HYPO LANDESBANK VORARLBERG

Passionate. Sound. Advice.

A GOAL IN SIGHT

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2016

KEYFIGURES 2016

Keyfigures of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft
(Hypo Landesbank Vorarlberg) – Group reporting per IFRS:

in '000 EUR		31.12.2016	31.12.2015	Change	
				in '000 EUR	in %
Total assets		13,324,387	13,902,411	–578,024	–4.2
Loans and advances to customers (L&R)	(17)	9,049,998	9,061,358	–11,360	–0.1
Amounts owed to customers (LAC)	(32)	5,282,097	4,995,818	286,279	5.7
Liabilities evidenced by certificates (LAC)	(33)	2,682,267	2,402,602	279,665	11.6
Own funds according to CRR	(67)	1,246,529	1,160,758	85,771	7.4
thereof Tier 1 capital		1,005,715	874,848	130,867	15.0
Total capital ratio according to CRR		16.52 %	14.82 %	1.70 %	11.5

in '000 EUR		2016	2015	Change	
				in '000 EUR	in %
Net interest income after loan loss provisions		215,545	160,646	54,899	34.2
Net fee and commission income	(7)	34,027	36,566	–2,539	–6.9
Net trading result (not including change in own credit risk)	(9)	27,998	1,020	26,978	>100.0
Administrative expenses	(11)	–97,114	–92,462	–4,652	5.0
Operating result before change in own credit risk		151,574	102,910	48,664	47.3
Earnings before taxes		117,619	121,146	–3,527	–2.9

Keyfigures		2016	2015	Change	
				absolut	in %
Cost-Income-Ratio (CIR)		55.27 %	45.34 %	9.93 %	21.9
Return on Equity (ROE)		16.14 %	11.67 %	4.47 %	38.3
Employees	(54)	725	729	–4	–0.5

The shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft
(Hypo Landesbank Vorarlberg) as at 31 December 2016 are:

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

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

* In October 2015, Standard & Poor's (S&P) announced a new rating for Hypo Landesbank Vorarlberg: "A–" for non-current liabilities and "A–2" for current liabilities, with a stable outlook. This makes us one of the best-rated banks in Austria. The Bank is currently rated "Baa1" by Moody's and this rating will remain in place for the time being.

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A GOAL IN SIGHT

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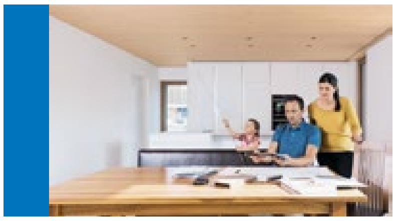

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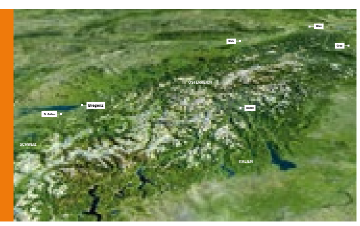

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AN IMPORTANT PRINCIPLE

HYPO LANDESBANK VORARLBERG
CORPORATE BANK | RESIDENTIAL BANK | INVESTMENT BANK

Wilfried Amann
Member of the Managing Board

We have a key principle. That our customers can always rely on us. That we are there when we are needed. And that they can talk to us about everything. Because that is the basis for a long-term and successful business relationship.

Michel Haller
Member of the Managing Board (until 31.12.2016)
Chairman of the Managing Board (since 1.1.2017)

Michael Grahammer
Chairman of the Managing Board (until 31.12.2016)

Johannes Hefel
Member of the Managing Board

A CLEAR LINE

Dear customers, business partners, shareholder representatives and employees,

2016 was marked by many unforeseeable events, including Brexit and the election of Donald Trump. The terror attacks in Europe, the civil war in Syria as well as the refugee movement have also led to uncertainty.

Hypo Landesbank Vorarlberg experienced additional challenges. After publication of the Panama Papers an inquiry board by the government of Vorarlberg was formed concerning the offshore business of Hypo Landesbank Vorarlberg, only to be curtailed due to no significant findings. To our deep regret, in April 2016, Michael Grahammer, Chairman of the Managing Board, tendered his resignation, primarily due to the political and media prejudgement in the course of these events.

Outstanding results

Despite this environment, Hypo Landesbank Vorarlberg did not stray from its successful path and continued to concentrate on its core business as a corporate, residential and investment bank. We are pleased to report another very positive year for the Group in this annual report. With results before taxes of EUR 117.6 million we are very close to reaching the results of the previous year. While there was a noticeable decline in net fee and commission income, we were able to largely resolve the high risk costs of previous years for HETA, which in turn led to positive risk costs. The excellent annual result also reflects our long-term successful business model, our healthy credit portfolio and consistent cost management. Among Austrian regional banks, we are now in the top group in terms of efficiency and profitability and, with total assets of around EUR 13.3 billion, rank among the top ten Austrian universal banks.

A strong brand

Hypo Landesbank Vorarlberg is in an excellent position and is not afraid to compete with other banks. The events of recent years – especially the political decisions and media coverage – have naturally left a few marks, however, Hypo Landesbank Vorarlberg has shown itself to be a strong bank. To ensure that this remains so in the future, we have revised and sharpened our brand positioning over the past two years. As a result we have, among other things, defined our core brand values and formulated a clear positioning of our Bank. Since summer 2016, we have been implementing the brand strategy across the board in order to make the brand tangible both internally and externally. The process has resulted in a new brand profile.

As the theme for this year's annual report, we have chosen the motto "a goal in sight" for many good reasons. For one, the new brand profile will be available in the fourth quarter of 2017 for our customers to experience and, for another, the expiry of the government guarantee is a further important event. We have already prepared for this in the past months and years and are well equipped for October 2017 when the Bank will move forward with almost no statutory guarantees.

Quality consulting as main focus

Our new positioning, which has evolved during the course of the brand project, focusses on the quality of our consulting. Under the motto "The best consulting for those with purpose" our clear goal is to further expand Hypo Landesbank Vorarlberg's consulting-intensive core business – investment and financing. At the same time, we want to augment our services with digital banking services in such a way that our customers benefit from optimal interaction between technology and people. In the interest of sustainable human resource development, we attach great importance to solid training for our new professionals and the continual development of the professional abilities and social competence of our employees.

Sustainable business

The fact that Hypo Landesbank Vorarlberg is a solid, sound bank is shown by the economic indicators which are presented in detail in this annual report. In addition, we are conscious on both the large and small scale of our ecological and social responsibilities. At the beginning of 2016, a sustainability programme was initiated by Hypo Landesbank Vorarlberg and a new position was created to help further embed this topic into the Group and to plan and implement the objectives in a structured manner. Key indicators and facts as well as already implemented and planned sustainability activities will be presented as part of our first sustainability report which will be released in the second half of 2017.

Our thanks

Thank you to all our customers and business partners who gave us their trust and loyalty and allowed us to support and assist them in their projects. We would also like to give special thanks to our employees for their great commitment and excellent results. Thanks to the support of all these people, Hypo Landesbank Vorarlberg is well-positioned and well equipped to tackle the upcoming challenges of 2017. With this foundation, we can remain a competent and trustworthy partner for our customers.

The Managing Board
Michel Haller
Johannes Hefel
Wilfried Amann

A HIGH STANDARD

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHEL HALLER

How would you rate the business year 2016?
An important factor for the Bank's sustained success in 2016 is the risk-conscious lending and business policy that the Managing Board has always pursued. Despite numerous obstacles and hurdles, we were able to roughly approximate the positive developments in earnings of the past several years. Operating results was strongly influenced by the low interest rate, while the good resolution for risk provisions had a positive effect. Overall, we achieved very good earnings before taxes of EUR 117.6 million in 2016. The fact that we could achieve such a good result despite all the challenges is due above all to stable corporate and private customer business as well as consistent cost management.

You became Chairman of the Managing Board, effective 1 January 2017. What does this change?
At the moment, no major changes are planned. In the new Managing Board, my colleagues and I consider it very important that the main pillars of Hypo Landesbank Vorarlberg continue to exist. Excellent, dedicated and satisfied employees are the basis for our continuing success. As an important employer in the region, we want to continue to provide secure employment, while valuing continuing education and training new future professionals. Our top 5 ranking among employers in Vorarlberg in 2016 shows that we are on the right track.

What does this mean for the customer?
Our strategy and our market area will not noticeably change. Hypo Landesbank Vorarlberg will remain in future a branch-based bank with employees consultation. We will also remain up-to-date with new requirements and the changing needs of our customers. For example, we are continuing to digitalise our services and offerings and closely monitor new developments and conditions and react accordingly.

You remain responsible for risk management. How do you assess the risk costs for the Bank?
Our risk costs are at a low level, despite cautious valuation. Having had to make major provisions for HETA and the Pfandbriefbank in previous years, a satisfactory solution for creditors was agreed in 2016. As a result, the financial loss to Hypo Landesbank Vorarlberg was significantly reduced. We have already been able to release a large part of the value adjustments and provisions and now report these as income. However, not only HETA contributed to the positive trend in risk costs, risk costs were also positive in our core business. We pay attention to the high quality of our credit portfolio and ensure that our risk structure is appropriate for our size and business model. This is also shown through the further reduction in the risk-weighted assets (RWAs) from EUR 7.8 billion to EUR 7.5 billion, although total lending to customers remained at approximately the same level as in the previous year. This positive effect was due to our focussed concentration on the core business. Non-performing loans (NPLs) have also developed well. As at 31 December 2016, non-performing loans were only 1.99% of total loans.

How has the Bank's own capital and liquidity situation evolved?
The reduction in RWAs has had a positive impact on our own capital requirements and we have strengthened our capitalisation with both the 2016 results and the issue of an Additional

Curriculum Vitae of Michel Haller
Michel Haller (45) has been a member of the Board of Hypo Landesbank Vorarlberg since 2012. On 1 January 2017, he took over the position of Chairman, Managing Board, replacing Michael Grahammer. Michel Haller is responsible for the departments Risk Management, Legal, Compliance, Human Resources, Communication, Back Office Fund/Securities/Derivatives as well as Risk Management for the St. Gallen branch and Leasing in Bolzano, Italy. He worked at Hypo Landesbank Vorarlberg from 1995 to 2002, first in the Corporate Customer department and then from 1998 in Treasury, where he headed the Asset Management Group and was also head of Hypo-Kapitalanlage Ges.m.b.H for two years. In 2002, he changed to join the Board of the Sparkasse Bregenz. He studied Business Administration and Law at the Leopold-Franzens-University in Innsbruck where he received his Master's degree in 1994.

Tier 1 bond. At the end of 2016, Hypo Landesbank Vorarlberg's attributable own funds totalled EUR 1.2 billion. We increased our own funds surplus over the legal requirements from EUR 534.1 million in the previous year to EUR 643.0 million. This provides additional security for our customers, because with a total capital ratio of 16.52% (2015: 14.82%) and a Tier 1 capital ratio (T1) of 13.33% (2015: 11.17%) we have significantly improved compared to last year and already fulfil the regulatory requirements for 2019. With our liquidity figures, we are over the legal requirements in both the short and long-term.

What changes do you expect in the current year for the Austrian banking sector?
Following the resolution of the HETA issue, the situation has calmed down again, thus improving the refinancing situation for domestic banks. However, ongoing low-interest rates also play a major role in the future development of the banking sector, and this challenges the fundamental business model of small and medium-sized banks. When the earning basis collapses, saving in other areas becomes imperative. I believe that this will lead to further concentration and the number of bank branches in Austria will continue to decline. We did our homework in the past and integrated some smaller sites into larger branches. In 2017 and 2018, we will not need to close any of our branches, however all banks must find new ways to remain profitable. At Hypo Landesbank Vorarlberg we will focus our attention even more on quality and employees consulting and support.

What do you wish for 2017?
Before addressing the future, I would like to thank Michael Grahammer for his excellent work in recent years, on which we can now build. I wish him all the best and much success for the future. For Hypo Landesbank Vorarlberg, I hope for a little more calm at the social and political level and that we, despite many issues, can successfully manage these challenging times. With committed and excellent employees and with customers who trust us, we have the best conditions for this.

AN ATTRACTIVE BRAND

HYPO LANDESBANK VORARLBERG INTERVIEW WITH JOHANNES HEFEL

How do you rate the 2016 financial year for the private customer segment?
The overarching regulations, the ongoing digitalisation and the continuing strong competition among banks in the deposit and financing business has created a challenging environment and has put great pressure on conditions and margins. Despite this challenging situation, Hypo Landesbank Vorarlberg achieved good results in the private customer segment. In addition to investments in digital development, payments to the deposit protection fund and the resolution fund as well as the bank levy led to an increased burden on private customer business of EUR 5 million.

How has Private Banking/Wealth Management developed?
Our challenge in Private Banking is to offer every customer first-class problem solving on an individual basis with the same high quality. Results from external testers show that we are on the right path. The two largest German bank testers in Private Banking have given us a very good mark again this year. The Elite Report (Munich) has classified us as "unreservedly recommendable" in 2017 and as the number two bank in Austria. We also made the leap into the Top 5 among Austrian banks in the Fuchsbriefe (Berlin), a very good position for Hypo Landesbank Vorarlberg given that the top places are occupied by specialised private banks. These results are a positive confirmation for us and our quality of consultation. Even more important is the satisfaction of our customers, because they are the real test for us.

Were there particular developments in 2016?
The years 2015 and 2016 were a major challenge for quantitatively oriented investment strategies, since the usual market trends were overridden by interventions by central banks. In response to changing market conditions, our experts in asset management continued to develop our investment approach in 2016. The core of the new "Hypo Vermögensoptimierung" (Hypo Asset Optimisation) is, on the one hand, an ongoing optimisation of the customer's investment portfolio and, on the other, an expanded investment spectrum. For the customer, this means a timely adjustment of the asset classes to their investment objectives and the current market environment. A variety of investment classes provide flexibility in investments and a risk-optimised achievement of the target yield.

Keyword digitalisation – what will the bank of the future look like?
More and more often the following questions arise: Will there be any bank branches left? Will consultation be replaced by the smartphone or by robo-advisors? We are certain that these are the wrong questions. It does not mean either-or, rather it is about how the various sales channels can be optimally combined in the future. The advancing digitalisation as well as changing customer behaviour require not only new products, but also new business models. Under the title "branch of the future", a project team is intensively considering how a viable future-oriented branch of Hypo Landesbank Vorarlberg could look. In any case, our goal is to network existing branches with the digital world in such a way that customers benefit from the optimal interaction between technology and people. We are convinced that employees consultation will continue to be

Curriculum Vitae of Johannes Hefel
Johannes Hefel (59) has been a member of the Board of Hypo Landesbank Vorarlberg since 1997. His responsibilities include the departments Private Customer Sales, Private Banking/Wealth Management, Asset Management, Auditing, Logistics and Marketing. Prior to joining Hypo Landesbank Vorarlberg, he worked for many years as a financial analyst and asset manager in Liechtenstein and Frankfurt am Main. In 1990 he changed to the Management Zentrum St. Gallen (MZSG) as business consultant and management trainer. He then worked independently in this field from 1993 to 1997 before he was appointed to the Managing Board of the Bank. In 1982, he graduated with a Master of Business Administration from the Leopold-Franzens-University in Innsbruck. Three years later, he received his Doctorate of Economics and Social Sciences.

indispensable in the future, especially with major financing or comprehensive investment. Therefore, consultancy and continuing education are central issues in 2017 and beyond.

What are your plans for future development of the brand?
Hypo Landesbank Vorarlberg is a strong brand. To ensure that this remains so in the future, we have revised and sharpened our brand positioning over the past two years. As a result, we have defined our brand core values and formulated a clear positioning of our Bank. Since summer 2016, we have been implementing the brand strategy across the board in the Bank and externally in order to make our brand experience even more dynamic. At the end of the process a new brand profile will be in effect from the fourth quarter 2017.

What is the Bank doing in terms of sustainability?
As a founding member of the Klimaneutralitätsbündnis (Climate Neutrality Alliance) we are showing that sustainability is our concern. We are constantly striving to reduce our CO_2 emissions. Unavoidable CO_2 emissions are offset by climate-protection certificates of the highest standard, including reforestation and the construction of wind parks. According to the criteria of the alliance, we are already climate neutral for 2016 as well as 2017. In order to embed the topic into Hypo Landesbank Vorarlberg, a sustainability programme has been started, which has already proven successful. Thanks to our efforts, we have improved our sustainability rating with oekom research AG.

What further developments are planned in this area?
We also want to meet our environmental and social responsibility on the product side by offering our customers products that specifically emphasise sustainability. For institutional investors, who attach great importance to sustainable investments with climate-relevant commitment, we will launch a “green bond” in autumn 2017. For private investors, we offer favourable conditions for the sustainable renovation of property with Hypo-Klima-Kredit. After extensive collection of data and intensive preparation, our first sustainability report will be released this year.

A CLEAR OBLIGATION

HYPO LANDESBANK VORARLBERG INTERVIEW WITH WILFRIED AMANN

How has your start at Hypo Landesbank Vorarlberg been?
I have sincerely enjoyed this new challenge. Although the dimensions are now somewhat greater than before, in many areas there are parallels to my former employer – for example, the regional roots and the economic fitness. With Hypo Landesbank Vorarlberg, I have found a well-functioning, healthy and excellently positioned company. This is an excellent foundation, but also raises the bar by which the new Managing Board will be measured. I am delighted to be part of the Hypo Landesbank Vorarlberg family and am excited to see what challenges the future will bring for my fellow board members and myself.

How do you assess the economic situation in your core markets?
Despite the challenging economic situation in Europe, the development of the corporate banking business at Hypo Landesbank Vorarlberg reflects the robust condition of local businesses. Overall, we see a good order situation among the companies in our core markets, but increasing short-term orders and fluctuations in raw material prices make planning more difficult. Companies' willingness to invest has been restrained for some time, which is why the increase in loans and advances to customers for the previous year was relatively low. In Vorarlberg, Hypo Landesbank Vorarlberg remains the clear market leader with corporate customers – we want to continue to consolidate this good position in the future.

What developments do you expect in the corporate customer business?
At Hypo Landesbank Vorarlberg, customer proximity, employees relationships and high-quality consulting form the basis of every business relationship – whether in private or corporate banking. This will not change substantially in the future. We put great value on tradition while at the same time stay at the cutting edge by responding to changing conditions such as digitalisation and changing customer requirements. As a strong corporate bank, we therefore want to develop innovative and meaningful solutions to support companies in our core markets, especially in the area of payment transaction.

Are there already concrete plans?
Yes. Our experience shows us that many companies would like to have uncomplicated banking software for payment transactions. They are looking for a solution that does not require installation, is location-independent, fast, secure and international for all accounts. With our new "Hypo-Office-Banking" (HOB), we solve these issues and assume a pioneering role in the optimisation of payment transactions in Austria. An important characteristic of the new application is the multibank capacity, which means that not only Austrian but also international accounts of the companies can be integrated. With HOB, we are establishing banking software that has been tailored to corporate customer requirements and has already been tested internationally. The development of our innovative payment service application is in its final stages and is expected to be launched in the first half of 2017.

Curriculum Vitae of Wilfried Amann
Wilfried Amann (54) started his professional career at Raiffeisenbank Walgau – Großwalsertal, while at the same time studying business administration and economics. After serving in various positions in the company, he was appointed Managing Director. Later, he joined the Liechtenstein University of Applied Science as assistant professor and supervised various research projects. In 2010, he returned to banking and accepted a position as Head of Private Banking and Corporate Banking for Raiffeisenbank im Reintal. Since 1 January 2017, Wilfried Amann has been a member of the Managing Board of Hypo Landesbank Vorarlberg and is responsible for the areas Corporate Customer Sales, Treasury, Strategic Bank Management, Accounting as well as Subsidiaries.

What other results has the bank achieved in the field of digitalisation?
For many months our employees were intensively involved in the preparations for our new sales portal, e-banking and the new e-banking app. In October 2016, the work was completed and the transition was successful, not a mean feat when one considers that three new systems had to be ready for operation on the same day. Through the website, we want to provide our customers with our expertise in both the financing and corporate areas and to this end, further online services, including the possibility for product sales will be available in the near future.

Rising costs meet declining earnings – how does the Managing Board deal with this?
This past year clearly shows that Hypo Landesbank Vorarlberg is on the right path with its sustainable business model and a clear focus on customer business. Nevertheless, due to the negative and low interest rates, we are facing a very challenging environment. In general, it will become increasingly more difficult to generate income in the future. Interest income, and also net fee and commission income, has come under considerable pressure while, at the same time, costs are rising as a result of the implementation of new regulations. To counteract these developments, we attach great importance to making company structures as lean as possible and to making processes and operational procedures even more efficient.

And the subsidiearies of Hypo Landesbank Vorarlberg?
In 2016, our subsidiaries again made a positive contribution to Group earnings. This additional range of services gives us the opportunity to round off our banking services in the fields of real estate, leasing and insurance and provide customers with comprehensive services and holistic advice. The integration of our real estate and leasing company into our new branch office in Vienna has positive aspects; because of its proximity to our premises, we will be able to significantly expand our range of services for our customers in the future.

A MOVING LOOK BACK

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHAEL GRAHAMMER

What comes to mind when you review 2016?
2016 was a very moving and eventful year. In Austria, the office of the Federal President was not occupied for a long time due to the election challenge, the British voted for "Brexit" and thus the withdrawal from the European Union and Donald Trump, against all expectations, won the US presidential election. Events such as the terrorist attacks in Europe, the civil war in Syria and the refugee movement have also left their mark.

At Hypo Landesbank Vorarlberg we were also faced with challenges of a different kind. Following the publication of the Panama Papers, an inquiry board investigating the off-shore business of the Bank was formed in spring by the Vorarlberg State Parliament at the request of the Vorarlberg SPÖ political party. Due to no significant findings, the inquiry committee was curtailed in autumn and the final meeting, at which respondents were invited, was scheduled for December 2016. As the Executive Board has emphasised from the outset, it has been shown that the inquiry committee was purely politically motivated and did not bring any new findings. In the first months of 2017, the committee members prepared and adopted a final report and all the other factions also issued minority reports. As the saying goes "much ado about nothing", just high costs with no noteworthy results.

What about HETA – is this issue resolved?
Naturally, we and the entire Austrian banking sector were intensely involved with the HETA moratorium last year. After the first offer by the State of Carinthia to repurchase the guaranteed receivables from HETA was rejected, the Minister of Finance was successful in signing a memorandum of understanding (MoU) with certain creditors. The new offer from KAF (Kärntner Ausgleichszahlungs-Fonds) was then accepted in September. A positive side effect is that as a result of the reversal of the recognised risk provisions in 2014 and 2015, we could post significant income (before taxes) in 2016 and significantly reduce the financial loss to the Bank. Moreover, this solution should restore stability to the Austrian financial centre.

How did Corporate Customer business at Hypo Landesbank Vorarlberg develop in 2016?
Corporate customer business is a core competency of Hypo Landesbank Vorarlberg and a stable pillar for the commercial success of the bank. The range of services is far more than just corporate financing. Our advisers also provide comprehensive support for their clients in all areas that are important business activities at home and abroad, including handling subsidies, interest and currency hedging and investment. Well-known Austrian real estate firms have already relied on the know-how of our experts in alternative financing on the capital market. The corporate customer segment developed steadily in the year under review, although the reluctance to invest remains as it has for years. Nevertheless, credit growth has been achieved in the Vorarlberg, Styria and Eastern Switzerland markets. The reliability and predictability of Hypo Landesbank Vorarlberg is highly appreciated by customers.

Curriculum Vitae of Michael Grahammer
Michael Grahammer (52) was a member of the Board of Hypo Landesbank Vorarlberg from 2004 to the end of 2016, and Chairman from 2012. After receiving his doctoral degree in commercial sciences from the Vienna University of Business Administration, he began his career in 1993 at the Raiffeisen Zentralbank AG. In 1997, he became head of the Risk Management Department of Raiffeisenbank in the Czech Republic, and was appointed member of its Managing Board in 1999. In 2000, Michael Grahammer returned to Vorarlberg and was appointed Regional Director of Commercial Business at Erste Bank der Österreichischen Sparkassen AG. In 2001, he joined Hypo Landesbank Vorarlberg where he headed the Leasing Department. In 2016, in addition to his function as Spokesman for the Board, he was responsible for the departments Corporate Customer Sales, Treasury, Accounting, Human Resources, Communication, Participation Administration, Real Estate and Leasing, Insurance Brokerage and the bank branch in St. Gallen (CH).

After this eventful and successful year you left the Bank in late 2016 – What do you leave with the new Managing Board?
The decision to leave was not easy for me, after 15 years I have many connections with the Bank. These include the excellent employees, the respectful collaboration with colleagues on the Managing Board and the Supervisory Board, many long-standing customers and much more. Nevertheless, the interplay of different events in the spring of 2016 led to my decision to leave the Bank by the end of the year.

While on the Board for the past 15 years, I have experienced turbulent and challenging times, but also very positive and exciting developments. Over the past few decades, we have witnessed a great deal of change in the banking sector, but we have always maintained our foundation of customer proximity and regional roots. I believe that the new Managing Board will continue to be successful with this business philosophy. I am delighted that the Bank, with Michel Haller as well as with his colleagues Johannes Hefel and Wilfried Amann, will continue to have very professional leadership. I am certain that the new Managing Board will continue the successful path of Hypo Landesbank Vorarlberg in the coming years.

A LONG-TERM PARTNERSHIP

**HYPO LANDESBANK VORARLBERG
THE CORPORATE BANK**

It only works together. Business success is always teamwork. We see ourselves as part of this team – as a prudent partner who has accompanied the companies in our area for decades. Competent, ex- perienced, forward-looking. And with the right solutions at the right time.

