Oberbank
3 Banken Gruppe

ASSETS BASED ON TRUST.

Interim Report to Shareholders as at 30 June 2018

Oberbank at a Glance

Income statement in €m	1HY 2018	Change	1HY 2017
Net interest income	165.3	5.5%	156.7
Income from entities recognised by the equity	43.3	47.0%	29.5
Charges for losses on loans and advances	-5.3	>-100%	2.0
Net commission income	79.2	14.7%	69.0
Administrative expenses	-144.5	13.7%	-127.1
Profit for the period before tax	134.1	9.0%	123.1
Profit for the period after tax	114.0	12.2%	101.6

Balance sheet in € m	30/6/2018	Change	31/12/2017
Total assets	21,438.5	2.9%	20,830.6
Loans and advances to customers	15,586.1	5.6%	14,760.3
Primary funds	13,740.7	2.6%	13,394.7
of which savings deposits	2,705.6	-0.5%	2,719.0
of which securitised liabilities incl. subordinated debt capital	2,080.9	4.2%	1,997.4
Equity	2,704.4	9.6%	2,466.8
Customer funds under management	29,560.1	0.8%	29,332.6

Own funds purs. to CRR in €m	30/6/2018	Change	31/12/2017
Common equity tier 1 capital (CET 1)	2,244.4	1.9%	2,203.1
Tier 1 capital	2,309.3	1.6%	2,273.8
Own funds	2,660.4	1.4%	2,622.9
CET 1 ratio in %	15.80	-0.70% ppt	16.50
Tier 1 capital ratio in %	16.26	-0.77% ppt	17.03
Total capital ratio in %	18.73	-0.91% ppt	19.64

Performance indicators	1 HY 2018	Change	1HY 2017
Cost/Income ratio in %	50.90	-0.31% ppt	51.21
Return on equity before tax in %	10.34	-0.18% ppt	10.52
Return on equity after tax in %	8.79	0.11% ppt	8.68
Risk/earnings ratio (credit risk/net interest) in %	3.21	4.28% ppt	-1.07

Resources	30/6/2018	Change	31/12/2017
Average number of staff (weighted)	2,088	38	2,050
Number of branches	162	1	161

Development of Business of the Oberbank Group in HY1 2018

Dear Readers,

Oberbank is very pleased to report an excellent development in the first half of 2018.

Earnings rise substantially again

- **Net profit: EUR 139.4 million / +15.1%**
- **Net profit before tax EUR 134.1 million (+9.0%), after tax EUR 114.0 million (+12.2%)**
- **Net fee and commission income EUR 79.2 million, +14.7%**

After the excellent results achieved in HY1 2017, earnings developed again robustly. Operating income went up by 15.1% to EUR 139.4 million, net profit before tax rose by 9.0% to EUR 134.1 million and after tax by 12.2% to EUR 114.0 million. Interest and commission income contributed equally to earnings. In HY1 net interest income rose year on year by 5.5% to EUR 165.3 million, while income from equity investments rose by EUR 47.0% to EUR 43.3 million. Net commission income was 14.7% higher year on year at EUR 79.2 million. All commission-earning business lines contributed to this increase, with commissions from lending (+34.2%) and securities (14.4%) developing particularly well.

Strongest lending growth in history of Oberbank

- **EUR 2.5 billion in new loans**
- **Lending volume EUR 15.6 billion / + 8.7%**

In the first half of 2018, we granted a volume of almost EUR 2.5 billion in new loans, with the credit volume rising by 8.7% to EUR 15.6 billion. Thus, the growth rate was once again far above the overall level of the Austrian market (May 2018: + 3.4%) and of the euro area (May 2018: + 2.2%).

For a long time, Vienna, Germany, Czech Republic and Hungary were the driving force behind lending operations, while the core markets of Upper Austria and Salzburg stagnated. Now we are seeing a revival in Upper Austria and Salzburg, which indicates the strength of economic growth in Austria.

A share of 50% of the lending volume was accounted for by loans of up to EUR 3 million. Therefore, not only a few large companies are profiting from the expanding economy, but especially the segment of medium-sized businesses.

Risk situation still highly satisfactory

- **Charges for losses on loans and advances at EUR 5.3 million, NPL ratio 2.41%**

After the exceptional year 2017 in which we reversed a volume of EUR 2 million in impairment charges in the first half-year, in the first half-year 2018 we allocated EUR 5.3 million to charges for losses on loans and advances. This is an exceptionally low level over the long-year average.

The NPL ratio, i.e., the share of non-performing loans to total credit volume, decreased slightly from 2.44% to 2.41%.

Equity at record level

- **Increase by EUR 298 million to EUR 2.7 billion**

Equity was EUR 2,704.4 million on 30 June 2018, which is EUR 298 million or 12.4% higher than in the same period of the preceding year. A key reason for the robust rise was the high level of reserve allocations made possible by the excellent earnings situation.

Performance ratios back to excellent levels

- **RoE before tax 10.34%, after tax 8.79%**
- **Cost/income ratio 50.90%**
- **16.26% CET1, total capital ratio 18.73%**

RoE remained more or less stable at a high level, despite the robust rise in equity. After the first half-year 2018, RoE was 10.34% before tax (vs. 10.52%), and 8.79% after tax (vs. 8.68%).
The cost/income ratio in HY1 2018 was exceptionally good at 50.9%. Therefore, our productivity is much better than the overall Austrian banking sector, which recently published a cost/income ratio of over 70%.
Capital adequacy (16.26% CET1; 18.73% total capital ratio) continued at an excellent level and was far above the statutory requirements.

Uninterrupted expansion:

- **10 to 12 new branches, by year-end 170 branches**

At the end of April, a second branch of Oberbank was opened in Hanau in Germany, and the 22nd branch was opened in Prague in May. In the second half of the year, we plan to enter the market in Baden-Württemberg and Saxony for the first time. Seven new branches are planned there (Aalen, Esslingen, Reutlingen, Halle a. d. Saale, Chemnitz, Dresden, Leipzig). Additionally, new branches are also planned for Vienna and Budapest.

CEO Franz Gasselsberger

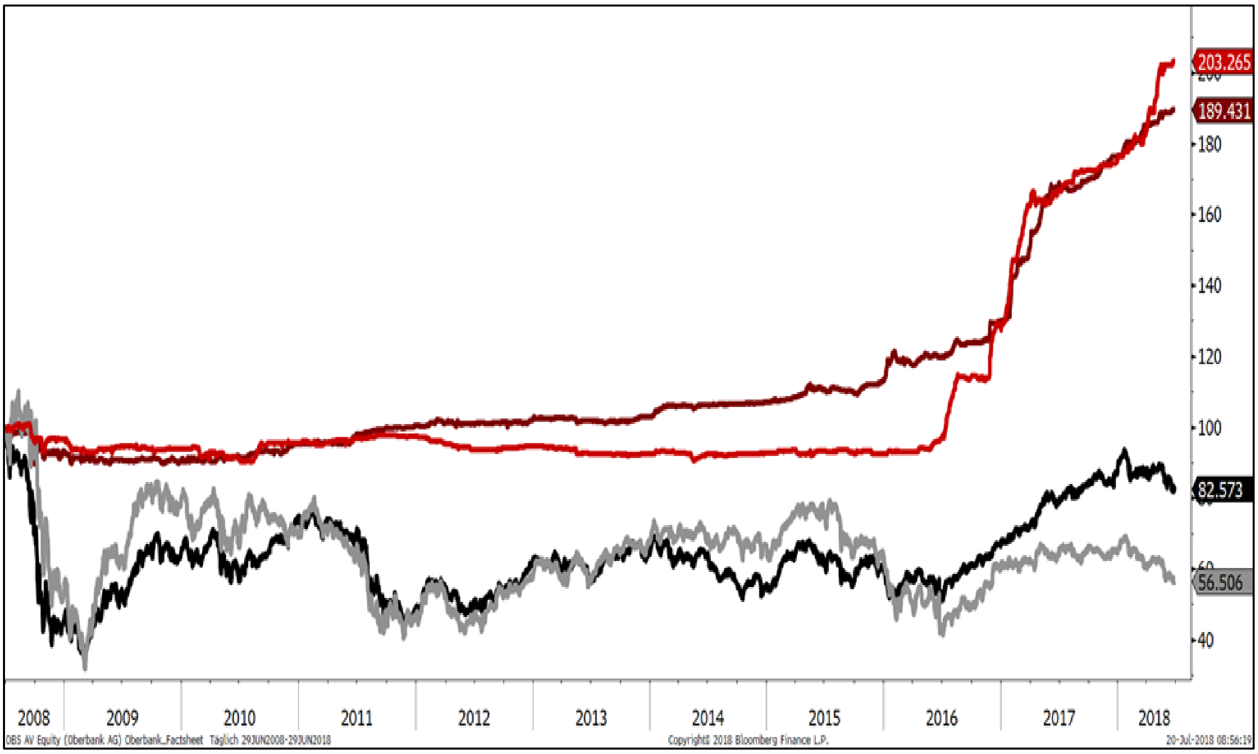
The Oberbank share

The price of Oberbank's ordinary share as well as the price of Oberbank's preference share climbed to new all-time highs in the first half of 2018 (ordinary share EUR 88.00, preference share EUR 83.00). The excellent development of the two share classes lifted Oberbank's market capitalization (total value of ordinary and preference shares) for the first time over EUR 3.0 billion on 23 March 2018.

Oberbank shares – key figures	HY1 2018	HY1 2017
Number of ordinary non-par bearer shares	32,307,300	32,307,300
Number of preference shares	3,000,000	3,000,000
High (ordinary/preference share) in €	88,00/83,00	78.20/68.20
Low (ordinary/preference share) in €	82.00/71.50	60.30/52.00
Close (ordinary/preference share) in €	88,00/83,00	78.00/68.20
Market capitalization in €m	3,092.04	2,724.57
IFRS earnings per share in € annualised	6.46	5.76
P/E ratio, ordinary shares	13.62	13.54
P/E ratio, preference shares	12.85	11.84

Oberbank ordinary and preference shares vs. ATX and STOXX Europe 600 Banks

Chart (period: 29 June 2008 to 29 June 2018 ■ Oberbank Ord■ Oberbank Pre ■ATX■ STOXX Europe 600 Banks



This chart comparison shows the development of the Oberbank ordinary share, the Oberbank preference share, the Austrian stock index ATX, and the European banking index STOXX Europe 600 Banks. The prices in the chart have been adjusted by indexing the daily closing prices of the relevant stock and the indices to 100. This means the starting prices were all set to 100% at the starting time. Therefore, the chart shows the relative percentage development.

Source: Bloomberg, data as at 29 June 2018
The figures given refer to the past. These cannot be used to derive future trends.

Segments in HY1 2018

Corporate and Business Banking

Corporate and Business in €m	HY1 2018	HY1 2017	+ / - in %	+ / - in %
Net interest income	120.3	116.5	3.7	3.2%
Charges for losses on loans and advances	-0.8	11.5	-12.3	
Net commission income	41.1	36.7	4.4	12.0%
Net trading income	-0.1	0.1	-0.2	
Administrative expenses	-70.4	-67.4	-3.0	4.4%
Other operating income	0.9	-17.7	18.6	
Profit before tax	90.9	79.7	11.2	14.1%
Risk equivalent	9,440.8	8,902.5	538.3	6.0%
Average allocated equity	1,450.5	1,310.4	140.1	10.7%
Return on equity before tax (RoE)	12.5%	12.2%	0.3% ppt	
Cost/income ratio	43.4%	49.7%	-6.3% ppt	

Earnings trend in Corporate and Business Banking

Profit in the Corporate and Business Banking segment improved by EUR 11.2 million or 14.1% to a total of EUR 90.9 million.
Net interest income rose by EUR 3.7 million or 3.2% to EUR 120.3 million.
Impairment charges for losses on loans and advances in profit or loss reversed from a positive figure of EUR 11.5 million by EUR -12.3 million to a negative EUR 0.8 million.
Net commission income was up by EUR 4.4 million or 12.0% to EUR 41.4 million year on year.
Administrative expenses increased by EUR 3.0million or 4.4% to EUR 70.4 million.
Other operating income increased from EUR -17.7 million by EUR 18.6 million to EUR 0.9 million.
RoE in Corporate and Business Banking rose from 12.2% by 0.3%-points to 12.5%, while the cost/income ratio improved from 49.7% by -6.3%-points to 43.4%.

