
Financial assets – HTM	19,888	21,161	35,335	36,496
Financial assets – L&R	0	0	2,851	2,817
Investment properties	87,819	109,064	73,742	80,553

LIABILITIES	Acc. value	Fair Value	Acc. value	Fair Value
in kEUR	**31.12,2017**	**31.12,2017**	**31.12,2016**	**31.12,2016**
Liabilities to credit institutions				
at fair value	10,465	10,465	31,220	31,220
at acquisition costs	921,253	920,669	150,807	147,195
Liabilities to clients				
at fair value	49,616	49,616	565,060	565,060
at acquisition costs	3,137,832	3,165,562	2,909,016	2,961,450
Liabilities evidenced by certificate	1,325,859	1,337,565	1,636,815	1,640,794
Negative market values from derivative hedging instruments	4,727	4,727	7,344	7,344
Derivatives	91,209	91,209	129,584	129,584
Financial liabilities – designated at fair value	795,785	795,785	1,430,473	1,430,473
Subordinate and Supplementary Capital	75,715	77,864	103,144	99,287

Fair value of investment properties is based on annually adapted evaluations carried out by an internal and legally certified real estate expert. With regard to other assets and liabilities, the accounting value represents an appropriate approximation for fair value. Therefore, fair value was not explained in detail.

As far as financial assets and liabilities are concerned, fair value has been measured in accordance with note (6). In summary it can be stated that that with regard to evaluation methods based on market data (level 2) fair value is evaluated by using the discounted-cash flow method, and as far as financial instrument with optional components are concerned, the Black/Scholes model is applied, with inputs being based on market data.

In the 2017, evaluation methods not based on market data (level 3) were employed to evaluate receivables – designated at fair value by using the discounted-cash flow method. Future payments, deriving from the underlying nominal value, were based on the current market interest curve and were discounted by means of a risk adequate interest rate. Risk adequate interest charges derived from the corporate group's internal risk assessment and were assigned to different rating classes. Thus, the internal rating in terms of creditworthiness can be described as a significant, non-observable initial parameter. The better the rating, the lower the corresponding discount rate and the higher fair value is. This effect is illustrated in the sensitivity analysis.

Fair Value of financial instruments

As far as financial assets – AFS are concerned, the following table illustrates a total amount of kEUR 819,361 (2016: kEUR 750,816), whereas the sum in the corresponding balance sheet item amounts to kEUR 824,835 (2016: kEUR 811,944). This difference results from the fact that equity instruments, which are not listed in stock markets, are included in the AFS portfolio. Consequently, the fair value of such equity instruments cannot be evaluated on a reliable basis. In accordance with IAS 39, these equity instruments are evaluated at acquisition costs in consideration of possible impairment losses if impairment indicators [see note (12)] are existent. In accordance with IFRS 7.29, no further information regarding fair value is required for equity instruments that are not listed in a stock market (within the corporate group such instruments are other participating interests and shares in associated companies). The development of accounting values of such equity instruments is illustrated under note (61). At the evaluation date there was no disposal intention.

The fair value of the remaining financial assets and financial liabilities is illustrated in the following chart and assigned to the three categories pursuant to IRFS fair value hierarchy [see note (6)].

2017

in kEUR	Prices quoted in active markets (level 1)	Evaluation method based on market data (level 2)	Evaluation method not based on market data (level 3)	Total
ASSETS 2017 **Financial assets evaluated on a fair value basis**				
Receivables from clients - designated at fair value			280,700	280,700
Hedging instruments with positive market value		11,446		11,446
Trading assets and derivatives	299	70,114		70,413
Financial assets - designated at fair value	431,250	1,275		432,525
Financial assets - AFS	791,428	27,933		819,361
Total financial assets evaluated on a fair value basis	**1,222,977**	**110,768**	**280,700**	**1,614,445**
LIABILITIES 2017 **Financial liabilities evaluated on a fair level basis**				
Liabilities to credit institutions - designated at fair value		10,465		10,465
Liabilities to clients – designated at fair value		49,616		49,616
Hedging instruments with negative market value		4,727		4,727
Derivatives		91,209		91,209
Financial liabilities - designated at fair value	81,212	714,573		795,785
Total financial liabilities evaluated on a fair value basis	**81,212**	**870,590**		**951,802**

2016

in kEUR	Prices quoted in active markets (level 1)	Evaluation method based on market data (level 2)	Evaluation method not based on market data (level 3)	Total
ASSETS 2016 **Financial assets evaluated on a fair value basis**				
Receivables from clients - designated at fair value			377,989	377,989
Hedging instruments with positive market value		10,864		10,864
Trading assets and derivatives	248	152,743		152,991
Financial assets - designated at fair value	731,521	2,533		734,054
Financial assets - AFS	729,683	21,133		750,816
Total financial assets evaluated on a fair value basis	**1,461,452**	**187,273**	**377,989**	**2,026,714**
LIABILITIES 2016 **Financial liabilities evaluated on a fair level basis**				
Liabilities to credit institutions - designated at fair value		31,220		31,220
Liabilities to clients – designated at fair value		565,060		565,060
Hedging instruments with negative market value		7,344		7,344
Derivatives		129,584		129,584
Financial liabilities - designated at fair value	91,459	1,339,014		1,430,473
Total financial liabilities evaluated on a fair value basis	**91,459**	**2,072,222**		**2,163,681**

Transfer of financial instruments to level 3

2017 in kEUR	Receivables from clients designated at fair value	Total
Amount at the beginning of the period	**377,989**	**377,989**
Total profits/losses	-8,078	-8,078
- recorded in the profit and loss account	-8,078	-8,078
- recorded in other income	0	0
Purchases	4,107	4,107
Sales	-93,318	-93,318
Issues	0	0
Adjustments	0	0
Reclassification to level 3	0	0
Reclassification from level 3	0	0
Amount at the end of the period	**280,700**	**280,700**

2016 in kEUR	Receivables from clients designated at fair value	Total
Amount at the beginning of the period	**427,745**	**427,745**
Total profits/losses	-9,049	-9,049
- recorded in the profit and loss account	-9,049	-9,049
- recorded in other income	0	0
Purchases	31,428	31,428
Sales	-72,135	-72,135
Issues	0	0
Adjustments	0	0
Reclassification to level 3	0	0
Reclassification from level 3	0	0
Amount at the end of the period	**377,989**	**377,989**

At the balance sheet date, the column “profits/losses” included unrealised results in the amount kEUR -8,078. The result is composed of unrealised profits in the amount of kEUR 0 and unrealised losses in the amount of kEUR -8,078.

Sensitivity analysis of non-observable parameters

In the event that the value of a financial asset is based on non-observable initial parameters, the value of these parameters at the balance sheet date can be chosen from a wide range of appropriate possible alternatives. In the context of preparing the consolidated financial statement, appropriate values were chosen for such non-observable parameters, which correspond to the current market conditions and the corporate group’s internal risk assessment.

The present data should illustrate possible effects, which result from relative uncertainties in the context of determining fair value of financial instruments, which are evaluated on the basis of non-observable parameters. Nevertheless, it is unlikely that all non-observable parameters are at the extreme end of their range of appropriate possible alternatives at the same time. Moreover, the present data shall not be regarded as a forecast or as indicators for future changes of fair value.

Since the rating process is founded on subjective estimations, the corporate group points out the sensitivity of such evaluation parameters. Modifying the rating degree leads to adjustments of risk adequate interest charges and consequently to a changed discount rate, which has substantial influence on the evaluation of fair value. Sensitivity is illustrated within a positive and negative range by reclassification of rating upwards and downwards. Reclassification of rating is simulated by positive or negative adjustment of the factors regarding the valid risk adequate interest sur by charge. Hypo Tirol Bank AG classifies all receivables from clients into rating levels ranging from 1A to 5E. All rating level 5 receivables from clients are defaulted receivables. In the context of calculating fair values, the possibilities of default, which affect the risk surcharge of the discount rate, range from 0.01% of level 1A to 20.50% of level 4E. Beginning with level 5A a 100% possibility of default is taken into account.

Reclassification of ratings is simulated by adjusting the risk adequate interest surcharge by factor 1.5 upwards and downwards. The factor corresponds to the adjustment of possibility defaults regarding rating adjustment by one rating level.

in kEUR	Positive change of fair value by using appropriate possible alternatives	Negative change of fair value by using appropriate possible alternatives
Receivables from clients designated at fair value	1,638	-2,280
Total	**1,638**	**-2,280**

Credit risk induced changes of fair value

With regard to financial assets and liabilities that are voluntarily evaluated on a fair value basis, the change of creditworthiness results in the following profits and losses.

Credit risk induced fair value change of financial assets for the period amounted to kEUR 4,343 (2016: kEUR 506). The amount is illustrated in the trading result. Since designation, the accumulated credit risk induced change has accounted for kEUR -5,156 (2016: kEUR -9,499).

Credit risk induced change is determined by using the differential calculation procedure. In this context, fair value change caused by market risk is deducted from the total fair value change on the basis of model calculations.

Fair value of financial instruments not designated at fair value

The evaluation criteria in order to measure the fair value of the corporate group’s financial instruments not designated at fair value correspond to those described in note (6) “fair value”.

Financial instruments not designated at fair value are not controlled on a fair value basis. This applies to receivables from or liabilities to credit institution as well as to receivables HTM. Fair value for such instruments is only calculated for the purpose of preparing the notes and has no influence on the corporate group’s balance sheet or on the corporate group’s profit and loss account. In addition, substantial estimates made by the management are required to determine fair value, because such instruments cannot be traded.

2017

in kEUR	Accounting value	Fair value: Prices quoted in active markets (level 1)	Fair value: Evaluation method based on market data (level 2)	Fair value: Evaluation method not based on market data (level 3)	Total
ASSETS 2017 **Financial assets not evaluated on a fair value basis**					
Cash reserve	42,659	42,659	0	0	42,659
Receivables from credit institutions after risk provision	108,986	0	0	109,387	109,387
Receivables from clients after risk provision	5,065,524	0	0	5,071,395	5,071,395
Financial assets - HTM	19,888	21,161	0	0	21,161
Financial assets - L&R	0	0	0	0	0
LIABILITIES 2017 **Financial assets not evaluated on a fair value basis**					
Liabilities to credit institutions	921,253	0	920,669	0	920,669
Liabilities to clients	3,137,832	0	3,106,916	58,646	3,165,562
Liabilities evidenced by certificate	1,325,859	953,188	384,377	0	1,337,565
Subordinate and supplementary capital	75,715	0	77,864	0	77,864

2016

in kEUR					
ASSETS 2016 **Financial assets not evaluated on a fair value basis**					
Cash reserve	277,660	277,660	0	0	277,660
Receivables from credit institutions after risk provision	207,102	0	0	205,822	205,822
Receivables from resolution unit of former credit institution after risk provision	0	0	0	0	0
Receivables from clients after risk provision	4,835,605	0	0	4,729,320	4,729,320
Financial assets - HTM	35,335	36,496	0	0	36,496
Financial assets - L&R	2,851	0	2,817	0	2,817
LIABILITIES 2016 **Financial assets not evaluated on a fair value basis**					
Liabilities to credit institutions	150,807	0	147,195	0	147,195
Liabilities to clients	2,909,016	0	2,904,327	57,123	2,961,450
Liabilities evidenced by certificate	1,636,815	721,682	919,112	0	1,640,794
Subordinate and supplementary capital	103,144	0	99,287	0	99,287

(83) Maximum Default Risk

Maximum default risk is illustrated by specifying the accounting value of financial assets after consideration of allowance:

2017

in kEUR	Loans and receivables	Debt capital instruments of the category trading assets, financial assets and derivatives	Equity capital instruments of the category trading assets and financial assets	Accounting value
Receivables from credit institutions	**108,986**	**0**	**0**	**108,986**
Receivables from clients	**5,346,223**	**0**	**0**	**5,346,223**
– at cost	5,065,523	0	0	5,065,523
– at fair value	280,700	0	0	280,700
Hedging instruments	**0**	**11,446**	**0**	**11,446**
Trading assets	**0**	**70,114**	**299**	**70,413**
– for trading purposes	0	0	299	299
– derivatives	0	70,114	0	70,114
Financial assets	**0**	**1,208,772**	**68,478**	**1,277,248**
– designated at fair value	0	432,525	0	432,525
– AFS	0	756,359	68,478	824,835
– HTM	0	19,888	0	19,888
– Loans & Receivables	0	0	0	0

2016

in kEUR	Loans and receivables	Debt capital instruments of the category trading assets, financial assets and derivatives	Equity capital instruments of the category trading assets and financial assets	Accounting value
Receivables from credit institutions	**207,102**	**0**	**0**	**207,102**
Receivables from resolution unit former credit institution	**0**	**0**	**0**	**0**
Receivables from clients	**5,213,594**	**0**	**0**	**5,213,594**
– at cost	4,835,605	0	0	4,835,605
– at fair value	377,989	0	0	377,989
Hedging instruments	**0**	**10,864**	**0**	**10,864**
Trading assets	**0**	**152,743**	**248**	**152,991**
– for trading purposes	0	0	248	248
– derivatives	0	152,743	0	152,743
Financial assets	**0**	**1,491,548**	**92,687**	**1,584,234**
– designated at fair value	0	734,054	0	734,054
– AFS	0	719,308	92,687	811,994
– HTM	0	35,335	0	35,335
– Loans & Receivables	0	2,851	0	2,851

At the balance sheet date, the maximum default risk from loan commitments and financial guarantees amounted to kEUR 946,886 (2016: kEUR 895,322).

Risks are reduced, especially by demanding collateral, mainly by way of mortgages, guarantees and other assets.

Creditable collateral – evaluated in accordance with supervisory standards - reduce default risk to the following extent:

in kEUR	2017	2016
Receivables from clients	3,261,580	3,367,725
– at cost	3,261,580	3,367,725
Derivatives	21,240	55,230

(84) Specifications Regarding the Balancing of Derivative Financial Instruments

According to IFRS 7 the effects of balancing derivative financial instruments with netting agreements are illustrated as follows. The corporate group points out that agreements were established with all contracting parties with whom derivative financial instruments were concluded and that no balancing prohibition was agreed. At the evaluation date, balanced assets amounted to kEUR 38,861 (2016: kEUR 65,960), the remaining liabilities after balancing amounted to kEUR 55,735 (2016: kEUR 57,849).

Balancing derivative financial instruments – assets/liabilities 2017

2017	Financial assets (gross)	Added balanced amounts (gross)	Balanced financial assets (net)	Effects from netting agreements	Collateral in form of financial instruments	Net amount
in kEUR				**nicht saldiert**		
Assets						
Derivative financial instruments	63,467	0	63,467	-24,606	-32,284	**6,577**
Liabilities						
Derivative financial instruments	80,341	0	80,341	-24,606	-47,960	**7,775**
2016						
Assets						
Derivative financial instruments	123,042	0	123,042	-57,082	-55,224	**10,736**
Liabilities						
Derivative financial instruments	114,931	0	114,931	-57,082	-40,420	**17,429**

The liabilities regarding derivative financial instruments as illustrated above are composed of the balance sheet items “negative market values from derivative financial instruments” and “negative market values from derivative hedging instruments”.

(85) Specifications Regarding Associated Individuals and Companies

Associated individuals and companies include the following categories of individuals and companies:

- The Managing Board and the Supervisory Board of Hypo Tirol Bank AG and their immediate families
- Directors of consolidated subsidiaries and their immediate families
- Legal representatives and members of the supervisory boards of the main shareholders
- Subsidiaries and other companies, in which Hypo Tirol Bank AG holds participating interest,
- The Province of the Tyrol, respectively the "Landes-Hypothekenbank Tirol Anteilsverwaltung

The liability of the Province of the Tyrol ceased in 2017, Until the expiry, the Province of the Tyrol had received an annual liability commission amounting to kEUR 727 which was recorded in commission expenses.