Rosenbauer, Leonding
Manufacturer of fire trucks

ORGANISATIONAL CHART

OF VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Managing Board

Div Risk Management
Michel Haller, CEO

Credit Management – Corporate Customers
Stefan Germann
- Credit Management – Corporate Customers
- Credit Management Banks & Leasing
- Credit Management St. Gallen
- Financial Aids Department
- Balance Sheet Analysis

Credit Management – Private Customers
Martin Heinzle
- Credit Management – Private Customers
- Certification/Credit Service
- Housing Construction Aids

Group Risk Controlling
Markus Seeger

Law
Klaus Diem
- Central Loan Monitoring Corporate Customers
- Central Loan Monitoring Private Customers
- Contract Law

Human Resources
Egon Helbok

Communication
Sabine Nigsch

Compliance
Reinhard Kaindl

Mid- and Backoffice Fonds, Securities and Derivatives
Johannes Tschanhenz

IT/Organisation
Johann Berchtold
- Information Technology
- Organisation
- Payment Transactions

St. Gallen Branch Office
Thomas Reich

Hypo Vorarlberg, Italy
Michael Meyer
- Hypo Leasing (Backoffice – Risk Management)

Alexander Ploner
- Real estate

Div Corporate Customers
Wilfried Amann

Corporate Customers Sales
Karl-Heinz Rossmann
- Branch Offices Corporate Customers
- International Services
- Syndication / Structured Financing
- Application Management / E-Banking

Corporate Customers Vienna
Roswitha Klein

Treasury
Florian Gorbach
- Asset Liability Management
- Money, Foreign Exchange and Interest Derivatives Trading
- Securities Customer Trading
- Debt Capital Markets

Strategic Bank Management
David Blum

Accounting
Nora Frischherz
- Controlling
- Bookkeeping, Supervisory Reporting
- Accounting
- Data and Document Management

Participation Administration
Emmerich Schneider

St. Gallen Branch Office
Dieter Wildauer, RM

Hypo Vorarlberg Leasing, Italy
Christian Fischnaller
- Sales

Hypo Immobilien & Leasing GmbH
Wolfgang Bösch
Peter Scholz

Hypo Versicherungsmakler GmbH
Harald Dür
Christoph Brunner

Div Private Customers/Private Banking
Johannes Hefel

Private Customers Sales/ Private Banking
Herbert Nitz
- Branch Offices Private Customers
- Private Banking
- Product Management

Private Customers Vienna | Mobile Sales Unit
Roswitha Klein

Wealth Management
Beatrice Schobesberger
- Vienna
- Bregenz

Asset Management
Roland Rupprechter
- Asset Management
- Fonds Management
- Financial Analysis/Research

Corporate and Internal Audit
German Kohler

Logistics
Wilhelm Oberhauser
- Facility and Materials Administration
- Sustainability

Marketing
Angelika Rimmele
- Marketingmanagement
- Youth marketing
- Sponsoring and events
- Creation

Compliance
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

Vienna Branch Office
Roswitha Klein, RM
Beatrice Schobesberger, HPB / HWM
Lothar Mayer, BM
Katharina Jantschgi, SPC

Graz Branch Office
Horst Lang, RM
Dieter Rafler, BM

Wels Branch Office
Friedrich Hörtenhuber, RM
Iris Häuserer, BM

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

Feldkirch Branch Office
Martin Schieder, BM

Götzis Branch Office
Franz Altstätter, BM

Hohenems Branch Office
Andreas Fend, BOH

Lustenau Branch Office
Graham Fitz, BOH
Helgar Helbok, BM

Höchst Branch Office
Erich Fitz, BM

Bregenz Private Customers Branch Office
Christian Brun, BOH

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

Bregenz Wealth Management
Stefan Schmitt, HPB

Hard Branch Office
Manfred Wolff, BM

Lauterach Branch Office
Karl-Heinz Ritter, BM

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

LKH-Feldkirch Branch Office
Stefan Kreiner, BM

Rankweil Branch Office
Günther Abbrederis, BM

Egg Branch Office
Stefan Ritter, BM

Riezlern Branch Office
Artur Klauser, BOH
Josef Wirth, SPC

Schruns Branch Office
Hannes Bodenlenz, BM

Lech Branch Office
Reinhard Zangerl, BOH + BM

hypodirekt.at Branch Office (Online)
Markus Felder, BM

Service and Private Customers
Raymond Plankel

Private Banking
Stephan Bohle

Key Account Management
Stephan Sausgruber

Corporate Customers Branch Office Germany
Markus Schmid

Messepark
Stephan Spies, BM

Div Division
RM Regional Manager
BOH Branch Office Head
BM Branch Manager Private Customers

HPB Head of Private Banking
HWM Head of Wealth Management
SPC Head of Service & Private Customers
BOH PC Branch Office Head Private Customers

Status: March 2017

EXECUTIVE BOARDS

OF VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

MANAGING BOARD

Michel Haller
Member of the Managing Board, Tettnang (until 31.12.2016)
Chairman of the Managing Board, Tettnang (from 01.01.2017)

Johannes Hefel
Member of the Managing Board, Schwarzach

Wilfried Amann
Member of the Managing Board, Bludesch (from 01.01.2017)

Michael Grahammer
Chairman of the Managing Board, Dornbirn (until 31.12.2016)

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn

Friedrich Amann
Entrepreneur (retired), Fraxern (until 28.11.2016)

Astrid Bischof
Entrepreneur, Göfis

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau

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

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis
Member of the Managing Board of Landeskreditbank
Baden-Württemberg – Förderbank (L-Bank), Ettlingen

Eduard Fischer
Entrepreneur, Dornbirn (since 07.03.2017)

Veronika Moosbrugger
Chairwoman of the Works Council
Works Council delegate

Andreas Hinterauer
Works Council delegate (from 01.03.2017)

Bernhard Köb
Works Council delegate (until 28.02.2017)

Elmar Köck
Works Council delegate

Gerhard Köhle
Works Council delegate

Peter Niksic
Works Council delegate (from 08.02.2016)

Cornelia Vonach
Works Council delegate (until 07.02.2016)

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

Audit and risk committee

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Friedrich Amann (until 28.11.2016)
Astrid Bischof (from 15.12.2016)
Karl Fenkart
Veronika Moosbrugger
Elmar Köck

Loan committee

Jodok Simma, Chairman
Alfred Geismayr, Deputy Chairman
Friedrich Amann (until 28.11.2016)
Albert Büchele (from 15.12.2016)
Karl Fenkart
Michael Horn
Veronika Moosbrugger
Elmar Köck

Remuneration and nomination committee

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Karl Fenkart
Nicolas Stieger
Ulrich Theileis
Veronika Moosbrugger
Elmar Köck

STATE COMMISSIONER

Gabriele Petschinger

Josef Nickerl
Deputy (until 31.12.2016)

Matthias Ofner
Deputy (from 1.3.2017)

ESCROW AGENTS

Heinz Bildstein
President of the State Court, Feldkirch

Helmut Schamp
Deputy, Federal Ministry of Finance, Vienna

Status: March 2017

ADVISORY BOARD

OF VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Markus Wallner
Chairman, Provincial Governor, Frastanz

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

Alexander Abbrederis
Chairman of Junge Wirtschaft Vorarlberg
Managing Director, pratopac GmbH, Rankweil

Daniel Allgäuer
Chairman of FPÖ political party, Feldkirch

Gerhart Bachmann
President of Vorarlberg Dental Chamber, Feldkirch

Hubert Bertsch
Managing Director, Bertsch Holding GmbH, Bludenz

Ernst Bitsche
Entrepreneur, Thüringen

Herbert Blum
Managing Director, Julius Blum GmbH, Höchst

Christian Brand
Chairman of the Managing Board of Landeskreditbank Baden-Württemberg – Förderbank (retired), Ettlingen

Birgitt Breinbauer
President of Bar Association Vorarlberg
Lawyer, Dornbirn

Manfred Brunner
Chairman of Vorarlberger Gebietskrankenkasse, Höchst

Guntram Drexel
Supervisory Board of Spar Österreichische Warenhandels AG, Lustenau

Kurt Fischer
Mayor, Lustenau

Stefan Fitz-Rankl
Managing Director, Fachhochschule Vorarlberg, Lustenau

Gerald Fleisch
Managing Director, Vorarlberger Krankenhaus-Betriebsges.m.b.H., Dornbirn

Jutta Frick
Managing Director, Bad Reuthe Frick GmbH, Reuthe

Roland Frühstück
Chairman of ÖVP political party, Bregenz

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

Adi Gross
Chairman of ‘Die Grünen‘ political party, Lauterach

Heinz Hämmerle
Entrepreneur, Lustenau

Andreas Haid
Mayor, Riezlern

Robert Haller
Hotelier, Mittelberg

Dietmar Hefel
Managing Director, Hefel Textil GmbH, Dornbirn

Joachim Heinzl
Managing Director, Wirtschafts-Standort Vorarlberg GmbH (WISTO), Bludenz

Hans Hofstetter
Lawyer, Schoch, Auer & Partner Rechtsanwälte, St. Gallen

Josef Huber
Entrepreneur, Huber Invest GmbH, Klaus

Robert Janschek
Managing Director, Walter Bösch GmbH & Co KG, Lustenau

Michael Jonas
President of Medical Association Vorarlberg, Dornbirn

Harald Köhlmeier
Mayor, Hard

Urs-Peter Koller
Entrepreneur, Wittenbach

Oswin Längle
Managing Director, Längle Glas GmbH, Dornbirn

Markus Linhart
Mayor, Bregenz

Hans-Peter Lorenz
Managing Director, VOGEWOSI (Vlbg. gemeinnützige Wohnungsbau- und Siedlungsges. mbH), Dornbirn

Hans-Peter Metzler
President of Chamber of Commerce, Hittisau

Josef Moosbrugger
President of Chamber of Agriculture, Bregenz

Martin Ohneberg
President of Vorarlberg Industrial Association
Managing Director, HENN GmbH & Co KG, Dornbirn

Johannes Rauch
Member of Vorarlberg government,
'Die Grünen' political party, Rankweil

Jürgen Reiner
President of Chamber of chartered public accountants and tax consultants, Lochau

Michael Ritsch
Chairman of SPÖ political party, Bregenz

Gerold Schneider
Hotelier, Lech

Thomas Sohm
Managing Director, Etiketten Carini GmbH, Lustenau

Harald Sonderegger
President of the Vorarlberg government, Schlins

Karin Sonnenmoser
Chief Financial Officer, Zumtobel Group AG, Schwarzach

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

Eduard Tschofen
Chartered Accountant, Feldkirch

Anselm van der Linde
Abbot of Wettingen-Mehrerau, Bregenz

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

Status: March 2017

A STABLE FOUNDATION

**HYPO LANDESBANK VORARLBERG
THE RESIDENTIAL BANK**

Your own living space does not have to remain an unfulfilled dream. Provided, of course, you have the right partner for developing financing solutions that take into account your own needs and options. As a stable foundation for a worry-free future.

Alexander Placek, Kathrin and Karolina Konzett, Feldkirch

AN EXCITING ENVIRONMENT

HYPO LANDESBANK VORARLBERG ECONOMIC ENVIRONMENT

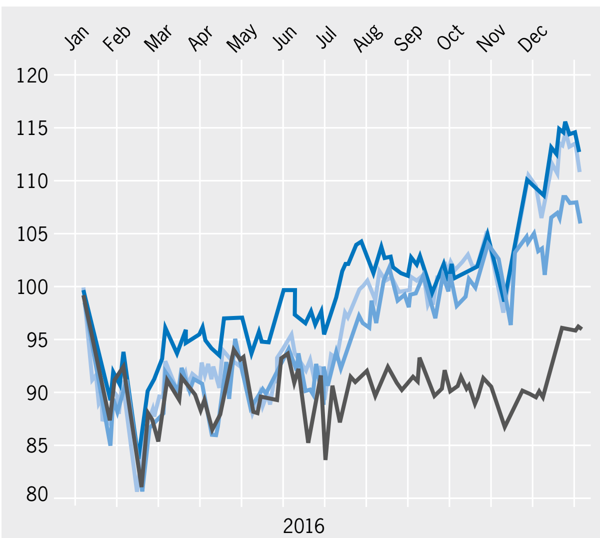
Global economy and euro zone
At the start of the year there was great concern regarding the Chinese economy and in summer 2016 the stock markets suffered again as a result of China's unexpectedly weak foreign trade data.

In March 2016, the European Central Bank (ECB) lowered the key interest rate to zero per cent for the first time in its history, while also raising penalties for bank deposits. The negative interest rate that banks have to pay for their deposits at the ECB was increased from 0.3% to 0.4%. On the other hand, the central bank renewed its bond-buying programme and expanded it to include corporate bonds. In December 2016, it resolved to extend the bond-buying programme by EUR 60 billion per month until December 2017 in order to boost the economy and stimulate inflation.

At its last meeting of 2016, the Federal Open Market Committee of the US Federal Reserve agreed to raise interest rates by 25 basis points and announced further interest rate moves for 2017. Aside from the direct influence of monetary policy, the British vote to leave the EU in June 2016 triggered a shock wave on the financial markets. However, this was promptly followed by a recovery, so the summer quarter and September went without any major turbulence. Sound economic development in the US and the euro area had a stabilising effect. Furthermore, key emerging economies appeared to bottom out. The enormously high level of indebtedness of the private sector in China also faded into the background. In the final quarter, in particular, certain political factors had a massive influence on the development of the financial markets. Donald Trump's election victory created unexpected momentum. The spirit of optimism was reinforced by anticipated stimulus for the labour market and economic growth. Negative signals emanating from increasing protectionism were reflected on the financial markets only to a limited degree. Concerns over the outcome of the constitutional referendum in Italy temporarily dampened the mood in the euro zone.

Stock and bond markets
Following a turbulent start to the year, the stock markets appeared to find themselves in a long downward spiral. The German stock index, DAX, recorded its poorest opening week and its third-weakest January since 1988. The stock markets began recovering from mid-February onwards. Positive economic data from the US, hopes of additional infusions of capital in China and rising oil prices supported the upward trend. Nevertheless, often unfulfilled expectations of monetary policy corrected the early euphoria on the stock markets. With Brexit and monetary policy dominating the news, economic and sentiment indicators were largely ignored by market participants at times. The summer months and September passed rather uneventfully. In October, the DAX reached a new high for the year as a result of unexpectedly strong economic data. By the end of the year, some European stock exchange indices did succeed in returning to a positive performance but were not able to follow in the success of the US indices. The Dow Jones Industrial continually recorded new all-time highs.

Nervousness and fluctuation on the stock markets and the extremely expansionary monetary policy meant that risk-averse investors were drawn towards lower risk investment classes. Accordingly, short-term real yields on euro sovereign bonds were negative for some months. Negative yields hit ten-year German government securities for the first time in mid-June, with even very good-quality corporate bonds producing negative yields. More risky asset classes consequently benefited from declining risk aversion. Investments in emerging market or high yield bonds saw solid gains. Hesitant inflation also squeezed yields further. German ten-year yields did not pick up again until September 2016 and the German Bund future, a highly regarded reference, declined steeply. US ten-year yields benefited from the positive development of the US economy, growing by around 1% in the fourth quarter of 2016.



Global stock market development in 2016 (in EUR)
Nasdaq Composite
S&P 500
DJ Stoxx 50
Nikkei 225

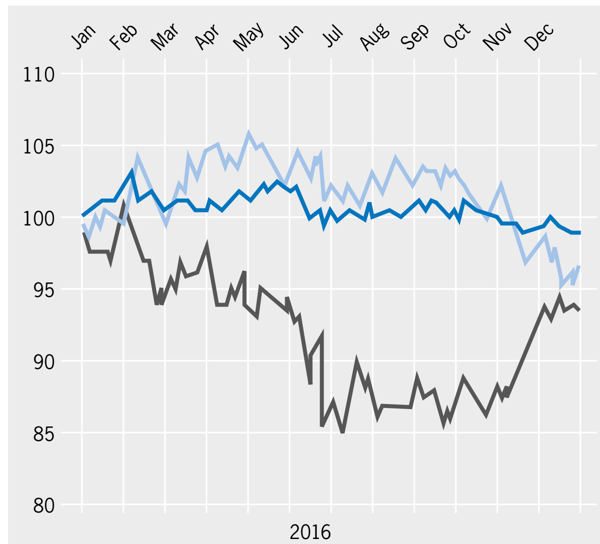
(Source: Thomson Reuters Datastream)

Commodities and currencies

In the commodities segment, too, the extensive quantitative easing measures taken by the ECB triggered a turnaround in the trend. The price of the North Sea brand Brent recovered by around 50% in 2016 on a closing price basis. OPEC's decision to reduce production provided additional tailwind for oil prices in the final quarter.

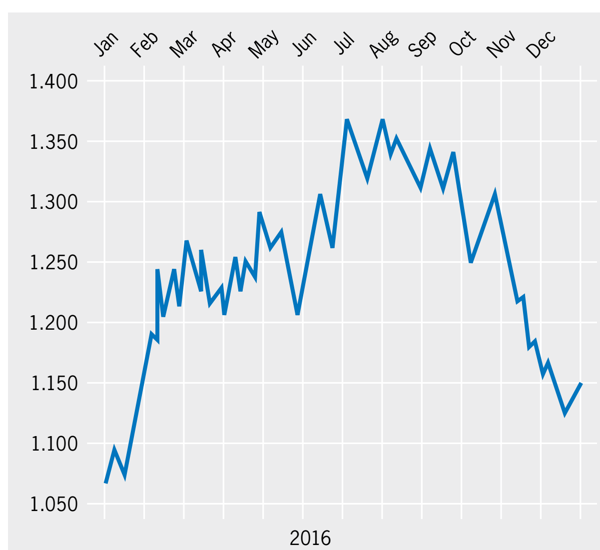
The price of gold benefited from uncertainty on the markets. In July, it exceeded the USD 1,350 mark for the first time since March 2014. Rising confidence subsequently had an adverse effect on the crisis currency, pushing the price dramatically back towards its level at the beginning of the year.

The US dollar had gained considerably against the euro since the beginning of the year, and the Japanese yen even more so. Uncertainty on the financial markets prompted many Japanese investors to withdraw from foreign investments and return their funds to the domestic market. The pound sterling recorded a double-digit fall in the wake of the Brexit vote. By contrast, the Brazilian real appreciated last year, gaining over 20% over the year.



Currencies against the euro in 2016
USD
CHF
JPY

(Source: Thomson Reuters Datastream)



Gold price development in 2016 (in USD)
Gold per ounce

(Source: Thomson Reuters Datastream)

Austria

According to the Austrian Economic Chamber (WKO), the Austrian economy recorded sound growth of 1.5% in 2016, thus falling only slightly below the euro zone average (1.7%). This positive economic momentum strengthened over the course of the reporting year. This development resulted firstly from a rise in consumer spending by private households due to increased incomes following tax cuts, while companies in many industries also reported an improved situation. By contrast, public consumption spending was even higher at the beginning of the year.

At 0.9%, the inflation rate in Austria (consumer price index calculated on a national basis) was below 1% in 2016 for the second year in a row. According to Statistik Austria, prices were boosted most powerfully by the housing sector again, while the low cost of fuels and heating oil dampened prices most significantly. Assuming the cost of crude oil increases, the WKO expects inflation to rise appreciably in 2017 to 1.7%, causing gross income per capita to stagnate in real terms.

The supply-related rise in unemployment that began in 2012 abated slightly in 2016 as employment expanded substantially. According to the Austrian Public Employment Service (AMS), the unemployment rate based on the national definition was 10.3% in 2016 (2015: 10.6%). The research institutes estimate that the labour market is facing another difficult year. Older people will remain in employment for longer and the influx of workers from abroad is set to continue. Future development is determined to a large degree by assumptions regarding the presence on the labour market of people with the right to asylum and subsidiary protection.

The saving rate of Austrian households, i.e. the ratio of savings to disposable income, was low again in 2016. According to the Austrian National Bank (OeNB), the net saving rate in the period from the fourth quarter of 2015 to the third quarter of 2016 was approximately 7.7% of nominal disposable household income. Nevertheless, compared with the rest of the EU, Austria is relatively well placed here with only Germany and Sweden having higher saving rates.

According to Statistik Austria, Austria's public debt was 84.4% of GDP at the end of the third quarter of 2016 (forecast for 2016: 84.3%) and thus slightly lower than in the previous year (2015: 85.5%). Since 2014, the level of debt has also included the entire total assets of HETA Asset Resolution AG (HETA), the former Hypo Alpe-Adria-Bank International AG's wind-down company. The planned HETA sales are expected to reduce the level of debt again in the next few years.

Vorarlberg

Industry still remains the engine of growth in Vorarlberg. Although the economy remains at a positive, stable level, it runs the risk of losing significant momentum. The results of a recent economic survey identify a slight negative trend in Vorarlberg industry. In the view of the Vorarlberg Industrial Association, this is due in no small part to the deteriorating economic policy environment.

In the third quarter of 2016, the business climate index of Vorarlberg industry – an average of expectations for the current business situation and that in six months' time – declined again compared to the previous quarter. At 20.2 percentage points, the business climate index is at its lowest point in two years. Expectations for the current business situation as well as for the current order backlog and current foreign orders were more negative in the third quarter of 2016 than assessed in the second quarter. Nevertheless, the difference between good and poor expectations lies at around 40% so is thus clearly positive.

The outlook for Vorarlberg companies in terms of the number of persons employed in three months' time remains encouragingly stable. Almost 20% of businesses can envisage employing more staff, while only 4% anticipate a lower headcount. The business situation in six months' time remains stable at its current level. While the earnings situation is good, the outlook in half a year is considerably worse. Only 1% of the companies expect income to rise in six months; 30% expect income to fall, which is not conducive to additional investments.

45 companies with a total of over 22,600 employees took part in the survey, which is carried out quarterly by the Vorarlberg Industrial Association and the industrial division of the Vorarlberg Chamber of Commerce. The survey allows for three possible responses: good, average and poor. The (employment-weighted) percentage shares of these response categories are calculated and the cyclical "difference" between the percentage shares of positive and negative responses established accordingly, disregarding the neutral responses.

THE AUSTRIAN BANKING SECTOR IN 2016
(Source: OeNB)

At the end of the third quarter of 2016, Austrian banks reported consolidated total assets of EUR 1,055 billion. This represents a decline of EUR 1,221 million compared to the fourth quarter of 2015 (EUR 1,056,075 million).

The earnings situation of the Austrian banking sector has recovered since 2015. The consolidated earnings of the banks (after taxes and minority interests) increased slightly against the same period of the previous year, standing at EUR 4,518 million as of 30 September 2016 (30 September 2015: EUR 4,453 million). The increase is chiefly attributable to a reduction in credit risk provisions and write-downs. The fact that the losses of HETA were for the most part already recognised in the 2014 and 2015 balance sheets resulted in a positive effect here.

Despite these improvements, the profitability of the banks is influenced by weak economic growth, negative interest rates, flat yield curves and structural challenges. Net interest income – a significant component of Austrian banks' earnings – continued to decline in 2016. The decline was primarily driven by lower total assets. At the end of the third quarter of 2016, net interest income amounted to EUR 10,982 million.

The volume of foreign currency loans in the home market outstanding at Austrian banks has decreased continually since autumn 2008. In the fourth quarter of 2016, the volume of outstanding foreign currency loans to private households amounted to EUR 21,052 million (96% of which in Swiss francs).

Enhancement of business models
The traditional business model of Austrian banks, which is increasingly focused on the lending and deposits business, has proved to be a stabilising factor in recent years. Although the Austrian saving rate has declined in the last few years, according to the OeNB it is rising again. The net saving rate of private households in the period from the fourth quarter of 2015 to the third quarter of 2016 was 7.7% of nominal disposable household income (same period of the previous year: 7.4%). The saving rate is expected to remain at a similar level in 2017.

Total deposits of Austrian non-banks (demand, term and savings deposits) amounted to EUR 340,431 million in the fourth quarter of 2016 (2015: EUR 326,066 million). The trend towards overnight deposits continued, as shown by the development of demand deposits. The year-on-year rise from EUR 142,900 million to EUR 157,328 million corresponds to an increase of over 10%.

From a longer term perspective, low interest rates represent a challenge for the entire Austrian banking sector as the institutions are heavily financed by deposits. This continues to put pressure on interest margins, which have traditionally been low in Austria. Furthermore, the banks' dense branch network is very costly, adversely affecting operating efficiency. The OeNB estimates that the negative effects of low interest rates will only gradually become apparent. In the face of this environment, Austrian banks are called upon to enhance their business models accordingly. The aim is to increase operating efficiency and subsequently to strengthen capitalisation.

The banks have improved their capitalisation in recent years. They have succeeded in doing so firstly by building up additional capital and secondly by reducing risk-weighted assets. In the third quarter of 2016, the Austrian banking system reported a T1 capital ratio of 13.54% and a total capital ratio of 16.84%. Despite this increase, however, the capital ratios remain below average compared to European institutions with a similar business model.

With this in mind, the OeNB welcomed the recognition of a systemic risk buffer recommended by the Financial Market Stability Committee with the aim of increasing the risk-absorbing capacity of the Austrian banking system and thus helping to maintain financial market stability. The buffers are to be built up by 2019 and amount to up to 2% of risk-weighted assets for individual institutions.

The Austrian Federal Act on Deposit Protection and Investor Compensation at Banks (ESAEG), which came into force in August 2015, removes the government protection for a portion of the deposits in the future. Instead, banks are required to build up their own deposit protection fund. As of 2019, a joint deposit protection fund will be set up at the WKO for the Hypothekenbanken (mortgage banks), banks, bankers and Volksbanken (credit unions), while Raiffeisenbanken (agricultural credit cooperatives) and savings banks will pursue their own solutions. This fund will be paid into continuously and – unlike before – in advance.

Consolidated earnings situation of Austrian banks:
(Source: OeNB)

EUR billion	3rd quarter 2016*	2015	2014
Net interest income	10,982	18,375	19,345
Operating profit	4,825	10,479	8,790
Earnings after taxes	4,518	5,179	623

* Note: Due to the separation of a substantial division of a major bank and the associated changes in the presentation of the income statement, individual income and expense items are comparable with previous years' figures only to a limited degree.

A LOOK BACK

STABLE BUSINESS PERFORMANCE IN 2016

In a challenging economic and political environment, Hypo Landesbank Vorarlberg achieved a very good result in the 2016 financial year.

The Managing Board has attached importance to a risk-aware lending and business policy for many years. Particularly in times of increasing uncertainty and changed risk profiles, this principle is a major basis for ensuring the long-term economic success of the Bank. The development of customer deposits and the financing volume conforms to Hypo Landesbank Vorarlberg's strategy, which is oriented towards risk and profit awareness and puts profitability and stability ahead of growth.
At TEUR 13,324,387 total assets as of 31 December 2016 were 4.2% lower than in the previous year (2015: TEUR 13,902,411).

The persistently low interest rates are a big challenge for a bank that traditionally operates mainly in customer business. Both net interest income and net fee and commission income decreased in 2016 while costs rose sharply. In spite of this, operating earnings climbed by 47.3% to TEUR 151,574 (2015: TEUR 102,910), which is largely attributable to reversals of valuation allowances and provisions for receivables (primarily due to HETA) as well as an unusually high net trading result. Earnings before taxes were 2.9% lower than in the previous year, amounting to TEUR 117,619 (2015: TEUR 121,146). Consolidated net income after the deduction of taxes amounted to TEUR 88,428 in the reporting year (2015: TEUR 92,984).

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

in '000 EUR	2016	Change	2015	2014
Net interest income	167,838	–8.5%	183,461	177,414
Net interest income after loan loss provisions	215,545	34.2%	160,646	95,719
Net fee and commission income	34,027	–6.9%	36,566	35,624
Administrative expenses	–97,114	5.0%	–92,462	–92,101
Operating result before change in own credit risk	151,574	47.3%	102,910	54,278
Earnings before taxes*	**117,619**	**–2.9%**	**121,146**	**53,979**
Consolidated net income*	88,428	–4.9%	92,984	41,253

* 2014 includes 40% risk provisioning for the anticipated creditor haircut at HETA

A GOOD RESULT

Earnings structure in 2016
in '000 EUR

Consolidated net income
88,428

Earnings before taxes
117,619

Net fee and commission income
34,027

Net interest income
167,838

Net interest income
Interest-related business made a significant contribution to annual earnings in 2016. Nonetheless, at TEUR 167,838 net interest income was 8.5% lower than in the previous year (TEUR 183,461). This development is chiefly attributable to the low or negative interest rate situation. At TEUR 9,049,998 loans and advances to customers declined only 0.1% against the previous year (2015: TEUR 9,061,358).

**Net interest income
in '000 EUR**

Loan loss provisions
Hypo Landesbank Vorarlberg concentrates on the business areas whose mechanisms and rules it understands and only takes risks that it can manage on its own. In 2016, a large amount of previously recognised valuation allowances and provisions were reversed, leading to a positive figure of TEUR 47,707 as of 31 December 2016. Appropriate loan loss provisions for the existing receivables from HETA – including the liquidity made available for Pfandbriefbank (Österreich) AG – that were recognised in the 2014 and 2015 balance sheets were for the most part reversed again in 2016.

Net fee and commission income
At TEUR 34,027 net fee and commission income in the 2016 financial year was 6.9% lower than in the previous year (2015: TEUR 36,566) due mainly to a decrease in net fee and commission income in the securities business. Alongside securities commission, this item also includes fee and commission income from payment transactions, trading in foreign exchange and precious metals, and from lending business.

**Net fee and commission income
in '000 EUR**

Net trading result
Hypo Landesbank Vorarlberg maintains a small trading portfolio per Art. 94 CRR with a focus on customer service. The Bank has no proprietary trading operations other than this. The net trading result includes the result from the valuation of derivatives and the measurement of financial instruments subject to the fair value option and amounted to TEUR 27,998 (2015: TEUR 1,020) in the 2016 financial year. This large increase is primarily due to changes in credit spreads in the reporting year.

Net result from other financial instruments
Net result from other financial instruments amounted to TEUR 10,813 in the 2016 financial year (2015: TEUR 15,571). This significant change is primarily attributable to the substantial income generated in the previous year from the calling in securities listed in JPY and closing out associated derivatives with positive market values (PRDCs).

Other income/expenses
Hypo Landesbank Vorarlberg's other income rose from TEUR 17,509 in the previous year to TEUR 21,010 (+ 20.0%). At TEUR 64,830 other expenses were considerably higher than in the previous year and were attributable to a one-off payment for the stability fee as well as higher payments for the resolution and deposit protection fund.

Administrative expenses
Hypo Landesbank Vorarlberg's sound business performance is based firstly on a good earnings situation and secondly on vigorous cost management. The Managing Board of the Bank has always paid great attention to keeping corporate structures as lean as possible. Rationalisation projects such as functional and process analyses are carried out at regular intervals to ensure processes and work flows are structured efficiently. This enables a reasonably constant development of administrative expenses and the necessary operating strength – even in a challenging political and economic environment. In spite of this, costs rose in 2016, partly due to high consulting costs.

Hypo Landesbank Vorarlberg's total administrative expenses amounted to TEUR 97,114 in 2016, which represents an increase of 5.0% compared to the previous year (2015: TEUR 92,462). This item includes staff costs and material expenses as well as depreciation of assets.

Staff costs rose by 2.5% to TEUR 59,735 in 2016 (2015: TEUR 58,271), while wages and salaries increased 2.1% to TEUR 44,436 (2015: TEUR 43,514). The headcount in the Group fell from an average of 729 to 725 employees (average number of employees for the year – full-time equivalent).