Commercial lending

Oberbank’s commercial lending volume continued to grow and rose by EUR 1,056 million or 9.3% from EUR 11,385.1 million to EUR 12,441.1 million.

Commercial loans		YoY change	
As at 30/06/2018	**As at 30/06/2017**	**absolute**	**in %**
€ 12,441.1 m	€ 11,385.1 m	€ 1,056.0 million	9.3%

Investment finance

At a total of 592 projects, the number of applications submitted in Austria and Germany for subsidised loans and innovation projects in the first six months of this year through our branches was again at the high level of the previous year. In this respect, Oberbank holds the absolute top position among Austrian banks, just as in the years before. This is in line with the development of business promotion loans filed through Oberbank which amounted to EUR 866.4 million on 30 June 2018, thus 8.5% higher year on year.

Investment finance		YoY change	
As at 30/6/2018	**As at 30/06/2017**	**absolute**	**in %**
€ 8,871.9 million	€ 8,168.8 million	€ 703.1 million	8.6%

Leasing

At EUR 425 million in new business, Oberbank once again recorded an increase over the preceding year. Behind this trend was once again the excellent development of new business in vehicle leasing.

Although movables leasing declined due to the good liquidity situation of customers, it was possible to overcompensate this downtrend by stimulating the real estate business.

Leasing receivables from customers		YoY change	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 2,263.3 million	€ 2,116.0 million	€ 147.3 million	7.0%

Structured finance

Compared to the preceding year, demand for structured finance increased significantly. Almost all segments posted steep increases in both inquiries and project volumes. The rise in project volume for finance of ownership changes was exceptional, more than twice as high as in the same period of the preceding year. Demand for finance in the tourism and real estate sectors continued to develop robustly. The total project volume in these two sectors was over two billion euro. Overall, the volumes processed rose by 20% year on year and the number of inquiries were up by almost 13%.

Oberbank Opportunity Fund

In the first half of 2018, the Oberbank Opportunity Fund reported 62 inquiries, quite a significant increase year on year. The Oberbank Opportunity Fund finalized three transactions in the first half-year. Since the inception of the Oberbank Opportunity Fund, 66 transactions for equity and mezzanine capital have been supported financially and 10 supplementary financing projects were finalized. The volume of capital committed was EUR 165 million as at 30 June 2018 and was distributed across equity, mezzanine capital and high-yield capital.

Syndicated loans and international lending

In the area of syndication and international lending (loans to syndicates, borrower's note), the number of transactions and volumes have developed positively year on year. Growth was posted in both areas. The market environment continued to be challenging mainly because of the pressure on terms and conditions due to over-liquidity at financial institutions. Investments in borrower's notes are currently being made primarily for relationship reasons.
Oberbank was involved in several attractive projects in Austria and Germany as a finance partner. There are many more interesting projects in the pipeline.

Trade finance and international business

Oberbank is popular with importers as well as with exporters, as it provides reliable payment services, a coordinated foreign currency strategy and finance products including forward hedging strategies. This is also seen in demand for documentary letters of credit, with the number of documentary transactions rising again by 9.2% and earnings by 8.4%.
Based on its advisory approach, Oberbank once again successfully defended its leading position in subsidised export finance as the strongest Austrian regional bank. The market share in export finance under the Export Fund procedures was 10.81% at 30 June 2018, and in the KRR procedure of OeKB for corporates it was 11.7%. It was possible to increase the total volume of export finance to over EUR 1.1 billion, not least also due to the new finance options under the Export Fund procedures of OeKB.

Payment services

The good development of the economy and the positive earnings trend in the growth markets contributed substantially to the higher earnings in payment services. As at 30 June 2018, income was 8.6% higher year on year.
We also increased sales activities to increase business in foreign payment services. These made an additional contribution to foreign exchange earnings.

International network of partner banks and institutions

There has been no change in the difficult overall conditions and the crisis-motivated restraint regarding politically instable export destinations. Nonetheless, ongoing support for our global export customers remains a top priority.

Customer activities in the relatively crisis-free Asian region receive the highest degree of attention, of course. In the first half-year, we intensified bilateral agreements and business opportunities with traditional banking partners in several of the main markets of the region, among others, by paying visits to banks in China, Hong Kong, South Korea, Malaysia and Indonesia, Bangladesh and Vietnam. Moreover, the support mechanisms for business with customers were reactivated with the relevant subsidiaries and branches in London and other financial markets in the EU.

As the Maghreb region also showed signs of revival, relationships with traditional partner banks in Morocco and Tunisia were intensified. Moreover, in high-risk countries, Oberbank's network of correspondent banks helps it meet customer demands for payment transfers, documentary and guarantee transactions as well as hedging and financing services.

With the currently reduced number of around 1200 'key banks' worldwide – with large transaction volumes – Oberbank continues to meet the high standards of its export and import customers.

Primary deposits

The persistently low interest rates and the very high levels of liquidity held by companies were the main challenges in the first half of the year with respect to deposits. The preference of customers to keep their money on sight deposit accounts thus continued. In this environment, primary deposits rose by 2.6% to EUR 13,740.70 million compared to HY1 2017.

Interest rate and currency risk management

The threat of a trade war, the good economic data from the US and the EU, rising interest rates in the US, uncertainty over Brexit and China's role in the world are the themes fuelling the movements on currency markets. On account of the entailing insecurity, many customers want to hedge their international transactions against currency fluctuations. USD/EUR was by far the number one currency pair at Oberbank again, although also transactions in EUR/Czech koruna and EUR/forint were also important. Especially customers receiving direct support engaged in more lively trading activity and income from these transactions was up.

Personal Banking

Personal Banking segment in €m	HY1 2018	HY1 2017	+ / - in %	+ / - in %
Net interest income	29.8	28.2	1.6	5.6%
Charges for losses on loans and advances	-1.6	-6.5	4.9	
Net commission income	38.2	32.4	5.8	18.0 %
Net trading income	0.0	0.0	0.0	
Administrative expenses	-44.9	-42.5	-2.4	5.6%
Other operating income	2.4	-1.4	3.8	
Profit before tax	23.9	10.2	13.7	135.1%
Risk equivalent	1,730.2	1,598.1	132.1	8.3%
Average allocated equity	265.8	235.2	30.6	13.0%
Return on equity before tax (RoE)	18.0%	8.6%	9.4% ppt	
Cost/income ratio	63.8%	71.8 %	-8.0% ppt	

Development of Personal Banking

Profit in the Personal Banking segment rose year on year by EUR 13.7 million or 135.1% from EUR 10.2 million to EUR 23.9 million. Charges for losses on loans and advances in profit or loss decreased from EUR 6.5 million by EUR 4.9 million to EUR 1.6 million. Net commission income was up by EUR 5.8 million or 18.0% to EUR 38.2 million year on year.
Administrative expenses increased by EUR 2.4 million or 5.6% to EUR 44.9 million.
Other operating income rose from EUR -1.4 million by EUR 3.8 million to EUR 2.4 million.
RoE in Personal Banking improved from 8.6% by 9.4%-points to 18.0%, while the cost/income ratio rose by -8.0%-points from 71.8% to 63.8%.

Personal accounts

The portfolio of personal accounts grew year on year by 3,969 to 185,971 accounts. The range of products for personal accounts is constantly being widened by new services and innovative products in payment services. Digital and mobile solutions such as the Oberbank Customer Portal, the Oberbank Banking App and the Oberbank Wallet App complete the services for retail customers and are very popular. Non-cash payments are developing very dynamically and will continue to grow strongly boosted by the NFC (contactless payment) function. The NFC function has developed into a success story. Every third transaction is being paid using the Maestro card with the NFC function.

Personal accounts		YoY change	
As at 30/6/2018	As at 30/6/2017	absolute	in %
185,971	182,002	3,969	2.2%

Personal loans

Personal loans increased versus 30 June 2017 by EUR 194.0 million or 6.6% to EUR 3,145.0 million.
In the second quarter of 2018, the volume of new retail loans was 12.2% higher than in the same period of the preceding year. Consumer loans continued to develop very gratifyingly. The volume of new loans granted was substantially above the level of the preceding year. The share of foreign currency loans in the portfolio of personal loans of Oberbank is only 3.2%.
The Oberbank ‘Wohnbau-Kombi’ is a new product in the range of housing loans. Customers now have access to flexible pre-financing and long-term full financing offered all in one product and with a loan contract.

Personal loans		YoY change	
As at 30/6/2018	As at 30/6/2017	absolute	in %
€ 3,145.0 million	€ 2,951.0 million	€ 194.0 million	6.6%

Savings deposits

The volume of savings deposits has decreased since 30 June 2017 by EUR 55.1 million or 2.0% to EUR 2,705.6 million. The low savings ratio decreased again slightly in the past 12 months. Due to the sustained low interest rates, it is hardly possible to engage in a more proactive interest rate policy. Money is still being left on accounts or in daily callable investment forms. Online savings products are gaining significance as investors continue to seek alternatives on the capital market and also in real estate.

Savings deposits		**YoY change**	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 2,705.6 million	€ 2,760.7 million	€ -55.1 million	-2.0%

Securities business

Commission income from the securities business developed excellently in the first half of 2018. Compared to the preceding year, it increased by 14.5% or EUR 3.2 million to EUR 25.2 million.

Strong growth was recorded, above all, in management commissions from investment funds and individual portfolio management. The focus in the transactions business was on investment funds. The stock investment business was not as strong due to the trendless markets. The bond segment is still stuck in an environment of extremely low interest rates and is less attractive to investors for this reason.

Commissions on income from securities		**YoY change**	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 25.2 million	€ 22.0 million	€ 3.2 million	14.5%

Market value on custody accounts

The market value of securities on custody accounts rose year on year by EUR 1.9 billion or 13.5% to EUR 15.8 billion. The value is just slightly lower than the year-end figure of EUR 15,937.9 million.

Market value on custody accounts		**YoY change**	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 15,819.5 million	€ 13,937.4 million	€ 1,882.1 million	13.5%

Oberbank issues

In the first half of the year 2018, several issues were placed in euro and in Czech koruna. An eight-year subordinated bond in euro was also part of the programme again. The total sales volume reached EUR 380.9 million. Covered bond issues recorded a volume of EUR 300.0 million purchased by institutional investors in the second quarter as at 30 June 2018. The remaining EUR 80.9 million were acquired by a broader group of investors through the Oberbank branches. The volume also includes a subordinate bond with a volume of EUR 34.7 million.

Securitised liabilities including subordinated debt		**YoY change**	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 2,080.9 million	€ 1,992.4 million	€ 88.5 million	4.4%

3 Banken-Generali

Demand is still excellent for the investment funds of 3 Banken-Generali Investment GmbH. Public funds and also special funds achieved steep increases in volume. The increases in total volume results from the net inflows. The performance effects were slightly negative in the first half-year 2018 due to the challenging performance of capital markets. The volume rose year on year by EUR 793.0 million or 25.7% to EUR 3,884.2 million.

In total, growth was much higher than on the overall market. In the first half-year 2018, the overall market lost 1.2% in volume, while 3 Banken Generali Investment GmbH performed against the trend and gained 0.9%, and Oberbank much more strongly.
The mainstays at Oberbank are still the mixed funds of the Oberbank Premium Strategy product family. The market share of 3 Banken Generali Investment GmbH was 5.49% on 30 June 2018 (5.11% on 30 June 2017).

Public funds and special funds		YoY change	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 3,884.2 million	€ 3,091.2 Mio.	€ 793.0 million	25.7%

Private banking

Assets under management in Private Banking rose by EUR 916.8 million or 12.2% year on year to a new record of EUR 8,834.0 million. The increase in the volume of funds was due to performance effects and net fund inflows.
The assets under management in individual mandates rose year on year by EUR 47.8 million or by 8.9%, which is also a new record. Brokerage services for equity trading customers continues to contribute substantially to the stock trading business.