Hypo Tirol Bank AG acts as a service provider on behalf of the Province of the Tyrol and manages the residential construction support loans. In addition, the company provides financial services for the Province of the Tyrol at terms customary in the market. Due to technical reasons, the amounts resulting from such transactions cannot be recorded separately, and it is impossible to obtain the respective information within reasonable time or at reasonable expense. For that reason, the illustration of the respective amounts is omitted.

Advances and loans to directors, managers of companies included in the scope of consolidation and supervisory boards amounted to kEUR 621 (2016: kEUR 544) at the balance sheet date. This change entirely refers to additional payments in connection with a new credit, redemptions, interest charges and exchange rate fluctuations of existing credits.

Within the corporate group, the Managing Board members of the parent company are defined as management members with key positions. The active remuneration of the Managing Board of the parent company amounted to kEUR 837 (2016: kEUR 792). Severance payments for active Managing Board members amounted to kEUR 464. The active remunerations entirely refer to the current remunerations and thus, are classified as short term due service expenses. Managing Board members are not entitled to other categories of remuneration in accordance with IAS 24.17.

In the reporting year, the bank's pension-scheme expenses for former Managing Board members and their survivors, less payments in accordance with the General Social Insurance ACT amounted to kEUR 335 (2016: kEUR 166).

The remunerations for Supervisory Board members in the 2017 fiscal year amounted to kEUR 108 (2016: kEUR 84).

Business relations with fully consolidated companies have been eliminated in the course of debt consolidation, and thus have not been disclosed under "transactions with associated companies". The amounts illustrated in "participating interest" refer to business relations with associated companies. Information contained in the table regarding "related parties" entirely refers to the owner, the Province of the Tyrol. Customary bank transactions concluded with companies being influenced by the Province are only contained in "receivables from clients" to an insubstantial extent.
Outstanding balances and the volume of business relations with associated companies in the past fiscal year are illustrated in the following charts.

Receivables from clients

	Associated companies		Participating interest		Related Parties	
in kEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
As at 01-01	1,386	1,333	38,428	57,494	157,524	204,246
Credits granted during the year	0	0	0	0	77,000	0
Redemptions regarding receivables from credit transactions	0	0	-8,403	-15,629	-28,597	-19,547
Balance: redemptions, interest charges and exchange rate fluctuations of current credits	2	53	53	-3,437	0	-27,175
As at 12-31	**1,388**	**1,386**	**30,078**	**38,428**	**205,927**	**157,524**
Other credit risk transactions						
Assumptions of liability	0	0	0	0	0	0

For outstanding balances with associated individuals as at 31 December 2017 collateral in the amount of kEUR 205,927 (2016: kEUR 157,524) was available. Advances were not granted

Financial assets – designated at Fair Value

	Related Parties	
in kEUR	**2017**	**2016**
As at 01-01	2,529	3,765
Redemptions	-1,290	-1,236
As at 12-31	**1,239**	**2,529**

Liabilities to clients	Associated companies		Participating interest		Related Parties	
in kEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
As at 01-01	2,984	2,529	6,791	12,489	271,041	365,607
New assumptions	0	0	0	0	3,000	11,339
Redemptions	-2,325	-181	-4,019	-7,620	-24,999	-119,406
Balance: redemptions, interest charges and exchange rate fluctuations of current liabilities	111	636	844	1,922	16,026	13,501
As at 12-31	**770**	**2,984**	**3,616**	**6,791**	**265,068**	**271,041**

Allowances for doubtful receivables from associated companies and individuals were not formed. Furthermore, in the fiscal year no expenses for doubtful or non-performing receivables from associated companies or individuals were recorded.

(86) Assets Received as Collateral

in kEUR	**2017**	**2016**
Actuarial reserve funds for debentures and communal debt securities	3,055,074	2,885,168
Financial assets	264,651	120,623
Assets received as collateral	**3,319,725**	**3,005,791**

Assets received as collateral are actuarial reserve funds for debentures and communal debt securities and ward money. The requirements regarding these assets as collateral must be defined in a manner which complies with the legal regulations regarding the Banking Act and the Debenture Act (Pfandbriefgesetz).

(87) Segmental Report

The corporate group's segmental report established by Hypo Tirol Bank AG is composed of the following criteria:

Private clients in the Tyrol
This segment comprises the results from transactions in the sectors private clients and private banking and liberal professions in the Tyrolean core market. In addition, it includes results from customer relations with corporate and public-sector clients, provided that the service is performed by the branch office staff.

Corporate and key account clients in the Tyrol
This segment illustrates the results from businesses with corporate and key account clients in the Tyrolean core market as well as the results from the financing portfolio in Germany, which is to be reduced. Furthermore, this segment includes the sector insurance business and business relations with public sector clients.

Vienna
This segment comprises results from business activities in the additional market of Vienna and covers all branch segments.

Italy
This segment illustrates the results from business activities in Italy including leasing transactions.

Treasury
This segment includes financial assets, trading assets and liabilities, derivatives and issue businesses. In addition, it covers business relations with institutional clients and fund management operations. As far as the fiscal year 2017 is concerned, the results from financial assets included impairment amounting to kEUR 90 (2016: kEUR 277). For detailed information regarding the geographical composition of the securities portfolio please see note (92).

Leasing and Real Estate
All subsidiaries acting in the leasing sector are described in this segment. Furthermore, activities in the field of real estate and participating interest management are presented, as well as results from associated companies, which are balanced according to the equity method. The balance sheet items "long-term assets and disposal groups, held for sale" accounting for kEUR 15,480 (2016: kEUR 9,611) is entirely recorded in the segment of leasing and real estate.

Corporate Centre
This segment illustrates income and expenses that cannot be classified elsewhere as well as consolidation items for eliminating the corporate group's internal profits and expenses. Internal support unit expenses are assigned to the profit generating segments via appropriate distribution keys.

Administration expenses included depreciation on owner-occupied assets in the amount of kEUR 794 (2016 kEUR 795). Tax on income and profit in 2017 amounted to kEUR -2,051 (2016: kEUR -2,871).

In compliance with the management approach, the disclosed segments correspond to the business sectors in accordance with the internal profit and loss account.

Trading result, result from hedging instruments and result from financial instruments – designated at fair value through profit or loss are illustrated separately in the consolidated profit and loss account. In the segmental report these items are all illustrated in the item “trading result”.

Report by business type 2017

in kEUR	Private clients Tyrol	Corporate key account Tyrol	Vienna	Italy	Treasury	Leasing and real estate	Corporate centre	Total segments
Net interest income	22,657	28,481	6,365	5,710	4,005	9,078	246	**76,542**
Credit risk provision	-872	4,489	688	-14,855	0	-103	0	**-10,653**
Net commission income	16,122	7,811	1,952	1,181	320	-581	-438	**26,367**
Trading result	0	0	0	179	6,993	0	0	**7,172**
Result from other financial instruments	0	0	0	0	1,551	-4,210	-142	**-2,801**
Result from associated companies	0	0	0	0	0	427	0	**427**
Administration expenses	-36,439	-13,891	-3,696	-10,339	-6,285	-3,654	1,631	**-72,673**
Other income	2,086	32	0	2,967	0	11,439	1,403	**17,927**
Other expenses	-276	-185	0	-3,600	0	-9,586	-6,646	**-20,293**
Result before tax	**3,278**	**26,737**	**5,309**	**-18,757**	**6,584**	**2,810**	**-3,946**	**22,015**
Segmental assets	1,460,560	2,635,684	410,921	469,348	1,446,142	513,956	120,999	**7,057,610**
Segmental debts and segmental equity	1,697,902	1,167,021	197,419	105,140	3,645,549	128,412	116,167	**7,057,610**
Risk-adjusted assets	754,852	1,557,969	236,072	424,587	188,352	330,502	84,805	**3,577,139**

2016 in kEUR	Private clients Tyrol	Corporate key account Tyrol	Vienna	Italy	Treasury	Leasing and real estate	Corporate centre	Total segments
Net interest income	27,564	30,110	5,917	5,496	1,319	12,680	2,473	**85,559**
Credit risk provision	-2,750	5,451	-561	-14,723	0	175	31,133	**18,725**
Net commission income	16,393	7,600	1,791	1,561	91	-623	-475	**26,338**
Trading result	0	0	0	509	-776	0	0	**-267**
Result from other financial instruments	0	0	0	0	2,994	-2,218	-130	**646**
Result from associated companies	0	0	0	0	0	238	0	**238**
Administration expenses	-36,865	-14,926	-3,652	-11,948	-8,594	-3,627	5,571	**-74,041**
Other income	2,104	601	0	5,016	641	13,252	321	**21,935**
Other expenses	-277	-630	0	-5,327	0	-11,054	-23,583	**-40,871**
Result before tax	**6,169**	**28,206**	**3,495**	**-19,416**	**-4,325**	**8,823**	**15,310**	**38,262**
Segmental assets	1,604,249	2,460,614	350,584	571,641	1,989,341	450,915	204,828	**7,632,172**
Segmental debts and equity	1,602,015	1,092,400	164,594	135,906	4,328,420	99,888	208,949	**7,632,172**
Risk-adjusted assets	757,937	1,446,921	205,621	526,154	278,089	335,547	134,786	**3,685,055**

Report by region

The regional report represents voluntarily provided additional information; it does not refer to operating segments in accordance with IFRS 8.

2017

in kEUR	Austria	Italy	Corporate centre	Total segments
Net interest income	70,586	5,710	246	**76,542**
Credit risk provision	4,202	-14,855	0	**-10,653**
Net commission income	25,623	1,181	-437	**26,367**
Trading result	6,993	179	0	**7,172**
Result from other financial instruments	-2,659	0	-142	**-2,801**
Result from associated companies	427	0	0	**427**
Administration expenses	-63,965	-10,339	1,631	**-72,673**
Other income	13,557	2,967	1,403	**17,927**
Other expenses	-10,048	-3,600	-6,645	**-20,293**
Result before tax	**44,716**	**-18,757**	**-3,944**	**22,015**

2016

in kEUR	Austria	Italy	Corporate centre	Total segments
Net interest income	77,590	5,496	2,473	**85,559**
Credit risk provision	2,315	-14,723	31,133	**18,725**
Net commission income	25,252	1,561	-475	**26,338**
Trading result	-776	509	0	**-267**
Result from other financial instruments	776	0	-130	**646**
Result from associated companies	238	0	0	**238**
Administration expenses	-67,664	-11,948	5,571	**-74,041**
Other income	16,598	5,016	321	**21,935**
Other expenses	-11,961	-5,327	-23,583	**-40,871**
Result before tax	**42,368**	**-19,416**	**15,310**	**38,262**

(88) Foreign Currency Volume and Foreign Countries Involved

in kEUR	EUR	USD	CHF	JPY	Other	Total
Assets 2017						
Cash reserves	39,775	247	2,300	18	319	42,659
Receivables from credit institutions	64,731	6,005	27,720	6,089	4,441	108,986
Risk provision for receivables from credit institution	0	0	0	0	0	0
Receivables from clients	5,172,134	68	289,563	24,231	0	5,485,996
Risk provision for receivables from clients	-139,098	0	-669	-6	0	-139,773
Positive market values from derivative hedging instruments	11,446	0	0	0	0	11,446
Trading assets and derivatives	55,480	1,490	13,198	245	0	70,413
Financial assets						
– designated at fair value	432,525	0	0	0	0	432,525
– AFS	821,895	2,293	283	107	257	824,835
– HTM	19,888	0	0	0	0	19,888
– L&R	0	0	0	0	0	0
Shares in associated companies	10,159	0	0	0	0	10,159
Investment properties	87,819	0	0	0	0	87,819
Intangible assets	1,893	0	0	0	0	1,893
Tangible assets	56,725	0	0	0	0	56,725
Other assets	17,901	0	0	0	0	17,901
Non-current assets and disposal groups held for sale	15,480	0	0	0	0	15,480
Deferred tax assets	10,658	0	0	0	0	10,658
Total assets	**6,679,411**	**10,103**	**332,395**	**30,684**	**5,017**	**7,057,610**
Liabilities and equity 2017						
Liabilities to credit institutions	927,016	2,780	320	686	916	931,718
Liabilities to clients	3,168,746	11,628	3,239	0	3,835	3,187,448
Liabilities evidenced by certificate	1,325,859	0	0	0	0	1,325,859
Negative market values from derivative hedging instruments	4,727	0	0	0	0	4,727
Derivatives	87,455	1,313	2,441	0	0	91,209
Financial liabilities						
– designated at fair value	795,785	0	0	0	0	795,785
Provisions	34,029	0	0	0	0	34,029
Other liabilities	64,856	0	0	0	0	64,856
Current income tax obligations	984	0	0	0	0	984
Deferred tax obligations	875	0	0	0	0	875
Subordinate and supplementary capital	75,715	0	0	0	0	75,715
Equity	544,405	0	0	0	0	544,405
Total liabilities and equity	**7,030,452**	**15,721**	**6,000**	**686**	**4,751**	**7,057,610**

in kEUR	EUR	USD	CHF	JPY	Other	Total
Assets 2016						
Cash reserves	276,690	375	393	12	190	277,660
Receivables from credit institutions	145,306	15,610	32,519	8,227	5,440	207,102
Risk provision for receivables from credit institution	0	0	0	0	0	0
Receivables from resolution unit former credit institution	0	0	0	0	0	0
Risk provision for receivables from resolution unit former credit institution	0	0	0	0	0	0
Receivables from clients	4,936,174	172	416,055	35,847	0	5,388,248
Risk provision for receivables from clients	-173,099	0	-1,522	-33	0	-174,654
Positive market values from derivative hedging instruments	10,864	0	0	0	0	10,864
Trading assets and derivatives	136,638	2,583	6,072	7,541	157	152,991
Financial assets						0
– designated at fair value	729,292	0	4,762	0	0	734,054
– AFS	807,493	3,985	269	0	247	811,994
– HTM	35,335	0	0	0	0	35,335
– L&R	2,102	0	0	0	749	2,851
Shares in associated companies	9,876	0	0	0	0	9,876
Investment properties	73,742	0	0	0	0	73,742
Intangible assets	1,849	0	0	0	0	1,849
Tangible assets	58,543	0	0	0	0	58,543
Other assets	24,265	0	0	0	0	24,265
Non-current assets and disposal groups held for sale	9,611	0	0	0	0	9,611
Deferred tax assets	7,841	0	0	0	0	7,841
Total assets	7,092,522	22,725	458,548	51,594	6,783	7,632,172
Liabilities and equity 2016						
Liabilities to credit institutions	163,432	3,891	13,395	311	998	182,027
Liabilities to clients	3,401,847	15,024	3,197	49,231	4,777	3,474,076
Liabilities evidenced by certificate	1,636,815	0	0	0	0	1,636,815
Negative market values from derivative hedging instruments	7,344	0	0	0	0	7,344
Derivatives	122,167	2,896	4,432	82	7	129,584
Financial liabilities						
– designated at fair value	1,102,386	0	199,516	128,571	0	1,430,473
Provisions	46,774	0	0	0	0	46,774
Other liabilities	72,696	0	0	0	0	72,696
Liabilities in disposal groups held for sale	0	0	0	0	0	0
Current income tax obligations	2,383	0	0	0	0	2,383
Deferred tax obligations	1,406	0	0	0	0	1,406
Subordinate and supplementary capital	103,144	0	0	0	0	103,144
Equity	545,450	0	0	0	0	545,450
Total liabilities and equity	7,205,844	21,811	220,540	178,195	5,782	7,632,172

The difference between assets and liabilities in the single currencies does not reflect the open foreign currency position of the banking group. Open foreign currency positions are hedged on the basis of derivative financial instruments such as currency swaps or cross currency swaps. Such hedges are shown In the IFRS balance, but not with the nominal value but with the market value.