Materials expenses increased year-on-year from TEUR 29,759 to TEUR 32,966 (+ 10.8%). This rise results primarily from increased IT costs (including for a new rating tool) and high project and consulting costs, for example for the implementation of IFRS 9.

Administrative expenses in '000 EUR

Proposed distribution of profits

The net profit posted by Hypo Landesbank Vorarlberg for financial year 2016 was TEUR 98,390 according to the Austrian Banking Act (BWG) (2015: TEUR 78,369). After the allocation to reserves, accumulated profits available for appropriation totalled TEUR 15,000 (2015: TEUR 30,000). Subject to approval by the shareholders' meeting, a dividend of EUR 43.50 is proposed per entitled share based on the share capital of TEUR 156,453. The total dividend distribution will therefore be TEUR 13,294 (2015: TEUR 3,056) for 305,605 shares. For the participation capital issued in 2008, profits are distributed on the basis of an agreed variable interest rate.

Key management indicators

	2016	Change	2015	2014
Return on Equity (ROE)	16.14%	38.3%	11.67%	6.45%
Cost-Income-Ratio (CIR)	55.27%	21.9%	45.34%	49.42%
Total capital ratio	16.52%	11.5%	14.82%	13.27%
Tier 1 capital ratio	13.33%	19.3%	11.17%	9.82%

Return on equity (ROE) before taxes was increased from 11.7% in the previous year to 16.1%. The Cost-Income-Ratio (CIR) stood at 55.3% as of 31 December 2016 (2015: 45.3%). The total capital ratio in the Group was 16.5% as of 31 December 2016 (2015: 14.8%); the T1 capital ratio (T1) was 13.3% (2015: 11.2%).

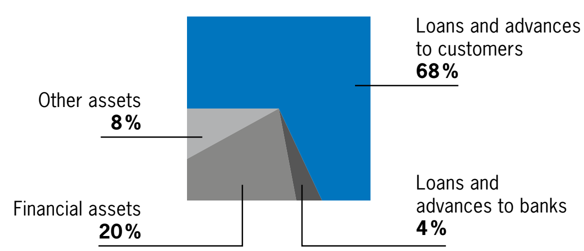
CHANGES IN THE GROUP'S NET ASSETS AND FINANCIAL POSITION

Hypo Landesbank Vorarlberg's total consolidated assets decreased by 4.2% from TEUR 13,902,411 in the previous year to TEUR 13,324,387 as of 31 December 2016.

Balance sheet assets in '000 EUR

	2016	Change	2015	2014
Loans and advances to customers	9,049,998	–0.1%	9,061,358	8,954,412
Loans and advances to banks	575,289	–11.5%	650,129	883,340
Financial assets	2,675,194	0.2%	2,671,125	2,958,874
Other assets	1,023,906	–32.6%	1,519,799	1,388,866
Total	**13,324,387**	**–4.2%**	**13,902,411**	**14,185,492**

Loans and advances to customers constituted the largest item of balance sheet assets and declined by just 0.1% year on year to TEUR 9,049,998 (2015: TEUR 9,061,358). Loans and advances to banks decreased by 11.5% in 2016 to TEUR 575,289 (2015: TEUR 650,129). Financial assets in the form of securities amounted to TEUR 2,675,194 as of 31 December 2016 and rose 0.2% year on year (2015: TEUR 2,671,125). Other assets declined by 32.6% to TEUR 1,023,906 due to a reduction in balances with central banks (targeted liquidity reduction) and the measurement of derivative financial instruments.

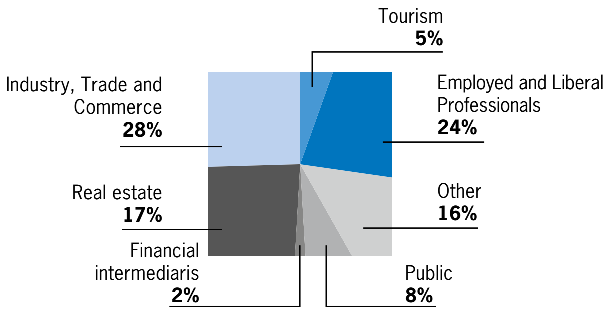


As of 31 December 2016, Hypo Landesbank Vorarlberg reported loans and advances to customers in Swiss francs totalling TEUR 1,648,257. Part of the loans and advances to customers relates to the St. Gallen branch and does not represent a foreign currency risk. The cross-border commuters in Vorarlberg with income in a matching currency are also to be taken into account, which further reduces the portion subject to foreign currency risk.

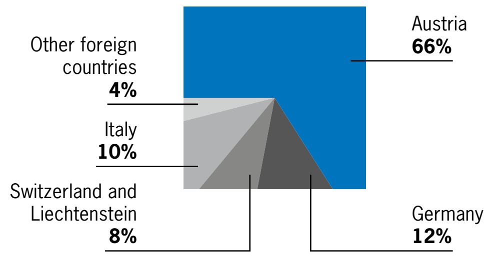
The exposure of CHF borrowers in EUR rose sharply after the Swiss National Bank (SNB) lifted the minimum rate of 1.20 francs per euro at the beginning of 2015. Due to the continuing low interest rates in Swiss francs, however, Hypo Landesbank Vorarlberg has had no major problems with respect to customers servicing these loans since then. Where necessary, the Bank reduced the burden on customers somewhat through extensions or suspensions of redemption payments.

Hypo Landesbank Vorarlberg had already begun strictly limiting the issue of loans in CHF over the last few years, particularly in the Private Customers segment. The proportion of foreign currency financing (predominantly in CHF) in the Private Customers segment has declined continuously since 2009 from approximately 60% to around 32%; the proportion of foreign currency financing in the Corporate Customers segment fell from approximately 23% to 9.5% (as of December 2016).

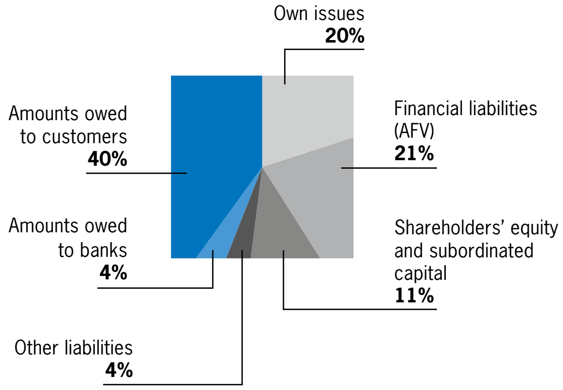
Loans and advances to customers – breakdown by industry
A decline in loans and advances to customers was recorded in almost all industries, while lending in the private household and commercial sectors increased slightly. Further details are provided in the Note (17) Loans and advances to customers (L&R).



Loans and advances to customers – breakdown by region



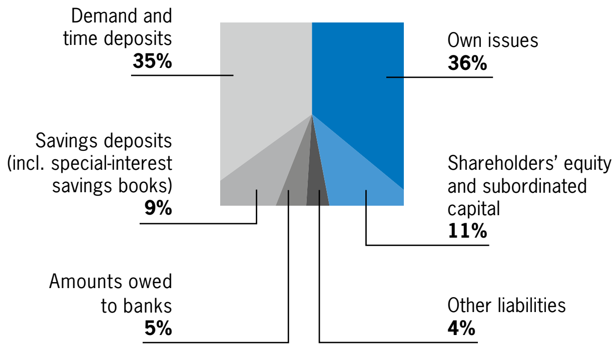
Balance sheet liabilities



Liabilities to banks decreased significantly year on year, falling by 51% to TEUR 560,377 (2015: TEUR 1,144,487). This is due to the targeted reduction of liquidity for cost reasons. By contrast, amounts owed to customers rose by 5.7% to TEUR 5,282,097 (2015: TEUR 4,995,818).

The balance sheet item shareholders' equity increased by 8.9% year on year to TEUR 1,054,939 (2015: TEUR 969,141); subordinated capital increased by 3.2% to TEUR 389,015 (2015: TEUR 376,902). Hypo Landesbank Vorarlberg was able to obtain additional Tier 1 capital by issuing an additional Tier 1 bond.

Refinancing structure



Savings deposits (including capital savings accounts) at Hypo Landesbank Vorarlberg climbed again in 2016 – contrary to the trend of the previous years – and amounted to TEUR 1,251,687 at the end of the year (2015: TEUR 1,184,727), up 5.7%. Liabilities evidenced by certificates decreased by 7.2% to TEUR 4,743,553 (2015: TEUR 5,109,935).

Composition of own funds in accordance with CRR and capital ratios

in ’000 EUR	2016	Change	2015	2014
Total risk exposure amount	**7,544,173**	**–3.7%**	**7,832,981**	**8,226,259**
Common equity Tier 1 capital (CET1)	996,496	13.9%	874,848	807,813
Additional Tier 1 capital (AT1)	9,219	100.0%	0	0
Tier 1 capital (T1)	**1,005,715**	**15.0%**	**874,848**	**807,813**
Tier 2 capital (T2)	240,814	–15.8%	285,910	283,660
Own Funds	**1,246,529**	**7.4%**	**1,160,758**	**1,091,473**
CET1 capital ratio	13.21%	18.3%	11.17%	9.82%
Surplus of CET1 capital	657,009	25.8%	522,364	478,762
T1 capital ratio	13.33%	19.3%	11.17%	9.82%
Surplus of T1 capital	553,065	36.6%	404,870	355,369
Total capital ratio	16.52%	11.5%	14.82%	13.27%
Surplus of total capital	642,995	20.4%	534,120	433,372

As at 31 December 2016, Hypo Landesbank Vorarlberg’s share capital and participation capital amounted to TEUR 165,453 (2015: TEUR 165,453).

Hypo Landesbank Vorarlberg is ensuring a sound, sustainable capital structure through ongoing optimisation measures. Back in October 2015, a subordinated bond with a term of ten years was issued, raising supplementary capital of TEUR 50,000 (T2 capital). In 2016, the Bank also issued an additional Tier 1 bond with a volume of TEUR 10,000. This increased the Tier 1 capital as of 31 December 2016 to a total of TEUR 1,005,715; the surplus of T1 capital amounts to TEUR 553,065 (+ 36.6%). The surplus of CET1 capital was increased by 25.8% to TEUR 657,009. The supplementary capital (T2) decreased, partly due to repayments, and was reported at TEUR 240,814 as of 31 December 2016 (2015: TEUR 285,910).

Hypo Landesbank Vorarlberg already meets the Basel III capital requirements, which are being introduced in stages up to 2019. As of 31 December 2016, the attributable own funds according to CRR totalled TEUR 1,246,529 (2015: TEUR 1,160,758) and are well in excess of the minimum required by law once again.

Total risk exposure (RWAs) fell from TEUR 7,832,981 in the previous year to TEUR 7,544,173 which substantially reduced the burden on own funds once again. Due to this development, Hypo Landesbank Vorarlberg improved its total capital ratio to 16.52% as of the end of 2016 (31 December 2015: 14.82%), while the Common Equity Tier 1 capital ratio (CET1) was also raised to 13.21% as of 31 December 2016 and the T1 capital ratio rose to 13.33%. Both ratios stood at 11.17% as of 31 December 2015.

Hypo Landesbank Vorarlberg will increase its own funds further in line with the Managing Board’s plans for further sustainable growth and the expectation of new regulatory requirements.

Rating of Hypo Landesbank Vorarlberg

Moody’s

As a result of the HETA moratorium, the rating agency Moody’s placed Hypo Landesbank Vorarlberg and other banks “under review” in March 2015 and threatened a lower rating. On 7 May 2015, Moody’s downgraded Hypo Landesbank Vorarlberg’s main rating from “A2” negative to “Baa1” negative. This was due firstly to the rating agency’s concern that the wind-down of HETA and the resulting liability issues could have negative effects on the Bank’s capital adequacy and secondly to the changed rating methodology. As a result, banks owned publicly (by states/countries) will no longer receive an uplift in the future. Instead, the regulations of the Austrian Federal Act on the Restructuring and Resolution of Banks (BaSAG) will become more important.

On 25 April 2016, Moody’s changed the outlook for the long-term rating of Hypo Landesbank Vorarlberg from negative back to stable. The rating agency based the improved outlook on a stabilised credit profile as the Bank had reduced its exposure to loss with respect to HETA liabilities.

Standard & Poor’s

On 16 October 2015, the rating agency Standard & Poor’s (S&P) announced a new rating for Hypo Landesbank Vorarlberg. The Bank was given a credit rating of A- for non-current liabilities and A-2 for current liabilities, with a stable outlook. With an A- rating, Hypo Landesbank Vorarlberg is in the “upper medium grade” or the “investment grade” category and is therefore one of the best-rated banks in Austria. This rating assists the Bank’s access to planned refinancing on the capital market, which will be important in 2017.

S&P attributes Hypo Landesbank Vorarlberg's good performance firstly to the stable economic situation and the sustainable, successful business model. Secondly, a positive effect comes from the good credit rating of the state of Vorarlberg, which subjected itself to a professional rating by S&P for the first time as the Bank's majority shareholder. The long-term rating of the state of Vorarlberg is AA+ and the short-term rating is A-1+ with a stable outlook.

Debt moratorium at HETA

By resolution of the Austrian National Council on 8 July 2014, Hypo Alpe-Adria-Bank International AG was transformed into a privately organised wind-down unit without general state liability (Heta Asset Resolution AG – HETA). The Austrian financial market authority (FMA) initiated the wind-down of HETA on 1 March 2015 on the basis of the Austrian Federal Act on the Restructuring and Resolution of Banks (BaSAG) in force since 1 January 2015. As part of a moratorium, a payment freeze, or a temporary deferral of HETA's liabilities to its creditors, was declared until 31 May 2016. This also included liabilities to Pfandbriefbank of EUR 1.24 billion and, among other things, a promissory note loan of EUR 30 million that had been granted to Hypo Alpe-Adria by Hypo Landesbank Vorarlberg.

"Pfandbriefbank (Österreich) AG", universal successor of "Pfandbriefstelle der österreichischen Landes-Hypothekenbanken", is the joint issuing institution of the Austrian Landes-Hypothekenbanken and carried out issues in trust for Hypo Alpe Adria Bank (now HETA) until 2006. All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for all liabilities of Pfandbriefbank. In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) also have joint and several liability

- unlimited for liabilities incurred up to 2 April 2003
- limited for liabilities incurred after 2 April 2003 and up to 1 April 2007 if maturity does not exceed 30 September 2017.

In the event of insolvency on the part of Pfandbriefbank, the Austrian Pfandbriefstelle Act (PfBrStG) means that the other Austrian Landes-Hypothekenbanken and their guarantors will be jointly liable for its liabilities, so all Austrian Landes-Hypothekenbanken and their guarantors – including Hypo Landesbank Vorarlberg – were required over the course of 2015 to come to an arrangement to offset any liquidity squeezes and provide the required funds for servicing Pfandbriefbank's obligations. In order to stabilise Pfandbriefbank, the member banks came to an agreement regarding funding and payment settlement. Hypo Landesbank Vorarlberg already made appropriate provisions for its receivables from HETA in 2014 and 2015 and recognised a valuation allowance on its promissory note loan receivables.

On 21 January 2016, Kärntner Ausgleichszahlungs-Fonds (Carinthian compensation fund, KAF) submitted an offer to purchase the receivables from HETA. The creditors of HETA bonds with Carinthian state guarantees were offered a rate of 75%, while creditors that hold subordinated debt securities were to receive only 30%. The state of Vorarlberg accepted the offer and the majority of shareholders of Hypo Landesbank Vorarlberg approved it. The other Austrian Landes-Hypothekenbanken and the associated Pfandbriefbank likewise accepted the offer. In early March, the Austrian Minister of Finance Hans Jörg Schelling improved the offer: creditors accepting the offer to repurchase state-guaranteed HETA bonds could invest the 75% in a government bond that would pay out 100% after 18 years. At the end of the offer period on 11 March 2016, the repurchase offer was rejected by the majority of creditors.

After the original offer to the creditors failed, the Minister of Finance announced on 18 May 2016 that he had signed a memorandum of understanding (MoU) with certain HETA creditors. On 6 September 2016, KAF then submitted a new public offer that, as in January 2016, was based on Section 2a of the Austrian Financial Market Stability Act (FinStaG). The key economic points were unchanged from those agreed in May. Effectively – after the repurchase and conversion into a zero-coupon bond/promissory note loan – senior unsecured creditors were offered around 90% of the nominal value and the bearers of subordinated instruments were offered around 45%. The zero-coupon bond structure was selected as certain creditors had made their agreement conditional upon eventually receiving 100% of their receivable. This has now been guaranteed to senior unsecured creditors, but not until the repayment date in January 2032. A six-month repurchase offer from the Austrian Treasury (OeBFA) as of December 2016 ensured that the value of the bonds was actually 90.

The offer was accepted within the set period (6 September to 7 October), which led to significant income (before taxes) for HETA creditors – including Hypo Landesbank Vorarlberg – as a result of the reversal of the risk provisions recognised in 2014 and 2015. Hypo Landesbank Vorarlberg originally intended to make use of the OeBFA's repurchase offer. However, at the end of November it took advantage of attractive prices on the secondary market and sold the whole position (including the hedge) at 90.01%. The financial loss to the Bank has therefore been reduced significantly.

Panama Papers

Following the publication of "Panama Papers" in early April 2016, with which Hypo Landesbank Vorarlberg was also linked, the Bank's offshore business was examined as part of a special investigation by the FMA. Nevertheless, the Managing Board is confident that the Bank conducted its business within the legal framework at all times.

The Chairman of the Managing Board, Michael Grahammer, announced his resignation in April 2016 in response to the media's prejudgement of the Bank and of himself. At the request of the Supervisory Board, he remained available to the Bank until the end of 2016. The previous Chief Risk Officer, Michel Haller, was appointed as the designated Chairman of the Managing Board by the Supervisory Board on 10 August 2016 and assumed this role as of 1 January 2017. Wilfried Amann, who was previously a member of the board of another regional bank in Vorarlberg and has many years' experience in the banking industry, was appointed as a new member of the Bank's Managing Board.

Following the debate concerning the Panama Papers, an adjustment of the strategy and business activities with offshore clients is to be developed together with the shareholders of the Bank. The number of accounts for non-operative offshore companies had already been successively reduced in recent years. The low level of income attributable to these business relationships means that this change will not have a material impact on the Bank's earnings strength.

At the end of April 2016, the Vorarlberg SPÖ political party called for an inquiry board to investigate the Bank's offshore activities, which the Managing Board and Supervisory Board of the Bank felt to be an inappropriate means of addressing this issue. In autumn the inquiry board was cut short owing to a lack of results, and its last session was scheduled for 2 December 2016. In early 2017, the inquiry board issued its final report, which was supplemented by minority reports from the individual groups.

The Managing Board remains of the opinion that no laws have been violated.

Events of material importance after the reporting date

Due to delays occurring in 2017 during the process of exiting an investment of HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) in conjunction with the liquidity requirement arising in this investee as a result, in April 2017 the management of HUBAG remeasured this investment as at the 28 February 2017 reporting date on a worst-case scenario basis. It also identified a liquidity requirement on the part of HUBAG, with no closing of this financing gap being foreseeable at the time of preparing the 2016 consolidated financial statements. Based on the figures contained in the 2016 consolidated financial statements, if HUBAG were to enter into insolvency this would lead to a write-down of the shares in companies valued at equity of up to TEUR 30,392 in 2017. Further disclosures on events after the reporting date can be found in the Notes to the consolidated financial statements under Note (55).

DEVELOPMENT BY SEGMENT

Corporate Customers

In the Corporate Customers segment Hypo Landesbank Vorarlberg positions itself primarily as a banking partner for industrial companies and mid-sized businesses. This segment also covers self-employed persons and municipal customers. With its particular expertise in investment and project financing, developer financing, subsidies, foreign services and working capital financing and as a provider of alternative forms of financing, Hypo Landesbank Vorarlberg has established itself in the core markets of Vorarlberg, Vienna, Styria, Upper Austria, Southern Germany and Eastern Switzerland and is the leading corporate bank in Vorarlberg. Its service offering is rounded off by outstanding investment advisory services and the leasing and insurance services provided by its subsidiaries. Excellently trained and largely long-term employees act as advisors and dialogue partners on an equal footing with corporate customers.

The Corporate Customer business performed exceptionally well in financial year 2016, particularly in terms of income. Although companies continued to exhibit a clear reluctance to invest over the last year, the Bank still maintained or slightly increased its lending volume in most markets.

As its margins remained under pressure, Hypo Landesbank Vorarlberg offered its corporate customers financing by way of promissory note loans only on a very selective basis and consciously accepted a decline in volume in this segment. Overall, loans and advances to customers in this segment increased to TEUR 5,403,932 (2015: TEUR 5,282,178). Risk costs remain low due to the excellent ratings of corporate customers in the Bank's core markets; in 2016 more valuation allowances were reversed than new valuation allowances recognised.

Overall, the Corporate Customers segment generated earnings before taxes of TEUR 66,264 (2015: TEUR 55,274) in 2016. This represented a year-on-year increase of nearly 20%. Net interest income of TEUR 89,960 (2015: TEUR 87,541) contributed to this very good result, as did significant reversals of valuation allowances and provisions. By contrast, net fee and commission income did not reach the previous year's level, declining by 3.0% to TEUR 12,265 (2015: TEUR 12,638). In particular, declines were reported in commissions from securities and payment transactions in the Financial Intermediaries branch office.

Hypo Landesbank Vorarlberg's corporate customers attach great importance to its good credit rating. This is demonstrated by the fact that the very high deposit volume of the previous year was maintained.

For many years, Hypo Landesbank Vorarlberg has created a communication platform for Vorarlberg entrepreneurs through its Breakfast for Entrepreneurs, which takes place twice a year in cooperation with a corporate customer. Together with the University of St. Gallen, the Bank offers numerous entrepreneurs and managers the opportunity of further education at a high level through the Hypo Academy. These functions were readily accepted by around 700 corporate customers last year and used as a communication and networking platform.

Private Customers

In the Private Customer business, new and extended regulations and persistently low interest rates are creating a challenging environment for the banking sector. A sharp focus on customers and the maintenance of close, trusting business relationships are therefore indispensable for the economic success of a bank. Hypo Landesbank Vorarlberg stands for proximity to the customer and high-quality employees advice. For this reason, the Bank attaches great importance to ensuring its employees have the best training in terms of professional and social skills. Besides excellent advice, customers value flexible solutions as well as fair and transparent conditions combined with a balanced product range geared towards their requirements. The fact that customers regularly recommend us motivates Hypo Landesbank Vorarlberg to continue on the path it has taken.

Hypo Landesbank Vorarlberg's private customers benefit from a comprehensive product range focusing on residential construction financing and investment advisory services. As the leading housing bank in Vorarlberg, Hypo Landesbank Vorarlberg has seen further growth in the area of residential construction financing in the last year. Customers' desire for their own four walls or for the renovation or extension of properties remains very pronounced. Fortunately, the loan loss provisions required in the Private Customers segment are at a very low level. Nonetheless, lending is becoming more difficult due to new statutory provisions, with the Austrian Mortgage and Property Loans Act (HIKrG) coming into effect in March 2016.

As a result of low interest rates and rising financing amounts, loans and advances to customers in the Private Customers segment increased by around 2% to TEUR 1,928,813 in 2016.

In order to meet customers' different needs, alongside traditional loans the Bank also offers products such as the Hypo-Lebenswert-Kredit, which can be used by customers who already have a mortgage-free property to expand their financial scope in their old age. The Hypo-Lebenszeit-Kredit makes it possible to finance or renovate property across generations. The Hypo-Klimakredit supports energy-saving investments; there is no processing fee and customers benefit from a reduced premium in the first years.

Due to low interest rates, demand for fixed interest rates is high. As interest rates are expected to rise in the long term, Hypo Landesbank Vorarlberg offers borrowers the opportunity to secure the interest rate for a period of 10 to 15 years.

Low interest rates are also a central issue in deposits business. Contrary to the trend of the last few years, traditional savings products such as savings accounts in various forms were in high demand again. The reason for this was the low interest rates for bonds and the increasing risk of falling prices. The prevailing interest rate situation made it much harder for investors to find returns. Therefore, depending on customers' needs Hypo Landesbank Vorarlberg is also experiencing increasing demand for securities products. Many customers continue to invest in real assets, preferably properties. The Bank's excellent credit rating is confirmed by the ratings of Moody's and S&P.

Digitalisation and changed customer behaviour necessitate a new kind of business relationship between customers and banks. For this reason, Hypo Landesbank Vorarlberg has launched a long-term project in order to respond to these changes. The aim is to use digitalisation to connect existing branches in a way that enables customers to benefit from optimum interaction between technology and people. In 2016, a great deal of preparation work was carried out on a new online sales portal and online banking. In October, a new web portal finally went live and we switched to a new contemporary online banking system, including an app. Corresponding online services, including the possibility to buy products, are to follow.

The Managing Board is convinced that there will still be products in the future for which employees consulting is indispensable – e.g. large investments or comprehensive assessments – so face-to-face contact between customers and advisors remains a central issue at Hypo Landesbank Vorarlberg.

Advancing digitalisation and the continued intense competition between banks in deposits and financing business combined with falling interest rates are resulting in considerable pressure on conditions and margins. Hypo Landesbank Vorarlberg's net interest income in the Private Customers segment remained stable against the previous year at TEUR 35,485 (2015: TEUR 35,498). By contrast, net fee and commission income declined by 12.7% year on year to TEUR 17,227 (2015: TEUR 19,725). Overall, the Private Customers segment generated earnings before taxes of TEUR 5,379, in the 2016 financial year (2015: TEUR 16,320). The year-on-year decrease is chiefly attributable to higher expenses and regulatory and supervisory requirements.

Private Banking and Asset Management

Asset Management
The performance of the Asset Management business was affected by difficult market conditions in 2016. In particular, interventions of central banks overrode the usual market mechanisms. Ongoing uncertainty resulting from continued low global growth as well as volatility following the referendum in the UK were also reflected in the markets. In addition to this, persistently low interest rates led to lower levels of customer activity.

At the end of 2016, assets under management amounted to TEUR 868,810 (2015: TEUR 894,990). The number of mandates managed was 2,975 as of 31 December 2016.

However, Hypo Landesbank Vorarlberg's asset management products were in demand, even in turbulent times. Hypo PF Absolute Return's fund assets thus increased to EUR 57.5 million compared to EUR 53.1 million in the previous year. In the current climate of low interest rates, this fund is a valuable addition to many portfolios on account of its broad diversification and non-market-specific focus. The investments recently made in inflation-linked bonds, private equity and robotics enrich and make an attractive addition to the fund. In 2016, a return of 3.6% was generated after expenses and before taxes.

Demand for individual optimisation of customer portfolios was persistently high in 2016. The optimisation tool developed by Hypo Landesbank Vorarlberg's Asset Management division provided valuable support here. Efficient combinations of in-house asset management strategies were calculated based on the customer's willingness to take risks and the returns expected in the individual asset classes. This service has proved itself greatly over the past three years and was in demand from both private persons and institutional investors.

This service was enhanced over the course of 2016 in response to the new market situation. The special feature of the new Hypo asset optimisation process is regular optimisation rather than one-time optimisation of securities accounts. For customers, this means that asset classes are promptly adjusted in line with their employees investment objectives and the current market environment. A large number of asset classes allows for flexible investing and for target returns to be achieved on a risk-optimised basis. As of 2017, standardised variants will also be available for assets of over EUR 50,000 for the first time.

Demand for the Hypo Satellite Strategy also rose due to its exceptional performance as of mid-2016. Investments in high yield and emerging market bonds and commodities (energy and industrial metals) led to an annual return of 7.9% after expenses and before taxes. With its high proportion of alternative assets, this strategy is suitable for blending with traditional securities accounts comprising bonds and shares.

Superior Private Bank
In private banking and asset management, Hypo Landesbank Vorarlberg has earned an excellent reputation in recent years and has established itself as a quality alternative to other specialist private banks. The quality of advice in conjunction with innovative asset management products adapted to the market situation not only wins over customers but also, at regular intervals, anonymous testers.

In November 2016, the Elite Report (Munich), the largest and most comprehensive industry test of its kind, awarded Hypo Landesbank Vorarlberg the highest grade of "summa cum laude" for the sixth time in a row. Of 348 tested banks and asset managers, only 46 were worthy of an unqualified recommendation. Having achieved an excellent result of 622 points overall, Hypo Landesbank Vorarlberg is one of the top 20 institutions and is positioned in second place among the Austrian banks.