Asset Management		YoY change	
As at 30/06/2018	**As at 30/06/2017**	**absolute**	**in %**
€ 8,834.0 million	€ 7,872.2 million	€ 916.8 million	12.2%

Savings in building and loan associations

In the first half of 2018, the number of building and loan contracts closed was 5,875 compared to the same period of the preceding year, which is 0.4% higher. Despite the persistently low interest rates and the low savings ratio, savings in building and loan associations is still a popular alternative for many people.
Total building society loans facilitated in HY1 2018 amounted to EUR 14.7 million, which is a rise by 50.2% year on year.

Insurance services

In the first half of the year, Oberbank achieved excellent results in the insurance business.
In Austria, in the segment of life insurance both endowment life insurance policies (+30% y/y) and also risk insurance (+43% y/y) posted gains. In the non-life insurance segment, the gain was 20% over last year's level.
In Germany, premium volumes were up by 60% year on year.

Insurance contracts - premium volume		YoY change	
As at 30/6/2018	**As at 30/6/2017**	**absolute**	**in %**
€ 65.6 million	€ 49.4 million	€ 16.2 million	32.8%

Financial Markets

Financial Markets in € m	HY1 2018	HY1 2017	+ / - in %	+ / - in %
Net interest income	15.3	11.9	3.4	28.5 %
Income from entities recognised by the equity method	43.3	29.5	13.8	46.8 %
Charges for losses on loans and advances	-2.9	-3.0	0.1	
Net commission income	0.0	0.0	0.0	0.0%
Net trading income	3.1	4.5	-1.4	-30.9 %
Administrative expenses	-4.9	-4.0	-0.9	23.6 %
Other operating income	0.4	16.5	-16.1	-97.5%
Profit before tax	54.2	55.4	-1.1	-2.0%
Risk equivalent	5,705.4	5,398.3	307.1	5.7 %
Average allocated equity	876.6	794.6	82.0	10.3%
Return on equity before tax (RoE)	12.4%	13.9 %	-1.5% ppt	
Cost/income ratio	7.9 %	6.4 %	1.5% ppt	

Earnings in the Financial Markets segment

Profit in Financial Markets dropped by EUR 1.1 million or 2.0% to EUR 54.2 million.

Net interest income was up by EUR 3.4 million or 28.5% to EUR 15.3 million.

Equity returns rose on account of higher profits at investees by EUR 13.8 million or 46.8% to EUR 43.3 million.

Charges for losses on loans and advances in profit or loss decreased from EUR 3.0 million by EUR 0.1 million to EUR 2.9 million.

Net trading income declined by EUR 1.4 million or 30.9% to EUR 3.1 million.

At EUR 4.9 million, administrative expenses were up by EUR 0.9 million year on year.

Other operating income decreased by EUR 16.1 million from EUR 16.5 million to EUR 0.4 million.

Return on equity in the Financial Markets segment dropped by 1.5%-points from 13.9% to 12.4%, and the cost/income ratio deteriorated by 1.5%-points from 6.4% to 7.9%.

Proprietary trading

Financial markets were not very stable in 2018. No clear trends can be identified and the markets are moving sideways. Stocks are stagnating despite good corporate earnings, while yields on bonds are at very low levels - although in some countries, especially in the US and the Czech Republic, central banks have hiked interest rate several times. On the currency front there is no clear direction.

The prevailing insecurity may essentially be attributed to fears of a potential global trade war. The overall outlook for the economy is generally very good, but might become gloomy very fast if the situation escalates. This market environment, together with the high regulatory requirements, is a challenge to proprietary trading when trying to earn returns. For this reason, the focus now is on risk avoidance.

Liquidity

The liquidity situation has not changed, as there is still a substantial euro overhang. There are no prospects of the liquidity glut decreasing any time soon. The ECB will cut back its bond buying programme to the reinvestment of its expiring investments by the end of the year, but this measure will only stop the inflow of new funds. We expect to see an interest rate hike and thus slightly lower liquidity at the earliest after the summer of 2019.

The principal task of liquidity management at present is to keep the liquidity surplus as low as possible or at least not to invest at negative interest. We have been quite successful up to now thanks to our cautious deposit policy and the exploitation of market opportunities, especially in CZK. The longer the excess liquidity situation lasts, the harder it gets to avoid negative interest rates.

Own funds

On 30 June 2018, own funds amounted to EUR 2,660.4 million which is a ratio of 18.7% and still around twice as high as the requirements for own funds stipulated by law. Tier 1 capital stood at EUR 2,309.3 million and the tier 1 capital ratio was 16.3%. Common equity tier 1 capital was EUR 2,244.4 million which corresponds to a ratio of 15.8%.

Risk

Oberbank's risk policy takes into account the risk situation of all business areas including the new markets. Risk management focuses on keeping the customer funds entrusted to Oberbank safe, conserving own funds and guaranteeing liquidity.

The most important risk category is counterparty risk. This risk is accounted for by recognizing the corresponding impairment charges in the financial statements.

When assessing creditworthiness and in collateral policy, Oberbank can rely on decades of know-how. Moreover, the business model as a regional bank, the professional credit management and the balanced distribution of overall debt across customer segments help to ensure that the threat to Oberbank's overall result from its risk exposure is contained. Therefore, it may be assumed that there will not be any extraordinary counterparty risk events in the full year 2018.

The other risk categories are equity risk (risk of loss in value or foregone profits in the equity portfolio), market risk (risk of losses due to fluctuating interest rates, foreign exchange rates or equity prices), the operational risk and liquidity risk. These risks are also covered by the corresponding funds in line with the principle of conservatism. As regards liquidity risk, the good position of Oberbank is also supported by the fact that the primary deposits of customers and other long-term refinancing lines (OeKB, LfA, KfW) with a volume of EUR 15.8 billion (as at 30 June 2018) can refinance the entire credit volume (30 June 2018: EUR 15.6 billion). Additionally, Oberbank has a permanent risk controlling system in place as well as strict process management and other efficient control and management instruments. Therefore, Oberbank does not expect any unusual risk events in these risk categories for the full year 2018.

Outlook 2018

Right now, the economy is booming, even overheating at times.
The three most important drivers of the economy - consumption, investments and exports - continued to expand, the prices of industrial commodities, energy and crude oil were recently much higher than one year ago, and the number of employees increased by 3% (especially in manufacturing and construction). Although the unemployment rate dropped by 10%, there are still numerous open positions – especially for skilled workers and apprentices.

However, there are also risk factors and threat scenarios:
Increasing protectionism and restrictions to free trade, high volumes of non-performing loans at banks in Southern Europe and extremely high government debt.
These factors might result in a crisis of confidence and dampen sentiment, restrict investment activity and ultimately lead to a normalisation of credit risk at banks.

Under these conditions, it would be an enormous success to achieve the excellent results of the preceding year.
The increases in the first half of the year (operating income +15%, profit after tax +12%, cost/income ratio 50.9%) cannot be projected to the full year.

Consolidated Interim Financial Statements pursuant to IFRS for 1/1/2018 to 30/6/2018

Consolidated income statement in €k		1/1 to 30/6 2018	1/1 to 30/6 2017	Change in €k	Change in %
1. Interest and similar income		204,566	200,766	3,800	1.9
2. Interest and similar expenses		-39,244	-44,107	4,863	-11.0
Net interest income		165,322	156,659	8,663	5.5
3. Income from entities recognised by the equity method		43,300	29,458	13,842	47.0
4. Charges for losses on loans and advances	(2)	-5,312	1,993	-7,305	>-100.0
5. Net commission income		87,550	76,789	10,761	14.0
6. Net commission expenses		-8,367	-7,767	-600	7.7
Net commission income	(3)	79,183	69,022	10,161	14.7
7. Net trading income	(4)	2,970	4,608	-1,638	-35.5
8. Administrative expenses	(5)	-144,524	-127,085	-17,439	13.7
9. Other operating income	(6)	-6,839	-11,579	4,740	-40.9
a) Net income from financial assets, FVPL		-4,481	-1,007	-3,474	>100.0
b) Net income from financial assets AfS		N/A	14,672		
b) Net income from financial assets - FVOCI		-309	N/A		
c) Net income from financial assets - HtM		N/A	0		
c) Net income from financial assets - AC		0	N/A		
d) Other operating income		-2,049	-25,244	23,195	-91.9
Profit for the period before tax		134,100	123,076	11,024	9.0
10. Income taxes	(7)	-20,116	-21,486	1,370	-6.4
Profit for the period after tax		113,984	101,590	12,394	12.2
of which attributable to equity holders of the parent and to the owners of additional equity components		113,655	101,326	12,329	12.2
of which attributable to minority interests		329	264	65	24.6

N/A means that the rule is not applicable in the respective FY

Income and expenses recognised directly in equity in €k	1/1 to 30/6/2018	1/1 to 30/6/2017
Profit for the period after tax	113,984	101,590
Items not reclassified to profit or loss for the year	-7,517	7,283
+/- Actuarial gains/losses IAS 19	-3,070	24
+/- Deferred taxes on actuarial gains/losses IAS 19	768	-6
+ / - Share from entities recognised using the equity method	-861	7,265
+/- Value changes in own credit risk recognised in equity IFRS 9	1,193	N/A
+ / - Deferred tax on changes recognised in equity for own credit risk	-298	N/A
+/- Value changes in equity instruments recognised in equity IFRS 9	-5,834	N/A
+ / - Deferred tax on value changes in equity instruments recognised in equity IFRS 9	585	N/A
Items reclassified to profit or loss for the year	-2,482	31,218
+ / - Value changes recognised directly in equity IAS 39	N/A	32,363
Amounts recognised in equity	N/A	46,981
Reclassification adjustments	N/A	-14,618
+ / - Deferred tax on items recognised directly in equity under IAS 39	N/A	-8,091
Amounts recognised in equity	N/A	-11,745
Reclassification adjustments	N/A	3,654
+/- Value changes recognised in equity for debt securities IFRS 9	-2,700	N/A
Amounts recognised in equity	-2,611	N/A
Reclassification adjustments	-89	N/A
+ / - Deferred tax on value changes recognised in equity for debt instruments IFRS 9	675	N/A
Amounts recognised in equity	653	N/A
Reclassification adjustments	22	N/A
+ / - Exchange differences	1,026	69
+ / - Share from entities recognised using the equity method	-1,483	6,877

	1/1 to 30/6/2018	1/1 to 30/6/2017
Total income and expenses recognised directly in equity	-9,999	38,501
Total comprehensive income for the period and income/expenses not recognised in profit or loss	103,985	140,091
of which attributable to equity holders of the parent and to the owners of additional equity components	103,656	139,827
of which attributable to non-controlling interests	329	264

Performance	**1/1 to 30/62018**	**1/1 to 30/6/2017**
Cost/Income ratio in %	50.90	51.21
Return on equity before tax in %	10.34	10.52
Return on equity after tax in %	8.79	8.68
Risk/earnings ratio in %	3.21	-1.07
Earnings per share in €	6.46	5.76

Consolidated Interim Financial Statements pursuant to IFRS for 1/4/2018 to 30/6/2018