The result from currency translation amounted to a total of kEUR 3,366 (2016: kEUR 2,146). In the profit or loss for the period kEUR 3,687 (2016: kEUR 2,107) were recorded and kEUR -321 (2016: kEUR 39) in other income. The accumulative balance in equity capital accounted for kEUR 156 (2016: kEUR 585).
On 31 December 2017, the total of open foreign currency positions amounted to kEUR 2,843 (2016: kEUR 480).

in kEUR	2017	2016
Foreign assets	1,498,308	1,657,229
Foreign liabilities	407,054	1,691,946

(89) Subordinate Assets

in kEUR	2017	2016
Receivables from credit institutions	0	0
Debt securities	0	0
Subordinate assets	**0**	**0**

(90) Trust Transactions

Trust assets

in kEUR	2017	2016
Receivables from clients	33,732	29,931
Trust assets	**33,732**	**29,931**

Trust liabilities

in kEUR	2017	2016
Liabilities to credit institutions	33,732	29,931
Liabilities to clients	0	0
Trust liabilities	**33,732**	**29,931**

The designated trust transactions are export funds or ERP funds for which Hypo Tirol Bank AG has taken contingent liability against these institutions and has therefore included the respective assets and liabilities in its accounts in accordance with economical perspectives.

(91) Contingent Liabilities and Credit Risks

Contingent liabilities

in kEUR	2017	2016
Liabilities from debt guarantees	43,744	57,336
Other contingent liabilities	54,330	52,423
Contingent liabilities	**98,074**	**109,759**

Contingent liabilities by maturity

in kEUR	2017	2016
Up to 3 months	3,272	455
3 months to 1 year	4,449	85,791
1 year to 5 years	22,632	16,471
More than 5 years	67,721	7,042
Contingent liabilities	**98,074**	**109,759**

Credit risks pursuant to Banking Act article 51 section 14

in kEUR	2017	2016
Other credit risks	946,886	895,322
credit risks	**946,886**	**895,322**

Credit risks by maturity

in kEUR	2017	2016
3 months to 1 year	441,649	410,300
1 year to 5 years	505,237	485,022
Credit risks	**946,886**	**895,322**

These credit risks include loans which have been granted but not yet been used by clients; this primarily includes promissory notes in loan business, but also unused credit lines.

In addition to contingent liabilities described above, the following contingent liabilities exist:

- Liabilities resulting from the mandatory membership of the deposit protection company “Hypo-Haftungs-Gesellschaft m.b.H. “according to Deposit Insurance Act, article 8.

Pursuant to Deposit Insurance Act article 8, section 1, Hypo Tirol Bank AG as a deposit accepting CRR institution headquartered in Austria belongs to the insurance institution in compliance with Deposit Insurance Act article 1, no 1t. Due to transitional provisions in relation to Deposit insurance Act, article 59, no. 3, Hypo-Haftungs-GmbH – member of the professional association of the regional mortgage banks – will act as insurance institution until 31 December 2018. Each insurance institution shall establish a deposit insurance fund comprising available financial means in the amount of at least 0.8% of the total of all covered deposits made by the member institutions. The membership contribution corresponds to the amount of all covered deposits based on prearranged risk factors (risk-based contribution calculation). As far as the 2017 fiscal year is concerned, the contribution amounted to kEUR 1,399, in case financial means are not sufficiently available in order to cover claims. Hypo-Haftungs-GmbH shall be liable to levy special contributions from its member institutions. In compliance with Deposit Insurance Act article 22 (1), such special contributions may amount to an annual maximum of 0.5% of all covered deposits.
On 1 January 2019 the task of sectoral insurance institutions will be passed on to insurance institution, which will have to be established by the Austrian Chamber of Commerce. In addition, the tasks of the insurance institution of the professional association of credit institutions and bankers including the Volksbank will also be transferred at that time.

– Liability in relation to liabilities of the “Mortgage Bond Division of the Austrian Regional Mortgage Banks”

Hypo Tirol Bank AG shall be liable as a member institution of the Mortgage Bond Division of the Austrian regional mortgage banks in compliance with the Mortgage Bond Division Act, article 2, section 1 jointly with all other member institutions for all liabilities of the Mortgage Bond Division. Such liability applies equally to all other member institutions and their universal succession as stated in article 1, section 2 of the articles of association of the Mortgage Bond Division. Regarding liabilities of the Mortgage Bond Division, which accrued before 2 April 2003 or after 2 April 2003 until 1 April 2007 with a term not exceeding 30 September 2017, the guarantors of the member institutions shall also be liable jointly in accordance with the Mortgage Bond Division Act article 2, section 2 (respective province). Pursuant to the auditor’s report of the Mortgage Bond Division the liabilities of the guarantors at the balance sheet date accounted for kEUR 71,625 (2016: kEUR 1,929,509). This corresponds approximately to the total sum of liabilities of the Mortgage Bond Division until 31 December 2017. In consideration of financial means borrowed by the Mortgage Bond Division and forwarded to Hypo Tirol Bank AG in the amount of kEUR TEUR 0 (2016: kEUR 15,293) which were evaluated according to IFRS, the result to be recorded in compliance with the Austrian Company Code article 237 Z 8a accounted for kEUR 71,625 (2016: kEUR 1,914,216). It shall be stated that on 15 January 2015, all business operations carried out the Mortgage Bond Division were transferred to Pfandbriefbank (Österreich) AG on a retrospective basis (key date 31 December 2013). Pfandbriefstelle is the sole shareholder of Pfandbriefbank (Österreich) AG.

For further details regarding debenture bonds and promissory note bonds issued by the mortgage bon bank the group refers to section VII participating interest IFRS 12.24 data regarding shares in non-consolidated structured companies.

(92) Classification of Financial Instruments by Issuing Country

The following list of financial instruments by issuing country was established on the basis of accounting values:

	Available for Sale		Loans & Receivables		Held to Maturity	
in kEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Austria	193,032	252,440	0	0	6,363	16,360
Germany	158,918	152,133	0	0	0	0
Italy	0	0	0	525	0	0
Spain	409	3,535	0	1,140	0	0
Netherlands	31,314	27,450	0	0	5,000	4,999
Great Britain	21,667	22,495	0	1,110	0	0
France	33,766	19,795	0	0	0	4,998
Finland	40,141	21,643	0	0	0	0
Ireland	4,893	5,388	0	77	0	0
Sweden	43,100	27,698	0	0	0	0
Belgium	32,559	27,490	0	0	4,996	4,985
Remaining EU countries	38,194	91,003	0	0	2,995	2,994
Remaining European countries	123,924	45,228	0	0	0	0
Outside Europe	57,258	46,521	0	0	0	1
Total accounting value	**779,175**	**742,819**	**0**	**2,852**	**19,354**	**34,337**

(93) Repos

The accounting value of retired securities designated in the balance sheet item “financial assets – available for sale and “financial assets – designated at fair value” amounted to kEUR 153,019 (2016: kEUR 0). The inflow of liquidity from such repos is shown in “liabilities to credit institutions” and amounted to kEUR 148,000 (2016: kEUR 0).

(94) Personnel

Full-time equivalent

in kEUR	2017	2016
Full-time employees	396	405
Part-time employees	100	100
Apprentices	16	14
Employees	**512**	**519**

(95) Events That Occurred After the Balance Sheet Date

No special events with substantial influence on the assets, the financial position and the profit situation of the corporate group occurred between the end of the fiscal year and the preparation of the consolidated financial statements. With regard to other events we refer to the information provided in the consolidated financial report.

(96) Consolidated Equity and Supervisory Requirements in relation to Equity

For detailed information regarding capital control please see notes on financial risks and risk management (risk control p. 84).

Based on regulation (EU) No. 575/2013 (Capital Requirements Regulations – CRR) and the directive regarding the access to activities of credit institutions (Capital Requirements Directive 4 – CRD IV) consolidated equity capital and consolidates supervisory equity capital requirements shall be determined pursuant to IFRS but based on the consolidation circle. Within HYPO TIROL BANK AG, the supervisory consolidation circle corresponds to the consolidation circle in compliance with IFRS.

Consolidated equity according to CRR/CRD IV

in kEUR	2017 CRR/CRD IV	2016 CRR/CRD IV
Subscribed capital	50,000	50,000
Reserves, differences, minority interests	484,757	480,803
Supervisory adjustments items acc. to art. 32 et seqq (prudential filter)	-13,773	-24,251
Intangible assets	-1,893	-1,849
Common equity	519,091	504,703
Additional capital	0	0
Core capital (Tier I)	**519,091**	**504,703**
Deductions due to interests acc. to art. 36 and art. 89 CRR	0	0
Accountable core capital	**519,091**	**504,703**
Capital instruments paid and subordinate loans	66,239	70,467
Supplementary equity, subordinate capital (tier II)	**66,239**	**70,467**
Deductions due to interests acc. to art. 66 CRR (own interests supplementary capital)	-689	-8,260
Accountable supplementary equity (less deductions)	**65,550**	**62,207**
Total accountable equity	**584,641**	**566,910**
Required equity	**286,171**	**294,804**
Equity surplus	**298,470**	**272,106**
Core capital rate in % acc. to CRR/CRD IV on the basis of total equity capital requirements	14,51%	13,70%
Equity rate in % acc. to CRR/CRD IV on the basis of total equity capital requirements	16,34%	15,38%

Required equity according to CRR/CRD IV

Categories of receivables	Risk adjusted assets	Required equity CRR/ CRD IV	Required equity CRR/ CRD IV
in kEUR		**2017**	**2016**
Receivables from central states	22,196	1,776	1,640
Receivables from regional administrative bodies	2,464	197	328
Receivables from public institutions	16,569	1,326	1,407
High risk receivables	2,335	187	1,077
Receivables from institutions	66,131	5,290	8,578
Receivables from companies	1,235,363	98,829	93,730
Retail-receivables	365,543	29,243	28,387
Receivables secured by real estate	1,058,610	84,689	80,415
Overdue receivables	208,976	16,718	25,632
Receivables in terms of covered debt securities	37,212	2,977	3,073
Securitisation items	0	0	85
Receivables in terms of investment fund shares	15,324	1,226	1,861
Participating interest items	37,716	3,017	3,661
Other items	271,135	21,691	25,364
Risk adjusted assets	**3,339,574**	**267,166**	**275,238**
Required equity for operational risk		18,119	18,055
CVA-Charge		886	1,511
Total required equity		**286,171**	**294,804**

Financial Risks and Risk Management

Risk management

The risk management that is implemented and regularly developed within Hypo Tirol Bank AG aims at corresponding to the requirements of ICAAP (Internal Capital Adequacy Assessment Process) as well as ILAAP (Internal Liquidity Adequacy Assessment Process). Risk management is especially used to safeguard long-term success for Hypo Tirol Bank AG.
In this respect, the conditions for efficient risk management are defined by the total risk strategy, whereas risk culture and risk appetite framework are defined by the Managing Board. Among others, this includes the risk management process, which comprises the following strategies.

- Risk identification
- Risk quantification
- Risk aggregation
- Risk monitoring and controlling

The objective of this systematic risk management process is to safeguard a capital- and liquidity adequacy which corresponds to the risk appetite. In this context, the following major risks are quantified and actively controlled in order to guarantee such capital adequacy:

Risks
Credit risk incl. CCR
Market risk Interest rate risk, Price risk, Foreign currency risk, Alternative investments, Credit value adjustment, Credit spread risk
Liquidity risk
Macroeconomic risk From credit risk incl. risk reducing measures, Market risk, Liquidity risk
Operational risk
Risk from other assets
Risk capital from participating interest relevant to the group strategy
Concentration risk
Risk buffer Model risk & quality of data

Subsequently, these risks are aggregated (total risk) and compared with the risk capacity. The limits for single risks and risk capacity are determined by the Managing Board and monitored on a monthly basis. In case current developments or predictions require the implementation of measures, such measures are defined and implemented in terms of active risk control in a timely manner.

Credit risk and counter party credit risk

Definition
Hypo Tirol Bank AG defines credit risks as default risks arising out of non-securitized receivables and securitised receivables from third parties. The risks comprise receivables for Hypo Tirol Bank, which will not be paid as stated in the terms of the contract, i.e. amount, time. Credit risks may also result from specific forms of product design or from the application of measures to minimize credit risks. Credit risk within Hypo Bank Tirol AG is evaluated on the basis of the going concern view and the liquidity view in compliance with the same method. Counter party credit risk (CCR) is considered within the quantification credit risk.

Credit risk (default risk) is controlled by credit risk management, which assesses the financial recovery and operation of the non-performing loans portfolio. The operating portfolio is manged by the department of Law & Compliance.

Division of the portfolio by creditworthiness
The regular evaluation of our debtors' creditworthiness is a systematic process and essential for controlling credit risk. The composition of the portfolio is evaluated on a quarterly basis and presented to the decision makers. The proportion of the volume of receivables can be assigned to the above-mentioned credit-worthiness segment with outstanding creditworthiness and good creditworthiness further increased in comparison to the previous years and currently amounts to roughly 50%. The proportion of the default segment could be further decreased by managing the portfolio in consistent, sustainable and active manner; therefore, the non-performing loans rate developed positively and could be further reduced in the 2017 business year. In this context, the corporate group refers to note (57) – credit risk provision, in which receivables from credit institutions and clients in compliance with internal rating classes are illustrated.

Division of the portfolio by regions
In the 2017 business year, Hypo Tirol Bank AG succeeded in further expanding the volume of receivables in the defined core market comprising North, East and South Tyrol and Vienna and in reducing the volume outside the defined core market. This is particularly illustrated in note (57) risk provision in relation to receivables from clients by region.

Foreign currency proportion – receivables from clients
In 2017, The positive development of the previous years was achieved as well, and thus foreign currency volume was further reduced. Due to the specifications defined in our foreign currency strategies, no new transactions in foreign currency with private clients and only to a very restricted extent with corporate clients is intended. Top priority is given to the further and consistent reduction of foreign currency volume. The illustration of foreign currency volumes divided by balance sheet items can be found in note (88).

Development of repayment vehicle loans
The strategy of Hypo Tirol Bank AG to continuously reduce the portfolio of repayment vehicle loans was further pursued in 2017. The reduction was positively influenced by defined restriction in relation to the granting of new loans and the management of the existing portfolio. In addition, the requirements concerning the disclosure of information were adapted to the new supervisory requirements.

Development of the Nostro securities portfolio
In 2017, Nostro securities were also reduced by EUR 280 million. This development was associated with the reduction of capital market maturities in 2017, because after this special event, the

demand for highly liquid assets on the part of Hypo Tirol Bank was lower but the quality of the assets remained on the same level. The development of Nostro securities (divided by evaluation criteria) is illustrated in notes (60), (61), (62) and (63).

Reducing credit risk - collateral
In order to minimise the risk of loss, Hypo Tirol Bank AG aim at securing the volume of receivables in adequate manner. In this context, real estate collateral is the most important type of collateral. It is evaluated in compliance with the defined corporate standards and used in accordance with the existing catalogue in order to secure credit exposures.
A respective monitoring process, which is carried out by an independent institution, was established to ensure recoverability. The high quality of mortgage cover funds is also reflected by the external rating (Aa2 according to Moody's).

Risk provision policy

Early warning system
In order to identify credit risk potentials as soon as possible, Hypo Tyrol Bank AG established an early warning procedure which is based on qualitative and quantitative risk criteria. The system allows to identify risks at an early stage and thus, appropriate measures can be taken in timely manner.

Non-performing loans (NPL)
Within Hypo Tirol Bank AG non-performing loans include loans in default in the supervisory category of receivables and restructuring and operating cases. Due to the consistent management of the Italian portfolio it was possible to achieve nearly the same positive result as last year, that is to say the NPL-rat within the corporate group was significantly reduced again. At the key date (31 December 2016), the corporate group's NPL rate amounted to 7.6% and at the key date (31 December 2017) it amounted to 5.8%

Risk provision policy
Risk provision standards are documented in a separate system. The system describes the responsibilities and particularly the process to evaluate the required amount of the respective special allowance. For further information please see note (18).

The management of overdue receivable without specific allowance, (for further details also see note (57) – analysis of receivables – overdue – no allowance) and credits with contractual adaptations which shall be understood as forbearance measures (concessions in relation to credit terms in order to prevent impairment) regarding an active risk provision policy (concessions for clients suffering financial difficulties are illustrated under note (57)) are also included in the risk provision policy of Hypo Tirol Bank AG.