The Fuchsbriefe (Berlin) also tested 83 financial institutions from Germany, Switzerland, Austria, Luxembourg and Liechtenstein. Hypo Landesbank Vorarlberg improved its position in this test significantly compared to the previous year and made the leap into the second best category, achieving fifth place in the Austria comparison. This is a very good position given that the first few places are occupied by specialist private banks. Especially encouraging and worthy of note is the awarding of first place among all participating banks in the portfolio quality category. This excellent result is also reflected in the all-time best list (i.e. average over the last five years), in which Hypo Landesbank Vorarlberg has advanced from 30th to 20th place.

These accolades are an endorsement of Hypo Landesbank Vorarlberg's persistence as an advisory bank offering individual and high-quality advice and repeated creation of innovative products in order to respond to the challenges of the capital markets.

Expansion of Wealth Management
Hypo Landesbank Vorarlberg sees good growth opportunities in private banking and asset management. For this reason, extensive investments have already been made in personnel in this segment. Based on this, the Bank intends to continue expanding the top segment in the investment business with companies, institutional customers such as pension funds and insurers, and high net worth private customers (Wealth Management), particularly in Bregenz and Vienna. The already varied product range is being enhanced with new asset management strategies adapted to the challenging market conditions. In order to strengthen its presence in the Vienna region, Hypo Landesbank Vorarlberg moved into its new location in the Zacherlhaus building in the 1st district of Vienna at the end of 2015. The Managing Board is thus sending a clear signal for the future growth of the Bank.

International performance standards in Asset Management

Since 2005, Hypo Landesbank Vorarlberg has been the first and still the only Austrian bank whose asset management is aligned with the internationally-recognised Global Investment Performance Standards (GIPS)®. The auditing company PricewaterhouseCoopers Zurich most recently confirmed the GIPS verification on 31 December 2014.

Treasury/Financial Markets

Despite numerous unexpected market events, the Treasury/Financial Markets division can look back on a successful year in 2016. The challenges began with the Chinese stock market crash, followed by the decline in crude oil prices. By contrast, the agreement reached in the debt dispute involving the state of Carinthia and HETA was a very positive development for Hypo Landesbank Vorarlberg.

At its March meeting, the ECB resolved to expand its purchase programme as well as TLTRO II (the central bank's long-term tender). During the course of the year, German government bonds marked a low with negative yields up to ten-year maturities.

In April of the year under review, the publication of the Panama Papers and resignation of the Chairman of the Managing Board, Michael Grahammer, led to volatility at Hypo Landesbank Vorarlberg in relation to credit spreads, whereas the knock-on effects of Brexit did not have any major direct impact on the Bank. The election victory of Donald Trump in the US and the subsequent rally on the stock markets as well as the recovery of the oil price to around USD 50 brought a conciliatory end to what had been a very challenging year both economically and politically.

The result of the Treasury/Financial Markets division was influenced by the challenges during the financial year 2016. The result from change in own credit risk led to negative earnings before taxes in the amount of TEUR –11,202 (2015: TEUR 43,826).

Asset Liability Management – Investment

In 2016, Hypo Landesbank Vorarlberg invested a net volume of EUR 483.4 million in bonds. The weighted remaining term of these new investments is 4.9 years. The average asset-swap spread of the new investments is 0.3%, while the average rating of new purchases is A+. As in the previous year, major decision-making criteria for new investments in bonds were their LCR or ECB eligibility and eligibility for the public cover pool. In consideration of the risk weighting investments were made in a manner protecting equity.

Asset Liability Management – Funding

In total, Hypo Landesbank Vorarlberg made 38 new issues with a total volume of almost EUR 735 million in the reporting year. A public placed CHF bond with a nominal value of CHF 150 million was successfully placed with a re-offer spread of 65.25 basis points over mid-swaps, thus opening the Swiss market to Austrian issuers in this segment again. Furthermore, 12 retail issues with a volume of around EUR 63 million were carried out in addition to 25 private placements with a total nominal value of just over EUR 532 million (including two retained covered bonds amounting to EUR 300 million in total). Hypo Landesbank Vorarlberg set a further milestone by issuing its first Additional Tier 1 bond in the amount of EUR 10 million. In total, 31 buybacks of former issued bonds with a total volume of approximately EUR 185 million were concluded.

Maintenance of the cover pool for mortgage bonds and municipal bonds was transferred from the Accounting department to the Asset Liability Management – Funding in 2016. For this purpose, a new cover pool management software was introduced. All pledged items eligible for the cover pool were entered into this software over the course of the year.

Money, foreign exchange and interest rate derivatives trading

Readily accessible short-term liquidity at Hypo Landesbank Vorarlberg was influenced by two contrasting trends in financial year 2016. In the first half of the year, liquidity increased to highs of over EUR 1 billion. In particular, customer deposits increased in the first few months of the year despite the known events. As of mid-2016, the Bank actively counteracted this high liquidity level. Firstly, therefore, the drawn tranches of the TLTRO I tender of the ECB were voluntarily repaid in advance; secondly, the conditions for large-volume customer deposits were also adjusted, for example. This reduced the overall level of short-term liquidity readily accessible on the money market to just over EUR 200 million. Money market trading managed the Bank's readily accessible short-term liquidity with almost 1,500 transactions and a total volume of almost EUR 25 billion.

The division of foreign exchange and interest rate derivatives trading with customers adapted to the general sentiment on the financial markets. Both the number of transactions and income declined sharply compared to the previous year. Increasingly stringent regulatory requirements and continued extremely low or negative interest rates also took a heavy toll in the year under review. Nevertheless, a total of over 2,500 customer transactions were concluded in interest rate derivatives and foreign exchange trading in 2016 with a total volume of close to EUR 1.8 billion.

Fund Service
The Fund Service unit was administering 70 mandates as at 31 December 2016, which corresponded to a managed volume of EUR 6.95 billion. This represents year-on-year growth of almost 9.4%, which is largely attributable to the transfer of five special funds as of 30 June 2016. Without this event, the managed volume would have remained virtually unchanged.

As of the end of 2016, the paying agent function was performed for 120 UCITS. Three more UCITS were invoiced than in the previous year. Furthermore, as a tax representative Hypo Landesbank Vorarlberg calculated and reported dividend-equivalent income and capital gains for 457 mandates in 2016. In this context, 54 more mandates were managed than in the previous year. The same number of fund tranches is expected in 2017.

In addition, customer securities accounts were held for external brokers. The number of customer securities accounts managed for external brokers is decreasing due to the closing of securities accounts. Approximately 875 customer securities accounts are still managed at present.

Securities trading (non-proprietary)
The annual securities trading volume (non-proprietary) amounted to approximately EUR 908 million in 2016. This represents a decrease of around EUR 715 million (–44.1%) compared to the previous year. Low bond yields, particularly in EUR, as well as uncertainty on the stock markets led to reluctance among investors. The uncertainty on the markets is expected to continue in 2017.

Swapgroup
As at 31 December 2016, the Swapgroup managed a derivatives portfolio comprising 1,051 swaps, interest rate options and currency options with a nominal volume of around EUR 9.52 billion. This represents a decline of around EUR 400 million against the previous year. Due to market developments, the holding of cash and securities collateral changed from EUR 95.6 million pledged as collateral to EUR 10.5 million in collateral delivered. EMIR (European Market Infrastructure Regulation) was an important issue again in 2016 and the clearing obligation was implemented in accordance with the time limit. 2017, too, will be characterised by the implementation of regulatory requirements such as IFRS 9 (International Financial Reporting Standards) and MiFID II (Markets in Financial Instruments Directive).

Debt Capital Markets
In the reporting year, the Debt Capital Markets business segment took over the arrangement of bonds for own as well as external issues. In the Corporate segment, a bond with a term of five years was successfully placed on the market on behalf of a major Vorarlberg property developer. Due to high investor demand, the issue volume was topped up from EUR 10 million to EUR 15 million during subscription. Furthermore, Hypo Landesbank Vorarlberg acted as co-lead in a retail issue for an Austrian company and supported a covered bond issue for an Austrian bank.

In the area of own issues, the Bank acted as co-lead for a CHF transaction with a term of five years and an issue volume of CHF 150 million. By engaging in lively exchanges with various capital market participants and actively providing investor support the Bank was able to arrange buybacks and assist in sales of private placements.

Corporate Centre

In addition to the business segments mentioned above, the Corporate Centre item includes the refinancing of investments. The Corporate Centre contributed earnings of TEUR 57,178 in 2016, compared to earnings before taxes of TEUR 5,726 in the previous year. The sharp increase against 2015 largely results from the reversal of previously recognised valuation allowances and provisions for HETA.

MAJOR SUBSIDIARIES OF HYPO LANDESBANK VORARLBERG

Hypo Immobilien & Leasing GmbH

Hypo Landesbank Vorarlberg's entire Austrian and Swiss leasing and real estate business is combined in the subgroup "Hypo Immobilien & Leasing". Hypo Immobilien & Leasing GmbH offers customers real estate services ranging from real estate brokerage through property appraisal, construction and property management to facility management. It offers private customers and SMEs financing solutions in the areas of vehicle, movables and real estate leasing. Hypo Immobilien & Leasing GmbH has its headquarters at the Hypo Office in Dornbirn and has additional locations in Bregenz, Bludenz, Feldkirch and Vienna.

Real estate brokerage services are offered in Bregenz, Dornbirn, Bludenz, Feldkirch and Vienna. Leasing customers are supported by specialists in Dornbirn and Vienna. Marketing activities in the Austrian leasing market are carried out by consultants at the offices of Hypo Landesbank Vorarlberg, while the Swiss leasing market is managed by an in-house sales team. As at 31 December 2016, Hypo Immobilien & Leasing GmbH had a headcount of 48 employees (2015: 48).
At the end of October 2015, the Vienna team of Hypo Immobilien & Leasing GmbH moved to the new location of the Bank in the Zacherlhaus. Since then, cooperation with the advisors at the Vienna branch has been stepped up so as to enable customers to benefit from additional advisory services. The property appraisal area was expanded further over the course of 2016, particularly in the Vienna region. As has been the case in Vorarlberg for years, the team carries out valuations for Hypo Landesbank Vorarlberg especially for financing purposes. In addition, an in-house real estate broker was recruited for the Vienna location to act as a bridge between Vienna and Vorarlberg for all real estate matters.

Each year, the Hypo Immobilien & Leasing GmbH experts publish a recommended price brochure providing points of reference to be used when valuing property. In order to make it easier to access this information, in 2015 Hypo Immobilien & Leasing GmbH became the first real estate company in Vorarlberg to develop a mobile recommended price app which users can download free-of-charge onto their iPhone, iPad or Android smartphone.

For 2016, Hypo Immobilien & Leasing GmbH reported earnings before taxes of TEUR 656 (2015: TEUR 905). The consolidated earnings before taxes of the companies mainly included in the consolidated financial statements and belonging to the real estate and leasing subgroup came to TEUR 7,959 as at 31 December 2016 (2015: TEUR 4,337).
The volume of new business in the movables and vehicle leasing sector amounted to TEUR 53,760 in the 2016 financial year (2015: TEUR 46,620); in real estate leasing, new business amounted to TEUR 6,975 (2015: TEUR 10,300).

Hypo Vorarlberg Leasing AG, Bolzano
Hypo Vorarlberg Immo Italia GmbH, Bolzano

Hypo Vorarlberg Leasing AG is headquartered in Bolzano and develops leasing solutions in the real estate and mechanical engineering sectors. The company offers its products and services on the northern Italian market. The subsidiary also has branches in Como and Treviso. Hypo Vorarlberg Leasing AG celebrated its 25-year anniversary in 2016.

New business on the Italian leasing market grew by 16% to a total of EUR 20.7 billion in 2016. As previously in 2015, increases were particularly notable in vehicle and movables leasing, while real estate leasing fell by 0.6% in the same period. There was growth of 14.2% in construction leasing, whereas the volume relating to already completed properties declined by 8.4%.

In financial year 2016, Hypo Vorarlberg Leasing generated new volume of TEUR 62,286 which represents an increase of 22.5% (2015: TEUR 50,860). As planned, the company focused on real estate and movables leasing projects in the Trentino/South Tyrol region. As in previous years, emphasis was placed on top-quality lessees, valuable lease assets and appropriate advance payments and securities for new leases.

Hypo Vorarlberg Leasing Bozen AG reported earnings before taxes of TEUR 251 in 2016 (2015: TEUR –9,508) while generating a record level of net interest income in the amount of TEUR 13,556 (2015: TEUR 13,163). The main areas of focus continued to be on consistent management of existing portfolios and efficient realisation of recovered lease assets.

In April 2016, the company obtained approval from Banca d'Italia for entry in the new Register 106 for financial intermediaries. An in-house Compliance department was established in this connection and Risk Management assigned additional tasks.

For 2017, Hypo Vorarlberg Leasing AG is aiming to achieve new volume of approximately EUR 70 million, which is to be acquired selectively and in compliance with strict risk criteria. More interesting projects are also to be carried out in movables leasing, using the new tax opportunities (140% or 250% depreciation and Sabatini grants), especially in the Trentino/South Tyrol and Milan regions.

The Italian commercial real estate market continued its recovery in 2016. The volume of real estate sold rose and the negative price trends of the last few years also slowed appreciably. This development had a positive effect on the business performance of Hypo Vorarlberg Immo Italia GmbH. The volume of real estate sold increased again year on year in 2016. Furthermore, a wide range of real estate was rented out for short and long terms.

Hypo Vorarlberg Immo Italia GmbH also began selling real estate on behalf of external financing companies in 2016. Maintaining and further developing the existing network as well as various sales initiatives formed the basis for a positive result in 2016: Hypo Vorarlberg Immo Italia GmbH reported earnings before taxes of TEUR 252 in 2016 (2015: TEUR 71).

Several development projects are planned for existing real estate in 2017 so that these may be incorporated into their use or sale as quickly as possible. The Italian economy is expected to stabilise further, thus leading to higher demand for commercial real estate.

Hypo Versicherungsmakler GmbH

The 2016 reporting year was once again characterised by major changes in the insurance landscape. A cut in the maximum permissible guaranteed interest rate had an impact on the results for life and above all pension insurance. As of 1 January 2017, the FMA further reduced the guaranteed interest rate for new policies, while several renowned insurers even set the guaranteed interest rate at 0%. In future, longevity risk, rather than profitability, will be the determining factor in the sale of retirement and pension provision.

The switch to ongoing commission payments instead of one-off commissions also had a noticeable impact. Due to these developments, net fee and commission income at Hypo Versicherungsmakler fell to TEUR 1,352 (2015: TEUR 1,476). This also caused earnings before taxes to drop sharply to TEUR 47 (2015: TEUR 224).

In autumn 2016, the disability pension insurance of a large German insurer was incorporated into the advisory tool and extensive training provided to Hypo Landesbank Vorarlberg employees. Through this provision, the advisors are now able to offer customers of the Bank, particularly those with loans, additional key protection for the event that they are unable to work.

In 2016, the continued reluctance in the Vorarlberg economy as regards investment activity combined with the low inflation rate led to lower premium growth through indexation in property insurance. Nevertheless, it was possible to win interesting SME businesses as new customers thanks to extensive cooperation with the corporate customer advisors at Hypo Landesbank Vorarlberg.

Independent brokers were not spared from the changes in the insurance market, either. Some insurance brokers in Vorarlberg are currently seeking a strategic partner or buyer due firstly to a lack of succession solutions and secondly to decreasing commissions. Hypo Versicherungsmakler will continue to monitor this development closely and conduct exploratory talks with selected insurance brokers.

In the 2017 financial year, the focus will be on developing disability pension insurance further. The advisors at the Bank are also being introduced to homeowner and household insurance so that they can provide their customers with appropriate support for new build projects. More extensive cooperation with the advisors at the Bank, particularly in the Private and Commercial Customers segments, is expected to contribute to Hypo Versicherungsmakler's robust further development.

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG)

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) is an alternative investment fund according to the Alternative Investment Fund Manager Directive (AIFMD) in the field of venture capital and private equity. The core business focuses on financing small and mid-sized enterprises by providing equity and annex capital. HUBAG's investors include Hypo Landesbank Vorarlberg, Hypo Tirol Bank, Volksbank Vorarlberg as well as insurance companies, foundations and the management.

Due to the targeted portfolio reduction, the company's financial assets are now largely concentrated on just two investments. The value of one investment, which undertakes research and development in the biotechnology sector, is significantly influenced by the results of the research. This gives rise to a future valuation risk. This company relies on the inflow of external funds.

In the 2015/16 financial year, HYPO EQUITY Unternehmensbeteiligungen AG generated comprehensive income after taxes according to IFRS of TEUR 463 (2014/15: TEUR 1,957). Total assets according to IFRS increased marginally from TEUR 116,405 in the previous year to TEUR 117,245 in the past financial year. The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG to 30 September 2016 have been audited and issued with an unqualified audit opinion.

The 2016/17 financial year at HUBAG will again be characterised by targeted exits from the remaining investments. There is no guarantee that the value of the investments recognised by HUBAG can actually be realised in the exit. In April, the delays occurring in 2017 during the process of exiting an investment in conjunction with the liquidity requirement arising in this investment as a result led the management of HUBAG to remeasure this investment as at 28 February 2017. No corresponding write-down on this investment was recognised in HUBAG's financial statements to 30 September 2016 as a result of this adjusting event in 2017. More detailed disclosures can be found in the Notes to the consolidated financial statements of the Bank under Note (55).

OUTLOOK FOR 2017

Economic environment

The Austrian economy developed more positively in 2016 than in the preceding years. GDP grew by over 1% again for the first time in four years, posting growth of 1.5%. Demand grew substantially in Austria, with private households increasing their spending due to tax cuts and companies in many industries also reporting an improved situation. On the other hand, export demand, including from the US, shrank and it is not yet possible to foresee the nature of further developments under the new president. Foreign trade with the 5 CEECs (Poland, Slovakia, Slovenia, Czech Republic, Hungary) also declined in 2016. The WKO expects economic growth of 1.5% for 2017 and 1.4% for 2018. Overall, there is a high degree of uncertainty surrounding forecasts.

Although the inflation rate in Austria was below 1% for the second year in a row, it remained above average for the euro area in 2016. Assuming an increase in the price of crude oil, the Austrian Institute of Economic Research (WIFO) expects inflation to rise to 1.7% in 2017, causing gross income per capita to stagnate in real terms.

Hypo Landesbank Vorarlberg's priorities for 2017

The new Managing Board will continue to pursue Hypo Landesbank Vorarlberg's proven, broad-based business model, although the economic and legal environment is bringing about a change in thinking throughout the entire banking industry. A project was implemented in cooperation with an external consulting agency to strengthen and sharpen the brand's profile. The results of this project will be implemented comprehensively at the Bank and its subsidiaries over the course of 2017.

2017 will bring further major challenges for banks: new regulations require them to build up additional equity and secure a cost-optimal liquidity supply, while costs are rising continuously. Low interest rates and constant new legal as well as technological challenges for banks and their services are also bringing about changes.

The banking package on tax reform passed in 2015 also entails an amendment to banking secrecy (Section 38 BWG) and thus new regulations for banks. Over the course of 2016, a central account register was established at the Federal Ministry of Finance (BMF) which records all accounts (savings, giro, building society and securities accounts) of private and corporate customers at Austrian banks retrospectively from 1 March 2015. In addition, a reporting obligation for inflows and outflows of capital and the introduction of a common reporting standard were approved.

Other factors are also putting a great deal of pressure on the profitability of the Austrian banking sector. To ensure the profitability of Hypo Landesbank Vorarlberg in the long term, growth markets outside our home market of Vorarlberg are to be expanded in particular.

Hypo Landesbank Vorarlberg is the leading corporate bank in Vorarlberg and will continue to supply its business customers with financing in the future. However, the Managing Board expects to see low demand for credit again in 2017. Slight increases are mainly expected in the markets outside Vorarlberg. Because the capital market currently offers attractive financing conditions for companies and public issuers, Hypo Landesbank Vorarlberg is increasingly offering services in this area and supporting its customers in the placement of promissory note loans and bonds.

Due to the good economic situation of companies in its market areas, Hypo Landesbank Vorarlberg again expects below-average risk costs in 2017. Increased use of services related to payment transactions and documentary business is anticipated, while investment business with entrepreneurs is to be expanded.

Hypo Landesbank Vorarlberg is working on a new online payment transaction application in order to offer corporate customers an innovative, intelligent solution for payment transactions. In future, "Hypo-Office-Banking" (HOB) will enable companies to manage all their national and international accounts in one web-based system. This application will be implemented based on the EBICS standard, which is already widely used in Austria and many European countries. HOB is aimed at simplifying a company's payment transactions significantly and is expected to come onto the market in spring 2017.

Hypo Landesbank Vorarlberg is very popular in the Private Customers segment thanks to its excellent credit rating. Closeness to customers and employees advice are an important part of Hypo Landesbank Vorarlberg's corporate philosophy – something that is also noted and appreciated by customers. In order to continue to ensure high-quality advice, the Bank is increasing its investment in education and training for its employees. In investment, there is high demand for innovative yet simple products. The primary objective of Hypo Landesbank Vorarlberg is to conserve its customers' wealth in real terms. In 2017, the Bank will continue to run promotions in which customers can benefit from attractive conditions. Because the low interest rates are expected to persist for a long time, the Bank continues to anticipate high demand for investments in housing.

Digitalisation and changed customer behaviour necessitate new products, but also new business models. For this reason, Hypo Landesbank Vorarlberg has set itself the aim of using new technology to connect existing branches in a way that enables customers to benefit from optimum interaction. The Bank remains clearly committed to its branches as an important sales channel. In order to provide flexibility and the highest possible level of service – and also as a sign of appreciation towards its customers – the Bank has increased field services and appointments outside business hours. At the same time, it is continuously developing its online services with the aim of enabling customers to buy products online for the first time next year.

In recent years, Hypo Landesbank Vorarlberg has successfully established itself in the areas of private banking and asset management. Based on these good foundations, it is further expanding the Wealth Management segment in Bregenz and the Vienna region and enhancing its product range with new asset management strategies adapted to the challenging market conditions.

In accordance with CRR, as of 31 December 2016 Hypo Landesbank Vorarlberg had a total capital ratio of 16.52% (2015: 14.82%) and a T1 capital ratio of 13.33% (2015: 11.17%). In order to secure a good rating and subsequently favourable funding in the future, the Managing Board continues to attach great importance to strengthening own funds.

Expected earnings development in 2017

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

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

The majority of state guarantees expire in September 2017 and higher volumes will become due for repayment. In view of these maturities, pre-funding has already been carried out in recent years or outstanding issues prematurely bought back from the market. The remaining volume will be replaced in the course of new issuing activity and refinancing via the ECB (TLTRO).

Operating expenses will rise moderately and staff costs are also expected to increase slightly. Due to the deposit protection and single resolution fund, costs will be much higher for the Bank. The revision of the stability fee led to a very high advance payment in 2016. The ongoing payments will be lower as of 2017, which will have less impact on Hypo Landesbank Vorarlberg's earnings in the future overall.

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

COMPLIANCE AND MONEY LAUNDERING

The Compliance department reports directly to the Managing Board, and its main task is to monitor compliance with the legal requirements of the Austrian Securities Supervision Act, the Stock Exchange Act and the Federal Banking Act (BWG) for the prevention of money laundering.

Compliance
All employees are obliged to comply with the provisions of Hypo Landesbank Vorarlberg's compliance guidelines. These guidelines are based on the Standard Compliance Code of the Austrian banking industry, the Securities Supervision Act and the Stock Exchange Act. Compliance with the regulations is ensured by way of regular, documented audits. New employees receive a comprehensive induction as part of the Hypo Basics, which usually take place on the first two days of the first month of employment. All employees are trained on an ongoing basis and informed accordingly in the event of changes.

The Compliance department regularly evaluates compliance with the provisions of the Securities Supervision Act, which implemented the Markets in Financial Instruments Directive (MiFID), and implements any necessary changes together with the specialist departments. These regulations protect investors and serve the efficiency and integrity of the market. Regular, documented checks are carried out here too.

Money laundering
Hypo Landesbank Vorarlberg aims to prevent every form of money laundering and terrorist financing in connection with its business operations. In order to achieve this aim, three computer programs and additional audits are used to check for money laundering. These help employees when classifying customers with regard to the money laundering risk and flag suspicious payments. In addition, they ensure compliance with the legal requirements to carry out embargo checks and checks for politically exposed persons.

All employees complete a comprehensive money laundering test, in which they are familiarised with the legal provisions regarding the prevention of money laundering and terrorist financing and reasons to suspect them. In addition, all new employees receive training in the basic induction. A refresher test must be passed every year.

In further training, employees are taught about specific provisions and types of money laundering so that suspicious transactions can be recognised. Regular checks are also made at the branch offices.

REPORTING ON KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN VIEW OF THE FINANCIAL REPORTING PROCESS

At Hypo Landesbank Vorarlberg, responsibility for establishing and designing the internal control and risk management system lies with the entire Managing Board. Hypo Landesbank Vorarlberg is distinguished by a clear organisational, corporate, control and monitoring function, which includes in particular the dual-control principle, IT-assisted controls, and decision-making powers and monitoring instruments geared towards inherent risk.

In order to further optimise the internal control system, a comprehensive ICS (internal control system) project was carried out from the end of 2009 to January 2013, in connection with which ICS-type documentation for various major core processes was compiled and implemented in order of priority. Since then, additional processes have been incorporated into the documented ICS; in the reporting year, these were the processes of Wealth Management and Debt Capital Markets. Further/new processes are included in the documented ICS in accordance with an assessment of materiality and the level of risk for Hypo Landesbank Vorarlberg.

Control environment
Hypo Landesbank Vorarlberg's Accounting department, which simultaneously functions as the Group Accounting department, includes the bookkeeping, accounting, reporting, controlling and account management areas and reports to the Chairman of the Managing Board.

The close cooperation between Group Accounting, Group Controlling and Group Risk Controlling allows standardised and coordinated internal and external reporting. The reporting processes and control measures are governed by work instructions, internal process descriptions, ICS documents and the Group manual.

Risk assessment and control measures
As part of the ICS, processes are checked for inherent risk and the existence of traceable, effective and efficient risk-mitigation measures and controls, adjusted and if necessary supplemented on an ongoing basis at least once a year. Moreover, a continuous control and effectiveness analysis is performed, and any potential improvement found is implemented.

The financial reporting process is not limited to internal and external reporting, but also uses guidelines and methods to govern the collection of data, creation of entries, recognition of transactions and valuation of business in various software solutions (Arctis, Geos, SAP, B&S, PMS, etc.) in the preliminary stages. These programs offer automatic assistance and checks for correct entry and use. In addition, ongoing manual checks are made in daily business. The regularity, transparency, effectiveness and efficiency of these checks are ensured by ICS monitoring.

Information and communication
Reporting is almost exclusively automated via upstream systems and automatic interfaces and guarantees current data for controlling, profit and loss accounts and other analyses. The accounting information is based on the same data and is coordinated for reporting on a monthly basis. Due to the close cooperation between Accounting, Controlling and Group Risk Controlling, plan/actual analyses are carried out continually. Mutual control and coordination between the departments is guaranteed.

For the monitoring and control function, the Bank's decision-makers periodically receive a range of reports, e.g. weekly returns, monthly performance previews with interest margin accounts, earnings projections at branch, segment and Bank level, plan/actual analyses of volumes and income, ALM reports, risk reports, treasury reports, quarterly cost accounts, various statistics and analyses.

On the basis of the above, periodic reports are issued to the Supervisory Board, Advisory Board and owners. A quarterly report is drawn up according to IFRS on a quarterly basis. At the end of the year, the Bank's annual financial statements are drawn up according to UGB/BWG, and the Bank's consolidated financial statements and the holding company's consolidated financial statements are drawn up according to IFRS. There are also ongoing supervisory reporting obligations to the OeNB/FMA.

An ICS report is compiled every six months for the Managing Board and every year for the Audit Committee of the Supervisory Board, providing information on the results of the ICS.
ICS reporting follows the bottom-up approach: controls are recorded by those responsible for the process when put into operation. These records are pooled together with the results of the control and effectiveness analysis in the ICS report in order to provide information about the effectiveness of the ICS in conjunction with the findings of the audits by Internal Audit.

Monitoring
The quality of the internal control and risk management system is continually assessed by Internal Audit with regard to the reliability, regularity and legality of the accounting process and reporting. Internal Audit cooperates closely with the responsible Managing Board members and managing directors of the subsidiaries and reports periodically to the Audit Committee of the Supervisory Board.

RISK MANAGEMENT

Hypo Landesbank Vorarlberg fully addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and prudent recognition of specific valuation allowances. The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria.