Consolidated income statement in €k		1/4 to 30/6 2018	1/4 to 30/6 2017	Change in €k	Change in %
1. Interest and similar income	(1)	103,957	100,924	3,033	3.0
2. Interest and similar expenses	(1)	-17,736	-21,773	4,037	-18.5
Net interest income	(1)	86,221	79,151	7,070	8.9
3. Income from entities recognised using the equity method		26,792	19,989	6,803	34.0
4. Charges for losses on loans and advances	(2)	-7,574	1,216	-8,790	>-100.0
5. Net commission income	(3)	42,921	37,089	5,832	15.7
6. Net commission expenses	(3)	-4,188	-3,784	-404	10.7
Net commission income	(3)	38,733	33,305	5,428	16.3
7. Net trading income	(4)	2,125	2,900	-775	-26.7
8. Administrative expenses	(5)	-79,219	-63,777	-15,442	24.2
9. Other operating income	(6)	3,069	-11,291	14,360	>-100.0
a) Net income from financial assets, FVPL	(6)	1,215	3,555	-2,340	-65.8
b) Net income from financial assets - AfS	(6)	N/A	82		
b) Net income from financial assets - FVOCI		-171	N/A		
c) Net income from financial assets - HtM	(6)	N/A	0		
c) Net income from financial assets - AC		0	N/A		
d) Other operating income	(6)	2,025	-14,928	16,953	>-100.0
Profit for the period before tax		70,147	61,493	8,654	14.1
10. Income taxes	(7)	-9,824	-9,095	-729	8.0
Profit for the period after tax		60,323	52,398	7,925	15.1
of which attributable to equity holders of the parent and to the owners of additional equity components		60,182	52,221	7,961	15.2
of which attributable to minority interests		141	177	-36	-20.3

N/A means that the rule is not applicable in the respective FY

Income and expenses recognised directly in equity in €k	1/4 to 30/6/2018	1/4 to 30/06/2017
Profit for the period after tax	60,323	52,398
Items not reclassified to profit or loss for the year	179	2,464
+/- Actuarial gains/losses IAS 19	-3,070	24
+/- Deferred taxes on actuarial gains/losses IAS 19	768	-6
+ / - Share from entities recognised using the equity method	-20	2,446
+/- Value changes in own credit risk recognised in equity IFRS 9	242	N/A
+ / - Deferred tax on changes recognised in equity for own credit risk IFRS 9	-60	N/A
+/- Value changes in equity instruments recognised in equity IFRS 9	3,092	N/A
+ / - Deferred tax on value changes in equity instruments recognised in equity IFRS 9	-773	N/A
Items reclassified to profit or loss for the year	-1,756	1,413
+ / - Value changes recognised directly in equity IAS 39	N/A	-1,218
Amounts recognised in equity	N/A	-837
Reclassification adjustments	N/A	-381
+ / - Deferred tax on value changes recognised directly in equity IAS 39	N/A	304
Amounts recognised in equity	N/A	210
Reclassification adjustments	N/A	94
+/- Value changes recognised in equity for debt instruments IFRS 9	-1,051	N/A
Amounts recognised in equity	-1,043	N/A
Reclassification adjustments	-8	N/A
+ / - Deferred tax on value changes recognised in equity for debt instruments IFRS 9	263	N/A
Amounts recognised in equity	261	N/A
Reclassification adjustments	2	N/A
+ / - Exchange differences	140	71
+ / - Share from entities recognised using the equity method	-1,108	2,256

	1/1 to 30/6/2018	1/4 to 30/06/2017
Total income and expenses recognised directly in equity	-1,577	3,877
Total comprehensive income for the period and income/expenses not recognised in profit or loss	58,746	56,275
of which attributable to the owners of the parent company and the owners of additional equity components	58,605	56,098
of which attributable to non-controlling interests	141	177

Balance sheet as at 30/6/2018 / Assets

	in €k		30/6/2018	31/12/2017	Change in €k	Change in %
1.	Cash and balances at central banks	(9)	374,929	845,105	-470,176	-55.6%
2.	Loans and advances to credit institutions	(10)	1,431,296	1,253,366	177,930	14.2%
3.	Loans and advances to customers	(11)	15,586,061	14,760,335	825,726	5.6%
4.	Loan loss provisions	(12)	-233,527	-392,706	159,179	-40.5 %
5.	Trading assets	(13)	35,825	37,570	-1,745	-4.6%
6.	Financial investments	(14)	3,631,080	3,726,371	-95,291	-2.6%
	a) Financial assets - FVPL	(14)	245,649	228,565	17,084	7.5%
	b) Financial assets - AfS	(14)	N/A	664,796		
	b) Financial assets FVOCI		597,337	N/A		
	c) Financial assets - HtM	(14)	N/A	2,007,056		
	c) Financial assets - AC		1,902,643	N/A		
	d) Interest in entities accounted for using the equity method	(14)	885,451	825,954	59,497	7.2%
7.	Intangible assets	(15)	711	929	-218	-23.5 %
8.	Property, plant and equipment	(16)	286,505	292,955	-6,450	-2.2%
	a) Investment property	(16)	97,363	98,905	-1,542	-1.6%
	b) Other property, plant and equipment	(16)	189,142	194,050	-4,908	-2.5%
9.	Other assets	(17)	325,661	306,681	18,980	6.2%
	a) Deferred tax assets	(17)	28,721	48,947	-20,226	-41.3 %
	b) Positive fair values of closed out derivatives in the banking book	(17)	130,554	124,609	5,945	4.8%
	c) Other	(17)	166,386	133,125	33,261	25.0%
	Total assets		**21,438,541**	**20,830,606**	**607,935**	**2.9%**

N/A means that the rule is not applicable in the respective FY

Balance sheet as at 30/6/2018 / Equity and liabilities

	in €k		30/6/2018	31/12/2017	Change in €k	Change in %
1.	Amounts owed to credit institutions	(18)	4,144,568	4,155,297	-10,729	-0.3%
	a) Refinance allocated for customer loans		2,065,115	1,793,162	271,953	15.2 %
	b) Other amounts owed to credit institutions		2,079,453	2,362,135	-282,682	-12.0 %
2.	Amounts owed to customers	(19)	11,659,714	11,397,394	262,320	2.3%
3.	Securitised liabilities	(20)	1,506,305	1,368,250	138,055	10.1%
4.	Provisions for liabilities and charges	(21)	394,610	381,030	13,580	3.6%
5.	Other liabilities	(22)	454,330	432,743	21,587	5.0%
	a) Trading liabilities	(23)	30,886	31,848	-962	-3.0%
	b) Tax liabilities	(22)	30,239	18,399	11,840	64.4 %
	ba) Current tax liabilities	(22)	25,709	13,948	11,761	84.3%
	bb) Deferred tax liabilities	(22)	4,530	4,451	79	1.8%
	c) Negative fair values of closed out derivatives in the banking book	(22)	19,199	40,475	-21,276	-52.6 %
	c) Other	(22)	374,006	342,021	31,985	9.4%
6.	Subordinated debt capital	(24)	574,640	629,103	-54,463	-8.7 %
7.	Equity	(25)	2,704,374	2,466,789	237,585	9.6%
	a) Equity after minorities	(25)	2,648,277	2,410,541	237,736	9.9%
	b) Minority interests	(25)	6,097	6,248	-151	-2.4%
	c) Additional equity capital components	(25)	50,000	50,000	0	
	Total equity and liabilities		**21,438,541**	**20,830,606**	**607,935**	**2.9%**

Consolidated statement of changes in equity as at 30/6/2018

					Revaluation reserve									
in €k	Subscribed capital	Capital reserves	Retained earnings	Currency translation reserve	IAS 39	Reclassified debt instruments IFRS 9	Equity instruments IFRS 9 not reclassified	Change in own credit risk IFRS 9 not reclassified	Actuarial gains/losses IAS 19	Associates	Equity after minorities	Shares of non-controlling shareholders	Additional equity capital components	Shareholders' equity
As at 1/1/2017	105,837	505,523	1,069,554	-1,678	85,052	N/A	N/A	N/A	-19,568	483,053	2,227,772	4,991	50,000	2,282,763
Consolidated net profit			81,143	69	24,273				17	34,325	139,827	264		140,091
Net annual profit/loss			81,143							20,183	101,326	264		101,590
Other comprehensive income				69	24,273				17	14,142	38,501			38,501
Dividend distribution			-22,946								-22,946			-22,946
Coupon payments on additional equity components			-1,725								-1,725			-1,725
Capital increase											0			0
Issuance of additional equity components											0			0
Repurchased own shares	58		895								953			953
Other changes not recognised in income			-22							6,987	6,965	-223		6,742
As at 30/6/2017	**105,895**	**505,523**	**1,126,899**	**-1,609**	**109,325**	**N/A**	**N/A**	**N/A**	**-19,551**	**524,365**	**2,350,847**	**5,032**	**50,000**	**2,405,879**
As at 1/1/2018	**105,862**	**505,523**	**1,192,344**	**-528**	**N/A**	**13,875**	**70,439**	**0**	**-21,993**	**545,020**	**2,410,541**	**6,248**	**50,000**	**2,466,789**
Consolidated net profit			79,769	1,026	0	-2,025	-5,249	895	-2,302	31,542	103,656	329		103,985
Net annual profit/loss			79,769							33,886	113,655	329		113,984
Other comprehensive income				1,026		-2,025	-5,249	895	-2,302	-2,344	-9,999			-9,999
Effect of changeover to IFRS 9			121,572			-8,123	44,523	-8,543			149,429			149,429
Dividend distribution			-31,764								-31,764			-31,764
Coupon payments on additional equity components			-1,725								-1,725			-1,725
Capital increase											0			0
Issuance of additional equity components														0
Repurchased own shares	25		483								508			508
Other changes not recognised in income			5							17,627	17,632	-480		17,152
As at 30/6/2018	**105,887**	**505,523**	**1,360,684**	**498**	**N/A**	**3,727**	**109,713**	**-7,648**	**-24,295**	**594,189**	**2,648,277**	**6,097**	**50,000**	**2,704,374**

Statement of cash flows in €k	1/1 to 30/6/2018	1/1 to 30/6/2017
Profit for the period	113,984	101,590
Non-cash items in the profit for the period and reconciliation of net cash from operating activities		
Write-offs, impairment losses, write-ups	-6,845	-14,539
Change in provisions for staff benefits and other provisions	11,277	25,588
Change in other non-cash items[1)]	-5,598	41,620
Gains and losses on financial investments, property, plant and equipment		
and intangible assets	-7,120	-14,488
Subtotal	105,698	139,771
Change in assets and liabilities arising from operating activities after corrections for non-cash positions		
- Loans and advances to credit institutions	-159,859	256,555
- Loans and advances to customers	-980,157	-578,704
- Loan loss provisions	107,622	0
- Trading assets	5,977	18,672
- Other current assets	69,331	43,200
- Other assets from operating activities	36,817	-3,179
- Amounts owed to credit institutions	-11,434	456,372
- Amounts owed to customers	254,673	259,960
- Securitised liabilities	130,358	-77,730
- Other liabilities from operating activities	-78,049	-37,790
Cash flow from operating activities[1)]	-519,023	477,127
Proceeds from the sale of		
- Financial investments	175,090	193,212
- Property, plant and equipment and intangible assets	3,808	4,649
Outlay on purchases of		
- Financial investments	-40,551	-144,968
- Property, plant and equipment and intangible assets	-10,298	-72,925
Cash flow from investing activities	128,049	-20,032
Capital increase	0	0
Dividend distributions	-31,764	-22,946
Coupon payments on additional equity components	-1,725	-1,725
Inflow from subordinated liabilities and other financing activities		
- Issues	34,686	26,892
- Other	2,233	2,719
Outflow from subordinated liabilities and other financing activities		
- Redemptions	-82,152	-21,056
- Other	-480	-264
Cash flow from financing activities[1)]	-79,202	-16,380
Cash and cash equivalents at the end of prev. period	845,105	657,558
Cash flow from operating activities[1)]	-519,023	477,127
Cash flow from investing activities	128,049	-20,032
Cash flow from financing activities[1)]	-79,202	-16,380
Effects of changes in the consolidation scope and revaluation	0	0
Effects of foreign exchange rate changes	0	0
Cash and cash equivalents at the end of the period	374,929	1,098,273

Cash and cash equivalents comprise the line item Cash and balances at central banks, consisting of cash on hand and credit balances with central banks of issue.

[1)]On account of the greater detail of the presentation of cash flows from financing activities, the previous year’s figures were adjusted.