Market risk and interest rate risk

Definition
Hypo Tirol Bank AG describes market risk as the danger of losses which result from changes in market prices. The term market risk refers to the following risk categories:

- Interest rate risk
- Security price risk
- Foreign currency risk
- Credit spread risk
- Credit valuation adjustment (CVA)
- Alternative investment risk
- Risk arising out of termination rights

Market risk control
Market risk control is managed by the treasury department. In this context, special attention is given to a balanced asset/liability management process in consideration of the resulting impact on the financial statement in accordance with the Austrian Commercial Code and IFRS. As far as interest rate risk is concerned, a risk report in connection with the bank's net interest income is evaluated beyond the cash value perspective

In order to reduce interest rate risk, Hypo Tirol Bank AG carries out hedge accounting in compliance with IAS 39, which allows to secure fixed interest loans, emissions and securities of the bank's own portfolio as well as fair value hedges. In the 2017 business year, the interest rate positioning of securities was controlled by means of participating in the "Targeted Longer-Term Refinancing Operations" (TLTRO II) established by the ECB. The foundation for market risk control is formed by the Interest rate positioning and the interest rate risk which are evaluated on a monthly basis.

Interest rate risk and plus 200 base points interest shock
Interest rate risk is divided in interest curve risk, interest rate re-fixing risk, base risk and interest option risk. Since Hypo Tyrol bank AG manages only one small scale trading book, interest risk distinguishes between positions included in the trading book and positions not included in the trading book.

As far as fluctuation in profit or economical values as stipulated in section 448 b, CRR, are concerned, a change concerning the cash value of Hypo Tirol Bank AG is evaluated on the basis of a plus 200 base points upwards trend of the interest curve.

Liquidity risk

Definition
Insolvency risk is the risk that current or future payments cannot be made or made in full, or in a timely manner or cannot be made without having to suffer unacceptably high losses. Liquidity risk distinguishes between short-term liquidity risk (up to one year) and long-term refinancing risk (more than one year).

Liquidity risk control
Within Hypo Tirol Bank AG short-term liquidity risk is quantified and monitored on the basis of the key figures of liquidity coverage potential (A'LCP) and the supervisory key figures of liquidity coverage ratio (LCR). The LCR forecast is integrated into liquidity risk management as an early warning instrument. In addition, LCR, liquidity buffer and liquidity sensitive products are monitored on a daily basis by means of the liquidity risk data board. Refinancing risk is quantified via structural liquidity risk and the supervisory key figure of NSFR (Net Stable Funding Ratio) and monitored via a refinancing monitoring system (comparison of planned/actual data). In 2017, the LCR key figure accounted for averagely 259%.

Operational risk

Definition
Within Hypo Tirol Bank AG operational risk is defined as the danger of loss caused by the inappropriateness or failure of internal procedures, individuals, systems or external events. Strategic risks and reputation risks are not included.

The following instruments are employed to control operational risks:

- Organisational structure
- Damage date base
- Risk inventories (self-assessment)
- OP-risk learning programme

The use of these tools ensures a comprehensive control of operational risks within Hypo Tirol Bank AG. In addition, the following methods are applied to minimise operational risks:

- Internal control systems
- Clearly documented internal guidelines ("instructions")
- Allocation and limitation of decision making competences
- Separation of functions ("four eyes principle") and avoiding of interest conflicts regarding essential risk-relevant processes
- Continuous assurance and improvement of employee's skills in the context of vocational education and training (human resource development)
- Employment of modern technologies
- Risk insurance

Real estate and participation risk

Definition
Real estate risk within Hypo Tirol Tank AG is the risk that prices of real estate may change and consequently lead to a negative result in the profit and loss account (risk of vacancies, loss of rent, and deterioration of profit/cost relation). The risk in relation to property participation is added to real estate risk ("at equity"). Participation risk within Hypo Tirol Bank AG is the risk of loss resulting from financing by mans of equity capital (private equity) and/or borrowed capital. In addition, Hypo Tirol Bank AG also includes the risk of loss resulting from market-evaluated participations (listed shares) and their price changes (in connection with market risk).

Excessive Debt Risk

Definition
Hypo Tirol Bank AG defines the debt quota as the quotient from the measured quantity of core capital and the overall risk position quantity.

The control of the key figure is safeguarded by the integration into the planning process and by the limitation of the same.

Macro-economic risk

Definition
Macro-economic risks are loss potentials resulting from exposure against macro-economic risk factors. Risk factors are i.e. unemployment rate, GDP development, etc., and their respective impact on different business sectors of the bank. Hypo Tirol Bank AG assumes that risks from macro-economic environment are substantially reflected in the following factors:

- Currency risk
- Possibility of default on the part of the clients
- Recoverability of credit collateral
- Market volatilities

In order to determine risk values for macro-economic risks, these parameters are stressed, and additional unexpected losses are calculated in the context of this scenario.

Risk from other assets

Definition
Risks from other assets are values that do not have substantial influence on the amount of the assets in the balance sheet and that cannot be assigned to any other balance sheet item. Any change or default imposes a risk for Hypo Tirol Bank AG. They include accruals and deferrals of derivatives pre-paid liability fees, deposits for leasing objects.

Risk management organisation

The Managing Board determines the overall risk strategy, the specified risk appetite framework, the risk limits and the risk manual of Hypo Tirol Bank AG, which documents on the risk management process. Hence, the strategy is concluded by the Supervisory Board.
Within the corporate group's Managing Board, the determined manager, who is responsible for business transactions, takes the responsibility for the further development of risk management and takes the leading position in the context of strategic risk management and in risk controlling. Risk controlling shall report to the Managing Board.
The Supervisory Board, respectively its subcommittee (risk committee) is responsible for the regular monitoring of the corporate management and the continuous evaluation of the risk management system operated by Hypo Tirol Bank AG.
In this respect, the Managing Board informs the Supervisory Board respectively the risk committee in pre-defined intervals about the risk situation of the corporate group and the risk management analysis. By doing so, the monitoring function administered by the Supervisory Board/risk committee is safeguarded.
The risk controlling executive department is responsible for the development and the continuous improvement process of risk management systems. It identifies, qualifies, monitors and controls major risks and risk covering potentials as well as short term liquidity to safeguard capital- and liquidity adequacy. In this context, proposals regarding risk and portfolio control are made and monitoring is conducted on the basis of defined internal reports. While risk management in production units is basically performed on the single item level risk controlling deals with risk management on portfolio level.
The central internal committee, which is responsible for active bank-wide control, organises the bank-wide control meeting on a monthly basis. The members of this committee are the General Managing Board, the head of the treasury department, the head of the accounting department, the head of the controlling department, the head of the audit executive department as well as the head of the risk controlling executive department.
The work of the committee is complemented by a comprehensive reporting system; in this context, reports are forwarded to the decision makers at least once a month.

Procedure for quantifying risks and risk cover potentials

Typo of risk/parameter	Going concern view	Liquidation view
Confidence level	95 %	99.9 %
Period of observation	1 year	1 year
Credit risk: classic credit risk	Modell strongly complies with IRB approach of CRR	Modell strongly complies with IRB approach of CRR
Credit risk: counter party credit risk	Values of liquidation view are scaled to confidence level	Risk value from pillar I for CCR
Market risk: **Interest rate risk** **Price risk** **Foreign currency risk**	Historical value at risk	Historical value at risk
Market risk: **Credit spread risk**	Historical value at risk by using indices	Historical value at risk by using indices
Market risk: **Alternative risk**	Simulation	Simulation
Market risk: **CVA**	Values of liquidation view are scaled to confidence level	Risk values from pillar I for CVA
Liquidity risk	Increased refinancing under spread shock	Increased refinancing under spread shock
Macroeconomic risk	Stress tests on components of credit, market and liquidity risk	Stress tests on components of credit, market and liquidity risk
Operational risk	Values of liquidation view are scaled to confidence level	Risk values from pillar I (base indicator approach)
Risk from other assets	Values of liquidation view are scaled to confidence level	Risk values from pillar I (risk weight approach)
Risk capital from corporate participation	Mixed approaches: IRB approach, risk weight approach	Mixed approaches: IRB approach, risk weight approach
Concentration risk: **Concentration of names** **Concentration of sectors**	Granularity adjustment for concentration of names. Values of liquidation view are scaled to confidence level for branch concentrations.	Granularity adjustment for concentration of names. Risk value for branch concentration evaluated by means of the Herfindahl-Hirschmann-Index.
Risk buffer **Unknown risks and model risk**	Percentage of other risks, minimum value	Percentage of other risks, minimum value

Risk report

Risk capacity
The quantification of risks and risk cover potentials is carried out on the basis of the going concern view and the liquidation view on a monthly basis. Internal monthly reports are presented in the bank-wide control meeting and by the defined reporting system.

Going-concern view

Economic capital	⌀ 2017	⌀ 2016
Credit risk	22.1 %	19.1 %
Market risk	15.7 %	15.3 %
Liquidity risk	4.4 %	4.6 %
Macro-economic risk	5.3 %	2.9 %
Operational risk	5.9 %	4.8 %
Risk from other assets	4.4 %	5.4 %
Real estate and corporate participation risk	1.5 %	1.7 %
Concentration risk	0.2 %	0.0 %
Risk buffer	3.5 %	2.7 %
Economic risk total	**63.0 %**	**56.6 %**
Risk cover potential	100.0 %	100.0 %
Available cover assets	**37.0 %**	**43.5 %**

Liquidation view

Economic capital	⌀ 2017	⌀ 2016
Credit risk	31.4 %	32.3 %
Market risk	10.5 %	13.9 %
Liquidity risk	2.5 %	3.4 %
Macro-economic risk	7.5 %	5.7 %
Operational risk	3.3 %	3.4 %
Risk from other assets	2.5 %	3.8 %
Real estate and corporate participation risk	2.2 %	3.1 %
Concentration risk	0.1 %	0.0 %
Risk buffer	2.5 %	3.0 %
Economic risk total	**62.5 %**	**68.6 %**
Risk cover potential	100.0 %	100.0 %
Available cover assets	**37.5 %**	**31.4 %**

Short-term Liquidity Risk
Short-term liquidity risk is quantified and monitored within one day (intraday liquidity) but also via the daily liquidity dashboard. In this respect, liquidity sensitive products, intraday liquidity, daily LCR as well as conditioning on the liabilities side are monitored and reported to the Managing Board and the treasury department.

Stress test results
Stress tests represent one of the key elements to identify and quantify imminent risks. Stress tests for single risk types – bank wide stress tests and reverse stress tests – were established by Hypo Tirol Bank AG and serve as essential controlling tools. Stress test results are discussed in the internal committees, in the Supervisory Board and in the risk committee and corresponding measures are taken, if applicable.

Ad-hoc report
As far as special issues are concerned or in case separate reports are required for particular developments, the reports are established by the risk controlling department and thus made available for decision-makers.

Particular developments in 2017 and forecast for 2018
The successful refinancing of maturities during 2017, the positioning of a sub-benchmark bond, as well as the positive trend regarding the NPL rate demonstrate the sustainable and positive development of Hypo Tirol Bank AG in 2017.

This kind of sustainable success achieved by Hypo Tirol Bank AG is also reflected by the fact that the bank's rating was upgraded by both Standard & Poors and Moody's. At the same time the forecast was upgraded from stabile to positive.

As for 2018, rating tools that were developed in the booking community will be implemented, the methods to control interest rate risk will be further developed and top priority will be given to the preparation regarding increasing capital rates. The continuous development of data quality will also be in the centre of attention.

Information Based on Austrian Law

(97) Legal Basis in Austria

In accordance with Banking Act, article 59a in conjunction with Austrian Commercial Code article 245a, sec. 1 compulsory consolidated financial statements shall be prepared in compliance with IFRS standards, as applicable in EU countries. On a supplementary basis, pursuant to Banking Act article 59a, the details according to Banking Act, article 64, sect. 1, lines 1-15 and sect. 2 as well as Austrian Commercial Code article 245a, sect. 1 and 3 must be included in the consolidated financial statements.
A full list of the corporate group's participating interest can be found in section VII (participating interests).

(98) Dividends and Retrospective Amendments

Hypo Tirol Bank AG is entitled to pay dividends not exceeding the profit as reported in the (individual) financial statements according to the Austrian Banking Act or Austrian Commercial Code in the amount of von kEUR 5,166 (2016: kEUR 10,167). In the expired fiscal year dividends in the amount of kEUR 10,000 were paid. The annual net income generated in the 2017 fiscal year accounted for kEUR 12,099 (2016: annual surplus kEUR 38,407. After endowment of reserves amounting to kEUR 7,100 (2016. liquidation kEUR 28,394) and after addition of profit brought forward in the amount of kEUR 167 (2016: kEUR 153) the usable net profit amounted to kEUR 5,166 (2016: kEUR 10,167).

The Managing Board of Hypo Tirol Bank AG gave its consent to publish the consolidated financial statement on 26 March 2017.

(99) Classification of Securities Acceding to the Austrian Banking Act

The following chart illustrates the classification of securities according to Banking Act article 64 sect. 1 no. 10 and no. 11, on 31 December 2017:

	Not quoted		Quoted		Total	
in kEUR	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Debt securities and other fixed-interest securities	53,252	56,155	177,532	320,850	230,784	377,005
Shares and other non-fixed interest securities	19,108	18,565	6,424	8,678	25,532	27,243
Participating interest	6,534	13,186	0	0	6,534	13,186
Shares in associated companies	39,595	39,613	0	0	39,595	39,613
Financial assets	23,637	15,454	973,299	1,088,294	996,936	1,103,748
Total securities according to Banking Act	**142,126**	**142,973**	**1,157,255**	**1,417,822**	**1,299,381**	**1,560,795**

In compliance with Banking Act article 56, sec. 2, the difference of securities having properties of financial assets amounted to kEUR 2,541 (2016: kEUR 719) and in compliance with Banking Act article 56 sec. 3 it amounted to kEUR 428 (2016: kEUR 120). The predicted amortization for 2018 accounted for kEUR 179,598 (2016: kEUR 321,761). Subordinate and supplementary capital amounted to kEUR 689 (2016: kEUR 8,257).

In the forthcoming year, liabilities evidenced by certificate with a nominal value in the amount of kEUR 231,530 (2017: kEUR 1,262,769) will mature and fall due.

(100) Country by Country Report

In compliance with Banking Act article 64, section 1 no 18 the following Country by Country Report regarding the branch office in Italy is illustrated. The branch office is operated as an EU-branch office without legal entity and its offices are located in Bolzano, Bressanone and Merano. In Italy, Hypo Tirol Bank AG works in the field of investment and property financing for private clients as well as in the field of real estate financing and leasing for companies.

Net interest income corresponds to net interest income prior to risk provision. Operating income includes net commission income, trading result and other operating income. The number of employees refers to the full-time equivalent.

in kEUR	2017	2016
Net interest income	5,679	5,714
Operating income	3,382	5,560
Annual result prior to taxation	-16,019	-16,470
Tax on income and profit	-310	-1,784
Public aid received	-	-
	2017	**2016**
Number of employees	29	44

(101) Disclosure

Comprehensive information regarding organisational structure, risk management, risk capital situation, corporate governance and remuneration policy in accordance with CRR part 8 no. 431–455 in connection with Banking Act article 65a are published on the website of Hypo Tirol Bank AG.

For detailed information please see: www.hypotirol.com/Unternehmen/Recht&Sicherheit - Offenlegung CRR Teil 8 Artikel 431–455“ (download).