Hypo Landesbank Vorarlberg increased its T1 capital ratio from 11.17% to 13.33% in 2016. The sharp increased is due not only to the reversal of valuation allowances recognised for HETA. The risk result of the Bank would still have been positive even without this non-recurring effect.

The year under review was characterised by persistently low and even negative interest rates on the money and capital markets. Value at risk (99%/10 days) consequently reached levels of over TEUR 18,400 (2015: TEUR 15,892) in the interim.

The main market risks at the Bank are interest rate risk and credit spread risk. Share price and foreign currency risks are of minor significance only. The Bank does not have a large trading book. With regard to the use of financial instruments in accordance with Section 243 (3) No. 5 we refer to the disclosures in the Notes under Note (8, 9, 18, 19, 34, 35).

The Bank utilises the money market for refinancing only to a limited extent. A greater volume will be repayable in 2017, as state-guaranteed bonds and promissory note loans amounting to approximately TEUR 2,347,000 are to expire. For these maturities pre-funding has already been carried out in recent years or outstanding issues prematurely bought back from the market. The maturities can therefore be covered by the existing liquidity reserve or by issuing mortgage bonds that can be used for refinancing via TLTRO (medium-term refinancing tender of the ECB). The risk can now be described as minimal.

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

DATA PROCESSING/IT

Hypo Landesbank Vorarlberg's major business processes are supported by IT to a substantial degree. Its core business products and core business processes are mapped by Allgemeines Rechenzentrum GmbH (ARZ) in Innsbruck, which specialises in IT services for banks and financial institutions.

ARZ is used as an IT service provider by numerous Austrian banks to map banking products and is also indirectly owned by these banks. Their common strategy is to bundle IT expertise in order to generate economies of scale and synergies for customers and harness potential efficiencies through technology. Bundling IT expertise within ARZ enables the banks to reduce the complexity of their IT infrastructure and at the same time to concentrate more heavily on their core business. This primarily involves in-house developments, but tried-and-tested standard products are also used. The central system for day-to-day banking business is the ARCTIS software solution, while standard solutions from GEOS, SAP, B+S and others serve as subsystems.

ARZ is responsible for operating the core banking systems and decentralised IT infrastructure. ARZ also implements the main requirements of new systems together with the banks. The cooperation between the participating banks with regard to the computer centre facilitates implementation of these requirements as the expertise and resources needed for design, implementation, testing and operational support are provided jointly by ARZ and the banks.

The main foundations for meeting regulatory requirements (Basel, rating systems, IFRS 9) were laid in the 2016 financial year. Hypo Landesbank Vorarlberg has taken account of the changes in customer behaviour resulting from increasing digitalisation in a new online banking system.

ARZ's systems and processes are regularly subject to audits by both Internal Audit and an external auditing company. These audits and control measures are carried out based on ISAE 3402 – Type 2 and IWP/PE 14 Type 2 (Institute of Austrian Auditors (IWP) standard for auditing outsourced functions) and are adapted in line with changing conditions on an ongoing basis. The audits did not give rise to any objections.

ARZ and the banks counter IT risks through backup systems, failover concepts, security concepts and other measures. Clear rules on responsibilities and access, the requirement of the dual-control principle and an internal monitoring system are in place. In this context, Hypo Landesbank Vorarlberg focuses on risk-mitigation benefits such as consistent use of standardisation, increasing cost efficiency and maintaining innovative capability.

As of 31 December 2016, Hypo Informatikgesellschaft m.b.H, a wholly owned subsidiary of Hypo Landesbank Vorarlberg, employed 38.8 employees (full-time equivalent). These employees implement the systems developed and operated by ARZ within the Bank. Furthermore, the subsidiary performs key additional services for the Bank and the Group, thus providing the infrastructure and ensuring its technological advancement. Hypo Informatik also develops individual applications for which there are no adequate solutions within the ARZ group in order to optimise and standardise processes in the specialist departments. When doing so it uses a user authorisation concept for the wide-ranging solutions. Hypo Informatik is also audited regularly by internal and external auditors and is aligned with market standards.

IT operations at the St. Gallen branch are provided by a Swiss standard software solution comparable with the processes at ARZ. This is also audited by an external party and did not give rise to any objections. Standard software systems are also used at HIL Dornbirn and the leasing company in Bolzano.

DISCLOSURE UNDER SECTION 243A OF THE AUSTRIAN BUSINESS CODE (UGB)

Share capital, share denominations and participation capital

The subscribed capital of Hypo Landesbank Vorarlberg consists of share capital of EUR 156.5 million (2015: EUR 156.5 million) that, like the participation capital, is fully paid in. As at 31 December 2016, 305,605 shares and 1,000,000 participation certificates with a nominal value of EUR 9.00 were issued.

Shareholder structure

The equity interests of the shareholders break down as follows:

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

Appointment of executive bodies

Other than the requirements defined by law, there are no further regulations pertaining to the appointment and removal of Managing Board members and Supervisory Board members or to amending the company's articles of association.

DISCLOSURE OF INFORMATION ON REMUNERATION POLICY AND PRACTICES IN 2015

In 2011, the remuneration policy of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft was structured and redefined by the Managing Board for the first time in accordance with the statutory requirements, presented to the Supervisory Board on 15 December 2011 and approved by the Supervisory Board.

The principles of the remuneration policy were adopted with regard to robust and effective risk management in concordance with the business strategy. They are decided upon annually in the Remuneration and Nominating Committee. In 2015, the Remuneration and Nominating Committee met four times. The updates principles – adjusted to the 2015 financial year – were present and approved again on 23 April 2015.

In addition to the Supervisory Board – specifically the Remuneration and Nominating Committee led by Alfred Geismayr – the Internal Audit department also acts as a controlling body for the Bank's remuneration policy. On behalf of the Supervisory Board, this department is charged with auditing the implementation of the current principles of the remuneration policy.

In addition to all basic banking services, Hypo Landesbank Vorarlberg's core business areas are corporate customer business, real estate financing and investment business.

Hypo Landesbank Vorarlberg's main business is restricted to Austria and bordering areas. Due to our predominant business model, the strict multi-level authorisation guidelines and the guidelines compiled in the risk management handbook, the individual employees have little to no influence over high-risk business activities. Risks can only ever be taken in compliance with the dual-control principle.

Employees are generally remunerated in line with the market with collectively agreed fixed salaries and any overpayment. In addition, managers and highly qualified employees can enjoy a variable salary component. The variable remuneration is only paid out via the salary.

For the payment of the variable component, certain criteria aligned to long-term success, which are defined in writing on an individual basis in the employment contract, must be met. Significant criteria for the measurement of success in current employment contracts with variable salary components are:

- Earnings from ordinary activities according to five-year planning
- Earnings from ordinary activities
- Attainment of targets in the employee's own area according to the annual target-setting meeting
- Individual targets, employees performance assessment
- Social performance criteria, management work, acquisition performance, etc.

Important personnel tools regarding performance assessment here include the annual IT-supported employee and target-setting meeting. This is strictly regulated in a specially defined works agreement.

In previous employment contracts, the following bonus scheme was in effect for most manages in the Corporate Customers, Private Customers and Risk Management segments:

- 25% earnings from ordinary activities
- 25% management work of the respective employee
- 50% attainment of targets in the employee's own area according to the annual target-setting meeting

The employees' variable remuneration components are capped and do not exceed a certain threshold of materiality in relation to total remuneration. Due to the prevailing proportionality principle according to Section 39b BWG, it is not necessary to restrict the payment or recognise a multi-year provision.

Since 2013, bonus agreements have been revocable, and the employer has been granted the right to make adjustments if required or in the event of changes in legislation. In the event of a deteriorated or negative financial or earnings situation (in line with no. 12 lit. A of the annex to Section 39b BWG), the payment can be cancelled entirely even if individual criteria are met.

To recognise the commitment and loyalty of the employees, the Managing Board has decided to pay all employees of Hypo Landesbank Vorarlberg a one-off bonus of up to EUR 1,000 in 2016 for the 2015 financial year, under the same conditions as in 2015.

Remuneration policy for Managing Board members
Chairman of the Managing Board Michael Grahammer and Managing Board members Johannes Hefel and Michel Haller received a fixed basic annual salary for 2016 which was paid out in 14 instalments on the customary salary payment dates, as well as low variable remuneration for the last time.

There are no additional bonus agreements beyond the remuneration payments agreed in the Managing Board contracts.

A CLEAR COMMITMENT

HYPO LANDESBANK VORARLBERG
SUSTAINABILITY REPORT

Those who do not look into the future have not learned anything from the past. That is why we think every day about how our actions impact our future. And how we can better shape it together. This is a challenge that we accept as a matter of course.

Holzwerkstatt Markus Faißt,
Hittisau

A Bank for the people of the region, a fixed part of the local economy and a major employer – that has been Hypo Landesbank Vorarlberg since its founding in 1897. Like many other businesses, Hypo Landesbank Vorarlberg faces the challenge of harmonising economic success, ecological performance as well as social responsibility to achieve the best possible balance. In practice this means responsible management with products and services of the highest quality that are consistently oriented to customer needs but at the same time do not harm people, society or the environment.

Hypo Landesbank Vorarlberg launched a sustainability programme for the structured planning and implementation of our sustainability targets at the beginning of 2016 and created a new position for this purpose. This is intended to assist the project team in embedding this topic even more strongly in the Bank. In response to the recent efforts by the Bank, the rating agency "oekom research AG" has improved our sustainability rating.

Important keyfigures and facts as well as already implemented or planned sustainability activities will be presented in the context of a separate sustainability report, which will be released for the first time in the second half of 2016.

ECONOMIC SUSTAINABILITY

The overall economic development of recent years has been characterised by crises, low economic growth and volatile markets. Hypo Landesbank Vorarlberg has successfully mastered these challenges thanks to its solid, grounded business model. For successful and sustainable company governance, reliability, stability and solidity are among the most important principles, especially in the banking sector. Hypo Landesbank Vorarlberg is particularly diligent with these values in order to earn the trust of customers, employees, business partners and other social groups.

The economic indicators described in detail in the previous chapter show that Hypo Landesbank Vorarlberg is a solidly positioned, healthy bank. The T1 capital ratio is an important keyfigures for assessing the stability and strength of a bank. At 13.33% as at 31 December 2016, ours is well in excess of statutory requirements and confirms the safety and reliability of Hypo Landesbank Vorarlberg.

For the Managing Board, the level of financial success and the manner in which the business is run are equally important. The top priority is long-term and organic growth to secure the Bank's continuing profitability rather than short-term profits. In order to guarantee these objectives, the corporate strategy and policy, target planning and remuneration system are harmonised. Sustainability is also paramount in customer business and, instead of speculation and profit maximisation, the greatest attention is paid to security and conserving the value of customer funds.

Customers increasingly want their money to be used fairly and responsibly. Hypo Landesbank Vorarlberg is a strong reliable partner for the population and the economy in its core markets, therefore savings deposits from the region are mostly awarded to customers and businesses in the region in the form of loans. In order to remain a strong business despite many challenges, the Managing Board has developed a medium-term plan and strategies for the future. In line with economic, ecological and social objectives, the idea is to respond actively to new conditions and thus to sustain the Bank's success.

Hypo Landesbank Vorarlberg also tries to meet its ethical and social responsibilities in terms of products. In the future, customers will increasingly be able to choose solutions with a particular focus on sustainability. Hypo-Klima-Kredit has for years supported energy-saving investment and renovation in housing. With regard to financing for sustainable or renewable energy, Hypo Landesbank Vorarlberg covers wind power, photovoltaics, biomass and hydropower in its market area. The volume of financing for these projects currently totals over EUR 250 million. The topic of sustainability also plays an increasingly important role in financial investment. For institutional clients, Hypo Landesbank Vorarlberg is expected to issue a green bond in 2017. In future, the Bank will put more focus on sustainability for its own investments.

ECOLOGICAL SUSTAINABILTY

Sustainable business activity is the foundation for ensuring the company's success in the long term. In addition, the issue of environmental and climate protection and ecological sustainability are playing an increasingly important role. For example, for many years Hypo Landesbank Vorarlberg has been a partner in the VN Klimaschutzpreis, which recognises innovative climate protection projects from the population of Vorarlberg. In addition, the Bank itself is implementing various measures to reduce the environmental impact of banking operations. The optimisation of buildings' energy consumption plays an important role. Special attention is paid to energy and resource efficiency as well as climate-neutral investments when building or renovating sites. For example, in the construction of the new location in Vienna completed in 2015, only LED lighting was installed. Measures like this are environmentally friendly and reduce costs in the long term.

In the future, Hypo Landesbank Vorarlberg will increasingly rely on renewable energy. To this end, three new photovoltaic systems were installed at the end of 2016 on the roofs of the Headquarters and the Hypo Office Dornbirn. The sustainable effect of these solar power systems will be immediately evident through a measurable reduction in CO_2 emissions. With the self-generated eco-electricity, the Bank will be able to partially cover the electricity consumption at the Headquarters in future.

In ongoing banking operations, CO_2 emissions largely result from the use of energy, paper and water, business trips and the generation of waste. Employees' awareness about daily processes (paper use, rubbish separation) was raised early on. Hypo Landesbank Vorarlberg's sustainability project team is also continuously looking for further optimisation potential and measures to raise awareness.

Klimaneutralitätsbündnis 2025

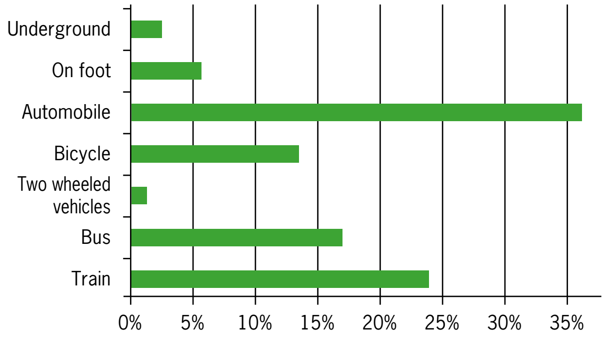
That businesses in Vorarlberg take the issue of environmental and climate protection seriously is shown by developments in the Klimaneutralitätsbündnis 2025. In 2014, this project was launched by ten large regional companies, including Hypo Landesbank Vorarlberg. All participants voluntarily undertake to reduce their energy consumption year by year through lowered resource use and the implementation of efficiency measures. The Managing Board of Hypo Landesbank Vorarlberg has set itself the target of reducing CO_2 emissions by 1% each year compared to the previous year. At the same time, unavoidable CO_2 emissions are offset by purchasing climate-protection certificates of the highest standard. The selected global projects such as afforestation, electricity from biomass or wind energy are selected by renowned climate protection experts. Following the criteria of the alliance, Hypo Landesbank Vorarlberg was already climate neutral in 2016.

To date, almost 80 additional companies have been added to the alliance. This has a positive effect on the environment, as all members continually reduce their carbon footprint and thus contribute positively to the climate and the energy autonomy of Vorarlberg.

Mobility management

In 2016, Hypo Landesbank Vorarlberg conducted an employee survey which studied which means of transportation are primarily used for commuting to and from work and any requests or suggestions for improvement in this area. The primary means of transportation for employees is the automobile, followed by train and bus.

Means of transportation



With deliberate mobility management, Hypo Landesbank Vorarlberg raises its employees' awareness. The Bank supports its employees in using public transportation for their daily commute and, as an incentive, a travel allowance is paid for the journey to and from the workplace. As automobile journeys cannot always be avoided, employees at the Bregenz headquarters have two economical and environmentally friendly hybrid cars as well as an electric car, which can be used for shorter distances.

Mobility management also includes the motivation for environmentally friendly travel by bicycle. For several years, Hypo Landesbank Vorarlberg has participated in the Vorarlberg bicycle competition and has encouraged its employees to use their bicycles for business and private transportation more often, thus helping the environment.

SOCIAL SUSTAINABILITY

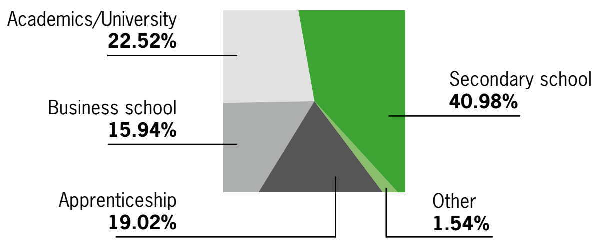
Hypo Landesbank Vorarlberg is an important employer in the region and employs around 860 people. Employees are the most valuable foundation of any company, which is why the bank owes its sustained economic success to the competence, commitment and motivation of its employees. So it is all the more important that every individual shares the corporate philosophy and puts these values into practice.

Education and training

Hypo Landesbank Vorarlberg is an advisory bank and stands out because of its quality consulting and support for customers. In the interest of the sustainable development of human resources, the Managing Board attaches great importance to the solid training of new recruits and the continuous further development of the employees' professional and social skills. By helping employees to realise their individual potential, Hypo Landesbank Vorarlberg can remain an attractive employer in the long term. In addition, issues such as equal treatment in recruitment and remuneration also play a role.

Where possible, vacant management positions are filled by a talented employee from within the Bank. Young managers are given particular support with regard to the new requirements of their responsible and challenging positions.

Training profile 2016



In 2016, Hypo Landesbank Vorarlberg invested a total of EUR 682,280 (2015: EUR 710,845) in education and training, equating to EUR 941 per employee (2015: EUR 975). On average, each employee had 3.8 days of training. 34 employees took the bank exams (Hypo training level 1 and 2); eight successfully completed the Hypo III exam (specialist track and specialist training). In addition, the Bank offers specialist and employees development seminars.

Expenditure on education and training

	2016	Change	2015	2014
Expenditure for education and training in EUR *	682,280	–4.1%	710,845	669,266
Expenditure per employee in EUR	941	–3.5%	975	925
Training days per year	2,742	17.5%	2,333	2,292
Average training days per employee per year	3,8	18.8%	3,2	3,2

*Calculated differently since 2015, so the previous year's figures were adjusted. The spending includes participation fees for external events and speakers' fees (including travel and subsistence expenses).

Future executives

For young people, Hypo Landesbank Vorarlberg offers the opportunity to enter the banking profession every year via an apprenticeship or the in-house trainee-programme. Both training courses are tried-and-tested components in the development of junior employees and have become indispensable for the company. Well trained apprentices and trainees are very much in demand and are welcomed co-workers in various areas of the bank.

Since 2001, Hypo Landesbank Vorarlberg has been offering banking apprenticeships and 44 young people have since taken this path. To date, 20 apprentices from Hypo Landesbank Vorarlberg have been able to complete their final exams successfully, seven with an “outstanding” grade. Further apprentices were trained at the St. Gallen branch. In the Group, young people have also completed apprenticeships in the field of informatics or have been trained as real estate professionals.

The Trainee-Programme was introduced by the bank in 1999 as specialist training for young people with high school or university qualifications and is well known in the region and also in some areas beyond. The aim is to enable the trainees in a relatively short period of time to achieve sound bank training with a strong practical reference. The training programme starts annually at the beginning of September. Since 1999, 146 trainees have completed this training and many of these junior staff members have excelled and have found career opportunities in the bank – some former trainees already hold management positions.

Hypo Landesbank Vorarlberg is open to young people, and welcomes them to take a look behind the scenes at the annual Hypo Career Forum. A relaxed and employees exchange with employees from different departments and trainees is possible. During the year, the bank supports high school and university students with expert contribution in the classroom, excursions and career guidance. In addition, internships are offered in various areas as well as dissertation supervision.

Hypo Landesbank Vorarlberg also presents itself as an attractive employer by participating in FiRi (Financial and Risk Management at Commercial Colleges). The Bank offers internships in the summer for these students to help them combine both theory and practice. In addition, the Bank participates in various vocational and educational fairs that attract young talent. In 2016, the Bank attended several apprenticeship fairs in Vorarlberg, the job fair at Vorarlberg University of Applied Sciences and the Career and Competence Innsbruck and also attended the career summit at the University of Innsbruck for the first time.

Employee and executive feedback
Open interchange between employees and managers is firmly rooted in the corporate culture of Hypo Landesbank Vorarlberg. Every year, target-setting and employee meetings take place for this purpose. These offer the opportunity to look at the achievements of the past year together and to agree new goals. In return, the employees have the opportunity to give feedback concerning their managers at regular intervals which includes assessment of their decision-making, organisational and motivational skills.

Knowledge management
Organised knowledge management makes a significant contribution to the long-term development of a company. Hypo Landesbank Vorarlberg also attaches great importance to employees sharing their know-how within the company. An in-house knowledge platform, Hypopedia, was created for this purpose in 2011. It brings all information streams together in channels and embeds them in a logical structure. An index and a special search engine assist the search for work instructions and information, while an update service on the homepage gives employees a quick overview of any changes in the internal knowledge landscape.

In addition, employees also have access to the online education service offered by Hypo-Bildung GmbH in Vienna. This includes web-based training, tests, and an extensive banking lexicon.

Company benefits
Hypo Landesbank Vorarlberg has concluded work agreements with its employees. This allows employees, for example, to manage their working hours by way of flexitime. In addition, the use of public transportation for the commute between the home and the workplace is supported by a travel allowance. From the seventh month of employment, there is also a food allowance and the opportunity to participate in a pension fund.

With the “Hypo-Vital” programme, the works council supports various activities aimed at maintaining and increasing physical and mental fitness as well as the health of employees.

Company health promotion
For the past 10 years, company health promotion has been an integral part of Hypo Landesbank Vorarlberg. The key theme changes annually and is supported by lectures, workshops and activities provided by experts. The focus is on raising employees’ awareness of various health-related issues and maintaining productivity. In 2016, the motto was “back fit” and a lecture and several activities were offered. Due to the high interest, a second course was offered and the programme was then continued after the promotion was finished.

The state of Vorarlberg honoured the health promotion efforts of Hypo Landesbank Vorarlberg in 2015 with the “Salvus” silver quality seal for the second time. This seal of quality is valid for two years and is awarded to businesses that actively support their employees’ health.

Family-friendly corporate culture
The balance of family and career is an important element in the quality of life and work for many employees. In turn, Hypo Landesbank Vorarlberg also benefits from a family-friendly company culture because well-qualified and long-standing employees remain in the company. Currently, family-friendly measures include job-sharing models, flexitime, equal treatment of all employees with regard to education and training and extensive support when starting parental leave and returning to work. The re-certification as “Excellent Family-Friendly Business 2016-2017” by the state of Vorarlberg confirms that family friendliness is an important issue for the Bank.

Equal opportunity and diversity

All employees of the Hypo Landesbank Vorarlberg are valued – regardless of age, gender, nationality, ethnic origin, religion or ideology, disability, sexual orientation and identity.
Strategies and targets were defined for women, a group currently underrepresented on the Managing Board and the Supervisory Board. For both reappointments and new appointments for the Managing Board and the Supervisory Board, the employees and professional qualifications of members, the professionally balanced composition of the Boards as well as aspects of diversity must be taken into account. For applications with equal qualifications, female applicants should be preferred.
By 2020, a quota of 25% women on the Managing Board and Supervisory Board is to be achieved, to be increased to 30% by 2030.

Key employee figures of the Hypo Landesbank Vorarlberg Group

	2016	Change	2015	2014
Average number of employees (weighted)	**725**	–0.5%	729	723
of which apprentices	**7**	–	7	8
of which parttime	**88**	10.0%	80	75
Employees at year-end (headcount) *	**860**	2.6%	838	850
of which women	**489**	2.3%	478	494
of which men	**371**	3.1%	360	356
Proportion of women (incl. apprentices) in %	**56.9%**	–0.2%	57.0%	58.1%
Proportion of men (incl. apprentices) in %	**43.1%**	0.2%	43.0%	41.9%
Average period of employment in years	**10.8**	2.9%	10.5	9.8
Average age in years	**39.6**	1.0%	39.2	38.4

* Calculated differently since 2014 – previous year's figures adjusted to improve comparison

Sponsoring and regional commitments

As a company with strong roots in the region, Hypo Landesbank Vorarlberg is involved with social and community issues. In order to give customers as well as the region's population a share in the financial success, Hypo Landesbank Vorarlberg has for many years been involved in cultural and sport sponsorship for local institutions. The Bank ensures that all commitments remain in the region and generally aims for long-term cooperation.

All partnerships have these objectives:

Support	Social and cultural institutions and associations are more dependent on sponsors than ever before. Through our commitment, we want to make a contribution to maintaining and increasing Vorarlberg's economic strength and attractiveness as well as job securement.
Solidarity	Hypo Landesbank Vorarlberg should be perceived by the population of Vorarlberg as well as that of the core markets (Vienna, Graz, Wels, St. Gallen) as a committed, reliable, attentive and trustworthy partner.
Raising awareness	As the State Bank of Vorarlberg, we take our role as a model for other companies and the people of Vorarlberg seriously. Our commitment should encourage others to make their own contribution.

Endowment fund "Hypo für Vorarlberg"

In 2014, the Bank launched an endowment fund under the motto "Hypo für Vorarlberg – Helfen. Fördern. Bewegen." to support charitable projects in the social, science, education and cultural fields. This initiative is intended to show that business success and social engagement are not mutually exclusive but instead go hand in hand.

Each year, a portion of the generated profit (0.65% of the after-tax annual earnings before allocations to reserves) is donated to the endowment fund. The donation for 2016 amounted to TEUR 672. In 2015, TEUR 509 was allocated to the endowment fund, of which around TEUR 174 was paid out. This helped people with employees misfortunes out of the worst financial distress, but also supported various social institutions and regional cultural projects. A board of representatives from various social institutions and companies manages the appeal fund on a voluntary basis and decides autonomously how the funds are to be awarded within the guiding framework. Applications for support can be submitted at http://spenden.hypovbg.at or any Hypo Landesbank Vorarlberg branch.

RESEARCH AND DEVELOPMENT

The Bank reviews the effects of economic and market developments on its income, capital and net assets on an ongoing basis. To survive among the competition, it is not enough just to know the current market conditions; it is also necessary to consider future scenarios. For several years, there has been a close partnership with Vorarlberg University of Applied Sciences for the purposes of research. The cooperation covers issues such as the optimisation of the covered pool, the optimum allocation of collateral, the calculation of stress scenarios and restructuring options for BaSAG.

Before the detailed development of a new product or the inclusion of a third-party product in our product range, a product and business introduction process is defined in order to guarantee a coordinated approach and identify potential risks in advance.

A LONG-TERM PLAN

HYPO LANDESBANK VORARLBERG
THE INVESTMENT BANK

Asset management, as we understand it, requires careful deliberation and prudent planning. After all, it is not about short-term success, but rather about preserving and increasing assets for the long-term. With a shared, tailor-made strategy and clear, realistic goals.