Statement of cash flows in €k	1/1 to 30/6/2018	1/1 to 30/6/2017
Interest received	181,800	205,072
Dividends received	15,173	14,794
Interest paid	-82,113	-53,402
Coupon payments on additional equity components	-1,725	-1,725
Income tax payments	-18,063	-17,397

Explanations / Notes

Changes to the accounting policies 2018

The interim report of Oberbank AG has been drafted using the same recognition and measurement policies as applied on 31/12/2017. An exception are the standards and interpretations that apply to financial years that start on or after 1 January 2018. Only those new standards and interpretations are presented that are relevant for the operating activities of Oberbank.

The following standards and interpretations, as amended, have been mandatory since January 2018.

- IFRS 9 - Financial instruments
- IFRS 15 - Revenue from contracts with customers
- Annual improvements to International Financial Reporting Standards (cycle 2014-2016)

The half-year financial report has not been audited or reviewed by auditors.

The final version of IFRS 9 was published in July 2014 and entered into force on 1 January 2018.

IFRS 9 contains the following changes of material importance for the Oberbank Group:

Assignment to categories (classification) - financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of its cash flows (cash flow terms).

Business Model

The classes of financial assets were analysed with respect to the business strategy as well as potential divestments and on this basis the business models were derived.

The securities in the 'held-to-maturity portfolio' pursuant to IAS 39 are intended to be held, and therefore, this portfolio was allocated to the business model 'hold-to-collect' also under IFRS 9. Securities measured at fair value not recognised in income (available for sale assets) will continue to be allocated to the business model 'hold and sell'. Securities held in the trading book were allocated to the business model sell.

The lending operations, on the other hand, were all allocated to the category 'hold-to-collect'. The clear intention to hold the assets is derived from the corporate strategy. The divestments made in the past were of minor significance.

Cash Flow Conditions

The analysis of the cash flow conditions (SPPI test) examines the contractual provisions regarding interest that stipulate solely fixed payments of principal and interest on the outstanding principal.

Within the course of the implementation project, mainly loans were identified with negative SPPI interest clauses which feature asymmetric interest components or represent mixed interest rates. However, the cash flow analysis did not reveal any significant difference to standard loan contracts, and therefore, these loans will be measured at amortised cost in the future as well. Only a small share of the loan portfolio was reclassified at fair value due to negative SPPI interest clauses. Therefore, the majority of the loan portfolio does not contain any contractual clauses with negative effects from SPPI.

Measurement Categories

IFRS 9 defines three important classification categories for financial assets: recognition at amortised cost, recognition at fair value through the profit or loss (FVTPL) and recognition at fair value through other comprehensive income (FVOCI). If financial instruments are held in a business model with the goal of retaining the assets, and if these financial instruments represent claims to interest and principal payments on agreed dates (SPPI test), these are measured at amortised costs. Under certain conditions, a designation at fair value is possible.

This occurs at Oberbank AG when collateral is deposited for an underlying transaction in derivatives, because otherwise asymmetric valuations would result for the two financial instruments in the financial reporting.
All other financial instruments are to be measured at fair value. Changes in the value of these assets must be recognised in the income statement or in Other income (depending on the business model). For certain equity instruments, it is optional to recognize changes in value under other comprehensive income. Only dividend claims on these assets must be recognised in the income statement. The standard eliminates the current categories of IAS 39: held-to-maturity, loans and receivables and available-for-sale assets.
Under IFRS 9, derivatives that are embedded in contracts for which the underlying is a financial asset to which the standard applies are never accounted for separately. Instead, the hybrid financial instrument is assessed in its entirety for the classification.
The debt capital financial instruments currently measured at amortised costs (portfolio of HtM securities) are also measured at amortised costs pursuant to IFRS 9. Loans and receivables are also measured by applying IFRS 9 at amortised costs, because these financial instruments largely meet the SPPI test that applies to this type of measurement. There will not be any major changes to equity instruments recognised directly in equity, because Oberbank recognises equity instruments directly in equity in many instances also under IFRS 9.

Impairment – financial assets and contract assets

IFRS 9 replaces the IAS 39 incurred loss model by a forward-looking expected loss impairment model. This calls for substantial discretionary decisions regarding the extent to which expected loss impairment is influenced by changes in economic factors. This measurement is done on the basis of weighted probabilities.
The new impairment model applies to financial assets recognised at amortised costs or at FVOCI – with the exception of dividend securities held as financial assets – and contract assets.
Under IFRS 9, impairments are measured on one of the following:

- 12-month expected credit losses: These are expected credit losses due to potential default events within 12 months of the reporting date.
- Full lifetime expected credit losses: These are expected credit losses due to potential default events over the expected life of a financial instrument.

Segmentation
Oberbank AG's loan portfolio is grouped into the following five segments in the impairment model pursuant to IFRS 9: Sovereigns, banks, corporates, SME and retail. The reason for the segmentation is the use of different estimates in the relevant credit risk parameters. The grouping into the different segments is done on the basis of the rating method selected.

Stage Model
The expected loss pursuant to IFRS 9 is computed using a dual approach that results in either an impairment in the amount of the 12-month expected credit loss or the lifetime expected credit loss. Decisive for determining the relevant credit loss is the approach based on the stage model. On every reporting date, for a financial instrument recognised at amortised cost, the following is done:

- ➔ An impairment is recognised in the amount of the lifetime expected credit loss if the credit risk has increased significantly since initial recognition or if the borrower has defaulted;
- ➔ An impairment is recognised in the amount of the 12-month expected credit loss if the credit risk has not increased significantly since initial recognition or is very low on the reporting date.

The three stages of the impairment model differ in the following respects:

- Stage 1: Allocation of risk provisions in the amount of the 12-month credit loss and calculation of the interest income based on the gross carrying amount applying the effective interest rate method.
- Stage 2: Allocation of risk provisions in the amount of the expected losses with respect to the remaining time to maturity of the financial instrument (lifetime ECL) and calculation of the interest income based on the gross carrying amount applying the effective interest rate method.
- Stage 3: Allocation of risk provisions in the amount of the lifetime ECL loss and calculation of the interest income based on the net carrying amount applying the effective interest rate method.

The main characteristic for determining the credit risk of a financial instrument is the internal rating of the borrower. A borrower's rating is always based on a default ratio per rating category. This default ratio is derived from the Bank's internal master rating scale for the low-default portfolio (sovereigns and banks). For the key customer segments of Corporates, Retail and SME, the default ratio is derived from the ratio of actual defaults of the respective migration matrix.

The transfer criterion at Oberbank is based mainly on an analysis of the lifetime PDs (cumulated default probabilities). Collateral and other factors that influence the ECL are not taken into consideration. At the time of initial recognition on the balance sheet, every instrument is assigned to stage 1 at first. An exception is made for assets that are already impaired at the time of recognition (so-called POCI assets) and leasing contracts. In the case of leasing contracts, use is made of an IFRS 9 option and impairment is always recognised in the amount of the lifetime expected credit loss. Therefore, these transactions are automatically assigned to stage 2.
On subsequent reporting dates, the transition to stage 2 occurs when there is a significant increase in credit risk. Apart from quantitative criteria, qualitative criteria are also applied. Thus, a 30-day default on payment is in any case a characteristic that indicates a significant increase in credit risk.
In order to assess the significance of an increase in credit risk, a comparison is made of the default probability on initial recognition and the default probability on the valuation date. In this context, the lifetime PD over the remaining time to maturity is to be used. The criterion for allocation to stage 1 and stage 2 is thus based on a relative criterion and not on an absolute credit risk estimate at every point in time of an assessment. A significant increase in credit risk is thus reached when the lifetime PD increases by more than 100% in comparison or the lifetime PD ratio exceeds a factor of 2.

All financial instruments for which on the balance sheet date an absolute low credit risk was defined may be assigned to stage 1 as an exemption to the relative approach (low credit risk exemption). Oberbank uses this exemption clause only for receivables with an internal investment grade rating (corresponds to the S&P rating equivalent of at least BBB-) of the segment of sovereigns and banks.
Stage 3 contains those financial instruments to which a default criterion pursuant to Basel III applies (Regulation 575/2013 (EU) – CRR).
The return to a higher stage is done when the criteria which were the cause of the downgrade no longer apply. Thus, upgrades and downgrades are treated symmetrically. The return to stage 2 is carried out, for example, as soon as there is no longer any significant increase in the default risk. The measure used in a comparison of default risk at initial recognition with the default risk on the relevant balance sheet date.
The impairment model of Oberbank AG always refers to individual transactions when calculating risk provisions and also when assessing a stage transition. This means that the relevant credit risk parameter PD (default probability), LGD (loss given default) and EAD (exposure at default) always refers to the individual borrower and is derived from an individual transaction.

Calculating ECL
Expected credit loss at Oberbank is a probability-weighted estimate of the loss over the expected remaining time to maturity of the financial instrument. On other words, it is the present value of the difference between

- the contractually-agreed cash flows and
- expected cash flows.

Where the calculation of the expected loss includes

- An amount in line with expectations and the probability weighting that is determined on the basis of several possible scenarios;
- The time value of money;
- Information on past events, current conditions and forecasts of future economic conditions.

The maximum time period for which the expected credit loss is determined is the life of the contract over which Oberbank is exposed to the credit risk from the financial instrument. Only in the case of revolving lines of credit is the expected credit loss determined for a period which under certain conditions may be longer than the life of the contract.

The expected loss breaks down into three components:

$$EL = PD \times LGD \times EAD$$

PD……………..probability of default
LGD……………loss given default in % of EAD
EAD……………exposure at default

The expected credit loss pursuant to IFRS 9 is a discounted value here. To this end, the respective EL per period is multiplied by the discounting factor per period. The discounting factor considers the **effective interest rate** on the loan. In the case of revolving loans as well as finance guarantees and overdraft facilities not fully used, market interest rates are applied when discounting to the ECL. These market interest rates are risk-free market interest rates that reflect the time value of money.

As the calculation of the ECL should also consider forward-looking information, the default probabilities are values adjusted for the point in time.

The point-in-time adjustment of these default probabilities takes into consideration, among other things, statistical relations between actual default rates and macroeconomic variables. This leads to a scalable adjustment of the default probability depending the further development expected of the economy.

Classification – Financial assets

IFRS 9 largely retains the current requirements of IAS 39 for the classification of financial liabilities.
However, pursuant to IAS 39 all changes to liabilities designated to be recognised in the income statement at fair value are reported in the income statement, while under IFRS 9 these changes to fair value must generally be recognised as follows:

- The change in the fair value due to changes in the credit risk of the liability is reported under other comprehensive income.
- The remaining change to fair value is reported in the income statement.

Hedge accounting

The changes to hedge accounting are not of relevance for the Oberbank Group, as currently we have no hedge accounting.

Transitions

Changes to the accounting methods based on the application of IFRS 9 will generally be applied retroactively, except in the following cases:

- Oberbank has the intention of making use of the exemption permitting it to omit adjustments to information for comparison with preceding periods with respect to changes to the classification and measurement (including impairment). The differences between the carrying values of the financial assets and financial liabilities based on the application of IFRS 9 will generally be recognised in retained earnings and other provisions as of 1 January 2018.
- The assessments set out below must be based on the facts and circumstances given at the time of initial application:
  - Determination of the business model in which a financial asset is held;
  - Determination and revocation of former rules with respect to certain financial assets and financial liabilities that are measured at fair value through profit or loss (FVTPL);
  - Determination of specific dividend securities held as financial assets but not for trading purposes and measured at fair value through other comprehensive income (FVOCI).

Effects

The positive effect on equity from the changeover from IAS 39 to IFRS 9 including consideration of deferred taxes is EUR 149.4 million.

The details of the effects of the changeover to IFRS 9 are presented in the following tables (amounts in euro):

Reconciliation of the valuation categories and balance sheet items for financial assets pursuant to IAS 39 to the measurement classes under IFRS 9 effective from 1 January 2018.