Executives

Supervisory Board Members			
Chairman	Mag. Wilfried STAUDER	Innsbruck	
1st Vice Chairman	Dr. Jürgen BODENSEER	Innsbruck	
2nd Vice Chairman	Mag. Franz MAIR	Münster	
Other Board Members			
	Dr. Ida HINTERMÜLLER	Innsbruck	
	MMag. Daniel MAIRHOFER	Munich	
	Mag. Beate OPPERER-PFLEIDERER	Telfs	
	Ao. Univ.-Prof. Dr. Erich PUMMERER	Innsbruck	
Delegated by the works council	Mag. Gabriele HILBER, Betriebsratsvorsitzende	Innsbruck	
	Stefan KNOFLACH	Hall in Tirol	from 2017-10-11
	Andreas PEINTNER	Ellbögen	
	Peter PICHLER	Innsbruck	
	Dr. Peter STACKLER	Buch in Tirol	from 2017-04-05 to 2017-09-30
	Ingrid WALCH	Inzing	until 2017-04-04

Managing Board Members		
Chairman	Johann Peter HÖRTNAGL	Trins
Managing Board Member	Mag. Johannes HAID	Absam
Managing Board Member	Mag. Alexander WEISS	Axams

Representatives of the Supervisory Authority		
State Commissioner	MMag. Paul SCHIEDER	Vienna
Deputy State Comissioner	Amtsdirektor Josef DORFINGER	Vienna

Trustees		
Trustee according to Pfandbrief Act	Dr. Klaus-Dieter GOSCH	Innsbruck
Deputy Trustee according to Pfandbrief Act	AD RR Erwin GRUBER	Vienna

VII. Participating Interest

Companies fully consolidated in the financial statements

Gesellschaftername, Ort	Hauptgeschäft	Anteil am Kapital in % 2017	Anteil am Kapital in % 2016	Datum des Abschlusses	Verände-rungen zu 2016
HYPO TIROL LEASING GMBH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Rent Gebäudeleasing 1987 Gesellschaft m.b.H., Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Rent Immobilienverwaltungs-Gesellschaft m.b.H., Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Tirol Mobilienleasing II Gesellschaft m.b.H., Innbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Rent Liegenschaftsanlage-Gesellschaft m.b.H., Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Rent II Grundverwertung GmbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Tirol Mobilienleasing Gesellschaft m.b.H., Innbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Beteiligungs-und Finanzierungsgesellschaft m.b.H., Innsbruck	Beteiligungsgesellschaft	100.00 %	100.00 %	31.12.17	
Hypo Tirol Versicherungsmakler GmbH, Innsbruck	Versicherungsvermittlung	100.00 %	100.00 %	31.12.17	
HYPO TIROL INVEST GmbH, Innsbruck	Beteiligungsgesellschaft	100.00 %	100.00 %	31.12.17	
Hypo Tirol Leasing Wiener Betriebsansiedlungen GmbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Liegenschaftstreuhand GmbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
L2 Errichtungs- und Vermietungsgesellschaft mbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Autopark Grundverwertungs GmbH, Innsbruck	Verwaltung v. Realitäten	100.00 %	100.00 %	31.12.17	
Alpen Immobilieninvest GmbH, Innsbruck	Vermietung Immobilien	100.00 %	100.00 %	31.12.17	
HTL Deutschland GmbH, Kulmbach	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
ERFOLG Liegenschaftsvermietungs GmbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
VBC 3 Errichtungs GmbH, Wien	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Dienstleistungszentrum Kramsach Betriebsgesellschaft mbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Tirol Immobilien und Beteiligungs GmbH (IBG), Bozen	Beteiligungsgesellschaft	100.00 %	100.00 %	31.12.17	
Hebbel Projektentwicklung Gesellschaft mbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo-Rent Betriebsansiedlungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
Hypo Tirol Beteiligungs GmbH in Liquidation, Innsbruck	Beteiligungsgesellschaft	100.00 %	100.00 %	31.12.17	
Berger Truck Service Verwaltungs GmbH, Innsbruck	Leasingunternehmen	100.00 %	100.00 %	31.12.17	
HTI Immobilienverwaltungs-GmbH, Innsbruck	Vermietung Immobilien	100.00 %	100.00 %	31.12.17	
Hypo Immobilien Betriebs GmbH, Innsbruck	Verwaltung v. Realitäten	100.00 %	100.00 %	31.12.17	
Landhausparkgaragen GmbH, Innsbruck	Vermietung Immobilien	100.00 %		31.12.17	Neu
Landhausparkgaragen GmbH & Co.KG, Innsbruck	Vermietung Immobilien	100.00 %		31.12.17	Neu

Companies included in the consolidated financial statements in accordance with the equity method

No quoted market price was available for any of the companies included in the consolidated financial statements in accordance with the equity method.

Immorent Hypo Rent Grundverwertungsgesellschaft m.b.H. represents a joint company in compliance with IFRS 11.16 (based on IFRS 11.B7).

As far as the remaining companies are concerned, Hypo Tirol Bank AG owns 33.33% of the voting rights, thus the counter parties can overrule Hypo Tirol Bank at any time. Hypo Tirol Bank has substantial influence in terms of financial and geopolitical decisions. All mentioned indicators, according to IAS 28.6 (sections a and b) confirm the classification „associated company".

Gesellschaftername, Ort	Hauptgeschäft	Anteil am Kapital in % 2017	Eigenkapital in kEUR	Datum des Abschlusses
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	802	31.12.17
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	-32	31.12.17
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	967	31.12.17
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	237	31.12.17
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	17	31.12.17
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	-28	31.12.17
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	Leasingunternehmen	33.33 %	307	31.12.17
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	50.00 %	798	31.12.17
Seilbahnleasing GmbH, Innsbruck	Leasingunternehmen	33.33 %	-316	31.12.17

Gesellschaftername, Ort	Hauptgeschäft	Anteil am Kapital in % 2016	Eigenkapital in kEUR	Datum des Abschlusses
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	854	31.12.16
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	-20	31.12.16
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	1,777	31.12.16
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	124	31.12.16
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	-97	31.12.16
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	33.33 %	157	31.12.16
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	Leasingunternehmen	33.33 %	302	31.12.16
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasingunternehmen	50.00 %	540	31.12.16
Seilbahnleasing GmbH, Innsbruck	Leasingunternehmen	33.33 %	538	31.12.16
HTV KAPPA Immobilienleasing GmbH, Dornbirn	Leasingunternehmen	50.00 %	Veräußert in 2016	

Data in accordance with IFRS 12.B12

2017

in kEUR	kurzfristige Vermögenswerte	langfristige Vermögenswerte	kurzfristige Schulden	langfristige Schulden	Umsatzerlöse	Jahresüberschuss aus fortgeführten Geschäftsbereichen	Nachsteuerergebnis aufgegebener Geschäftsbereiche	Jahresüberschuss	sonstiges Ergebnis	Gesamtergebnis	erhaltene Dividenden
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	0	4,148	305	3,041	164	10	0	10	0	0	0
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	0	1,519	966	585	53	-11	0	-12	0	-12	0
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	1,234	8,298	8,565	0	551	-59	0	-60	0	-60	0
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	811	16,011	9,233	7,352	663	114	0	113	0	113	0
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	254	3,741	1,159	2,819	366	116	0	114	0	114	0
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	2,090	59,018	45,523	15,613	2,940	-198	0	-186	0	-186	0
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	310	0	3	0	6	6	0	6	0	4	0
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	784	17,874	623	17,237	2,176	291	0	258	0	258	0
Seilbahnleasing GmbH, Innsbruck	31	5,740	619	5,469	1,553	-853	0	-855	0	-855	0

2016

in kEUR	kurzfristige Vermögenswerte	langfristige Vermögenswerte	kurzfristige Schulden	langfristige Schulden	Umsatzerlöse	Jahresüberschuss aus fortgeführten Geschäftsbereichen	Nachsteuerergebnis aufgegebener Geschäftsbereiche	Jahresüberschuss	sonstiges Ergebnis	Gesamtergebnis	erhaltene Dividenden
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	3	4,178	40	3,287	272	-34	0	-46	0	-46	0
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	0	1,557	909	668	43	-8	0	-9	0	-9	0
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	3,436	8,775	8,548	1,886	550	-59	0	-60	0	-60	0
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	1,392	18,375	11,144	8,499	680	11	0	10	0	10	0
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	732	7,256	3,715	4,370	640	109	0	107	0	107	0
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	3,670	64,089	46,904	20,698	3,050	683	0	693	0	693	0
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	367	1,253	90	1,228	1,464	1,212	0	1,210	0	1,210	0
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	1,354	19,122	593	19,343	2,239	513	0	485	0	485	0
Seilbahnleasing GmbH, Innsbruck	710	8,242	839	7,575	2,626	90	0	86	0	86	0

Data in accordance with IFRS 12.B13

2017

in kEUR	Zahlungsmittel	kurzfristige Schulden	langfristige Schulden	planmäßige Abschreibung	Zinserträge	Zinsaufwendungen	Ertragssteuern
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	783	0	17,237	1,248	0	93	-32

2016

in kEUR	Zahlungsmittel	kurzfristige Schulden	langfristige Schulden	planmäßige Abschreibung	Zinserträge	Zinsaufwendungen	Ertragssteuern
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	1,299	0	19,340	1,338	11	105	-29

Current respectively non-current debts illustrated above refer to current or non-current financial liabilities according to IFRS 12.B13, except liabilities from delivery and service, other liabilities or provisions.

Companies not included in the consolidated financial statements

The following companies have not been integrated into the consolidated financial statements, as they are of minor importance, regarding both, the separate financial statements and the consolidated financial statements. None of the following non-consolidated companies is a structured company pursuant to IFRS 12.B21-B24.

Data concerning companies with a capital share more than 20% (2017 financial year)

Gesellschaftername, Ort	Anteil am Kapital in % 2017	Erläuterung
HTW Holding GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
HYPO Gastro GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
HT Immobilien Investment GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
ARZ Hypo-Holding GmbH, Innsbruck	99.24 %	Gesellschaft von untergeordneter Bedeutung
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	33.30 %	Gesellschaft von untergeordneter Bedeutung
ARZ Allgemeines Rechenzentrum GmbH, Innsbruck	32.70 %	kein maßgeblicher Einfluss
„Wohnungseigentum“, Tiroler gemeinnützige Wohnbaugesellschaft m.b.H., Innsbruck	24.33 %	kein maßgeblicher Einfluss
C ZWEI Investment GmbH in Liqu., Innsbruck	0.00 %	Gesellschaft wurde 2017 liquidiert
EKZ Abwicklungs GmbH in Liqu., Völs	0.00 %	Gesellschaft wurde 2017 liquidiert
MC ZWEI Investment GmbH in Liqu., Wien	0.00 %	Gesellschaft wurde 2017 liquidiert
REB II Beteiligungs AG, Wien	0.00 %	Gesellschaft wurde 2017 verkauft
HYPO EQUITY-Unternehmensbeteiligungen AG, Bregenz	0.00 %	Gesellschaft wurde 2017 verkauft

Data concerning companies with a capital share more than 20% (2016 financial year)

Gesellschaftername, Ort	Anteil am Kapital in % 2016	Erläuterung
HTW Holding GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
Landhaus-Parkgaragen Gesellschaft m.b.H., Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
Landhaus-Parkgaragen Gesellschaft m.b.H. & Co. KG, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
C ZWEI Investment GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
EKZ Abwicklungs GmbH in Liqu., Völs	100.00 %	Gesellschaft von untergeordneter Bedeutung
HYPO Gastro GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
HT Immobilien Investment GmbH, Innsbruck	100.00 %	Gesellschaft von untergeordneter Bedeutung
ARZ Hypo-Holding GmbH, Innsbruck	99.24 %	Gesellschaft von untergeordneter Bedeutung
MC ZWEI Investment GmbH, Wien	50.00 %	Gesellschaft von untergeordneter Bedeutung
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	33.30 %	Gesellschaft von untergeordneter Bedeutung
ARZ Allgemeines Rechenzentrum GmbH, Innsbruck	32.70 %	Gesellschaft von untergeordneter Bedeutung
REB II Beteiligungs AG, Wien	25.64 %	Gesellschaft von untergeordneter Bedeutung
„Wohnungseigentum“, Tiroler gemeinnützige Wohnbaugesellschaft m.b.H., Innsbruck	24.33 %	kein maßgeblicher Einfluss
HYPO EQUITY-Unternehmensbeteiligungen AG, Bregenz	21.78 %	Gesellschaft von untergeordneter Bedeutung

Data concerning companies with a capital share less than 20 % (2016/2017 financial years)

Gesellschaftername, Ort	Anteil am Kapital in % 2017	Anteil am Kapital in % 2016
GHS Immobilien AG, Wien	19.57 %	19.57 %
Tiroler gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H. (TIGEWOSI), Innsbruck	17.45 %	17.45 %
Lantech Innovationszentrum GesmbH, Landeck	16.36 %	16.36 %
Masterinvest Kapitalanlage-Gesellschaft m.b.H., Wien	12.50 %	12.50 %
Hypo-Wohnbaubank Aktiengesellschaft, Wien	12.50 %	12.50 %
Hypo-Banken-Holding Gesellschaft m.b.H., Wien	12.50 %	12.50 %
Hypo-Haftungs-Gesellschaft m.b.H., Wien	12.50 %	12.50 %
Rathaus Passage GmbH, Innsbruck	11.23 %	11.23 %
Global Private Equity IV Holding AG, Wien	8.97 %	18.74 %
HP IT-Solutions Gesellschaft m.b.H., Innsbruck	8.33 %	9.09 %
Logistikzentrum Hallbergmoos GmbH in Liquidation, München	6.00 %	6.00 %
Logistikzentrum Forchheim GmbH, München	6.00 %	6.00 %
Pflegeheim Wolfratshausen Grundstücks GmbH, München	6.00 %	6.00 %
PensPlan Invest SGR Spa/AG, Bozen	4.44 %	4.44 %
Bergbahnen Rosshütte Seefeld Tirol Reith AG, Seefeld	1.62 %	1.62 %
Lienzer-Bergbahnen-Aktiengesellschaft, Lienz	1.32 %	1.32 %
VBV-Betriebliche Altersvorsorge Aktiengesellschaft, Wien	1.28 %	1.28 %
Einlagensicherung Austria GmbH	1.00 %	0.00 %
AAA Air Alps Aviation Alpenländisches Flugunternehmen Ges.m.b.H., Innsbruck	0.28 %	0.28 %
VB Verbundbeteiligung eG, Wien	0.04 %	0.04 %
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination GmbH, Wien	0.01 %	0.01 %
S.W.I.F.T. SCRL, Belgien	0.01 %	0.01 %

Data in compliance with IFRS 12.24 et seqq concerning participating interest in non-consolidated structured companies

Hypo Tirol Bank AG is a member of the Mortgage Bond Division (Pfandbriefstelle) of the Austrian Landes- und Hypothekenbank (regional and mortgage bank). The Mortgage Bond Division, more precisely, its legal successor, the Pfandbriefbank Österreich AG (Austrian mortgage lending bank - since 15 January 2015) represents the joint issuing institution of the Landes- und Hypothekenbank, whereas its main task is to lend mortgage bonds, public bonds and debenture bonds, and provide the member institutions with the financial means resulting thereof. Moreover, the Pfandbriefbank is responsible for credit transactions and other transaction regarding all member institutions on a mutual basis.

Besides Hypo Tirol Bank AG, the following institutions are members of the Mortgage Bond Division

- HYPO-BANK BURGENLAND Aktiengesellschaft
- Austrian Anadi Bank AG
- HETA ASSET RESOLUTION AG
- HYPO NOE Gruppe Bank AG
- Oberösterreichische Landesbank Aktiengesellschaft
- SALZBURGER LANDES-HYPOTHEKENBANK AKTIENGESELLSCHAFT
- Landes-Hypothekenbank Steiermark Aktiengesellschaft
- Vorarlberger Landes- und Hypothekenbank

The Mortgage Bond Division is a financial institution regulated by public law. Therefore, no shares or ownership structures concerning the Mortgage Bond Division are existent. Each member institution sends a member to the board of administration and thus has a voting right. Decisions require simple majority of the votes cast. In case of tie votes, the chairman has the deciding vote. Regarding the resolution of the articles of association or any amendment to the articles of association, the liquidation of the Mortgage Bond Division or the distribution of the income from liquidation a two-third majority of the votes cast is required. The business activities of the Mortgage Bond Division were transferred to the Pfandbriefbank (Österreich) AG, with effect from 2015 on and in compliance with Banking Act article 92 concerning the universal succession. The Mortgage Bond Division is the sole shareholder of the Pfandbriefbank.