Katharina Müller and Bernd Lange,
Propstei St. Gerold

ENCOU-RAGING RESULTS

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS DATED 31 DECEMBER 2016

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

Income statement

in '000 EUR	(Notes)	2016	2015	Change in '000 EUR	%
Interest and similar income		265,310	281,191	–15,881	–5.6
Interest and similar expenses		–97,472	–97,730	258	–0.3
Net interest income	(5)	**167,838**	**183,461**	**–15,623**	**–8.5**
Loan loss provisions	(6)	47,707	–22,815	70,522	–
Net interest income after loan loss provisions		**215,545**	**160,646**	**54,899**	**34.2**
Fee and commission income		37,342	40,374	–3,032	–7.5
Fee and commission expenses		–3,315	–3,808	493	–12.9
Net fee and commission income	(7)	**34,027**	**36,566**	**–2,539**	**–6.9**
Net result on hedge accounting	(8)	1,674	869	805	92.6
Net trading result (not including change in own credit risk)	(9)	27,998	1,020	26,978	> 100.0
Net result from other financial instruments	(10)	10,813	15,571	–4,758	–30.6
Administrative expenses	(11)	–97,114	–92,462	–4,652	5.0
Other income	(12)	21,010	17,509	3,501	20.0
Other expenses	(13)	–64,830	–37,981	–26,849	70.7
Result from equity consolidation		2,451	1,172	1,279	> 100.0
Operating result before change in own credit risk		**151,574**	**102,910**	**48,664**	**47.3**
Result from change in own credit risk	(9)	–33,955	18,236	–52,191	–
Earnings before taxes		**117,619**	**121,146**	**–3,527**	**–2.9**
Taxes on income	(14)	–29,191	–28,162	–1,029	3.7
Consolidated net income		**88,428**	**92,984**	**–4,556**	**–4.9**
Of which attributable to:					
Parent company shareholders		88,426	92,971	–4,545	–4.9
Non-controlling interests		2	13	–11	–84.6

Statement of comprehensive income

in '000 EUR	2016	2015	Change in '000 EUR	%
Consolidated net income	**88,428**	**92,984**	**–4,556**	**–4.9**
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation	31	–135	166	–
Changes to AFS revaluation reserve	700	–6,531	7,231	–
of which changes in measurement	870	–664	1,534	–
of which changes in holdings	64	–8,044	8,108	–
of which income tax effects	–234	2,177	–2,411	–
Total items which can be reclassified to consolidated net income	**731**	**–6,666**	**7,397**	**–**
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	695	66	629	> 100.0
of which changes in measurement	939	154	785	> 100.0
of which income tax effects	–244	–88	–156	> 100.0
Total items which cannot be reclassified to consolidated net income	**695**	**66**	**629**	> 100.0
Other income after taxes	**1,426**	**–6,600**	**8,026**	**–**
Total comprehensive income	**89,854**	**86,384**	**3,470**	**4.0**
Of which attributable to:				
Parent company shareholders	89,852	86,371	3,481	4.0
Non-controlling interests	2	13	–11	–84.6

II. BALANCE SHEET DATED 31 DECEMBER 2016

Assets

in '000 EUR	(Notes)	31.12.2016	31.12.2015	Change in '000 EUR	%
Cash and balances with central banks	(15)	338,000	712,491	–374,491	–52.6
Loans and advances to banks	(16)	575,289	650,129	–74,840	–11.5
Loans and advances to customers	(17)	9,049,998	9,061,358	–11,360	–0.1
Positive market values of hedges	(18)	98,811	76,370	22,441	29.4
Trading assets and derivatives	(19)	309,314	461,641	–152,327	–33.0
Financial assets – designated at fair value	(20)	802,208	938,014	–135,806	–14.5
Financial assets – available for sale	(21)	769,093	745,426	23,667	3.2
Financial assets – held to maturity	(22)	1,103,893	987,685	116,208	11.8
Shares in companies valued at equity	(23)	34,750	34,554	196	0.6
Investment property	(24)	59,158	43,518	15,640	35.9
Intangible assets	(25)	2,011	836	1,175	> 100.0
Property, plant and equipment	(26)	74,912	76,155	–1,243	–1.6
Tax assets		824	3,586	–2,762	–77.0
Deferred tax assets	(27)	9,198	10,348	–1,150	–11.1
Non-current assets available for sale	(28)	0	12,223	–12,223	–
Other assets	(29)	96,928	88,077	8,851	10.0
Total Assets		**13,324,387**	**13,902,411**	**–578,024**	**–4.2**

Liabilities and shareholders' equity

in '000 EUR	(Notes)	31.12.2016	31.12.2015	Change in '000 EUR	%
Amounts owed to banks	(31)	560,377	1,144,487	–584,110	–51.0
Amounts owed to customers	(32)	5,282,097	4,995,818	286,279	5.7
Liabilities evidenced by certificates	(33)	2,682,267	2,402,602	279,665	11.6
Negative market values of hedges	(34)	146,847	160,947	–14,100	–8.8
Trading liabilities and derivatives	(35)	233,043	239,627	–6,584	–2.7
Financial liabilities – designated at fair value	(36)	2,826,384	3,464,357	–637,973	–18.4
Provisions	(37)	49,257	61,289	–12,032	–19.6
Tax liabilities	(38)	19,521	14,359	5,162	36.0
Deferred tax liabilities	(39)	2,678	8,143	–5,465	–67.1
Other liabilities	(40)	77,962	64,739	13,223	20.4
Subordinated capital	(41)	389,015	376,902	12,113	3.2
Shareholders' equity	(42)	1,054,939	969,141	85,798	8.9
Of which attributable to:					
Parent company shareholders		1,054,901	969,093	85,808	8.9
Non-controlling interests		38	48	–10	–20.8
Total Liabilities and shareholder's equity		**13,324,387**	**13,902,411**	**–578,024**	**–4.2**

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Subscri-bed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve	Reserves from currency translation	Total parent company sharehol-ders	Noncont-rolling interests	Total share holders' equity
Balance 1 January 2015	**165,453**	**48,874**	**658,849**	**13,627**	**–6**	**886,797**	**59**	**886,856**
Consolidated net income	0	0	92,971	0	0	92,971	13	92,984
Other income	0	0	–138	–6,467	5	–6,600	0	–6,600
Comprehensive income 2015	**0**	**0**	**92,833**	**–6,467**	**5**	**86,371**	**13**	**86,384**
Dividends	0	0	–3,975	0	0	–3,975	0	–3,975
Distributions to third parties	0	0	–100	0	0	–100	–24	–124
Balance 31 December 2015	**165,453**	**48,874**	**747,607**	**7,160**	**–1**	**969,093**	**48**	**969,141**

Balance 1 January 2016	**165,453**	**48,874**	**747,607**	**7,160**	**–1**	**969,093**	**48**	**969,141**
Consolidated net income	0	0	88,426	0	0	88,426	2	88,428
Other income	0	0	37	1,388	1	1,426	0	1,426
Comprehensive income 2016	**0**	**0**	**88,463**	**1,388**	**1**	**89,852**	**2**	**89,854**
Other changes	0	0	–138	0	0	–138	0	–138
Dividends	0	0	–3,906	0	0	–3,906	0	–3,906
Distributions to third parties	0	0	0	0	0	0	–12	–12
Balance 31 December 2016	**165,453**	**48,874**	**832,026**	**8,548**	**0**	**1,054,901**	**38**	**1,054,939**

Further details on equity and the composition of capital components – in particular the revaluation reserves – are given in Note (42).

IV. CASH FLOW STATEMENT

Cashflows from operating activities

in '000 EUR	2016	2015
Consolidated net income	88,428	92,984
Non-cash items included in consolidated net income and reconciliation with cash flow from operating activities		
Impairments/reversals on financial instruments and property, plant and equipment	–12,187	55,233
Allocations/reversals to/from reserves and loan loss provisions	–75,816	–13,924
Change in other non-cash items	170,327	12,352
Reclassification of income from the sale of financial instruments and property, plant and equipment	–4,067	84
Other adjustments for interest and income taxes	–144,135	–168,648
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks	80,238	262,393
Loans and advances to customers	61,687	60,602
Trading assets and derivatives	12	11
Other assets	–2,127	–22,666
Amounts owed to banks	–583,864	114,291
Amounts owed to customers	272,156	278,068
Liabilities evidenced by certificates	258,632	76,301
Financial liabilities – designated at fair value	–615,587	–958,342
Other liabilities	–18,051	22,853
Interest received	220,469	230,415
Interest paid	–96,822	–100,885
Income tax paid	–29,190	–16,938
Cash flows from operating activities	**–429,897**	**–75,816**

Cashflows from investing activities

in '000 EUR	2016	2015
Cash inflow from the sale/ repayment of		
Financial instruments	378,051	493,069
Property, plant and equipment and intangible assets	1,583	2,519
Subsidiaries	3,542	0
Cash outflows for investments in		
Financial instruments	–379,079	–279,614
Property, plant and equipment and intangible assets	–4,383	–5,897
Interest received	54,084	59,255
Dividends and profit distributions received	3,142	2,472
Cash flows from investing activities	**56,940**	**271,804**

Cashflows from financing activities

in '000 EUR	2016	2015
Cash changes in supplementary capital	9,080	50,030
Dividends	–3,918	–4,099
Interest paid	–7,548	–5,671
Cash flows from financing activities	**–2,386**	**40,260**

Reconciliation to cash and balances with central banks

in '000 EUR	2016	2015
Cash and balances with central banks at end of previous period	**712,491**	**470,699**
Cash flows from operating activities	–429,897	–75,816
Cash flows from investing activities	56,940	271,804
Cash flows from financing activities	–2,386	40,260
Effects of changes in exchange rate	852	5,544
Cash and balances with central banks at end of period	**338,000**	**712,491**

Further disclosures on the cash flow statement are shown under Note (45).

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

Vorarlberger Landes- and Hypothekenbank Aktiengesellschaft and its subsidiaries offer customers a broad spectrum of financial services. The core businesses are the Corporate and Private Customer segments and Private Banking. A range of leasing, insurance and real estate services are additionally offered. The Group's core market is the state of Vorarlberg, as well as Eastern Switzerland, Southern Germany and South Tyrol. In Eastern Austria the Bank has offices in Vienna, Graz and Wels.

The Bank is a stock corporation with its registered office in Bregenz, Austria, and is registered in Feldkirch, Austria, in the commercial register (FN145586y). The Bank is the ultimate parent company of the companies included in the consolidated financial statements. The shareholders of the Bank are presented under Note (52). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

The consolidated financial statements for the 2016 financial year and the comparative figures for 2015 were prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that are in force and published by the International Accounting Standards Board (IASB) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC, formerly SIC, Standing Interpretations Committee) – as applicable in the European Union – and therefore fulfil the requirements of Section 59a of the Austria Banking Act and Section 245a of the Austrian Commercial Code.

On 10 April 2017, the Managing Board of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft authorised release of these annual financial statements.

All amounts are stated in thousand Euro (EUR '000 or TEUR) unless specified otherwise. The tables below may contain rounding differences.

(2) PRINCIPLES AND SCOPE OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and its subsidiaries as of 31 December 2016. Subsidiaries are fully consolidated from the acquisition date, i.e. from the date on which the Group obtains control. Consolidation ends as soon as the parent company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared using the same accounting policies and reporting period as the financial statements of the parent company. On consolidation, intragroup expenses, income, receivables and liabilities are eliminated. Currency-related differences from debt consolidation and the elimination of income and expenses are recognised through profit and loss in the net trading result. The results of intragroup transactions are eliminated unless they are immaterial. The deferred taxes required by IAS 12 are recognised on temporary differences from consolidation. The amount of non-controlling interest is determined according to the interests of minority shareholders in the equity of the subsidiaries.

Business combinations are accounted for using the acquisition method. The costs of a business acquisition are measured at the sum of the consideration transferred measured at fair value as of the acquisition date and the non-controlling interest in the acquiree. For each business combination, the Group decides whether to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Costs incurred in connection with the business combination are recognised as an expense under administrative expenses.

When the Group acquires an entity, it assesses the appropriate classification and designation of the financial assets and liabilities assumed according to the terms of the contract, economic circumstances and the prevailing conditions on the acquisition date.

In addition to the parent company, our consolidated financial statements include 31 subsidiaries (2015: 33), in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft directly or indirectly holds more than 50% of the voting rights or other-wise exerts a controlling influence. Of these entities, 26 are headquartered in Austria (2015: 26) and five in other countries (2015: seven).

The Group's shares in an associate are accounted for using the equity method. Associates are entities that are not controlled by Vorarlberger Landes- und Hypothekenbank, but in which a stake of at least 20% and not more than 50% is held, resulting in significant influence. According to the equity method, shares in an associate are recognised in the balance sheet at cost plus changes in the Group's share in the net assets of the associate arising after the acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor subjected to a separate impairment test.

The income statement includes the Group's share in the associate's net profit or loss for the period. Changes recognised directly in the associate's equity are reported by the Group in the amount of its share and if necessary in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated in line with the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss for its shares in an associate. At each reporting date, the Group determines whether there are objective indications that the share in an associate may be impaired. If this is the case, the difference between the recoverable amount of the share in the associate and the carrying amount of the share in the associate's profit or loss is recognised through profit or loss as an impairment loss.

On the loss of significant influence, the Group measures any investment it retains in the former associate at fair value. Differences between the carrying amount of the share in the associate when significant influence is lost, the fair value of any retained interest and the disposal proceeds are recognised in the income statement.

9 (2015: 10) material Austrian associates are accounted for using the equity method.

The aggregated total assets of associated investments not measured at equity amounted to TEUR 40,837 in the past financial year (2015: TEUR 41,542). The aggregated equity of these investments amounted to TEUR 14,520 (2015: TEUR 14,080), and after-tax earnings totalled TEUR 440 (2015: TEUR 68). If these investments were included in our consolidated financial statements using the equity method and based on balance sheet data as of 31 December 2016, the measurement effect on the items "Shares in companies valued at equity" and "Equity" would be TEUR 2,427 (2015: TEUR 2,302).

Likewise, inclusion in the income statement would have an effect of TEUR 125 (2015: TEUR 30) in “Result from equity consolidation”. The three companies are not included in the consolidated financial statements due to reasons of immateriality and because data and information relevant to the financial statements were not available in due time.

The Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft Group is included in the scope of consolidation of Vorarlberger Landesbank-Holding, based in Bregenz. These consolidated financial statements are included in the Vorarlberger Landesbank-Holding Group. The consolidated financial statements of Vorarlberger Landesbank-Holding are published in the official gazette for the state of Vorarlberg. Vorarlberger Landesbank-Holding is wholly owned by the state of Vorarlberg.

The reporting date of the Bank’s consolidated financial statements is the same as the reporting date of all fully consolidated companies in the consolidated financial statements. The associate HYPO EQUITY Unternehmensbeteiligungen AG has a different reporting date of 30 September 2016.

In January 2016, the company Inprox GY – HIL Kft., based in Budapest, was liquidated. The company thus no longer forms part of the scope of consolidation in 2016. The equity at the end of the previous year amounted to TEUR 5. As this corresponded to the carrying amount of the investment, there were no deconsolidation effects to report.

The investment in HTV Kappa Immobilienleasing GmbH, based in Dornbirn, was transferred on 29 February 2016. The company thus no longer forms part of the scope of consolidation in 2016. Deconsolidation effects amounting to TEUR 1,779 were recognised through profit or loss under the result from equity consolidation.

On 27 October 2016, the investment in HSL Logisztika Hungary Kft., based in Budapest, was transferred retrospectively from 31 July 2016, including shares of profits for the current financial year. The company thus no longer forms part of the scope of consolidation in 2016. Deconsolidation effects amounting to TEUR 937 were recognised through profit or loss under the net result from other financial instruments.

(3) ACCOUNTING POLICIES

The significant accounting policies applied for the preparation of these consolidated financial statements are outlined below. Unless stated otherwise, the consolidated companies applied the policies described uniformly by and consistently to the reporting periods presented. Items were recognised and measured on a going concern basis. The consolidated financial statements were prepared according to the principle of historical cost, with the exception of financial assets available for sale, financial assets and liabilities designated at fair value, trading assets, trading liabilities and derivatives. These assets and liabilities were recognised at fair value. Financial instruments in an effective hedging relationship (fair value hedge) and measured at amortised cost were adjusted for effective hedge changes. Income and expenses are recognised pro rata temporis in the period to which they relate.

The consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in shareholders’ equity, the cash flow statement and the Notes. Segment reporting is included in the Notes in section E.

a) Currency translation

Assets and liabilities are measured in the currencies of the companies included in the consolidated financial statements that match their economic environments (functional currency).

These consolidated financial statements are published in EURO, which is both the functional and the reporting currency of the Group. Monetary assets and liabilities not denominated in Euro are translated into Euro at the closing rate on the reporting date.

Gains and losses from the settlement of transactions in foreign currencies are recognised in the income statement under net trading result. In the event of changes in the market value of financial instruments in foreign currencies allocated to the category AFS, the translation differences are recognised through profit or loss in the income statement under net trading result.

The translation differences from monetary assets allocated to the category AFV are recognised through profit or loss in the income statement as gains or losses from changes in fair value under net trading result.

If a company in the Group uses a functional currency that differs from the reporting currency, the assets and liabilities are translated at the mean rate of exchange on the reporting date and the income statement at the average rate for the year. Equity is translated at historical exchange rates. Resulting translation gains and losses on capital consolidation are recognised in other comprehensive income and reported separately within shareholders’ equity.

ECB exchange rates on the reporting date (amount in the currency for 1 Euro):

FX-Rates	31.12.2016	31.12.2015
CHF	1.0739	1.0835
JPY	123.4000	131.0700
USD	1.0541	1.0887
PLN	4.4103	4.2639
CZK	27.0210	27.0230
GBP	0.8562	0.7340

b) Cash
The item “Cash and balances with central banks” on the balance sheet comprises cash in hand and balances payable on demand with central banks. For the purposes of the cash flow statement, cash and cash equivalents comprise the cash defined above. Cash and balances with central banks were measured at nominal value.

c) Financial Instruments
Financial instruments are accounted for on the basis of the principles of categorisation and measurement stipulated by IAS 39. An asset is recognised on the balance sheet when it is probable that the future economic benefits will flow to the entity. A liability is recognised on the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. According to IAS 39, derivatives are also financial instruments. Financial instruments are recognised for the first time when the Group becomes a party to the contract for the financial instrument. Regular way purchases or sales of a financial asset are recognised at the settlement date, i.e. the date on which the asset is delivered. The financial instruments are allocated to the categories described below at the date of their addition. The classification depends on the purpose and the Management Board’s intentions, why the financial instrument was acquired and its characteristics. On initial recognition, financial instruments are measured at fair value.

Derecognition of financial assets and financial liabilities
A financial asset is derecognised when the contractual rights to receive the cash flows of the financial asset have expired or the entity has transferred its contractual right to receive the cash flows of the financial asset or assumed a contractual obligation to pay the cash flows immediately to a third party under an agreement and has thereby either transferred substantially all of the risks and rewards associated with ownership of the financial asset or has neither transferred nor retained substantially all of the risks and rewards associated with ownership of the financial asset but has transferred control over the asset.

A financial liability is derecognised when the obligation is settled, cancelled, or otherwise expired. However, expired liabilities from the savings business are not derecognised.

Categories of financial instruments
The Group classifies financial instruments into the following categories.

Classifications of financial instruments	Abbreviation
Assets held for trading	HFT
Assets voluntarily measured at fair value	AFV
Assets available for sale	AFS
Assets held to maturity	HTM
Loans and receivables	L&R
Liabilities and liabilities evidenced by certificates	LAC
Liabilities held for trading	LHFT
Liabilities voluntarily measured at fair value	LAFV

The measurement criteria for the individual categories are described below.

Measurement of financial assets	Measurement
HFT – Trading assets and derivatives	Fair value in the income statement
AFV – Assets voluntarily measured at fair value	Fair value in the income statement
AFS – Assets available for sale	Fair value changes in other comprehensive income
HTM – Assets held to maturity	Amortised cost
L&R – Loans and advances to banks and customers	Amortised cost

Measurement of financial liabilities	Measurement
LAC – Amounts owed to banks	Amortised cost
LAC – Amounts owed to customers	Amortised cost
LAC – Liabilities evidenced by certificates	Amortised cost
LAC – Subordinated capital	Amortised cost
LHFT – Trading liabilities and derivatives	Fair value in the income statement
LAFV – Liabilities voluntarily measured at fair value	Fair value in the income statement

Amortised cost
Amortised cost is the amount resulting from historical cost including premiums, discounts and incidental acquisition costs. The differences between historical cost and repayment amounts are deferred, amortised according to the effective interest method and recognised through profit or loss in net interest income. Accrued interest on receivables and liabilities as well as premiums and discounts are shown with the respective receivables and liabilities under the relevant balance sheet line item.

- **L&R category**
  Financial assets for which there is no active market are allocated to the L&R category if they are not derivatives and fixed or determinable payments can be attributed to the instruments. This applies regardless of whether the financial instruments originated within the entity or were acquired on the secondary market.

  Financial instruments of the L&R category are initially recognised on the balance sheet at fair value plus directly attributable transaction costs and fees as of the settlement date. These financial instruments are subsequently measured at amortised cost. Differences between cost and the repayment amounts are written up or amortised pro rata temporis using the effective interest method and recognised through profit or loss in net interest income. Impairment is recognised through profit or loss in the income statement.

- **HTM category**
  Financial assets are assigned to the HTM category if they are not derivatives and fixed or determinable payments can be attributed to them, if an active market exists for them and if they are intended and able to be held to maturity. On every acquisition, the Group uses liquidity figures and issue planning to examine whether it is able to hold the acquired financial instrument to the end of its term.

  Financial instruments of the HTM category are initially recognised on the balance sheet at fair value plus transaction costs and fees as of the settlement date. These financial instruments are subsequently measured at amortised cost. Differences between cost and the repayment amounts are written up or amortised pro rata temporis using the effective interest method and recognised through profit or loss in net interest income. Impairment is recognised through profit or loss in the income statement.

- **LAC category**
  Financial liabilities are allocated to the LAC category if they are neither derivatives nor designated at fair value.

  Financial instruments of the LAC category are initially recognised on the balance sheet at fair value plus transaction costs and fees as of the settlement date. These financial instruments are subsequently measured at amortised cost. Differences between the payment amounts and the repayment amounts are written up or amortised pro rata temporis using the effective interest method and recognised through profit or loss in net interest income.

Fair value
Fair value is the amount at which an asset could be exchanged or a liability settled in an orderly transaction between market participants on the measurement date.

Active market
Whether an active market exists for financial instruments is relevant for assessing the principles used in accounting for them. A market is considered active if transactions with the asset or liability occur at a sufficient frequency and volume to provide continuous price information. According to the provisions of IFRS 13, the active market is the principal market or the most advantageous market. The principal market is the market with the largest volume and highest level of activity for the asset or liability. For listed securities, this is usually the home exchange. The most advantageous market is defined as the market that would maximise the amount received when selling the asset after transaction and transport costs or minimise the amount paid when transferring the liability. However, as we acquire/issue securities mostly via OTC markets, we must check which market is the principal market for each individual security or, if this does not exist, which market is the most advantageous market.

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

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

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

– **For interest-bearing instruments,** such as receivables, liabilities and interest-bearing over-the-counter securities, the fair value is determined as the present value of future cash flows. The value of this group of financial instruments is therefore determined according to the recognised DCF method, in which the expected cash flows are first discounted using the risk-free swap curve. In order to measure credit risk, the credit spread is derived from a financial instrument that is comparable in terms of duration, currency and credit rating or, if necessary, using a credit-risk-adjusted credit spread matrix. Reuters calculates rating- and duration-specific credit spreads of corporate bonds. This data is used to create a spread matrix. Spreads for intermediate levels and lower ratings are calculated by linear interpolation (or extrapolation) on the basis of Moody's WARF table. A spread premium of 180 bp is assigned for subordinated bonds with a residual term of up to three years and 240 bp for longer residual terms. If the current of a counterparty is unknown, the last known credit spread is used. These derivations and calculations are based on maximum input factors observable on the market. If there are no sufficiently usable input factors on the market, the calculation is based on internally measured input factors. These include internal ratings and internal probabilities of default. In the case of liabilities, own credit risk is measured using reference portfolios. The financial instruments to be measured are assigned to the categories of public placements, private placements and retail issues depending on their placement type. Furthermore, they are divided into senior unsecured, subordinated and covered bonds. Depending on the currency and remaining term, own credit risk is now derived taking into account the internal rating from the available reference portfolios with the same characteristics. An adjustment is made for private placements in order to accommodate the current issue level of private placements compared to public placements. If there is no market data for certain remaining terms, the calculation uses linear interpolation or extrapolation of market data.

– **For equity securities,** the following hierarchy of valuation techniques may be derived for reliable fair value measurement:

1. Market approach	Calculation based on derivation from comparable input factors observable on the market
2. Income approach	Discounted cash flow (DCF) method based on the entity/equity approach
3. Cost approach	Measurement at cost if fair value cannot be reliably determined

– **For derivatives**, fair value is determined using input factors observable on the market, such as yield curves and exchange rates. Specifically, derivatives are discounted – especially in hedge accounting – using the OIS yield curve and the swap curve customary on the interbank market. With regard to accounting for credit spreads, each counterparty's credit spread is measured on a net basis, provided that a corresponding netting agreement exists and in consideration of cash and/or securities collateral. Input factors observable on the market, such as CDS spreads, are also taken into account when determining credit spreads. If no CDS spread is available for our counterparty, the credit spread is measured using internal probabilities of default.

▪ **HFT category**
This balance sheet item contains securities and derivative financial instruments with a positive market value acquired for the purpose of generating short-term profits from market price movements or realising a trade margin. IT also includes the positive market value of derivative financial instruments of the banking book and of derivative financial instruments relating to underlying transactions of the fair value option. As the Group has applied hedge accounting only since the 2010 financial year, derivatives concluded previously that do not constitute hedging instruments in line with IAS 39 and have positive market values are assigned to this category even though there is no trading intention, as these derivatives were mainly concluded to hedge market price risks. Derivative financial instruments in the trading assets are recognised as of the trade date. Other financial instruments are carried as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement.

They are measured at fair value. Gains/losses on remeasurement and realised gains/losses are recognised in the net trading result. If there are published price quotations on an active market, these are used as fair value. Otherwise, fair value is determined using recognised measurement methods. Interest income and interest expenses from trading assets and derivatives are recognised in net interest income.

▪ **AFV category**
Financial assets are voluntarily recognised at fair value if the financial instrument is in an economic hedging relationship with a derivative financial instrument. Recognising the derivative hedge at fair value would create an accounting mismatch between hedged item and hedge on the balance sheet and income statement. Voluntary recognition at fair value compensates for this accounting mismatch. Likewise, financial assets are voluntarily recognised at fair value if the financial instrument is part of a portfolio about which management receives regular market value reporting in order to monitor and manage the portfolio or the financial instrument contains one or more separable embedded derivatives. Financial instruments can be assigned to this category upon acquisition only.

Financial assets at fair value are securities and loans whose yield curves are switched from fixed or structured interest payments to variable interest conditions by way of interest rate swaps. Financial instruments of the AFV category are recognised and measured at fair value on the balance sheet. These financial instruments are carried on the balance sheet at fair value as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are reported through profit and loss in the net trading result. Impairment losses for the AFV category are included implicitly in the fair value of the financial instrument and are therefore not dealt with separately.

- **AFS category**
  In this balance sheet item, the Group reports financial instruments that could not be assigned to any other category. Financial instruments of the AFS category are recognised and measured at fair value on the balance sheet. These financial instruments are carried on the balance sheet at fair value plus transaction costs as of the settlement date. Changes in fair value are reported in other comprehensive income in the AFS remeasurement reserve. Impairment is recognised through profit or loss in the income statement. Reversals of impairment on ownership interest are reported directly in the AFS remeasurement reserve. Reversals of impairment on debt securities are reported up to the original amortised cost in the income statement.

  If the financial asset is sold, the gains/losses on remeasurement accumulated in the AFS remeasurement reserve are reversed and transferred to the net result from other financial instruments. If no reliable market value is available for equity instruments of this category, they are measured at historical cost.

- **LHFT category**
  This balance sheet item contains derivative financial instruments with a negative fair value acquired for the purpose of generating short-term profits from market price movements or realising a trade margin. The negative fair value of derivative financial instruments of the banking book is also reported here. Gains/losses on remeasurement and realised gains/losses are recognised in the net trading result. Derivative financial instruments in the trading liabilities are recognised as of the trade date. Any other financial instruments are carried as of the settlement date. In addition, interest rate derivatives relating to underlying transactions of the fair value option are reported here. Interest expenses and interest income from trading liabilities and derivatives are recognised in net interest income.

- **LAFV category**
  Financial liabilities are voluntarily recognised at fair value if the financial instrument is in a hedging relationship with a derivative financial instrument. Recognising the derivative hedge at fair value would create an accounting mismatch between hedged item and hedge on the balance sheet and income statement. Voluntary recognition at fair value compensates for this accounting mismatch. Financial liabilities are also voluntarily recognised at fair value if the financial instrument contains one or more separable embedded derivatives. Financial instruments can be assigned to this category upon acquisition only.

The financial liabilities primarily relate to issues and time deposits from institutional investors, whose interest rates were fixed for the term. Interest rate swaps were concluded to hedge resulting interest rate risk. New issues containing embedded derivatives, fixed rate issues and time deposits are assigned to this category upon acquisition to avoid an accounting mismatch arising from the hedging derivative.