Balance sheet items	IAS 39		IFRS 9	
	Classification and Measurement	Carrying value	Classification and Measurement	Carrying value
Cash and balances with the central bank	loans and receivables (amortised cost)	845,105,120.69	amortised cost	845,105,120.69
Loans and advances to credit institutions	loans and receivables (amortised cost)	1,253,366,251.46	amortised cost	1,253,366,251.46
Loans and advances to customers		14,760,334,592.95		14,760,321,093.10
Loans and advances to customers	loans and receivables (amortised cost)	14,576,275,509.83	amortised cost	14,557,113,854.45
			fair value through profit or loss (recognised in income at fair value)	19,148,155.53
	fair value option (recognised in income at fair value)	51,747,542.10	fair value option (recognised in income at fair value)	51,747,542.10
Financial assets - AfS	available-for-sale (recognised in equity at fair value with recycling)	84,304,822.80	fair value through profit or loss - equity and debt instruments (recognised in income at fair value)	13,036,416.12
			fair value through OCI (mandatory) - (recognised in equity at fair value with recycling)	71,268,406.68
Financial assets - HtM	held to maturity (at amortised cost)	48,006,718.22	amortised cost	48,006,718.22
Impairment charge on loans and advances		-392,705,715.42		-249,300,641.27
IAS 39 portfolio impairment		-197,290,000.00	Impairment stage 1	-12,587,031.63
			Impairment stage 2	-29,644,538.89
			Provisions for off-balance sheet items stage 1	-7,372,149.19
			Provisions for off-balance sheet items stage 2	-4,281,206.14
Specific impairment allowance		-195,415,715.42	Impairment stage 3	-195,415,715.42

Balance sheet items	IAS 39		IFRS 9	
	Classification and Measurement	Carrying value	Classification and Measurement	Carrying value
Trading assets (financial assets recognised in income at fair value)	held-for-trading (recognised in income at fair value)	37,570,454.30	fair value through profit or loss (recognised in income at fair value)	37,570,454.30
Financial investments		2,900,416,366.53		2,938,860,546.53
Financial assets with FVO	fair value option (recognised in income at fair value)	228,564,559.64	fair value through profit or loss (recognised in income at fair value)	228,564,559.64
Financial assets - AfS	available-for-sale (recognised in equity at fair value with recycling)	664,796,108.01	fair value through profit or loss - equity and debt instruments (recognised in income at fair value)	70,435,386.08
			fair value through OCI (designated) - equity instruments (recognised in equity at fair value without recycling)	352,156,284.85
			fair value through OCI (mandatory) - (recognised in equity at fair value with recycling)	280,648,617.08
Financial assets - HtM	held to maturity (at amortised cost)	2,007,055,698.88	amortised cost	2,007,055,698.88

Reconciliation of the balance sheet items for financial assets applying IAS 39 to the items under IFRS 9 effective from 1 January 2018.

Amortised cost measurement (amortised cost - AC)

	Carrying value purs. to IAS 39 at 31/12/2017	Reclassification	Revaluation	Carrying value purs. to IFRS 9 at 1/1/2018
CASH AND BALANCES AT CENTRAL BANKS				
Closing balance sheet pursuant to IAS 39 and opening balance sheet pursuant to IFRS 9	845,105,120.69	0.00	0.00	845,105,120.69
LOANS AND ADVANCES TO CREDIT INSTITUTIONS				
Closing balance sheet pursuant to IAS 39 and opening balance sheet pursuant to IFRS 9	1,253,366,251.46	0.00	0.00	1,253,366,251.46
LOANS AND ADVANCES TO CUSTOMERS				
Loans and advances to customers (not securitised)				
Closing balance sheet pursuant to IAS 39	14,576,275,509.83			
Reclassification (in fair value through profit or loss purs. to IFRS 9)		-19,161,655.38		
Opening balance sheet pursuant to IFRS 9				14,557,113,854.45
Financial assets – AC (amortised cost)				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity under IAS 39)		48,006,718.22		
Opening balance sheet pursuant to IFRS 9				48,006,718.22
Held-to-maturity financial assets				
Closing balance sheet pursuant to IAS 39	48,006,718.22			
Reclassification (in amortised cost under IFRS 9)		-48,006,718.22		
Opening balance sheet under IFRS 9				0.00

Amortised cost measurement (amortised cost - AC)				
	Carrying value under IAS 39 at 31/12/2017	**Reclassification**	**Revaluation**	**Carrying value under IFRS 9 at 1/1/2018**
FINANCIAL ASSETS				
Financial assets - AC				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity under IAS 39)		2,007,055,698.88		
Opening balance sheet pursuant to IFRS 9				2,007,055,698.88
Held-to-maturity financial assets				
Closing balance sheet under IAS 39	2,007,055,698.88			
Reclassification (in amortised cost under IFRS 9)		-2,007,055,698.88		
Opening balance sheet under IFRS 9				0.00
TOTAL	18,729,809,299.08	-19,161,655.38	0.00	18,710,647,643.70

Measurement at fair value through profit or loss (FVTPL)				
	Carrying value under IAS 39 at 31/12/2017	**Reclassification**	**Revaluation**	**Carrying value under IFRS 9 at 1/1/2018**
LOANS AND ADVANCES TO CUSTOMERS				
Loans and advances to customers (not securitised)				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity purs. to IAS 39)		19,161,655.38	-13,499.85	
Opening balance sheet pursuant to IFRS 9				19,148,155.53
Financial assets designated at fair value through profit or loss				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity under IAS 39)		13,036,416.12		
Opening balance sheet pursuant to IFRS 9				13,036,416.12
TRADING ASSETS (financial assets recognised in income at fair value)				
Closing balance sheet pursuant to IAS 39	37,570,454.30			
Changeover of derivatives formerly subject to separation		-3,516,320.97		
Opening balance sheet pursuant to IFRS 9				34,054,133.33
FINANCIAL ASSETS				
Financial assets designated at fair value through profit or loss				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity under IAS 39)		70,435,386.08		
Reclassification (from held to maturity under IAS 39)		228,564,559.64		
Opening balance sheet under IFRS 9				298,999,945.72
TOTAL	37,570,454.30	327,681,696.25	-13,499.85	312,036,361.84

Recognition in income at fair value - financial instruments designated at fair value (fair value option - FVO)

	Carrying value under IAS 39 at 31/12/2017	Reclassification	Revaluation	Carrying value under IFRS 9 at 1/1/2018
LOANS AND ADVANCES TO CUSTOMERS				
Loans and advances to customers (not securitised)				
Closing balance sheet under IAS 39 and opening balance sheet under IFRS 9	51,747,542.10	0.00	0.00	51,747,542.10
FINANCIAL ASSETS				
Financial assets FVO (fair value option)				
Closing balance sheet pursuant to IAS 39	228,564,559.64			
Reclassification (in fair value through profit or loss under IFRS 9)		-228,564,559.64		
Opening balance sheet under IFRS 9				0.00
TOTAL	280,312,101.74	-228,564,559.64	0.00	51,747,542.10

Recognised in income at fair value - FVOCI

Debt securities recognised in income at fair value (with recycling)

-	Carrying value under IAS 39 at 31/12/2017	Reclassification	Revaluation	Carrying value under IFRS 9 at 1/1/2018
LOANS AND ADVANCES TO CUSTOMERS				
Financial instruments carried at FVOCI (fair value through other comprehensive income)				
Closing balance sheet pursuant to IAS 39	0.00			

Reclassification (from held to maturity under IAS 39)		71,268,406.68		
Opening balance sheet pursuant to IFRS 9				71,268,406.68
	Carrying value under IAS 39 at 31/12/2017	**Reclassification**	**Revaluation**	**Carrying value under IFRS 9 at 1/1/2018**
FINANCIAL ASSETS				
Financial instruments carried FVOCI (fair value through other comprehensive income)				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity under IAS 39)		280,648,617.08		
Opening balance sheet pursuant to IFRS 9				280,648,617.08

Equity instruments recognised in income at fair value (without recycling)

	Carrying value under IAS 39 at 31/12/2017	Reclassification	Revaluation	Carrying value under IFRS 9 at 1/1/2018
FINANCIAL ASSETS				
Financial instruments carried at FVOCI (fair value through other comprehensive income)				
Closing balance sheet pursuant to IAS 39	0.00			
Reclassification (from held to maturity under IAS 39)		313,712,104.85		
Write-ups of equity investments			38,444,180.00	
Opening balance sheet pursuant to IFRS 9				352,156,284.85

Available for sale assets

	Carrying value under IAS 39 at 31/12/2017	Reclassification	Revaluation	Carrying value under IFRS 9 at 1/1/2018
LOANS AND ADVANCES TO CUSTOMERS				
Financial assets - AfS (available for sale)				
Closing balance sheet pursuant to IAS 39	84,304,822.80			
Reclassification (in fair value through profit or loss under IFRS 9)		-13,036,416.12		
Reclassification (in fair value through other comprehensive income with recycling under IFRS 9)		-71,268,406.68		
Opening balance sheet pursuant to IFRS 9				0.00
FINANCIAL ASSETS				
Financial assets - AfS (available for sale)				
Closing balance sheet pursuant to IAS 39	664,796,108.01			
Reclassification (in fair value through profit or loss under IFRS 9)		-70,435,386.08		
Reclassification (in fair value through other comprehensive income with recycling under IFRS 9)		-280,648,617.08		
Reclassification (in fair value through other comprehensive income without recycling under IFRS 9)		-313,712,104.85		
Opening balance sheet pursuant to IFRS 9				0.00
TOTAL	749,100,930.81	-83,471,802.20	0.00	704,073,308.61

The main actuarial assumptions for calculating the present values of defined benefit obligations were updated as set out below.

	30/6/2018	31/12/2017
Interest rate applied	1.75%	1.75%
Increase under collective agreements	2.99%	2.93%
Pension increase	1.54%	1.52%

Oberbank group of consolidated companies

The group of consolidated companies as at 30 June 2018 included, apart from Oberbank AG, 36 Austrian and 18 foreign subsidiaries. The group of consolidated companies changed compared to 31/12/2017 due to the first-time inclusion of the following company:

Oberbank Ennshafen Immobilienleasing GmbH: 94% share

Details of the income statement in €k

1) Net interest income	1/1 to 30/6/2018	1/1 to 30/6/2017
Interest income from		
Credit and money market business	169,382	162,134
Shares and other variable-yield securities	3,163	3,071
Other equity investments	2,227	1,904
Subsidiaries	369	544
Fixed-interest securities and bonds	29,425	33,113
Interest and similar income	204,566	200,766
Interest expenses		
Deposits	-18,960	-24,435
Securitised liabilities	-9,470	-9,611
Subordinated liabilities	-10,814	-10,061
Interest and similar expenses	-39,244	-44,107
Net interest income	165,322	156,659

2) Charges for losses on loans and advances	1/1 to 30/6/2018	1/1 to 30/6/2017
Charges for losses on loans and advances	-82,156	-54,014
Direct write-offs	-465	-699
Reversals of loan loss provisions	76,069	55,034
Recoveries of written-off receivables	1,230	1,672
Result of non-significant modifications	10	0
Charges for losses on loans and advances	-5,312	1,993

3) Net commission income	1/1 to 30/6/2018	1/1 to 30/6/2017
Payment services	26,502	24,705
Securities business	25,184	22,008
Foreign exchange, foreign bank notes and precious metals business	7,715	6,862
Credit operations	17,703	13,193
Other service and advisory business	2,079	2,254
Net commission income	79,183	69,022

4) Net trading income	1/1 to 30/6/2018	1/1 to 30/6/2017
Gains/losses on interest rate contracts	465	751
Gains/losses on foreign exchange, foreign bank note and numismatic busin.	-2,227	5,146
Gains/losses on derivatives	4,732	-1,289
Net trading income	2,970	4,608

5) Administrative expenses	1/1 to 30/6/2018	1/1 to 30/6/2017
Staff costs	90,751	77,056
Other administrative expenses	46,959	43,929
Write-offs and impairment	6,814	6,100
Administrative expenses	144,524	127,085

6) Other operating income	1/1 to 30/6/2018	1/1 to 30/6/2017
a) Net income from financial assets - FVPL	-4,481	-1,007
b) Net income from financial assets - AfS	N/A	14,672
b) Net income from financial assets - FVOCI	-309	N/A
c) Net income from financial assets - HtM	N/A	0
c) Net income from financial assets - AC	0	N/A
d) Other operating income	-2,049	-25,244
Stability tax	-2,281	-2,016
Expenses from operational risks	-442	-19,820
Income from operational risks	4,911	1,507
Gains from the sale of land and buildings	0	115
Expenses from operating leases	-8,009	-8,373
Income from operating leases	9,157	9,459
Other	-5,385	-6,116
Other operating income net of other operating expenses	-6,839	-11,579

7) Income taxes	1/1 to 30/6/2018	1/1 to 30/6/2017
Current income tax expense	27,006	28,985
Deferred income tax expenses / income	-6,890	-7,499
Income taxes	20,116	21,486

8) Earnings per share in €	1/1 to 30/6/2018	1/1 to 30/6/2017
Number of shares as at 3/06	35,307,300	35,307,300
Average number of shares in issue	35,287,444	35,299,860
Consolidated profit for the year after tax	113,984	101,590
Earnings per share in €	3.23	2.88
Annualised values	6.46	5.76

Since no financial instruments with diluting effect were issued, diluted earnings per share were identical with undiluted earnings per share. Earnings per share were the same for both ordinary and preference shares.