Since 2004, the Mortgage Bond Division has been subject to the regulations of the Pfandbrief Act. Pursuant to Pfandbrief Act article 2, all member institutions shall be jointly liable for liabilities of the Mortgage Bond Division or in connection with Banking act article 92, section 6 for liabilities of the Pfandbriefbank. The guarantors of the member institutions shall be jointly liable for all liabilities of the Mortgage Bond Division/Pfandbriefbank that accrued before 2 April 2003. With regard to liabilities that accrued after 2 April 2003 until 1 April 2007, the guarantors shall only be liable jointly if the defined terms do not exceed 30 September 2017. The guarantors shall not be liable for liabilities that accrued after 1 April 2007. Liabilities, for which the guarantors are not liable anymore, liability agreements between member institutions could be arranged in single cases. However, they shall only be valid, if they are published in the terms and conditions of issue.

On 31 December 2017, the issuing volume of the Mortgage Bond Division/Pfandbriefbank, for which the member institutions and their guarantors are jointly liable, amounted to kEUR 71,625 (2016: kEUR 1,929,509). This amount includes a proportion of Hypo Tirol Bank AG accounting for kEUR 0 (2016: kEUR 15,293). Based on regional law, the regional governments have contingent liability towards the member institutions. This must be differentiated from joint and several liabilities of all member institutions and guarantors for liabilities of the Mortgage Bond Division/Pfandbriefbank. In case the Mortgage Bond Division/Pfandbriefbank shall not fulfil its obligations towards bond and debenture bond creditors, the creditors of the Mortgage Bond Division, in accordance with legal regulations on joint and several liability, are entitled to claim the due amount directly from the member institutions and/or the guarantors, Consequently, the member institutions and/or guarantors that paid the dues shall have the right, subject to special conditions, to exercise recourse clams against the other member institutions, guarantors and/or the Mortgage Bond Division/Pfandbriefbank. Finally, the joint creditors that paid the dues can exercise recourse claims against the respective member institution the issue refers to. In accordance with the regional legal provisions such recourse claims can also be asserted against the province involved, which serves as a deficiency guarantor [also see note (91)].

Liabilities to the Mortgage Bond Division presented in the balance sheet

in kEUR	31.12,2017	31.12,2016
Liabilities evidenced by certificate	0	0
Financial liabilities – at fair value	0	23,240
Liabilities to Mortgage Bond Division	**0**	**23,240**

Interest expenses in relation to liabilities towards the Mortgage Bond Division

in kEUR	31.12,2017	31.12,2016
Interest expenses for liabilities evidenced by certificate	0	0
Interest expenses for financial liabilities – at fair value	246	1,305
Interest expenses from liabilities to Mortgage Bond Division	**246**	**1,305**

HYPO TIROL BANK AG MANAGING BOARD

Innsbruck, 26 March 2018

Johann Peter Hörtnagl	Mag. Johannes Haid	Mag. Alexander Weiß

Auditor’s Report*

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of HYPO TIROL BANK AG, Innsbruck, and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2107, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the Notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2017 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRS) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB and Section 59a Austrian Banking Act BWG.

Basis for our Opinion

We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following „EU regulation“) and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the „Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements“ section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the following, we describe the key audit matters from our perspective:

1. Loan loss provisions and credit risk provisions for the lending business with clients
2. Valuation of securities, own issues and derivatives, that are categorized in the fair value level 2 of the fair value hierarchy

1. Loan loss provisions and credit risk provisions for the lending business with clients

Description:
HYPO TIROL BANK AG shows significant loan loss provisions in the form of value adjustments (risk provision 2017: EUR 140m / 2016: EUR 175m) and credit risk provisions (2017: EUR 4m / 2016: EUR 13m) for loss risks related to receivables from clients (receivables from clients after risk provision 2017: EUR 5,346m / 2016: EUR 5,214m) in its consolidated financial statements as at 31 December 2017.

The appropriateness of loan loss provisions and credit risk provisions is a significant area, where the Management Board of HYPO TIROL BANK AG also makes assumptions and discretionary decisions. The identification of impairments and the determination of the recoverable amount include uncertainty and require, in addition to the identification of the loss event, assumptions to be made with regard to the economic situation of the customer, expectations of future cash flows and the value of the collateral. Using different assumptions and valuation techniques might lead to different estimates of impairments or credit risk provisions for the lending business with customers; therefore we have selected this area as a key audit matter.

In this regard, we refer to the disclosures provided by the Company‘s Management Board in the Notes (Notes) to the consolidated financial statements in the Notes (3) „ Essential Decisions, Assumptions and Estimates (18) „Credit Risk Provision“, (43) „Loan loss provisions“, (56) „Receivables from Clients“, (58) „Credit Risk Provision“ and (77) „Provisions“.

How we addressed the matter in the context of the audit:
We have assessed the design and effectiveness of the internal control system regarding individual and lump sum loan loss provision calculation, including the quality of the underlying data and systems. We reviewed and verified the credit monitoring process and assessed the adequacy of the process to identify the loss events in time. Hereto we inquired the responsible employees and assessed the internal guidelines to determine whether they were adequate to identify default events and to calculate the demand for loan loss provisions. Furthermore, we have tested the design and operating effectiveness of selected controls implemented in these processes.

For loan loss provisions and credit risk provisions calculated on an individual basis, we have tested on a sample basis the underlying assumptions for the impairment identification and quantification (in particular projections of future cash flows, valuation of collaterals and estimations of the recoverable amount in case of default). The samples were selected on a risk-oriented basis, taking customer ratings into account.

For the audit of the lump sum loan loss provision we have reviewed the models used and the parameters applied to determine whether they are suitable for the determination of appropriate provisions.

In addition, we have assessed whether the valuation procedure for loan loss provisions has been correctly described by the Company‘s Managing Board in the Notes and whether the disclosures were complete.

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

Description:
HYPO TIROL BANK AG records in its consolidated financial statements as at 31 December 2017 to a significant extent securities, own issues and derivatives allocated to Fair Value Level 2 of the Fair Value Hierarchy.

The valuation of these securities, own issues and derivatives requires the determination of the fair value using accepted valuation models and methods, as there are no current market or exchange prices available in an active market.

Applying accepted valuation models during the valuation, the selection of those valuation models and methods, the selection of the input parameters used as well as discretionary decisions associated with the selection of the input parameters, which are bearing an element of estimation uncertainty, are of decisive importance for the determination of the fair value.

In this regard, we refer to the disclosures provided by the Company´s Management Board in the Notes to the consolidated financial statement in Note (6) „Fair Value", where the valuation models for inactive and non-existent markets are described and to „Additional IFRS Information" (82) „Fair Value", where the fair value hierarchies and sensitivity analyses are presented.

Due to the fact that securities, own issues and derivatives that are categorized as fair value level 2 of the fair value hierarchy may be subject to estimation uncertainties with regard to the input parameters relevant to valuation, we have identified this area as a key audit matter.

How we addressed the matter in the context of the audit:
We have examined the valuation process as well as the design and operating effectiveness of the group´s significant controls with regard to the data input for the valuation of the securities, own issues and derivatives that are categorized as fair value level 2 of the fair value hierarchy. Within the measurement of these securities, own issues and derivatives we have assessed the appropriateness of the assumptions and methods used by the Group. We have assessed the valuation of these securities, own issues and derivatives and their carrying amount in accordance with the categorization according to IAS 39 on a sample basis.

In addition, we have assessed whether the valuation procedure of the Company's Management Board in the Notes on the valuation of securities, own issues and derivatives that are categorized as fair value level 2 of the fair value hierarchy has been described correctly and the disclosures were complete.

Responsibilities of Management Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB and Section 59a Austrian Banking Act BWG for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles and banking regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion
In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement
Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Additional information in accordance with article 10 EU regulation

We were elected as auditor by the extraordinary general meeting at April 19, 2016. We were appointed by the Supervisory Board on June 23, 2016. We are auditors without cease since 2010.

We confirm that the audit opinion in the section „Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

Responsible Austrian Certified Public Accountant

The engagement partner is Mrs. Andrea Stippl, Certified Public Accountant.

* This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

Vienna, 26 March 2018

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Wolfgang Tobisch mp
Wirtschaftsprüfer / Certified Public Accountant

Mag. Andrea Stippl mp
Wirtschaftsprüferin / Certified Public Accountant

Statement of the Legal Representatives

We confirm to the best of our knowledge that the consolidated financial statements, which were established in accordance with all relevant reporting standards, give a true and fair view of the assets, the financial position and the profit situation of the corporate group; that the consolidated financial report describes the business development, the company result and the company situation in such a manner that gives a true and fair view of the assets, the financial position and the profit situation of the corporate group, and that the consolidated financial report describes the essential risks and uncertainties the corporate group is confronted with.

We confirm to the best of our knowledge that the financial statements of the parent company, which were established in accordance with all relevant reporting standards, give a true and fair view of the assets, the financial position and the profit situation of the company; that the financial report describes the business development, the company result and the company situation in such a manner that gives a true and fair view of the assets, the financial position and the profit situation, and that the financial report describes all risks and uncertainties the company is confronted with.

Innsbruck, am 26 March 2018

Managing Board

Johann Peter Hörtnagl

Mag. Johannes Haid

Mag. Alexander Weiß

Report of the Supervisory Board of HYPO TIROL BANK AG

In the course of the 2017 fiscal year, all business activities carried out by the Managing Board were monitored by the Supervisory Board. In the context of rotational meetings and other reports, the Supervisory Board gained detailed information about the development of the company and all essential business cases. In addition, the Chairman of the Supervisory Board regularly received information provided by the Managing Board and the head of the Internal Auditors Department.

Supervisory Board Meetings

In the 2017 fiscal year, five ordinary Supervisory Board meetings were held, at which fundamental issues of business policy, current developments of profit development, compliance with accounting standards and single business cases, which required the approval of the Supervisory Board due to legal or statutory provisions, were discussed with the Managing Board. The Supervisory Board particularly focused on the measures regarding the implementation of the bank's strategic realignment programme.

Supervisory Board Committees

The Supervisory Board appointed six committees.
The Credit Committee manages mortgages, loans, and large-scale investments. Four ordinary meetings and four extraordinary meeting were held by the Credit Committee in the 2017 fiscal year.
According to the Austrian Banking Act, article 63a, sec. 4, the Audit Committee is responsible for monitoring the preparation of the financial statements, the effectiveness of the internal control system, the internal audit system and the risk management system of the company; furthermore it manages the audit and the preparation of the approval of the financial statements, the proposal concerning profit distribution, the financial report as well as the consolidated financial statements and the consolidated financial report. Altogether, four Audit Committee meetings were held in the 2017 fiscal year.

The Committee for Managing Board Matters regulates the relations between the company and the members of the Managing Board, except appointments or recall of appointments or granting share options of the bank. In the 2017 fiscal year, one meeting was held by the Committee for Managing Board Matters.

The Remuneration Committee is responsible for all remuneration issues described in the Austrian Banking Act, articles 39 b and c with the exception of Managing Board remuneration. In the 2017 fiscal year, one meeting was held.

In the 2017 fiscal year, one meeting was held by the Nomination Committee, which is responsible for all matters in relation to the Austrian Banking Act, article 29.

In the 2017 fiscal year, the Risk Committee, which manages all matters regarding the Austrian Banking Act, article 39 d, held one meeting.

Financial Statements

The financial statements and the financial report as at 31 December 2017 were audited by the chartered accountants Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. As no objections were proposed, the auditor's opinion was granted without any limitations or reservations.

The consolidated financial statements including the notes, which were prepared in compliance with the International Financial Reporting Standards (IFRS), as well as the consolidated financial report as at 31 December 2017, were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna.

Subsequent to the final audit of the 2017 financial statements and the 2017 consolidated financial statements, the notes, the financial report regarding the financial statements and the consolidated financial statements, no objections were raised. The Supervisory Board approves the present profit allocation proposal and the financial statements, submitted by the Managing Board, which have been prepared in accordance with the Companies Act, article 96, section 4, and it acknowledges the consolidated financial statements.

Innsbruck, 29 March 2018

Supervisory Board

Mag. Wilfried Stauder

2017 SUSTAIN-ABILITY REPORT

Content

I. Indroduction

It goes without saying that we place great importance on economic strength. It allows us to pass on financial power to the people, the economy and the country alike. However, it is also very important how we generate our profit, because, after all, we are perfectly aware of our responsibility as the Tyrolean state bank. For that reason, our decisions are always made thoughtfully, in compliance with our mission, based on our values and with special focus on long term success.
The sustainability report established for the 2017 business year is a chance to prove that people can rely on us as a social and ecological financial partner.

In order to comply with the legal requirements as stipulated in the Sustainability and Diversity Improvement Act that is based on the Austrian Code of Commerce article 267a, our report was established in reference to the GRI standards, published by the Global-Reporting-Initiative. In this context, selected standards are used in reference to GRI. The selected details are listed in the GRI content index.

II. Hypo Tirol Bank AG introduces itself

Organisational profile

Hypo Tirol Bank AG is operated as a regional universal bank. The financial institution was founded in 1901. The purpose of the regional mortgage bank was to help all the farmers, who had been facing challenging economic situations, to get back on their feet. The tasks have considerably developed over time and have become multifaceted. Nevertheless, the social idea and the commitment to the country and its people have remained the same.
As a regional bank we offer all services of a modern bank, and this enables us to take care about both, the people and the economy. According to this motto, our top priority is to be economically successful and competitive in order to generate additional value for our clients, the Province of the Tyrol, our employees and the Tyrolean population. Due to a strengthened capital base, Hypo Tirol Bank AG operates as a highly professional, effective, lean, customer-oriented company. Hence, it is a profitable financial service institution, which safeguards its independence on the long run. In addition, all business transactions carried out by Hypo Tirol Bank AG comply with high social and ecological standards as stipulated in this report; by doing so, it fosters a sustainable market economy.

Strategic Alignment

The strategic commitment of a universal bank is to focus on the core market, in other words on North, East and South Tyrol and Vienna. On 31 December 2017, the Hypo Tyrol corporate group comprised 19 branch offices in North Tyrol, one branch office located in East Tyrol another one in South Tyrol and one branch office located in Vienna.

The objective of Hypo Tirol Bank AG is to achieve controlled growth in the above-mentioned core markets. For that reason, special attention is given to private clients, corporate clients, public institutions such as non-profit residential building providers or communities. As a regional universal bank, Hypo Tirol Bank AG offers these clients a comprehensive portfolio, including savings and investment products, account systems, different card solutions and insurance and finance products.

Receivables from clients by business type

in k EUR	2017	2016
Central states and public sector	603,264	574,714
Corporate clients	3,666,478	3,629,686
Private households	1,191,211	1,154,150
Other	24,892	29,698
Receivables from clients	**5,485,845**	**5,388,248**

In all segments, Hypo Tirol Bank AG fulfils its social responsibility by providing a product range that is tailored to every situation in life.

It goes without saying that Hypo Tirol Bank AG will never establish business relationships that are morally or ethically unacceptable, such as the financing of brothels, or business transactions in connection with the gaming and arms trafficking industry. Among other aspects, this strategy is rooted in the credit risk policy.

Shareholder structure

Being a company that is owned by the Province of the Tyrol, Hypo Tirol Bank AG is aware of the responsibility to take care of both, the country and its people. Sustainable growth serves as the foundation for all business processes. These processes, which form part of the business strategy, are implemented by the Managing Board.