Financial instruments of the LAFV category are recognised and measured at fair value on the balance sheet. These financial instruments are carried on the balance sheet at fair value as of the settlement date. Transaction costs are immediately recognised through profit or loss under commission expenses in the income statement. Changes in fair value are reported through profit and loss in the net trading result or in the result from change in own credit risk. The interest income and interest expenses are reported in net interest income.

d) Financial guarantees
According to IAS 39, a financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The obligation from a financial guarantee is recognised as soon as the issuer becomes a party to the contract, i.e. on the date the guarantee offer is accepted. Initial measurement is at fair value as of the recognition date. Generally, the fair value of a financial guarantee on inception is regularly zero, as the value of the agreed premium under fair market contracts equals the value of the obligation for the guarantee. If the guarantee premium is collected in full at the inception of the contract, the premium is initially recognised as a liability and distributed over the term pro rata temporis. If regular premiums are paid from the guarantee, these are deferred and reported in commission income. If there are indications of a deterioration of the guarantee holder's credit rating, provisions are recognised equalling the expected utilisation.

e) Embedded derivatives
Embedded derivatives – derivatives that are part of and linked to a primary financial instrument – are separated from the primary financial instrument and recognised and measured separately like a standalone derivative at market value (fair value) if the characteristics and risks of the embedded derivative are not closely linked to those of the host contract and the host contract has not been assigned to the HFT or AFV categories. Changes in measurement are recognised through profit or loss in the income statement. In contrast, the host contract is recognised and measured according to the relevant category of the financial instrument. The Group holds financial instruments with embedded derivatives in Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft. For residential construction financing, the Bank offers its customers the "Zinslimitkredit" loan product, in which an optional interest cap of 5% or 6% can be agreed for terms of 12 or 20 years respectively. This embedded derivative is closely linked with the hedged item, so they are not separated. The Bank also has embedded derivatives for bonds with conversion options, inflation, fund and equity-linked income payments, CMS steepeners, CMS floaters, reverse floaters, multi-tranches and PRDCs. These securities are voluntarily designated at fair value, as the embedded structures were hedged with derivative financial instruments.

f) Repurchase and securities lending agreements
Repo agreements are a combination of regular way purchases or regular way sales of securities with a simultaneous agreement to forward sale or repurchase with the same counterparty. The securities sold in repo agreements (regular way sales) continue to be recognised and measured as securities in the lender's balance sheet, as all material risks and rewards remain with the pledgor. As pledgor, we thus continue to bear the credit, market price and liquidity risk of the securities sold in repo agreements. Inflows of liquidity from repo agreements are shown on the balance sheet as amounts owed either to banks or to customers depending on the counterparty. Agreed interest payments are recognised as interest expenses according to maturity. Outflows of liquidity resulting from reverse repos are recognised as loans and advances to banks or customers and measured accordingly. The securities received (regular way purchase) underlying the money transaction are not shown or measured on the balance sheet. Agreed interest from reverse repos is recognised as interest income according to maturity. Receivables from reverse repos and liabilities from repos with the same counterparty are not offset. Is very likely that securities are collateralised on a net basis, so in the case of reverse repos and repos with the same counterparty, the securities sold or received in repo agreements collateralise the net exposure arising from reverse repos and repos.

We account for securities lending transactions in the same way as securities from genuine repurchase agreements. Lent securities remain in our securities portfolio and are measured according to the rules of IAS 39. Borrowed securities are not recognised or measured. We continue to show collateral provided by us for securities lending transactions as loans and advances on the balance sheet. We recognise securities received from securities lending transactions as liabilities.

As a rule, the Group generally uses internationally recognised clearing houses such as EUREX Clearing AG or the Swiss National Bank when concluding repurchase agreements. Settlement is standardised and secured to the highest possible degree, so no delivery risk is anticipated on the par t of the counterparty. Settlement very often takes the form of a triparty repo agreement.

g) Impairment of financial assets
We account for specific counterparty default risks in the lending business by recognising specific and portfolio valuation allowances. Identifiable risks from the lending business are covered by specific valuation allowances and global valuation allowances. In addition, portfolio valuation allowances are recognised for risks incurred but not yet identified for groups of financial assets with similar default risk profiles, the amounts of which are determined on the basis of Basel II parameters (anticipated loss rates, probabilities of default). The loss identification period (LIP) is applied as a correction factor for the probability of default. The time value of money is also factored into the loss given default (LGD). The recognised loan loss provision is netted against the underlying asset. Potential impairment is assumed in the event of the following indicators: payment default over a certain period, the introduction of coercive measures, pending insolvency or over-indebtedness, filing or opening of bankruptcy proceedings or the failure of restructuring measures. Impairment is required if the expected recoverable amount of a financial asset is lower than the respective carrying amount, i.e. if the loan is expected to be (partially) unrecoverable. If this is the case, the loss for financial assets carried at amortised cost must be recognised through profit or loss either via indirect impairment (loan loss provision) or a direct write-down. The recoverable amount is given by the present value based on the original effective interest rate from the financial asset. Unrecoverable loans are written down directly through profit or loss in the appropriate amount; amounts received on loans already written down are recognised through profit or loss.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event (or these loss events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- **Financial assets carried at amortised cost**
  If there is objective evidence of impairment, the amount of the loss is given by the difference between the carrying amount of the asset and the present value of the estimated future cash flows. The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the cash flows resulting from realisation less costs for obtaining and selling the collateral.

For loans and receivables, impairment is netted with the underlying receivable in the respective balance sheet item. The loss (allocation) is reported in the income statement under loan loss provisions. Loan loss provisions include specific valuation allowances for loans and receivables for which there is objective evidence of impairment. Loan loss provisions also include portfolio valuation allowances for which there is no objective evidence of impairment when considered individually. In the case of bonds in the HTM and L&R categories, impairment is recognised directly on the balance sheet by reducing the corresponding asset items and in the income statement under net result from other financial instruments. Interest income from individually impaired assets is deferred further on the basis of the reduced carrying amount, applying the interest rate used to discount the future cash flows for the purpose of calculating the impairment loss. This interest income is included under interest and similar income.

Loans are derecognised together with the associated impairment if there is no realistic prospect of future recovery and all collateral has been claimed and utilised. If the impairment increases or decreases in a subsequent period due to an event occurring after the recognition of impairment, the allowance account previously recognised for loans and receivables is increased or decreased by the amount of the difference. In the case of bonds in the HTM and L&R categories, the carrying amount is increased or decreased directly on the balance sheet. Reductions in impairment are reported in the income statement in the same item as the impairment loss itself.

- **Available-for-sale financial assets**
  Debt instruments classified as available for sale are reviewed individually to determine whether there is objective evidence of impairment based on the same criteria as for financial assets carried at amortised cost. However, the impairment amount recognised is the cumulative loss from the difference between amortised cost and the current fair value less any impairment previously recognised through profit or loss. When recognising impairment, all losses previously recognised in other comprehensive income under remeasurement reserve are reclassified to the income statement under net result from other financial instruments. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to a loan event occurring after the impairment was recognised in profit or loss, the impairment shall be reversed, with the amount of the reversal recognised in profit or loss under net result from other financial instruments. Impairment losses and their reversals are recognised directly against the asset on the balance sheet. For equity instruments classified as available for sale, a significant or prolonged decline in fair value to below cost is also considered objective evidence. If there is evidence of impairment, the cumulative difference between cost and the current fair value less any impairment previously recognised through profit or loss is reclassified from the remeasurement reserve in other comprehensive income to the net result from other financial instruments in the income statement. Impairment losses on equity instruments cannot be reversed via the income statement. Increases in fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the asset on the balance sheet.

- **Off-balance sheet loans**
  Risk provisions for off-balance sheet loans, such as warranties, guarantees and other loan commitments, are included under provisions, and the associated expense is reported through profit and loss under loan loss provisions.

h) Hedge accounting

The Group uses derivative instruments to hedge against currency and interest rate risks, such as interest rate swaps, currency swaps and cross-currency swaps. At the beginning of the hedge relationship, the Group explicitly defines the relationship between the hedged transaction and the hedging instrument, including the type of risks being hedged against, the goal and strategy for execution and the method used to assess the effectiveness of the hedging instrument. In addition, at the beginning of the hedge relationship the hedge is expected to be highly effective in terms of compensating for risks from changes in the hedged transaction. A hedging relationship is considered highly effective if changes in the fair value or cash flow attributable to the hedged risk for the period for which the hedging relationship was determined can be expected to be offset within a range of 80% to 125%. Detailed conditions for individual hedging relationships used are set internally.

Fair Value Hedges

Fair value hedges are employed to reduce market value risk. For designated and qualified fair value hedges, the change in the fair value of the hedging derivative is recognised through profit and loss under net result on hedge accounting. In addition, the carrying amount of the hedged item is adjusted through profit or loss for the gain or loss that can be attributed to the hedged risk. Fair value hedges are primarily used to hedge interest rate risks. The main items hedged are therefore financial instruments with fixed and structured interest in the form of acquired and issued securities, loans and time deposits. In individual cases, interest rate and currency risks are hedged together.

If a hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated. In this case, the adjustment of the carrying amount of a hedged financial instrument is reversed through profit and loss under net result on hedge accounting until the maturity of the financial instrument.

i) Offsetting financial instruments

The Group has not offset any financial instruments in these consolidated financial statements as it does not intend to settle receivables and liabilities on a net basis. In connection with derivatives, in particular, the Group has concluded master netting agreements with the aim of bringing about settlement on a net basis in the event of a counterparty default, taking into account any collateral delivered or pledged. More detailed disclosures on offsetting financial instruments are shown in Note (58).

j) Leases
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. We classify a finance lease as a lease that transfers substantially all the risks and rewards incidental to ownership of the asset. All other leases in our Group are classified as operating leases.

- **Accounting as lessor**
  Leases are assessed according to whether the risks and rewards of ownership of the leased item are borne by the lessor or by the lessee and recognised accordingly as a finance or operating lease. Leased assets attributable to the lessee (finance leases) are shown at net investment in the lease (present value) under loans and advances to customers (Note 17). The net investment in the lease comprises the present value of the contractually agreed payments taking into account any residual values. Finance lease income is shown as interest income (Note 5). In the Group, receivables from finance leases under which the leased asset is attributable to the lessee primarily relate to real estate properties. In the case of operating leases, the leased assets are reported under property, plant and equipment or as property under investment property and depreciated according to the applicable principles for these assets. Lease income is recognised on a straight-line basis over the lease term. Lease payments received in the period and depreciation are recognised under other income and other expenses. Leases in which the Group acts as lessor are classified almost exclusively as finance leases.

- **Accounting as lessee**
  The Group has not concluded any finance leases. As a lessee of real estate, the Group reports operating leases and recognises the full lease payments made as rental expense under administrative expenses. There were no sale-and-lease-back transactions in the Group in 2016.

k) Investment property
On initial recognition, investment property is measured at cost plus ancillary costs. Investment property is subsequently carried at cost less cumulative depreciation and/or cumulative impairment losses. Investment property includes properties held to earn rental income and/or for capital appreciation, not for providing services, for administrative purposes or for sale in the ordinary course of business. Leased properties are also reported under this balance sheet item if the leased assets are attributable to the lessor (operating leases). Lease income is recognised on a straight-line basis over the term of the contract.

A sworn and court-certified appraiser employed by Hypo Immobilien & Leasing GmbH regularly draws up valuation appraisals for investment property. The appraiser uses the income capitalisation approach, the market approach and other approaches to value these assets. The appraiser then compares the ascertained value with the real estate market and makes a further adjustment if necessary. For larger properties, appraisals are also prepared by independent third parties.

Rental income is recognised under other income. Depreciation and maintenance expenses for these properties are reported under other expenses. The balance sheet item investment property includes buildings with finite useful lives. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Investment property	25 – 50

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

l) Intangible assets
Intangible assets are recognised at cost on initial recognition and subsequently carried at cost less cumulative amortisation and cumulative impairment. Intangible assets are recognised only if it is probable that the expected benefits will flow to the enterprise, and the cost can be determined reliably.

Intangible assets with finite useful lives are amortised on a straight-line basis over their economic lives and tested for potential impairment. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period.

The Group's intangible assets balance sheet item includes acquired software with a finite useful life. Amortisation and impairment of acquired software is recognised through profit or loss under administrative expenses. Amortisation is applied on the basis of the following typical operational useful lives.

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

m) Property, plant and equipment
Property, plant and equipment is carried at cost less cumulative depreciation and/or cumulative impairment losses. Depreciation is applied on a straight-line basis over the estimated useful life. Physical wear and tear, technical obsolescence and legal and contractual restrictions are considered when determining the useful life of property, plant and equipment. Land is not depreciated. Cost includes the costs for replacing parts of an item of property, plant and equipment and the borrowing costs for major, long-term construction projects if the recognition criteria are met. As of the reporting date and in the previous-year period, there were no liabilities or obligations

from asset purchases or the construction of plant. There were likewise no restrictions on title, and no items of property, plant and equipment were pledged as security for liabilities. Depreciation is applied on the basis of the following typical operational useful lives.

Typical operational useful life	in years
Buildings	25 – 50
Operational and office equipment	5 – 10
Construction on leased premises	10
IT hardware	3

In addition, impairment is recognised if the recoverable amount is lower than the carrying amount of the asset. Property, plant and equipment is derecognised either on disposal or when no more economic benefit is expected from the further use or sale of the recognised asset. Gains or losses arising from the disposal of the asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised through profit and loss in the period under other income or other expenses in the income statement.

n) Impairment of non-financial assets

At each reporting date, the Group determines whether there are indications of impairment of non-financial assets. If there are such indications, or an annual impairment test is required for an asset, the Group estimates the recoverable amount of the respective asset. The recoverable amount of an asset is the higher of the asset or cash-generating unit's fair value less costs to sell and the value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or cash-generating unit exceeds the recoverable amount, the asset is impaired and written down to its recoverable amount. To determine value in use, the estimated future cash flows are discounted to their present value on the basis of a pre-tax discount rate that reflects current market expectations regarding the time value of money and the specific risks of the asset. An appropriate measurement model is used to determine the fair value less costs to sell.

The Group bases its impairment testing on detailed budgets and forecasts prepared separately for each of its cash-generating units to which individual assets are attributable. Such budgets and forecasts usually cover a period of five years. Impairment losses of continuing operations are recognised through profit or loss in the expense categories corresponding to the impaired asset's function in the Group. This does not apply to previously remeasured assets if the increases in value resulting from remeasurement were recognised in other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount from a preceding remeasurement. Non-financial assets are tested for impairment once a year (as of 31 December). A test is also performed when circumstances indicate that the value could be impaired.

o) Tax assets

- **Current taxes**
  Current tax assets and liabilities are calculated on the basis of the tax provisions of each country using current tax rates, which determine the reimbursement from and payment to the respective tax authorities. Assets and liabilities are recognised only for expected claims against and obligations to the tax authorities. Current tax assets and liabilities are set off only if the Group has a legally enforceable right to set off the reported amounts and actually intends to settle on a net basis. This occurs in the Group in particular in connection with group taxation. Performance-based current tax expenses are recognised in the Group's income statement under taxes on income.

- **Deferred taxes**
  Deferred taxes are recognised and measured according to the balance-sheet-based liability method. The measurement for each taxable entity uses the tax rates applicable by law in the taxable period. Deferred taxes are not discounted. The effects of the recognition or reversal of deferred taxes are also including in the Group's income statement under taxes on income, unless deferred tax assets and liabilities relate to items measured in other comprehensive income. In this case, the deferred taxes are recognised or reversed in other comprehensive income.

Deferred tax assets/liabilities reflect the potential tax benefits/expenses from temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet according to IFRS and the tax base according to local tax provisions of Group companies. Deferred tax assets are only recognised if there are sufficient deferred tax liabilities within the same tax entity or it is suf ficiently likely that taxable income will be generated in the same tax entity in the future. This also applies to the recognition of deferred tax assets on tax loss carryforwards.

p) Non-current assets available for sale and liabilities relating to assets available for sale

Non-current assets are classified as available for sale if they can be sold in their present condition and the sale is probable with 12 months of the classification. Assets available for sale are reported in the balance sheet item "non-current assets available for sale". Non-current assets classified as available for sale are measured at the lower of the carrying amount and fair value less costs to sell.

The item non-current assets available for sale includes properties that were subject to finance leases. These finance leases were terminated or cancelled prematurely. This item also includes leased assets that are to be sold after the expiry of the lease. If there is a realistic possibility of a sale within 12 months, the Group assigns the properties to this balance sheet item. No regular depreciation is recognised for these assets, but impairment is recognised if the fair value less costs to sell falls below the carrying amount. These properties are sold by Hypo Immobilien & Leasing GmbH and the leasing companies. If a sale is not possible in the medium term, the properties are usually rented out or let. In these cases, they are reclassified to investment property. If neither sale within 12 months nor medium-term rental appear realistic, they are reclassified to the other assets item of the balance sheet.

A disposal group is a group of assets, possibly with associated liabilities, that an entity intends to sell in a single transaction. The measurement basis and the criteria for the classification as available for sale is applied to the entire Group. Assets that are part of a disposal group are reported on the balance sheet under "non-current assets available for sale". Liabilities relating to assets available for sale that are part of a disposal group are reported on the balance sheet under "liabilities relating to non-current assets available for sale". There are no liabilities relating to non-current assets available for sale.

All income and expenses relating to assets available for sale are recognised in the income statement under other income or other expenses.

q) Provisions

A provision is recognised if the Group has a present legal or constructive obligation as a result off a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. We therefore recognise provisions for uncertain obligations to third parties and onerous contracts in the amount of the expected utilisation. The amount recognised for a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. Provisions are recognised at present value where the effect of the time value of money is material. Provisions also include credit risk provisions for off-balance-sheet transactions (especially warranties and guarantees) and provisions for litigation. Expenses or income from the reversal of credit risk provisions for off-balance-sheet items are recognised in the income statement under loan loss provisions.

All other expenses or income in connection with provisions are recognised in administrative expenses and under other expenses. The Group's social capital is also shown under provisions. Social capital means provisions for defined-benefit and defined-contribution plans for employees. Social capital includes provisions for pensions, severance, anniversary bonuses and disability risk. The liability recognised from a defined-benefit plan equals the present value of the obligation less the fair value of the plan assets out of which the obligations are to be settled directly. The present value of the obligation exceeds the fair value of the plan assets in all plans.

- **Pensions**
  At Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, 12 (2015: 12) pensioners and their surviving dependants are entitled to a defined-benefit bank pension. This is a final salary plan based on a works agreement. 10 (2015: 13) active employees are entitled to a disability pension. A defined-contribution pension agreement has been concluded with the active employees entitled to a pension. On the basis of the statutory requirement according to the Swiss Occupational Pensions Act (BVG), 20 employees (2015: 20) of the St. Gallen branch are entitled to a defined-benefit pension. The Group and the employees make contributions to the BVG collective foundation Swiss Life, which is managed by Swiss Life AG. There is no other constructive obligation from normal commercial practice.

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

- **Anniversary bonuses**
  After 25 and 40 years of service, every employee is entitled to an anniversary bonus of one and two months' salary respectively. The entitlement to an anniversary bonus is based on a collective agreement, which stipulates both the conditions and the amount of the entitlement.

The agreed payments to a pension fund for defined-contribution plans are expensed on an ongoing basis. The statutory "new severance" payment is likewise expensed on an ongoing basis. There are no further obligations.

r) Trust activities

Trust activities that involve the holding or placing of assets on behalf of third parties are not reported on the balance sheet. Commission payments for such activities are included in the income statement within net fee and commission income.

s) Recognition of income and expenses and description of income statement items

Income is recognised if it is probable that the economic benefit will flow to the company and the income can be measured reliably. The following designations and criteria are used for the recognition of income in the items of the income statement:

- **Net interest income**
  Interest income is recognised on an accrual basis as long as the interest is deemed collectible. Income that primarily constitutes consideration for the use of capital (usually interest or similar calculation according to timing or amount of the receivable) is allocated to similar income. Interest expenses are recognised in the same way as interest income. Differences arising from the sale and issue of securities are recognised in the income statement according to the effective interest method. Similar income is recognised in the income statement only once the legal right to receive payment is established. Dividends are recognised in the income statement only after the legal right to receive payment of the dividend is established. The Group does not incur any significant negative interest from conventional financing and deposit products based on statutory provisions. Negative interest is offset against interest income and interest expenses under the usual item. Negative interest amounts are applied in relation to derivatives. As derivatives that are not in a hedging relationship are generally used to hedge interest rate risks, the interest from derivatives is offset against that of the underlying transactions under the relevant interest item in order to take economic hedging into account when reporting net interest income.

- **Loan loss provisions**
  This item shows the recognition and reversal of specific valuation allowances and portfolio valuation allowances for balance-sheet and off-balance-sheet lending transactions. Direct write-downs of loans and advances to banks and customers and amounts received on loans and advances to banks and customers already written down are also reported in this item.

- **Net fee and commission income**
  Income from the service business and expenses attributable to this income are reported under net fee and commission income. This item contains income and expenses primarily in connection with fees and commissions from payment transactions, securities business, lending business, insurance and real estate brokerage business and foreign exchange business. Lending fees relating to new loans are not recognised in net fee and commission income but instead in interest income as part of the effective interest rate.

- **Net result on hedge accounting**
  This item firstly includes the full fair value changes of hedging instruments that meet the criteria for hedge accounting. Secondly, this item includes carrying amount adjustments from the hedged item. If a hedge no longer meets the criteria according to IAS 39, the further value changes of hedging instruments are recognised through profit or loss in the net trading result.

- **Net trading result**
  The net trading result comprises three components:
  - Result from trading in securities, promissory note loans, precious metals and derivative instruments
  - Result from the measurement of derivative financial instruments that do not belong to the trading portfolio and are not in a hedging relationship according to IAS 39
  - Result from the use of the fair value option

  The fair values of trading assets and liabilities are measured on the basis of market prices. The fair values of non-listed products are measured according to the present value method or using suitable measurement models. As well as realised gains/losses, the net trading result also includes gains/losses on the remeasurement of trading activities. It also includes ineffective portions from hedging and currency gains and losses. The net trading result does not include interest and similar income or refinancing costs, which are shown in net interest income. The result from the use of the fair value option does not include the result from change in own credit risk, which is recognised under a separate item.

- **Net result from other financial instruments**
  The net result from other financial instruments includes gains/losses on disposal and remeasurement of securities in the financial assets portfolio, investments and shares in non-consolidated subsidiaries. The net result from other financial instruments also contains the realised gain and loss on disposal and the measurement of financial instruments of the HTM, L&R and LAC categories. It does not include gains and losses of the HFT, AFV, LHFT, or LAFV categories, which are recognised in the net trading result. The net result from L&R financial assets includes write-ups, write-downs and realised gains and losses that arise from securities and are not part of our primary customer business.

- **Administrative expenses**
  Administrative expenses include the following expenses accrued in the reporting period: staff costs, material expenses and depreciation, amortisation and impairment on the balance sheet items property, plant and equipment and intangible assets.

  The staff costs include wages and salaries, bonuses, statutory and voluntary social benefits, employees taxes and levies. Expenses and income from severance, pension and service anniversary provisions are also partially included in this item. In addition to IT expenses, material expenses also include building expenses, advertising and PR expenses, legal and consulting expenses, staff development expenses (training, recruiting) and other expenses required for running an office. The depreciation and impairment relate to land, developed land and buildings used by the Group itself, operating and office equipment and movables let under operating leases.

- **Other income**
  This item comprises income that is not directly attributable to the Bank's operating activities. This included rental income from leased properties, gains on the disposal of assets, other income from leasing business and operating cost income. Income from operating leases is recognised on a straight-line basis over the terms of the leases.

- **Other expenses**
  This item comprises expenses that are not directly attributable to the Bank's operating activities. These include depreciation of properties let, losses on the disposal of assets, expenses from leasing business and operating cost expenses. This item also contains other tax expenses apart from taxes on income and expenses from loss events or operating risk.

- **Operating result before change in own credit risk**
  This subtotal is based on earnings before taxes less the result from change in own credit risk. It represents the material keyfigures for the Group as regards business operations before taxes, as the measurement of own liabilities on the basis of the rating is not directly related to income from the operating business. This was clearly demonstrated by the market turbulence in the wake of the HETA moratorium, in particular.

- **Result from change in own credit risk**
  The measurement effect in respect of financial liabilities voluntarily measured at fair value, which is attributable to the change in own credit risk, is reported under this item. Although this item is part of the net trading result, due to the relatively high volume of financial instruments it is subject to large fluctuations that are not linked to business operations. As the Group intends to service the issues at the repayment amount and, unlike assets, the liabilities cannot be sold, measuring liabilities on the basis of the rating distorts the informational value provided by the business operations of the Group. This effect is also acknowledged in IFRS 9, with the result that measurement effects of this kind are to be recognised directly in other comprehensive income as of 1 January 2018.

- **Taxes on income**
  This item includes all income-based taxes broken down into current tax expenses, deferred tax expenses and taxes from previous periods.

t) Material judgements, assumptions and estimates

To prepare the consolidated financial statements, the management has to make estimates and assumptions affecting disclosures on the balance sheet and in the notes and the recognition of income and expenses during the reporting period. They relate primarily to estimating the value of assets, determining standard economic lives for property, plant and equipment throughout the Group and recognising and measuring provisions. The estimates and judgements are based on assumptions reflecting the latest information available. Expected future business development is estimated on the basis of the prevailing circumstances as of the date the consolidated financial statements are prepared and realistic assumptions about the future development of the global and industry-specific environment. Developments in these conditions that deviate from these assumptions and lie outside of the management's sphere of influence can cause differences in actual amounts compared to the original estimates. Where substantial estimates were required, the assumptions made are described below. In individual cases, actual values may differ from the assumptions and estimates.

- **Impairment on loans and advances to banks and customers**
  The Group inspects the credit portfolio for impairment at least once a quarter. It assesses whether identifiable events reduce the expected future cash flows in the credit portfolio. Indicators of impairment include non-compliance with due dates and agreements, the monitoring and analysis of customers' financial circumstances and rating changes. The management takes assumptions based on historical default probabilities for similar credit portfolios into account when estimating future cash flows. A 1% increase in the impairment ratio (ratio of risk provision to exposure) with respect to the underlying exposure would increase the risk provision by TEUR 1,044 (2015: TEUR 1,682). A 1% reduction in the impairment ratio with respect to the underlying exposure would reduce the risk provision by TEUR 1,044 (2015: TEUR 1,682). Allocations to the portfolio valuation allowance for defaults that have already occurred but have not been recognised are made on the basis of historical probabilities of default, expected loss rates and the correction factor of the loss identification period (LIP). A 1% linear and relative shift of the probabilities of default would result in an increase or decrease of TEUR 130 (2015: TEUR 140). Overall, a 1% increase in the probabilities of default would change the expected loss from unimpaired receivables by TEUR 260 overall (2015: TEUR 280). An increase in the LIP factor of 30 days would increase the portfolio value allowance by TEUR 2,166 (2015: TEUR 2,329). The development of credit risk provisions is shown in Note (17). The effects on the income statement are shown in Note (6). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 9,625,287 (2015: TEUR 9,711,487).

- **Impairment on financial instruments available for sale**
  With regard to these financial instruments, the Group distinguishes between debt and equity securities. Debt securities are impaired when events reduce the expected future cash flows. Equity securities are impaired when the market value of the financial instrument is lower than cost by more than a fifth in the last six months before the reporting date or by more than a tenth in the last twelve months before the reporting date. When deciding whether impairment is required, the Group takes the normal volatility of share prices into account. If all market value fluctuations were considered material or permanent, this would increase the remeasurement reserve by TEUR 2,254 (2015: TEUR 1,926) and reduce the net result from other financial instruments by TEUR 2,254 (2015: TEUR 1,926). The effects arising from the assumptions and estimates can be seen in shareholders' equity in Note (42) and in the net result from other financial instruments in Note (10). They have no effect on the carrying amounts of these financial instruments. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 769,093 (2015: TEUR 745,426).

- **Impairment on financial instruments held to maturity**
  The Group tests these financial instruments for impairment on an ongoing basis, including by monitoring rating changes and price performance. For example, if the rating deteriorates, the price performance of the financial instrument is examined. Impairment is recognised if the price deteriorates on the basis of the rating. If all differences between market value and carrying amount were deemed permanent impairment, this would reduce the net result from other financial instruments by TEUR 1,787 (2015: TEUR 702). The carrying amounts on which these assumptions and estimates are based are shown in Note (22). Effects on the income statement are reported in Note (10). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 1,103,893 (2015: TEUR 987,685).

- **Fair values of financial instruments measured at fair value in measurement level 3**
  Many of the financial instruments measured at fair value are not traded on an active market. These fair values are determined using measurement models. When using measurement models, the Group refers to the prices of observable, current market transactions with similar instruments and, when available, uses observable market data in the measurement models. See Note (57) for information on the sensitivities of the measurement models used. With regard to the income statement, these assumptions and estimates affect the net trading result in Note (9). With regard to the measurement of OTC derivatives, credit risk is also taken into account when calculating fair value in the form of a credit value adjustment (CVA) or a debt value adjustment (DVA). In the event of netting agreements, CVAs and DVAs are calculated on the basis of the net position for each counterparty including collateral, probabilities of default and credit default swap spreads (CDS spreads) observable on the market. This is an accounting-related change in estimate. The effect of the approach of credit risk for financial assets and derivatives amounts to TEUR –1,273 (2015: TEUR –25,462) and was recorded in the net trading result. The effect from the approach of credit risk for financial liabilities amounted to TEUR –10,970 (2015: TEUR +9,274) and was the recorded in the result from change in own credit risk. The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 272,265 (2015: TEUR 478,443) and of the liabilities TEUR 1,738,203 (2015: TEUR 1,798,837).