9) Cash and balances at central banks	30/6/2018	31/12/2017
Cash in hand	72,228	85,543
Credit balances with central banks of issue	302,701	759,562
Cash and balances with the central bank	374,929	845,105

10) Loans and advances to credit institutions	30/6/2018	31/12/2017
Loans and advances to Austrian credit institutions	241,661	190,105
Loans and advances to foreign credit institutions	1,189,635	1,063,261
Loans and advances to credit institutions	1,431,296	1,253,366

11) Loans and advances to customers	30/6/2018	31/12/2017
Loans and advances to Austrian customers	9,458,369	9,093,104
Loans and advances to foreign customers	6,127,692	5,667,231
Loans and advances to customers	15,586,061	14,760,335

12) Impairment provisions	30/6/2018	31/12/2017
Impairment charges for banks	316	0
Impairment charges for customers	231,927	392,706
Impairment charges for debt securities	1,284	0
Impairment charges	233,527	392,706

13) Trading assets	30/6/2018	31/12/2017
Bonds and other fixed-interest securities		
Listed	73	1,383
Shares and other variable-yield securities		
Listed	1,491	228
Positive fair values of derivative financial instruments		
Currency contracts	3,354	531
Interest rate contracts	30,747	35,428
Other contracts	160	0
Trading assets	35,825	37,570

14) Financial investments	30/6/2018	31/12/2017
Bonds and other fixed-interest securities	2,181,137	2,351,989
Shares and other variable-yield securities	319,536	326,740
Equity investments/shares		
In subsidiaries	102,725	83,294
In entities accounted for using the equity method		
Banks	388,823	358,924
Non-banks	496,628	467,030
Other equity investments		
Banks	24,271	13,221
Non-banks	117,960	125,173
Financial investments	3,631,080	3,726,371
a) Financial assets - FVPL	245,649	228,565
b) Financial assets - AfS	N/A	664,796
b) Financial assets FVOCI	597,337	N/A
c) Financial assets - HtM	N/A	2,007,056
c) Financial assets - AC	1,902,643	N/A
d) Interest in entities accounted for using the equity method	885,451	825,954
Financial investments	3,631,080	3,726,371

15) Intangible assets	30/6/2018	31/12/2017
Other intangible assets	253	454
Customer base	458	475
Intangible assets	711	929

16) Property, plant and equipment	30/6/2018	31/12/2017
Investment property	97,363	98,905
Land and buildings	101,566	101,456
Business equipment and furnishings	72,202	71,385
Other property, plant and equipment	15,374	21,209
Property, plant and equipment	286,505	292,955

17) Other assets	30/6/2018	31/12/2017
Deferred tax assets	28,721	48,947
Other items	139,404	128,862
Positive fair values of closed out derivatives in the banking book	130,554	124,609
Deferred items	26,982	4,263
Other assets	325,661	306,681

18) Amounts owed to credit institutions	30/6/2018	31/12/2017
Amounts owed to Austrian credit institutions	2,261,507	2,436,798
Amounts owed to foreign credit institutions	1,883,061	1,718,499
Amounts owed to credit institutions	4,144,568	4,155,297

19) Amounts owed to customers	30/6/2018	31/12/2017
Savings deposits	2,705,645	2,719,041
Other	8,954,069	8,678,353
Amounts owed to customers	11,659,714	11,397,394

20) Securitised liabilities	30/6/2018	31/12/2017
Bonds issued	1,494,044	1,365,548
Other securitised liabilities	12,261	2,702
Securitised liabilities	1,506,305	1,368,250

21) Provisions for liabilities and charges	30/6/2018	31/12/2017
Provisions for benefits and pensions	174,359	172,931
Provisions for anniversary bonuses	12,053	11,801
Loan loss provisions	146,995	141,461
Other provisions	61,203	54,837
Provisions for liabilities and charges	394,610	381,030

22) Other liabilities	30/6/2018	31/12/2017
Trading liabilities	30,886	31,848
Tax liabilities	30,239	18,399
Current tax liabilities	25,709	13,948
Deferred tax liabilities	4,530	4,451
Other liabilities	285,350	267,263
Negative fair values of closed out derivatives in the banking book	19,199	40,475
Deferred items	88,656	74,758
Other liabilities	454,330	432,743

23) Other liabilities (trading liabilities)	30/6/2018	31/12/2017
Currency contracts	632	525
Interest rate contracts	30,115	31,323
Other contracts	139	0
Trading liabilities	30,886	31,848

24) Subordinated debt capital	30/6/2018	31/12/2017
Subordinated bonds issued incl. tier 2 capital	514,498	570,003
Hybrid capital	60,142	59,100
Subordinated debt capital	574,640	629,103

25) Equity	30/6/2018	31/12/2017
Subscribed capital	105,887	105,862
Capital reserves	505,523	505,523
Retained earnings (incl. net profit)	2,034,995	1,797,284
Negative goodwill	1,872	1,872
Additional equity capital components	50,000	50,000
Minorities	6,097	6,248
Equity	2,704,374	2,466,789

26) Contingent liabilities and commitments	30/6/2018	31/12/2017
Other contingent liabilities (guarantees and letters of credit)	1,437,400	1,441,004
Contingent liabilities	1,437,400	1,441,004
Liabilities from non-genuine repos	0	0
Other commitments (irrevocable loan commitments)	4,004,714	4,028,144
Credit risks	4,004,714	4,028,144

26) Segment report as at 30/6/2018 Core business segments in €k	Personal Banking	Corporates	Financial Markets	Other	Total
Net interest income	29.8	120.3	15.3	0.0	165.3
Income from entities recognised using the equity method	0.0	0.0	43.3	0.0	43.3
Charges for losses on loans and advances	-1.6	-0.8	-2.9	0.0	-5.3
Net commission income	38.2	41.1	-0.1	0.0	79.2
Net trading income	0.0	-0.1	3.1	0.0	3.0
Administrative expenses	-44.9	-70.4	-4.9	-24.3	-144.5
Other operating income	2.4	0.9	0.4	-10.6	-6.8
Extraordinary profit/loss	0.0	0.0	0.0	0.0	0.0
Profit before tax	23.9	90.9	54.2	-34.9	134.1
Average risk-weighted assets	1,730.2	9,440.8	5,705.4		16,876.5
Average allocated equity	265.8	1,450.5	876.6		2,592.9
Return on equity before tax	18.0%	12.5%	12.4%		10.3%
Cost/income ratio	63.8%	43.4%	7.9%		50.9%

27) Human resources	30/6/2018	31/12/2017
Salaried employees	2,088	2,050
Blue-collar	11	15
Total resources	2,099	2,065

28) Regulatory capital pursuant to Part 2 of Reg. (EU) No 575/2013	30/6/2018	31/12/2017	30/6/2017
Subscribed capital	100,522	101,422	101,422
Capital reserves	505,523	505,523	505,523
Retained earnings	1,759,796	1,728,837	1,558,286
Minority interests	0	0	0
Cumulated other comprehensive income	57,877	38,961	69,442
Regulatory adjustment items	5,099	-8,925	-20,310
Deductions from common equity tier 1 capital items	-184,377	-162,694	-174,612
COMMON EQUITY TIER 1 CAPITAL	2,244,440	2,203,124	2,039,751
AT1 capital instruments	50,000	50,000	50,000
AT1 capital instruments under national implementation rules	23,600	29,500	29,500
Deductions from AT1 capital items	-8,707	-8,807	-8,827
Additional tier 1 capital	64,893	70,693	70,673
TIER 1 CAPITAL	2,309,333	2,273,817	2,110,424
Qualifying supplementary capital instruments	312,675	308,656	324,597
Nominal capital preference shares purs. to transition rules	5,400	4,500	4,500
AT1 capital instruments purs. to transition rules	35,400	29,500	29,500
Supplementary capital (tier 2) items purs. to national impl. rules	18,314	28,782	32,512
General credit risk adjustments	0	0	0
Deductions from tier 2 capital items	-20,707	-22,359	-12,494
Supplementary capital (tier 2)	351,082	349,079	378,615
OWN FUNDS	2,660,415	2,622,896	2,489,039
Total risk exposure purs. Art. 92 CRR			
Credit risk	13,159,917	12,308,891	12,181,906
Market risk, settlement risk and CVA risk	32,003	37,497	46,158
Operational risk	1,009,236	1,009,236	970,730
Total exposure	14,201,156	13,355,624	13,198,794

Own funds ratio purs. Art. 92 CRR			
Common equity tier 1 capital ratio	15.80%	16.50%	15.45%
Core capital ratio	16.26%	17.03%	15.99%
Total capital ratio	18.73%	19.64%	18.86%
Regulatory capital ratios purs. to transition rules in %			
Common equity tier 1 capital ratio	7.204%	6.577%	5.784%
Core capital ratio	8.970%	8.343%	7.284%
Total capital ratio	11.320%	10.693%	9.284%
Regulatory capital requirements purs. to transition rules in €k			
Common equity tier 1 capital	1,023,080	878,426	763,392
Tier 1 capital	1,273,872	1,114,286	961,374
Total capital	1,607,599	1,428,144	1,225,350
Free capital components			
Common equity tier 1 capital	1,221,360	1,324,698	1,276,359
Tier 1 capital	1,035,461	1,159,531	1,149,050
Total capital	1,052,816	1,194,752	1,263,689

29) Fair value of financial instruments as at 30/6/2018 in €k							
	AC	FVPL	HFT	FVOCI	AC/Liabilities	Other	Total
Cash and balances at central banks						374,929	374,929
						374,929	374,929
Loans and advances to credit institutions					1,431,296		1,431,296
					1,431,465		1,431,465
Loans and advances to customers	48,899	77,885		68,623	15,390,654		15,586,061
	48,634	77,885		68,623	15,484,699		15,679,841
Charges for losses on loans and advances					-233,527		-233,527
					-233,527		-233,527
Trading assets			35,825				35,825
			35,825				35,825
Financial investments	1,902,643	245,649		597,337		885,451	3,631,080
	2,008,939	245,649		597,337			
Intangible assets						711	711
Property, plant and equipment						286,505	286,505
Other assets			130,554			195,107	325,661
			130,554				
of which closed out derivatives positions in the banking book			130,554				130,554
			130,554				130,554
Total assets	**1,951,542**	**323,534**	**166,379**	**665,960**	**16,588,423**	**1,742,703**	**21,438,541**
	2,057,573	**323,534**	**166,379**	**665,960**	**16,682,637**		
Amounts owed to credit institutions		55,808			4,088,760		4,144,568
		55,808			4,092,637		4,148,445
Amounts owed to customers		423,489			11,236,225		11,659,714
		423,489			11,233,145		11,656,634
Securitised liabilities		444,184			1,062,121		1,506,305
		444,184			1,043,743		1,487,927
Provisions						394,610	394,610
Other liabilities			50,085			404,245	454,330
			50,085				
of which closed out derivatives positions in the banking book			19,199				19,199
			19,199				19,199
Subordinated debt capital		426,573			148,067		574,640
		426,573			163,196		589,769
Capital						2,704,374	2,704,374
Total equity and liabilities	**-**	**1,350,054**	**50,085**	**-**	**16,535,173**	**3,503,229**	**21,438,541**
	-	**1,350,054**	**50,085**	**-**	**16,532,721**		

The first line item shows the book value; the line below shows the fair value of the same item.