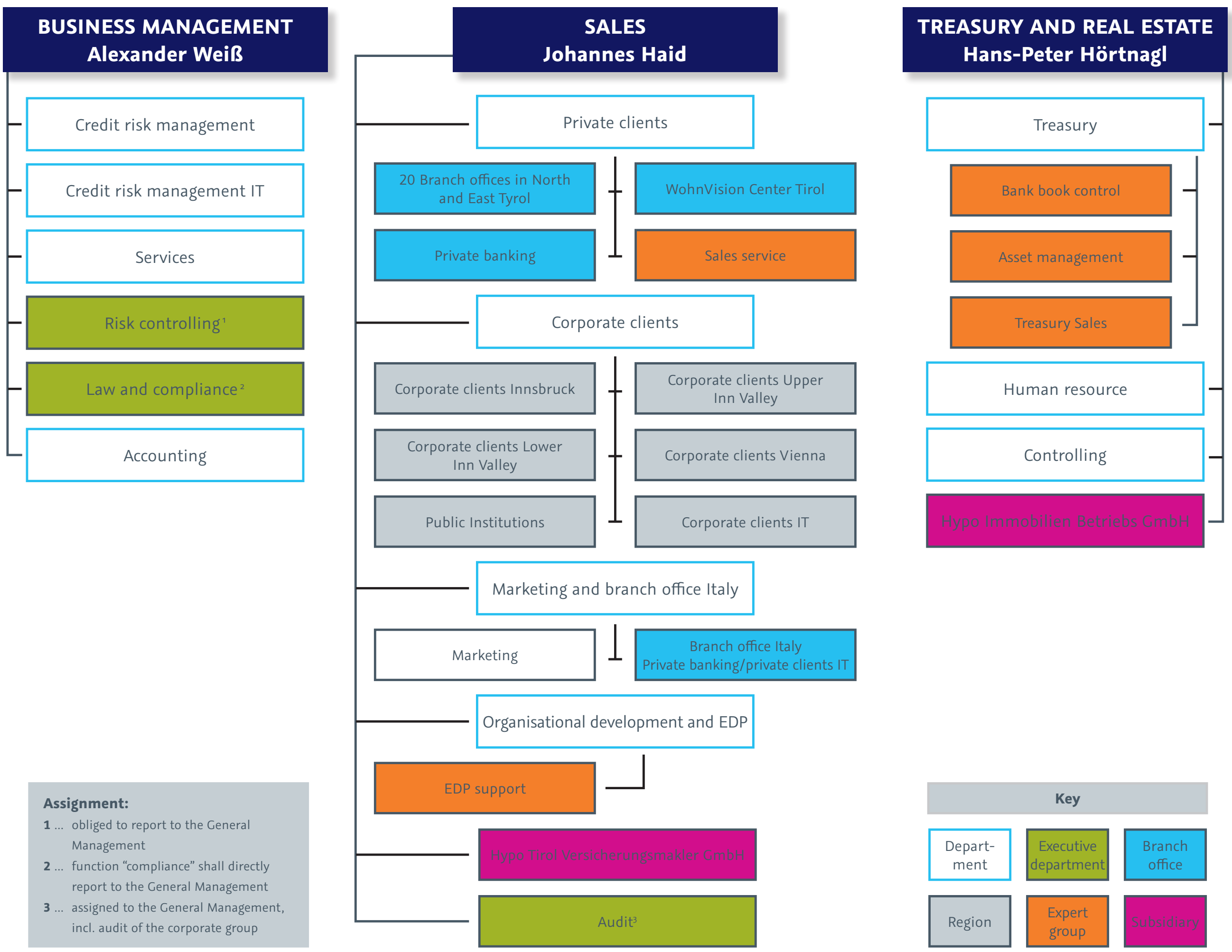
The following illustration shows the shareholder structure of Hypo Tirol Bank AG:

Committee structure

The committees established within the structure of Hypo Tirol Bank AG ensure that all reporting and information obligations are fulfilled.

- Supervisory Board meeting
- Risk committee
- Audit committee
- Nomination committee
- Remuneration committee
- Committee on handling Manging Board issues
- Credit committee

Corporate group structure/management structure



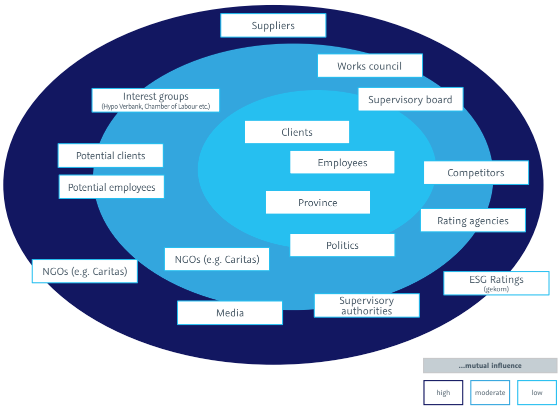
III. Partners and common values

The values of Hypo Tirol Bank AG and its cooperative relationships with the Tyrolean population and numerous business partners create the breeding ground for sustainable success.

In the context of the sustainability process, defined stakeholders and the major activity areas of Hypo Tirol Bank AG were evaluated by a group of experts comprising representatives of the sectors organisational development, treasury, marketing, law & compliance, real-estate, human resources as well as risk controlling – external support was also provided in this context. In order to institutionalise the sustainability process, a sustainability committee will be established with the commencement of the 2018 business year. The committee shall reflect and further develop the process on an ongoing basis.

3.1. Partner

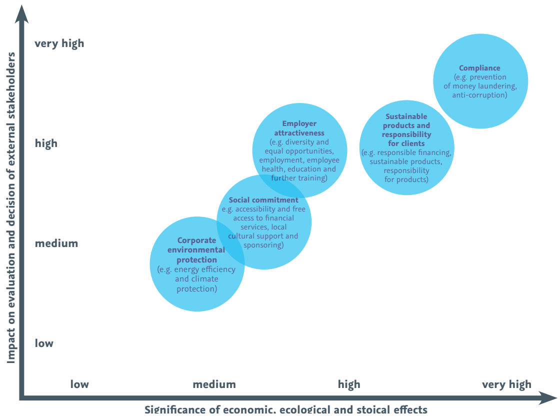
The following stakeholders are considered to be essential partners of Hypo Tirol Bank AG. The illustration shows the mutual influence of the stakeholders.



3.2. Major areas of activities

Hypo Tirol Bank AG has a well-defined mission: to use its resources in the best possible way in order to contribute to the personal and economic success of all the people living in the Tyrol – on professional and private level. Because it is the people, who have made the Tyrol, what it is today.

In order to fulfil this task, it is important that Hypo Tirol Bank AG understands that the performed business activities might lead to certain effects and that these effects could have additional consequences on the behaviour of its stakeholders.
The following illustration shows the result of the internal materiality analysis:



These areas of activities/subjects have been identified as material and are described in detail as follows.

IV. Environmental policy

In comparison to manufacturing companies, a financial institution has only few opportunities to improve environmental protection. Nevertheless, it is crucial for Hypo Tirol Bank AG to contribute in this respect. Therefore, all employees endeavour to keep the environmental impact of their actions on a low level. As far as corporate environmental protection is concerned, no significant environmental risks can be detected at the moment.

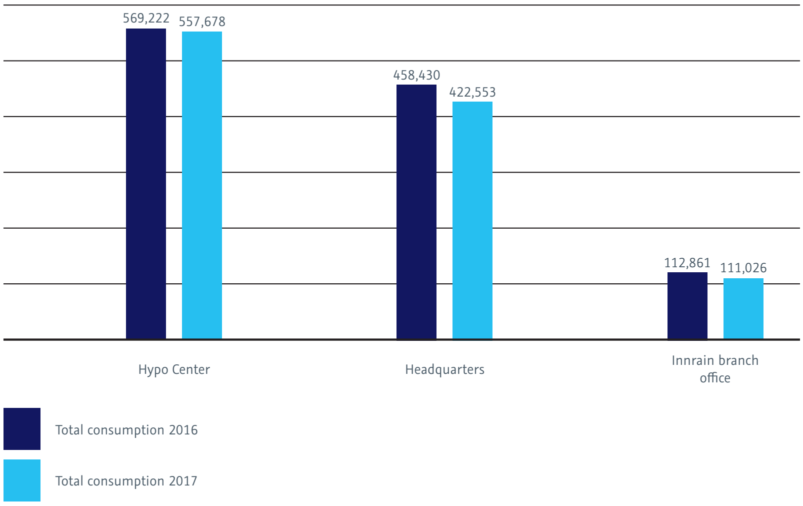
The efficient use of energy and resources is accompanied by long-term cost-cuttings.
Even though, investing into the environment means to spend money on the short-run, we are absolutely convinced that such investment will create additional social and financial value on the long run. This kind of additional value is particularly reflected in the field of material expenses.

One of the possibilities to improve corporate environmental protection is to consistently save energy and materials and to reduce emissions. The available key performance indicators of the first reporting year focus on energy and materials (paper consumption).
The digitalisation strategy, which was established in 2017 and will be further developed on a regular basis, shall support the company and its employees to reach the defined savings goals.

With respect to investments in the bank's own properties, it is of top priority to increase the efficiency of energy.
As far as the enlargement, refurbishment or new erection of branch offices is concerned, ecological aspects shall be increasingly considered, especially in the planning process and in relation to the selection of building materials. The needs of both, clients and employees shall also be taken into account. Regional small- and medium-sized enterprises shall be employed to implement these projects. Moreover, we will use our available resources to realise climatic renovations and to use renewable energies.

At present 68% of all employees work in the largest buildings (Hypo Center Tirol, the Hypo Tirol headquarters and the Innrain branch office); here, electricity consumption was reduced by 4.3% (49,256 kWh) from 2016 to 2017. This reduction primarily resulted from the replacing of the lamps with energy-saving LED lighting systems and the exchange of PC monitors. In 2018, this strategy will be further pursued. Positive effects in relation to material expenses were already recorded: electricity expenses amounted to roughly 22%.
As for 2018, a further expansion of this key figure concerning all branch offices of Hypo Tirol Bank AG is intended.

Development electricity consumption kWh



The mobility concept defined by Hypo Tirol Bank AG suggests the use of efficient and resource-saving means of transport. The short distances between the main buildings in Innsbruck shall be travelled by foot or bicycle.
In 2018, the expansion of the video-conference system is planned. Furthermore, Hypo Tirol Bank AG will acquire three electric vehicles and replace some of the old cars with new models that have a lower volume of emissions.

By sensitising our employees and introducing a consistent digitalisation strategy, we attempt to reduce paper consumption. For example, the primary setting of all printers in the corporate group were changed from single-sided printing to double-sided printing. Apart from that, the digitalisation strategy allowed to abolish storage of paper forms and documents.

V. Social commitment

As a company that is owned by the Province of the Tyrol, Hypo Tirol Bank AG is aware of its responsibility for the country and its people alike. The objective is to make use of the bank's own strengths in order to contribute to society. This can be achieved by supporting people – specifically, precisely and on a daily basis. Consequently, their visions can be turned into chances, chances can be implemented and finally goals can be reached. Because it is the people that have made the country what it is today. Indeed, all of them.

5.1. Sustainability in the core business

Hypo Tirol Bank AG defines sustainability in the core business as the responsibility to consider the compliance with human rights and environmental standards, especially in the field of product design and marketing. In this respect, Hypo Tirol Bank AG currently focuses on allowing unrestricted access to all services and on providing products with social additional value for specified target groups.

Unrestricted access to all services for all clients plays a decisive role. Especially in terms of accessibility, many actions have already been taken and will be taken to reach the standards that are beyond legal conformity. In this connection, we are cooperating with several disabled people's organisations to benefit from their expertise.
Another component in terms of strengthening the Tyrol as a business location is to offer sustainable products that support the chances of underprivileged groups. The goal is to increase economic capacity.

If disabled people were not be able to access Hypo Tirol Bank AG, they would not have the opportunity to freely choose from the financial services, let alone make use of them. This might jeopardise the economic development of these people and hence the social balance. If Hypo Tyrol Bank AG did not offer products, which generate additional value, certain groups of people could hardly or not at all take part in the process of increasing the economic power of our country. All these things considered, the result would be the weakening of the business location.

Whenever Hypo Tirol Bank AG expands or newly erects business premises, risks are militated by considering the needs of the users. In this connection, accessibility to and inside the branch offices is of great importance. The heart of our financial services – "hypo@home" online banking – was developed together with visually impaired people in compliance with the W3C standards for web accessibility.

Unrestricted access to all services

As far as accessibility is concerned, seven branch offices have already been adapted. In 2018, two additional branch offices will be renovated. The objective is to have modernised all branch offices, if possible, by the end of 2022.

Products that primarily generate social additional value

Different products, which generate additional social value, are offered by Hypo Tirol Bank AG and its single business sectors to support specified groups of people.
In the **private client** sector, the offer includes the refugee account, the "U25" account (for people under the age of 25), the account for doctors in training, the stage-of-life credit and housing subsidy credits.
The **refugee account** was developed in collaboration with the "Tiroler Soziale Dienste" (social service organisation). It allows cashless transactions of monetary services in relation to primary care for vulnerable foreigners, who are taken care of by the "Tiroler Soziale Dienste" organisation.
The **U25 account** was developed for clients who are between 12 and 25 years old. Regardless of their profession, the account enables young people to manage their own financial issues.
The **account for doctors in training** is a full-service account designed for this particular group of clients. Moreover, a liability insurance (EUR 2 million) is included for the first three years, which makes the beginning of a doctor's career a little bit easier and free from any worries.
The **Hypo-WohnVision-Lebensphasenkredit** (stage-of-life credit) provides support for young people whose living situations might change over the years. The payment of instalments can be adapted

to the respective living situation without any additional charges. Consequently, the founding of a family or finding a new job can easily be handled from the financial point of view.
Housing subsidy credits are granted in compliance with the housing subsidy regulations defined by the Province of the Tyrol. Housing subsidies were developed for people with lower income in order to enable them to acquire their own property.

With regard to **corporate** clients, Hypo Tirol Bank AG offers intensive consulting service and support in relation to the most common **subsidised loans** on regional and national level. Hence, smaller enterprises are also offered the opportunity to do business on an international level.

Besides specifically tailored consulting services, the **account for new entrepreneurs** is offered for the business sector of **free professions.** The monthly charges for this "all-inclusive-account" are very low and thus, the new entrepreneur is protected from unexpected expenses for three years. Usually, when this period expires, the payment behaviour has become stable and an appropriate solution can be found in collaboration with the consultant.

This wide range of products, which all generate additional value, allows different groups of people to meet the challenges of daily life. Possible risks can be reduced to calculable quantities. In doing so, Hypo Tirol Bank AG strengthens the business location.

Support provided for specified groups of people

Type of account	Number of accounts	in % of all user accounts
U25 account	3,801	8.12 %
Refugee account	4,246	9.08 %
Account for doctors in training	17	0.04 %
Total freelancer accounts	1,049	2.24 %
Account for new entrepreneurs	18	0.04 %
Type of account	**Number of accounts**	**in % of housing free private total**
Housing free private total	8,257	
Of which stage-of-life credit	654	7.92 %
Type of account	**Number of accounts**	**in % of housing total**
Housing total (free and subsidised)		
Private	11,731	
Of which housing subsidised	3,474	29.61 %

5.2. Subsidies

As a regional bank it is of utmost importance to Hypo Tirol Bank AG to strengthen regional educational and social organisations as well as sports associations and thus, to boost the Tyrol as a business location.

In case Hypo Tirol Bank AG reduces the efforts in this segment, the projects and activities of several initiatives and institutions will be significantly affected.