Fair value hierarchy of financial instruments as at 30/6/2018										
	AC Book value	FVPL Book value	HFT Book value	FVOCI Book value	AC/ liabilities book value	Other book value	Total book value	Level 1 Fair value	Level 2 Fair value	Level 3 Fair value
Financial instruments carried at fair value in €k										
Loans and advances to customers	0	77,885	0	68,623	0	0	146,508	0	146,508	0
Trading assets	0	0	35,825	0	0	0	35,825	1,474	34,351	0
Financial assets FVPL	0	245,649	0	0	0	0	245,649	25,473	220,176	0
Financial assets FVOCI	0	0	0	597,337	0	0	597,337	368,221	3,766	225,350[1)]
Other assets	0	0	130,554	0	0	0	130,554	0	130,554	0
of which closed out derivatives positions in the banking book	0	0	130,554	0	0	0	130,554	0	130,554	0
Financial assets not carried at fair value										
Loans and advances to credit institutions	0	0	0	0	1,431,296	0	1,431,296	0	1,431,465	0
Loans and advances to customers	48,899	0	0	0	15,390,654	0	15,439,553	0	15,533,333	0
Financial assets AC	1,902,643	0	0	0	0	0	1,902,643	1,932,307	76,632	0
Financial instruments carried at fair value										
Amounts owed to credit institutions	0	55,808	0	0	0	0	55,808	0	55,808	0
Amounts owed to customers	0	423,489	0	0	0	0	423,489	0	423,489	0
Securitised liabilities	0	444,184	0	0	0	0	444,184	0	444,184	0
Other liabilities	0	0	50,085	0	0	0	50,085	0	50,085	0
of which closed out derivatives positions in the banking book	0	0	19,199	0	0	0	19,199	0	19,199	0
Subordinated debt capital	0	426,573	0	0	0	0	426,573	0	426,573	0

1) This item consists of equity investments whose market value was measured using the discounted cash-flow entity method and/or mixed methods (multiples method in combination with the discounted cash-flow method).

Fair value hierarchy of financial instruments as at 30/6/2018										
	AC Carrying amount	FVPL Book value	HFT Book value	FVOCI Book value	AC/ liabilities book value	Other book value	Total book value	Level 1 Fair value	Level 2 Fair value	Level 3 Fair value
Financial instruments not carried at fair value										
Amounts owed to credit institutions	0	0	0	0	4,088,760	0	4,088,760	0	4,092,637	0
Amounts owed to customers	0	0	0	0	11,236,225	0	11,236,225	0	11,233,145	0
Securitised liabilities	0	0	0	0	1,062,121	0	1,062,121	0	1,043,743	0
Other liabilities	0	0	0	0	0	0	0	0	0	0
Subordinated debt capital	0	0	0	0	148,067	0	148,067	0	163,196	0

The fair value corresponds to the amount at which an asset can be sold or a liability settled by market participants in a transaction under market conditions on the balance sheet date.
The assessment of the fair value is based on the assumption that the transaction takes place either on the principal market for the respective asset or debt instrument or, if no such principal market exists, the most advantageous active market for the respective transaction, provided the entities involved have access to such markets. Where market prices are available for identical assets or debt instruments in an active market to which access is available on the balance sheet date, these prices are used for the measurement (level 1). Where no such market prices are available, the fair value is determined using valuation models based on parameters that are either directly or indirectly observable (level 2). Where the fair value cannot be assessed on the basis of market prices or using valuation models fully based on directly or indirectly observable market data, individual valuation parameters that are not observable on the market are estimated on the basis of reasonable assumptions (level 3).
All fair value measurements refer to regularly performed measurements. There were no one-off fair value measurements in the reporting year.

Valuation process
Responsibility for independent monitoring and communication of risks as well as the valuation of financial instruments lies with the Strategic Risk Management unit of Oberbank. The unit is functionally and organisationally separate from trading, which is responsible for the initiation and conclusion of transactions.
Trading book positions are marked-to-market daily at the close of business.
Valuation is based on current stock exchange prices where such quoted prices are publicly available. If direct measurement based on prices quoted on securities exchanges is not possible, model values derived from current market data (yield curves, volatilities, etc.) are used. The market data is validated daily and the model prices are compared with the prices actually obtainable on the market at regular intervals. Moreover, model prices of derivatives are compared with the model values of the partner banks. The management is sent a daily update on risk positions and the valuation results based on entire trading book positions. The fair value of financial instruments not carried in the trading book is measured on a quarterly basis.

Valuation methods for measuring fair values
The valuation methods used are in compliance with recognised mathematical methods for measuring financial instruments taking into account all factors that market participants would consider appropriate for determining a price. In addition to the fair value measurement, the income-based methodology is the valuation approach applied. The market-based approach is applied in the fair value measurement of structured products.

Input factors for the fair value measurement
The measurement of the fair value of financial instruments in **level 1** is based on prices quoted on active markets. These instruments include listed securities and derivative instruments. If direct measurement based on prices quoted on securities exchanges is not possible, the present value in **level 2** is estimated using model values derived from current market data (yield curves, volatilities, etc.). Underlying interest-rate curves and volatilities are obtained from the Reuters Market Data System.
Measurements are based on generally-accepted valuation models, with measurements being made under market conditions. In the case of derivatives, symmetrical products (e.g. IRS) are measured using the discounted cash flow method. The fair values of asymmetrical products (options) are calculated using standard methods (e.g. the Black-Scholes options pricing model). Structured products are measured on the basis of price information obtained from third parties.
All derivative instruments are measured on a counterparty-risk-free basis in a first step. In a second step, a credit risk markdown is determined (credit valuation adjustment, CVA) based on the internal default probabilities of an expected loss. The fair values of non-listed securities are obtained from the Geos system. The fair value of investment fund units is obtained from the fund management companies. The present value method (discounted cash flow method) is used to calculate the fair value of securitised liabilities, subordinated capital and payables to banks and customers; the cash flows of own issues are calculated using the contractual interest rate. The interest rates used for discounting are derived from the discount curve applicable to the respective currency, adding a premium in the form of a credit spread corresponding

to the seniority of the issue. The credit spreads are adjusted regularly. The fair value measurement of receivables from banks and customers is based on the discounted contractual cash flows (according to the contractual repayment schedule) and the discounted expected credit loss cash flows (taking the customer's credit rating and collateral into account).
The exchange rates used are the reference rates published by the ECB.
The fair value of **level 3** assets is measured using generally-accepted valuation models. The fair value of these assets is measured using the discounted cash-flow entity method and/or mixed methods (multiples method in combination with the discounted cash-flow method) or by another method for measuring enterprise value. Changes in the fair value hierarchy or classification take place whenever there is any change in the quality of the input parameters used in the measurement method. Classification adjustments are made at the end of the reporting period.

The table below shows the development of participating interests FVOCI measured at fair value and assigned to level 3. The fair value of these assets is measured using the discounted cash-flow entity method and/or mixed methods (multiples method in combination with the discounted cash-flow method such as Black Scholes). Structured products are measured on the basis of price information obtained from third parties.

Movements in €k	2018	2017
Carrying value as at 01/01	88,184	74,616
Additions (purchases)	1,720	0
Disposals (sales)	-14,312	0
Initial measurement triggered by IFRS 9	149,758	0
Value changes recognised in equity	0	13,568
Value changes recognised in income	0	0
Carrying value as at 3/06	**225,350**	**88,184**

The item Other comprehensive income from this type of instrument decreased by €k 3,493.
The remaining level 3 financial instruments measured at fair value comprise loans and advances to customers and/or amounts owed to credit institutions for which the fair value option was used.

Movement in 2018 in €k	Loans and advances to customers	Amounts owed to credit institutions
Carrying value as at 01/1/2017	51,748	53,276
Reclassified in level 2	-51,748	-53,276
Additions	0	0
Disposals	0	0
Changes in fair value	0	0
of which disposals	0	0
of which portfolio instruments	0	0
Carrying value as at 30/06	0	0

STATEMENT BY THE MANAGEMENT BOARD PURSUANT TO § 125 STOCK EXCHANGE ACT

The Management Board confirms that

- these condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) currently in force and published by the International Accounting Standards Board (IASB) as applicable in the EU and the interpretations thereof by the International Financial Reporting Interpretations Committee (IFRIC); they furthermore present a true and fair view of the assets, liabilities, financial position and result of operations of the Oberbank Group.

- these consolidated interim financial statements cover the first half of the year 2018 (1 January 2018 to 30 June 2018) and present a true and fair view of the assets, liabilities, financial position and result of operations of the Oberbank Group in compliance with the principles of IFRS for interim financial reports.

The undersigned Management Board members in their function as authorized representatives of Oberbank hereby declare,

a) that to their best of their knowledge, these condensed financial statements prepared in conformity with applicable accounting standards present a true and fair view of the assets, liabilities, financial position and result of operations of the issuer and of all entities included in the group of consolidated companies;

b) that the management report for the half-year presents a true and fair view of the assets, financial position and result of operations with respect to the major events having in the first six months of the financial year and their effects on the condensed interim consolidated financial statements regarding material risks and uncertainties in the remaining six months of the financial year, and with respect to material transactions with related parties subject to disclosure.

Major transactions with related parties as at 30 June 2018 were:

Associated companies	€k 1,430
Subsidiaries	€k 0
Other related parties	€k 773

Linz, 28 August 2018

The Management Board

CEO	Director	Director
Franz Gasselsberger	Josef Weißl	Florian Hagenauer
Remit	Remit	Remit
Corporate and Business Banking	Personal Banking	Overall Banking Risk Management

Current Management Board Remits

CEO **Franz Gasselsberger**	Director **Josef Weißl**	Director **Florian Hagenauer**
	General Business Policy	
	Internal Audit	
	Compliance	
	Business and Service Departments	
CIF (Corporate & International Finance)	PKU (Personal Banking)	KRM (Credit Management)
GFM (Global Financial Markets)	PAM (Private Banking & Asset Management)	RIS (Strategic Risk Management)
HRA (Human Resources)		SEK (Corporate Secretary & Communication)
RUC (Accounts & Controlling)		ORG (Organisational Development, Strategy and Process Management)
		ZSP (Payment Systems and Central Production CEE[1]), securities settlement)
		BDSG[2]) (Payment Systems and Central Production)
	Regional Business Divisions	
Linz North	Linz South	
Salzkammergut	Innviertel	
Vienna	Salzburg	
Wels	Lower Austria	
Southern Germany	Slovakia	
Germany Mitte	Czech Republic	
	Hungary	

1) CEE as defined by Oberbank comprises the regions of Czech Republic, Slovakia and Hungary.
2) Banken DL Servicegesellschaft m.b.H., 100% subsidiary of Oberbank

Notes

The forecasts that refer to the future development of Oberbank are estimates made on the basis of all the information available to us on the reporting data. Should the assumptions regarding such forward-looking statements prove incorrect or should risks materialise to an extent not anticipated, the actual results may vary from those currently expected. Information provided on market shares are based on the most recent data available at the copy deadline of this report.

When adding up rounded figures and calculating percentage rates of change, slight differences may result compared with totals and rates arrived at by adding up component figures which have not been rounded off.

Financial Calendar 2018

The Oberbank Report to Shareholders is published three times a year.

18 May 2018	Quarterly results for Q1 2018
28 August 2018	Quarterly results for Q1-2 2018
30 November 2018	Quarterly results for Q1-Q3 2018

All of the information is available online at www.oberbank.at under Investor Relations.

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Internet: www.oberbank.at, E-Mail: sek@oberbank.at

Editorial team: Corporate Secretary and Communication, phone +43 732 78 02-0