Kontoart	Anzahl der Konten	in % der Konten Investitionskredite gesamt
Investment credits total (companies)	3,261	
Of which subsidised credits	24	0.74 %

In terms of sponsoring, Hypo Tirol Bank AG focuses on social aspects, education, art and culture as well as on sports. The provision of social support mainly refers to institutions operating throughout the Tyrol, such as the Tyrolean network, the partnership of volunteers, the "Vinzenz" community or emergency service providers. In addition, local initiatives are also sponsoring partners. As far as education is concerned, university institutions are the most important sponsoring partners of Hypo Tirol Bank AG. Apart from the foundation of a chair for the "Principles of Structural Engineering", other alumni projects, which are supposed to promote the Tyrolean network, are also fostered. Young students are awarded the Research Grant for Innovative Approaches. Furthermore, tourism and real-estate issues are also considered because they have a strong influence on the Tyrolean population. Artistic and cultural projects are primarily supported on the local level. Young people play a major role in this respect, which is reflected by the close cooperation with the regional youth theatre. The commitment in the field of sports principally refers to mass sports. The sponsoring helps local clubs and associations to support young talents. This again offers opportunities that simply would not exist without the help provided by Hypo Tirol Bank AG.

VI. Employees

Hypo Tirol Bank AG is an important regional employer and is aware of the associated responsibility. The bank assumes social obligation for 512 employees (2016: 519). It offers interesting jobs with different perspectives and consequently contributes to the future success of the company by concentrating on human resource relations. Only if we work together, we can reach the company goals and provide the defined service – aspects that play a crucial role in relation to the success and competitiveness of a regional bank.

Partner-oriented cooperation helps Hypo Tirol Bank AG to generate an environment in which all employees can use their potential in an optimum way and therefore, they can create sustainable performance for the company. This cooperative philosophy also shapes the relationship with the representatives of the employees and the social partners, who are actively integrated to handle all employee-related subjects and activities.

[f]Full-time equivalent

6.1. Human resource development

In order to guarantee that employees can use their full potential and to grant them the opportunity to create their careers in the best possible way, Hypo Tirol Bank AG promotes the continuous personal development of its employees. This is the only way to help them to meet the requirements of their clients, the market and to respond to the steadily changing conditions. In addition, the attractiveness of Hypo Tirol Bank AG as an employer is increased.

Vocational training and further education

As an employer, Hypo Tirol Bank AG emphasises on the strategic development of professional skills and social competences and offers interesting and versatile training and further education programmes. In this context, special attention is given to regulation and compliance.
A career model that was especially designed for sales employees opens a wide range of career chances and further education opportunities. An essential part of this career model is the enhancement of sales expertise, which serves as the foundation for training and development in the sales department. Apart from the improvement of professional skills, special emphasis is also given to personal development, analytical capability or performance motivation. This guarantees that all employees can develop flexibly in the various sales units, and it enables them to switch between different careers.

Strengthening managing skills

As far as the development of managers is concerned, Hypo Tirol Bank AG follows a holistic approach, including the following elements: improvement of individual managing skills in line with the defined managing competences, personal development as a fundamental attitude and regular feedback interviews to identify development failures.

Create an environment that allows sustainable performance

A major concern for Hypo Tirol Bank AG is to acknowledge the development of each individual employee and to value the personal contribution to the success of the company. The management performance process comprises an interview at the beginning of the year, in which goals are set, a location interview, in which the development of the employee is discussed in the middle of the year, and a comprehensive evaluation of the performance at the end of the year, with the self-evaluation of the employee playing an important role.

Promotion of junior employees

Each year, Hypo Tirol Bank AG offers young people the opportunity to take up a profession in the banking industry, either via apprenticeship or internal company training programmes. In this way, young talents are attracted and educated, and jobs in the banking sector are made more appealing. The programmes are composed of practical training modules that are to be completed in the company and learning units that have to be attended in vocational schools for apprentices or in external educational institutions. Hypo Tirol Bank AG is represented at education and career fairs, where it specifically advertises the programmes. In doing so, it attracts employees. Since 2013, the regional bank has held the prestigious title "Awarded Tyrolean Apprenticeship Employer", which is awarded by the Province of the Tyrol, the Chamber of Commerce and the Chamber of Labour.
This award shall be understood as recognition and confirmation for the numerous activities that are offered in the context of apprenticeship.

6.2. Equal opportunities and diversity

Hypo Tirol Bank AG fosters a company structure which is characterised by mutual respect and appreciation. It is based on equal opportunities, social fairness, open communication and conflict ability. The defined goal is to attract the most suitable employees, to support and retain them on the long run – regardless of their cultural background, nationality, gender, religion and other diversity aspects. This is a major contribution regarding the respect for human rights.

As far as gender equality in the Managing Board and Supervisory Board is concerned, a women's quota of 25% was determined; in addition, a strategy to increase the proportion of women was established. Consequently, in case of new employment or replacement in the Managing Board or Supervisory Board not only personal and professional aspects are considered, but also a balanced composition of the board in terms of diversity.
As far as vacancies are concerned, special attention will be given to a balanced gender distribution regarding female and male candidates. Moreover, a balanced relationship is also ensured in relation to the female and male employees who are already employed. The same applies to new experts, who contribute to the sustainable performance of the company due to their knowledge and expertise.

In this context, Hypo Tirol Bank AG underscores that no charges were pressed in connection with any kind of discrimination, neither via the indication system (see section 7) nor via the complaints office established by the law & compliance department. In 2017, there were also no reports on any kind of discrimination submitted by the works council.

Reconciliation of professional and private life

By offering a flexible working time model without core working hours and numerous part-time models, Hypo Tirol Bank AG helps its employees to find a well-adjusted work-life balance. In addition to our female employees, who return to the company after maternity or parental leave, an increasing number of male employees make use of this system as well. Working parents benefit from the cost efficient HYTILATI day care facility.

6.3. Health care and work

Hypo Tirol Bank AG is perfectly aware that a health promoting working environment is the basic requirement to make sure that all employees are able to work and to do their job efficiently. This concept includes measures which shall guarantee occupational health and safety and reduce physical and mental strains caused by work.
The health care programme includes a company doctor, who provides help concerning medical questions for all employees during their working hours, vaccination campaigns and specialist lectures in the context of the internal training and further education programmes. Moreover, it is possible to arrange a free coaching session with an external coach to tackle individual problems. This completes the activities to promote the physical and mental wellbeing of our employees.

In order to support physical activities and exercises, Hypo Tirol Bank AG supports regional and cross-regional events, organised by employees. Every year, various sports events such as tennis, football or skiing championships are held.

IInvesting into the future – vocational training and further education

Average number of hours for vocational training and further education per male employee	2016	2017
Total number of hours of vocational training and further education for male employees	5,811	9,125
Total number of male employees	315	314
	18	**29**
Average number of hours for vocational training and further education per female employee		
Total number of hours of vocational training and further education for female employees	4,331	6,188
Total number of female employees	306	288
	14	**21**
Durchschnittliche Stundenanzahl für Aus- und Weiterbildung pro Angestelltenkategorie		
Total number of hours for vocational training and further education: category "MC"	1,527	2,138
Total number of employees in this category	55	53
	28	**40**
Average number of hours for vocational training and further education per employee category		
Total number of hours for vocational training and further education: category "sales"	5,133	7,556
Total number of employees in this category	270	272
	19	**28**
Average number of hours for vocational training and further education per employee category		
Total number of hours for vocational training and further education: category "internal"	3,483	5,619
Total number of employees in this category	296	277
	12	**20**

VII. Principals of ethics and integrity

According to Hypo Tirol Bank AG, financial markets and financial services in particular, are based on the confidence of market participants and clients. All services and business transactions are provided or carried out by Hypo Tirol Bank AG in a fair manner that is transparent for other market participants. The success primarily results from Hypo Tirol Bank AG's solid and faithful relationship with its clients and employees.
For that reason, Hypo Bank Tirol AG has been doing business in accordance with comprehensive compliance directives for decades. By doing so, it is ensured and illustrated that the bank, its organisations and employees act in consistence with all legal provisions and prohibitions.
The compliance directives are based on the regulations as stipulated in the European Market Abuse Directive, the EU provisions concerning the regulation of financial markets MiFID II/MiFIR, the Austrian Securities Supervision Act (WAG 2018), the Prevention of Money Laundering and Funding of Terrorism Regulations as well as the International Law Against Corruption.
The purpose of these provisions is to prevent insider dealing, market manipulation or market abuse, or to avoid conflicts of interest and any form of money laundering and funding of terrorism or corruption in the context of the business activities carried out by Hypo Tirol Bank AG. In addition, all compliance-related risks, resulting from any failure to act in accordance with laws, regulatory provisions, any other recommendations or internal guidelines shall be reduced.

Compliance organisation

In order to meet all above mentioned legal requirements, Hypo Tirol Bank AG established a compliance facility with qualified employees and a supportive IT assessment system.
Since the re-integration of the former fully-licensed bank of Italy on 1 October 2013, all compliance functions have been managed by the law & compliance department. The compliance representatives directly report to the Managing Board division for business transactions. The report is submitted to the Managing Board of the corporate group and to the Supervisory Board.

Prevention of money laundering and the funding of terrorism

In order to avoid any kind of money laundering or funding of terrorism, Hypo Tirol Bank AG established different processes and systems which detect suspicious transactions. In case money laundering is suspected, a report shall be submitted to the respective reporting office (Austrian Ministry for the Interior). At the same time, a daily embargo and sanction assessment of existing and newly acquired business relations with politically exposed persons (PEP) is carried out in accordance with all legal requirements.

Combatting corruption

Hypo Bank Tirol AG prevents and combats corruption by means of separate work instructions.
In order to facilitate the application of rules, and for the purpose of better understanding, both scenarios regarding "giving non-cash benefits – gift giving" and "accepting non-cash benefits – gift accepting" are explained in detail on the basis of a traffic-light system via specific examples. All employees of Hypo Tirol Bank AG are regularly informed about any update of these strict regulations via trainings and tests.
This process prevents any kind of failure and reduces the risk of unfair and unjustified enrichment via corruption and acts of bribery and all corresponding legal uncertainties and increased expenses.
In the reporting period, no case of corruption was identified.

Whistle-blower system

Besides the compliance facility, where perceptions can be reported, the web-based whistle-blower system created by Hypo Tirol Bank AG serves as an essential internal tool to detect possible misconduct.
Hypo Tirol Bank AG established a modern, interesting and - if the informant desires – absolutely anonymous whistle-blower system.
The structure of the whistle-blower system complies with the Austrian Banking Act section 99a and comprises three explicitly required features.

- The whistle-blower is granted anonymity
- Any communication between whistle-blower and recipient remains strictly confidential
- Abuse is prevented

In the context of quarterly reports, the audit division regularly informs the Managing Board about the number and the content of possible reports and about the current state of prosecution of notifications.

The Managing Board informs the works council about its quarterly meetings.
The internal guidelines designed for the whistle-blower system were integrated into the work instructions of Hypo Tirol Bank AG and ensure the following aspects:

- Specified procedures regarding the receipt of reports on violations and their prosecution.
- Provision of appropriate protection for the employees who report violations within the bank, at least protection against retaliation, discrimination or other types of mobbing.
- Personal data are protected in accordance with the principles stipulated in the Data Protection Directive 95/46/EC concerning the person who reports the violation, as well as the natural person who is responsible for the violation.
- Clearly defined rules, which guarantee the non-disclosure of the identity of the person who reports the violation, unless such disclosure of the identity is compulsory in the context of preliminary investigations by public prosecution, legal proceedings or any other proceedings concerning administrative law.

Complaint management

The purpose of complaint management is to solve disputes or to act as a mediator between the complainant (client) and Hypo Tirol Bank AG concerning cases where no direct settlement with the consulting agent or the branch office or the respective department was reached.
A complaint is any kind of expressed discontent, raised by an entity or a natural person regarding a specified request in connection with a specified business matter, and addressed to Hypo Tirol Bank AG, provided that no other dispute is already pending before court or another arbitral tribunal or that a judgement has already been delivered in relation to the same matter.
Pursuant to the ESMA and EBA guidelines for handling consumer complaints in the securities and banking sector a complaint is an expressed discontent in connection with:

- The provision of services in the securities sector in connection with MiFID, the UCITS directive or AIFMD.
- Banking service as stated in annex I of CRD.
- A service provided in relation to the common portfolio management in the context of the UCITS directive.

Any express of discontent is handled in the context of the complaint management process by Hypo Tirol Bank AG in a transparent manner. The tasks of the complaints office in the law & compliance executive department are

- to accept the complaint submitted by the client,
- to classify the complaint,
- to evaluate the processes and the responsible units affected by the complaint,
- to ensure that the normative and operative conformity of the affected processes is assessed, and
- to inform the responsible units of the processes in order to obtain clarifying explanations that are required by the complaints office.

VIII. GRI content index

Based on the guidelines published by the Global Reporting Initiative (GRI standards: report on selected standards in accordance with the GRI referenced application option) the present report describes general information as well as economic, ecological and social aspects regarding all subjects that are considered to be relevant in accordance with the materiality analysis. The reporting period refers to the 2017 business year (1 January to 31 December 2017).

GRI Inhaltsindex

GRI-Standard	GRI-data	Page number(s) and/or URL(s)	Omission/Note
GRI 101: Basics 2016 General information			
Organisation profile			
GRI 102: General information 2016	102-1 Name of the organisation	11	
	102-2 Activities, markets, products and services	1 et seqq 4 et seqq	
	102-3 Headquarters	11	
	102-4 Branch offices	1	
	102-5 Ownership and legal structure	1	
	102-6 Markets served	1	The report written by Hypo Tirol Bank AG describes the segments of clients and the geographical region (location) where the products and services are offered. A report on business types is planned for 2018.
Ethics and integrity			
GRI 102: General information 2016	102-17 Procedures regarding ethics consultations and concerns	7 et seqq	
Management			
GRI 102: General information 2016	102-18 Management structure	2	
Inclusion of stakeholders			
GRI 102: General information 2016	102-40 List of stakeholder groups	3	
	102-42 Determination and selection of stakeholders	3	
Reporting approach			
GRI 102: General information 2016	102-46 Determination of content and subjects	3f	
	1102-47 List of fundamental subjects	3	
	102-50 Reporting period	9	
	102-51 Date of the current report	9	
	102-52 Berichtszyklus	11	
	102-53 Contact information in case of questions regarding the report	11	
	102-55 GRI Content index	9 et seqq	
Fundamental subjects			
Combating corruption			
GRI 103: Management approach 2016	103-1 Explanation of fundamental subjects and their differentiation	7 et seqq	
GRI 103: Management approach 2016	103-2 The Management approach and its components	7 et seqq	
GRI 103: Management approach 2016	103-3 Assessment of the management approach	7 et seqq	
GRI 205: Combatting corruption 2016	205-3 Confirmed cases of corruption and measures taken	7	
Energy			
GRI 103: Management approach 2016	103-1 Explanation of fundamental subjects and their differentiation	3 et seqq	
GRI 103: Management approach 2016	103-2 The management approach and its components	3 et seqq	
GRI 103: Management approach 2016	103-3 Assessment of the management approach	3 et seqq	

GRI-Standard	GRI-data	Page number(s) and/or URL(s)	Omission/Note
Energy			
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	3 et seqq	The first year of data collection only resulted in valid data regarding energy consumption (buildings: Hypo Center Tirol, Hypo Tirol headquarters, Innrain branch office). Hypo Tirol Bank AG intends to establish a report on further types of energy for 2018.
GRI 302: Energy 2016	302-4 Reduction of energy consumption	3 et seqq	
Vocational training and further education			
GRI 103: Management approach 2016	103-1 Explanation of fundamental subjects and their differentiation	5 et seqq	
GRI 103: Management approach 2016	103-2 The management approach and its components	5 et seqq	
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GRI 103: Management approach 2016	103-1 Explanation of fundamental subjects and their differentiation	5 et seqq	
GRI 103: Management approach 2016	103-2 The management approach and its components	5 et seqq	
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GRI 103: Management approach 2016	103-2 The management approach and its components	4 et seqq	
GRI 103: Management approach 2016	103-3 Assessment of the management approach	4 et seqq	
G4: Branch related information (financial services) 2013	FS7 Cash value of products and services developed for a specific social purpose, for each business segment broken down by purpose	4 et seqq	
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IX. Legal notice

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