- **Income taxes**
  With regard income taxes, the Group is subject to several tax authorities. Material estimates are used in the calculation of the tax provision in Note (38). The taxable income for each company is calculated on the basis of the local commercial result by reconciling financial and tax accounting. In addition, expected additional tax obligations in connection with ongoing or announced tax audits are recognised in the tax provision. After a completed tax audit, the difference between the expected and the actual payment of back taxes is recognised through profit or loss in the income statement under income taxes from previous periods and deferred taxes. Judgements are required to determine the amount of deferred tax assets to be recognised based on the probable timing and amount of future taxable income and future tax planning strategies. Tax assets are recognised on the basis of budgetary accounting over a period of five years. Disclosures relating to deferred taxes are provided in Notes (27) and (39). The effects on the income statement are shown in Note (14) as well as those of the Other Result on Note (42). The carrying amount of the assets underlying the judgements, assumptions and estimates amounts to TEUR 10,022 (2015: TEUR 13,934) and of the liabilities TEUR 22,199 (2015: TEUR 25,502).

- **Provisions**
  The amount recognised for provisions is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate takes risks and uncertainties into account. The provisions recognised on the balance sheet are shown in Note (37). The effects on the income statement relating to liabilities and credit risks are shown under loan loss provisions in Note (6) and in other cases under administrative expenses in Note (11). The carrying amount of the provisions – not including social capital – underlying the judgements, assumptions and estimates amounts to TEUR 24,723 (2015: TEUR 35,791).

- **Social capital**
  Provisions for pensions, former severance entitlements and anniversary bonuses relate to defined-benefit plans. The present values of social capital are calculated using the following actuarial assumptions:

  – Provisions for defined-benefit obligations are recognised according to the accrued benefit method.
  – The expected retirement age was calculated individually for each employee on the basis of the changes resolved in the 2003 Austrian Ancillary Budget Act with regard to raising the earliest possible retirement age. The current regulation for incrementally raising the retirement age to 65 for men and women was taken into account.
  – Generation tables for employees: table values from „AVÖ 2008 P-Rechnungsgrundlage für die Pensionsversicherung Pagler & Pagler"

Actuarial assumptions for the calculation of the present value of social capital	2016	2015
Interest rate/domestic	1.70%	2.00%
Annual indexing for pension provisions	2.00%	2.50%
Annual indexing (collective bargaining and performance based salary increases) for other provisions	2.00%	2.00%
Employee turnover rate for severance provisions	2.00%	2.00%
Employee turnover rate for other provisions	7.50%	8.00%
Individual career trend	2.00%	2.50%

The actuarial gains and losses from the adjustment of actuarial assumptions were recognised in other comprehensive income at TEUR 939 (2015: TEUR 154). The deferred taxes resulting from the recognition were also recognised directly in other comprehensive income at TEUR –244 (2015: TEUR –88). For 2017, pension payments of TEUR 358 (2016: TEUR 354), severance payments of TEUR 401 (2016: TEUR 278) and anniversary bonuses of TEUR 66 (2016: TEUR 89) are expected.

The amount of social capital is determined on the basis of actuarial calculations. The discount factor is a significant lever for the amount of social capital. A 0.5% decline in the discount factor would increase staff costs by TEUR 1,428 (2015: TEUR 1,541), and a 0.5% increase in the discount factor would reduce staff costs by TEUR 1,300 (2015: TEUR 1,451). A 0.5% decline in the salary or pension trend would reduce staff costs by TEUR 1,258 (2015: TEUR 1,395,), and a 0.5% increase in the salary or pension trend would increase staff costs by TEUR 1,365 (2015: TEUR 1,460). A 0.5% decline in employee turnover would increase staff costs by TEUR 91 (2015: TEUR 68), and a 0.5% increase in employee turnover would reduce staff costs by TEUR 91 (2015: TEUR 122). The carrying amounts of social capital are shown in Note (37). Effects on the income statement are reported in Note (11). The carrying amount of the social capital underlying the judgements, assumptions and estimates amounts to TEUR 24,534 (2015: TEUR 25,498).

- **Leases**
  From the perspective of the lessor, judgements are required in particular to distinguish between finance leases and operating leases depending on the transfer of substantially all risks and rewards from the lessor to the lessee. The carrying amount of the finance leases underlying the judgements, assumptions and estimates amounts to TEUR 1,156,928 (2015: TEUR 1,236,325).

- **Effect of significant events**
  The Group does not anticipate any direct negative effects as a result of the United Kingdom leaving the European Union as, firstly, its holdings of pounds sterling are minimal and, secondly, the bonds it holds are largely hedged with cross currency swaps. The balance sheet volume relating to British customers amounts to TEUR 268,491. Of this amount, TEUR 240,883 is attributable to banks and investment companies. We do not expect the credit rating of these groups to change substantially due to their international networks and orientation.

(4) APPLICATION OF REVISED AND NEW IFRS AND IAS

IFRS rules with mandatory application as of the reporting date were applied to the consolidated financial statements.

a) First-time application of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has made a number of changes to existing standards and issued new standards and interpretations, application of which is mandatory for 2016. These rules must also be observed in the EU and concern the following areas:

- **Annual Improvement Project 2010-2012 cycle**
  In December 2013, the IASB published revisions to existing IAS/IFRS rules as part of its annual improvement programme. The amendments were endorsed by the EU on 17 December 2014. The amendments mainly relate to clarifications regarding IFRS 2 (definition of vesting conditions), IFRS 3 (accounting for contingent consideration in a business combination), IFRS 8 (aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets), IFRS 13 (definition short-term receivables and payables), IAS 16 and IAS 38 (revaluation method – proportionate restatement of accumulated depreciation) and IAS 24 (definition of key management personnel). The amendments must be applied for the first time in financial years beginning on or after 1 February 2015. These amendments have no material effect for the Group.

- **Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations**
  The amendment to IFRS 11 published by the IASB on 6 May 2014 governs accounting for acquisitions of interests in joint operations that constitute a business as defined by IFRS 3 Business Combinations. In such cases, the acquirer must apply the principles of accounting for business combinations as per IFRS 3. The disclosure requirements of IFRS 3 are also effective in these cases. The new standard was endorsed by the EU on 24 November 2015. The standard has no effect on the Group.

- **Amendments to IAS 16 and IAS 38 – Property, Plant and Equipment and Intangible Assets**
  The amendment clarifies the selection of methods of depreciation and amortisation of property, plant and equipment and intangible assets. Depreciation of property, plant and equipment on the basis of revenue generated from goods produced by the entity is not appropriate. Revenue-based amortisation of intangible assets with finite useful lives is permissible only in limited circumstances. The new standard was endorsed by the EU on 2 December 2015. The standard has no effect on the Group.

- **Amendments to IAS 27 – Separate Financial Statements**
  The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an investor's separate financial statements. The application of the equity method in the separate financial statements (of the parent) was no longer permitted according to IAS 27 from 2005. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 18 December 2015. The amendments do not affect the Group.

- **Annual Improvement-Project Zyklus 2012 – 2014**
  In September 2014, the IASB published revisions to existing IAS/IFRS rules as part of its annual improvement programme. The amendments were endorsed by the EU on 18 December 2015. These amendments relate primarily to clarifications regarding IFRS 5 (changes in methods of disposal), IFRS 7 (servicing contracts), IAS 19 (discount rate: regional market issue) and IAS 34 (disclosure of information 'elsewhere in the interim financial report').

- **Amendments to IAS 1 – Presentation of Financial Statements**
  The amendments proposed by the IASB on 18 December 2014 include primarily a clarification that disclosures are necessary only when their content is not immaterial. This also applies explicitly when an IFRS demands a list of minimum disclosures. The example structure for the notes is removed in order to facilitate an entity-specific structure, and it is clarified that entities are free to explain accounting policies at any point in the notes. The amendments were endorsed by the EU on 18 December 2015.

- **Amendment to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception**
  The IASB issued amendments regarding the consolidation of investment entities on 18 December 2014. The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The standard was endorsed by the EU in September 2016.

b) New standards and interpretations not yet applied
The IASB has issued further standards and revisions of standards and interpretations that are not mandatory for the 2016 financial year. Unless stated otherwise, the amendments apply to financial years beginning on or after 1 January 2017. The listed standards and revisions of standards and interpretations will only be applied once they have come into force.

- **Publication of IFRS 9 – Financial Instruments**
  In July 2014, the IASB published IFRS 9. The standard is to replace the regulations of IAS 39. IFRS 9 deals with the classification, measurements and impairment of financial instruments and with hedge accounting. The standard is applicable to financial years beginning on or after 1 January 2018. The standard has now been endorsed by the EU. The application of IFRS 9 will have an extensive impact on the classification and measurement of the Group's financial assets and liabilities. Firstly, due to the SPPI criteria not being met, for example in connection with non-recourse financing, we anticipate an increase of around TEUR 200,000 to TEUR 250,000 for financial instruments measured at fair value that are recognised through profit or loss. As a result of this change, the Group expects equity to increase by TEUR 10,000 to TEUR 15,000. Secondly, in future financial assets still voluntarily measured at fair value in accordance with IAS 39 due to accounting mismatch items will be reported as financial instruments recognised at amortised cost in accordance with IFRS 9, as in future we will apply hedge accounting in these cases. Based on this, the Group expects a reclassification of fair value in amortised cost amounting to around TEUR 350,000 and thus a decrease in equity of TEUR 5,000 to TEUR 9,000. The Group will apply the provisions of IFRS 9 with regard to hedge accounting. Accordingly, existing effective hedging relationships under IFRS 9 will be continued. As a result of the reclassification of own liabilities carried at fair value in accordance with IAS 39, the Group expects equity to increase by between TEUR 10,000 and TEUR 15,000 based on prospective application. Following application of the new impairment provisions, the Group expects equity to decrease by between TEUR 25,000 and TEUR 35,000, depending on the model used. Based on the current credit portfolio, a volume of between TEUR 2,000,000 and TEUR 2,300,000 is anticipated in stage 2 of the impairment test. The original probabilities of default are not available for a volume of TEUR 1,818,509 of this amount. In this regard, the Group has already initiated a project to determine original ratings retrospectively, which may significantly reduce the volume in stage 2.

- **Publication of IFRS 16 – Leases**
  The IASB has published the accounting standard IFRS 16 Leases. The key idea of the new standard is for lessees to recognise in general all leases and the associated contractual rights and obligations on the balance sheet. Lessees will therefore no longer have to distinguish between finance and operating leases as previously required under IAS 17. However, the new standard's requirements for lessors are similar to the previous rules of IAS 17. Leases will continue to be classified as finance leases or operating leases. The criteria of IAS 17 were retained for the classification according to IFRS 16. IFRS 16 also includes a range of additional requirements for recognition, disclosures in the notes and sale and leaseback transactions. Application of the new regulations is mandatory for financial years beginning on or after 1 January 2019. The Group acts mainly as a lessor. The associated changes in recognition and disclosures in the Notes are currently being analysed.

- **Amendments to IAS 7 – Statement of Cash Flows**
  The IASB published final amendments to IAS 7 Statement of Cash Flows in January 2016. The amendments serve to clarify IAS 7. They also improve the information provided to the users of financial statements regarding a company's borrowing activities and liquidity. The amendments are to be applied for financial years beginning on or after 1 January 2017. Based on this, the Group expects more disclosures in the Notes.

- **Amendments to IAS 12 – Income Taxes**
  In January 2016, the IASB published amendments to IAS 12 to provide clarification on accounting for deferred tax assets from unrealised losses for assets carried at fair value. As the offsetting of taxes is limited under current tax law, the assessment for deductible temporary differences of the same kind must be carried out separately. When estimating probable future taxable income, where compelling evidence exists companies may assume that it is possible to realise an asset at above its carrying amount. Furthermore, tax deductions from the reversal of deductible temporary differences may not be recognised. The amendments come into force for financial years beginning on or after 1 January 2017. The Group does not anticipate any material effects as a result of these clarifications.

- **Publication of IFRS 15 – Revenue from Contracts with Customers**
  The IASB published IFRS 15 in May 2014 and clarifications for this standard in April 2016. IFRS 15 specifies how and when an IFRS reporter will recognise revenue. To provide users of financial statements with more informative, relevant disclosures, the standard provides a single, principles-based five-step model to be applied to all contracts with customers. The new standard applies to financial years beginning on or after 1 January 2018. The new standard was endorsed by the EU in October 2016. The Group expects no material changes, as the standard is not applicable to leases and financial instruments – and therefore not applicable to the majority of our revenue.

- **Amendments to IFRS 2 – Share-based Payment**
  The amendments published in June 2016 provide clarification on the classification and measurement of business transactions involving share-based payment. Specifically, they relate to share-based payments for which the type of settlement depends on future events and which are settled free of withholding tax. The amendments also include provisions on share-based payments settled in cash that contain performance conditions, as well as a modification relating to the recognition of payment transactions settled in cash that become payment transactions settled in equity securities due to changes in the conditions. The amendments are to be applied for financial years beginning on or after 1 January 2018 and are limited to three years. The Group is not affected by share-based payments.

- **Annual Improvement Project 2014-2016 cycle**
  In December 2016, the IASB announced the final amendments arising in the 2014-2016 cycle. IFRS 1, IFRS 12 and IAS 28 are affected in particular. In IFRS 1, the temporary exceptions in Paragraphs E3-E7 have been removed, while IFRS 12 more closely defines the scope of the standard and IAS 28 contains a clarification. The amendments in IFRS 12 are to be applied to financial years beginning as of 1 January 2017 and the amendments to IFRS 1 and IAS 28 apply to financial years beginning on or after 1 January 2018. The Group does not expect this to have any material effects.

- **Publication of IFRIC 22 – Foreign Currency Transactions and Advance Consideration**
  The IASB published IFRIC 22 on 8 December 2016. IFRIC 22 provides clarification on which exchange rate is to be used for transactions in foreign currencies that involve advance payments received or made. The date on which the payment made in advance is recorded for the first time or consideration is received is relevant for determining the exchange rate for the underlying asset, income or expenses. The interpretations are to be applied for financial years beginning on or after 1 January 2018. The Group does not anticipate any material effects as a result of this amendment.

- **Amendments to IAS 40 – classification of property under construction or development**
  The amendments published on 8 December 2016 provide clarification on Paragraph 57 of IAS 40. This paragraph contains guidelines for transfers into and out of the investment property portfolio. The amendments stipulate that a transfer can be carried out only when there has been a change in use of the property. In this context, the change in use depends on whether or not the definition of investment property is met. The amendments to IAS 40 apply to financial years beginning on or after 1 January 2018. The Group will observe the new provisions for future reclassifications.

- **Publication of IFRS 14 – Regulatory Deferral Accounts**
  In January 2014, the IASB published IFRS 14. IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP. The European Commission has decided not to begin the endorsement process for this standard but to wait for the final standard. The standard will have no effect on the Group.

- **Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments clarify the treatment of unrealised gains or losses from transactions between an investor and its associate or joint venture. The most significant consequence of the amendments is that the investor must recognise gains or losses in full if such a transaction relates to a business. If such a transaction relates to assets that do not constitute a business, the gains or losses must be recognised in part. The clarifications were originally envisaged to apply to financial years beginning after 31 December 2015. The IASB is now proposing the indefinite deferral of this effective date. However, the possibility of early application is to be retained.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(5) NET INTEREST INCOME

in '000 EUR	2016	2015
Income from cash and balances with central banks	–1,357	–103
Income from loans and advances to banks	1,001	1,037
Income from loans and advances to customers	152,019	163,937
Income from leasing business	22,299	24,955
Income from hedging instruments	27,207	20,042
Income from derivatives, other	11,344	11,669
Income from debt securities	49,656	57,183
Income from shares	1,256	1,473
Income from investments, other	1,885	998
Interest and similar income	**265,310**	**281,191**
Expenses from amounts owed to banks	–1,733	–1,976
Expenses from amounts owed to customers	–21,322	–20,240
Expenses from liabilities evidenced by certificates	–29,888	–27,589
Expenses from hedging instruments	–38,698	–38,742
Expenses from derivatives, other	–10,307	–11,530
Expenses from liabilities designated AFV	12,312	8,183
Expenses from supplementary capital	–7,836	–5,836
Interest and similar expenses	**–97,472**	**–97,730**
Net interest inome	**167,838**	**183,461**

The interest income from loans and advances to customers includes TEUR 2,210 (2015: TEUR 2,418) from unwinding. The interest income from receivables measured at amortised cost amounts to TEUR 197,779 (2015: TEUR 216,955). Net interest income includes dividends amounting to TEUR 1,885 (2015: TEUR 998). The interest expenses from liabilities measured at amortised cost amount to TEUR –60,779 (2015: TEUR 55,641).

Income from cash and balances with central banks includes negative interest income in the amount of TEUR 1,357 (2015: TEUR 103), while the negative interest income under income from loans and advances to banks amounts to TEUR 72 (2015: TEUR 242).
In expenses from liabilities designated AFV, the negative interest from the derivatives leads to net negative interest expense of TEUR 12,312 (2015: TEUR 8,183).

Of which income from debt securities

in '000 EUR	2016	2015
Income from debt securities – HFT	1	0
Income from debt securities – AFV	6,997	8,930
Income from debt securities – AFS	19,304	21,587
Income from debt securities – HTM	23,354	26,666
Income from debt securities	**49,656**	**57,183**

Of which income from shares

in '000 EUR	2016	2015
Income from shares – HFT	8	6
Income from shares – AFV	231	343
Income from shares – AFS	554	661
Income from shares – HTM	463	463
Income from shares	**1,256**	**1,473**

Interest from supplementary capital is recorded under interest income from shares – held to maturity.

(6) LOAN LOSS PROVISIONS

in '000 EUR	2016	2015
Additions to valuation allowances	–21,169	–59,655
Reversals of valuation allowances	59,114	23,154
Direct write-downs of loans and advances	–1,396	–2,958
Income from amounts received on loans and advances already written down	2,684	1,930
Additions to provisions	–12,087	–8,093
Reversals of provisions	20,561	22,807
Loan loss provisions	**47,707**	**–22,815**

In 2016, the loss from the direct write-down and the utilisation of recognised loan loss provisions was TEUR 26,957 (2015: TEUR 41,310). There were no indications of further impairment in 2016 as of the date these consolidated financial statements were prepared. Reversals of valuation allowances include an amount of TEUR 28,289 (2015: allocation of TEUR 3,024) for direct loans and advances to HETA ASSET RESOLUTION AG (HETA) and receivables from the assumption of liability towards Pfandbriefbank in accordance with Section 2 PfBrStG for its claim against HETA. Reversals of provisions include an amount of TEUR 13,609 (2015: allocation of TEUR 2,750) for the assumption of liability towards Pfandbriefbank in accordance with Section 2 PfBrStG. Total provisions for the assumption of liability towards Pfandbriefbank stood at TEUR 3,764 as of 31 December 2016 (2015: TEUR 17,758). These result from claims of Pfandbriefbank against HETA that are not yet due and that were not covered by the settlement offer from the state of Carinthia.

(7) NET FEE AND COMMISSION INCOME

in '000 EUR	2016	2015
Lending and leasing business	4,724	4,352
Securities business	16,098	18,524
Giro and payment transactions	12,108	12,730
Other service business	4,412	4,768
Fee and commission income	**37,342**	**40,374**

in '000 EUR	2016	2015
Lending and leasing business	–871	–930
Securities business	–1,129	–1,315
Giro and payment transactions	–1,279	–1,534
Other service business	–36	–29
Fee and commission expenses	**–3,315**	**–3,808**

Fee and commission income from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR 9,617 (2015: EUR 9,138). Fee and commission expenses from financial assets or liabilities not classified as at fair value through profit or loss amounts to TEUR –607 (2015: TEUR –457). Fee and commission income from fiduciary activities amounts to TEUR 1,354 (2015: TEUR 1,346).

(8) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	2016	2015
Adjustment to loans and advances to banks	3,539	–2,291
Adjustment to loans and advances to customers	1,157	–5,507
Adjustment to financial instruments available for sale	–2,232	–9,163
Adjustment to financial instruments with banks	–206	29
Adjustment to liabilities to customers	–5,823	5,279
Adjustment to securitised liabilities	–18,344	3,021
Adjustment to subordinated capital	–2,746	708
Net result from adjustment to underlying transactions from hedging	**–24,655**	**–7,924**
Measurement of hedging instruments for loans and advances to banks	–2,398	3,838
Measurement of hedging instruments for loans and advances to customers	–1,374	6,887
Measurement of hedging instruments for available for sale financial instruments	2,449	10,214
Measurement of hedging instruments for liabilities to banks	204	–35
Measurement of hedging instruments for liabilities to customers	5,814	–6,036
Measurement of hedging instruments for securitised liabilities	18,698	–5,143
Measurement of hedging instruments for subordinated capital	2,936	–932
Net result of the measurement of hedging instruments	**26,329**	**8,793**
Net result on hedge accounting	**1,674**	**869**

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

in '000 EUR	2016	2015
Trading result	3,781	20,316
Result from the valuation of financial instruments – HFT	49	–16
Result from the valuation of derivatives	–55,610	–115,885
Result from the valuation of financial instruments – AFV	79,778	96,605
Net trading result (not including change in own credit risk)	**27,998**	**1,020**

Of which trading result

in '000 EUR	2016	2015
Currency-based transactions	2,895	5,864
Interest-based transactions	878	14,452
Result from consolidation of liabilities	8	0
Trading result	**3,781**	**20,316**

Currency-related transactions include translation differences from assets and liabilities in foreign currencies. In 2016, the translation difference amounted to TEUR 4,859 (2015: TEUR 6,162).

Of which result from the valuation of financial instruments HFT

in '000 EUR	2016	2015
HFT – realised gains	26	0
HFT – appreciation in value	46	26
HFT – depreciation/amortisation	–23	–42
Result from the valuation of financial instruments – HFT	**49**	**–16**

Of which result from the valuation of derivatives

in '000 EUR	2016	2015
Interest rate swaps	–56,356	–102,731
Cross-currency swaps	816	–11,489
Interest rate options	–192	–634
Credit default swaps	24	–18
Securities options	0	49
Foreign exchange forwards	–16	–99
Currency swaps	114	–963
Result from the valuation of derivatives	**–55,610**	**–115,885**

There is no intention to trade with these derivatives. They are used to hedge long-term underlying transactions, even if no hedge accounting is presented according to which the underlying transactions are mainly subject to the fair value option.

Of which result from the valuation of financial instruments at fair value

in '000 EUR	2016	2015
Realised gains on assets AFV	69	0
Realised gains on liabilities LAFV	1,259	21,998
Realised losses on assets AFV	–6,398	–958
Realised losses on liabilities LAFV	–587	–17
Impairment reversals on assets AFV	21,262	4,783
Impairment reversals on liabilities LAFV	67,381	137,367
Impairments on assets AFV	–5,798	–57,693
Impairments on liabilities LAFV	2,590	–8,875
Result from the valuation of financial instruments – AFV	**79,778**	**96,605**

As in the previous year, there was no new hedging of credit risk using credit derivatives or similar instruments in the 2016 reporting year. In 2014, a credit default swap was concluded that hedges items of the proprietary securities portfolio. However, this was reversed in 2016.

The result from the valuation of financial instruments at fair value does not include the measurement effect for financial liabilities resulting from the change in own credit risk of TEUR –33,955 (2015: TEUR +18,236). This measurement effect is reported under a separate item in the income statement. Due to the very high volume, major fluctuations arise from this valuation. However, these have nothing to do with the Group's business operations as the Group services its obligations in full and, in contrast to financial assets at fair value, financial liabilities cannot be sold. IFRS 9 also provides that, in future, these measurement effects are to be recognised directly in other comprehensive income rather than in the income statement.

(10) NET RESULT FROM OTHER FINANCIAL INSTRUMENTS

in '000 EUR	2016	2015
Realised gains on sales of financial instruments	3,033	20,226
Realised losses on sales of financial instruments	–680	–645
Impairment reversals on financial instruments	8,956	8,348
Impairments on financial instruments	–496	–12,358
Net result from other financial instruments	**10,813**	**15,571**

Due to disposals of available-for-sale assets, TEUR 64 (2015: TEUR –8,044) was reversed from the reserve via the income statement in the reporting year. The reclassification is included in the following table under AFS – realised gains and AFS – realised losses.

Net result from other financial instruments by measurement classification

in '000 EUR	2016	2015
AFS – realised gains	932	732
AFS – realised losses	–257	–238
AFS – impairment reversals	1,975	6,859
AFS – impairments	–178	–1.331
Result from financial assets AFS	**2,472**	**6,022**
HTM – realised gains	0	229
HTM – realised losses	–33	–172
HTM – impairment reversals	197	404
HTM – impairments	0	–97
Result from financial assets HTM	**164**	**364**
L&R – realised gains	1,474	4,773
L&R – realised losses	–337	–197
L&R – impairment reversals	6,465	1,015
L&R – impairments	–91	–10,607
Result from financial assets L&R	**7,511**	**–5,016**
LAC – realised gains	627	14,492
LAC – realised losses	–53	–38
LAC – impairment reversals	319	70
LAC – impairments	–227	–323
Result from liabilities LAC	**666**	**14,201**
Net result from other financial instruments	**10,813**	**15,571**

(11) ADMINISTRATIVE EXPENSES

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

in '000 EUR	2016	2015
Staff costs	–59,735	–58,271
Materials expenses	–32,966	–29,759
Depreciation/amortisation of property, plant and equipment and intangible assets	–4,413	–4,432
Administrative expenses	**–97,114**	**–92,462**

Of which staff costs

in '000 EUR	2016	2015
Wages and salaries	–44,436	–43,514
Statutory social security contributions	–11,460	–11,205
Voluntary social benefits	–782	–750
Expenses for retirement benefits	–2,858	–2,066
Social capital	–199	–736
Staff costs	**–59,735**	**–58,271**

Expenses for pensions and other benefits include payments for defined contribution plans as part of an employee benefit fund and pension fund contributions of TEUR 1,338 (2015: TEUR 1,206).

Of which material expenses

in '000 EUR	2016	2015
Building expenses	–5,267	–5,588
IT expenses	–10,749	–9,149
Advertising and PR expenses	–4,703	–4,551
Legal and advisory expenses	–3,098	–1,867
Communications expenses	–1,282	–1,289
Organisational form-related expenses	–2,372	–2,392
Staff development expenses	–1,351	–1,001
Other materials expenses	–4,144	–3,922
Materials expenses	**–32,966**	**–29,759**

Building expenses include rental payments for rented and leased assets. Minimum rental expenses of TEUR 1,427 (2016: TEUR 1,404) are expected for 2017 and TEUR 7,353 (2016: TEUR 7,238) for the next five years.

Minimum lease payments from non-terminable operating leases

in '000 EUR	2016	2015
Up to 1 year	–1,108	–1,103
More than 1 year to 5 years	–3,182	–3,146
More than 5 years	–3,973	–5,187
Minimum lease payments from non-terminable operating leases (lessor)	**–8,263**	**–9,436**

Of which depreciation of property, plant and equipment and intangible assets

in '000 EUR	2016	2015
Depreciation of property, plant and equipment	–3,704	–3,737
Depreciation of intangible assets	–709	–695
Depreciation/amortisation of property, plant and equipment and intangible assets	**–4,413**	**–4,432**

(12) OTHER INCOME

in '000 EUR	2016	2015
Income from operating leases	4,337	4,437
Income from the disposal of assets	2,756	2,778
Other revenue from leasing business	1,652	1,818
Operating cost income	1,735	2,329
Merchandise revenues	2,612	1,744
Revenues from consultancy and other services	495	418
Miscellaneous other income	7,423	3,985
Other income	**21,010**	**17,509**

Income from operating leases constitutes rental income from let properties. The minimum lease income from non-terminable operating leases for future periods are shown in the table below.

Minimum lease payments from non-terminabl operating leases

in '000 EUR	2016	2015
Up to 1 year	3,551	3,426
More than 1 year to 5 years	8,019	8,572
More than 5 years	7,153	7,390
Minimum lease payments from non-terminable operating leases (lessor)	**18,723**	**19,388**

(13) OTHER EXPENSES

in '000 EUR	2016	2015
Depreciation/amortisation investment properties	–1,761	–1,343
Impairment investment properties	–300	–270
Depreciation/amortisation other assets	–1,248	–2,956
Impairment other assets	0	–330
Disposals of remaining carrying amounts	–59	–71
Losses on the disposal of assets	–2,774	–3,359
Other expenses from leasing business	–2,006	–2,880
Operating cost expenses	–1,886	–3,118
Cost of merchandise	–2,574	–1,706
Other tax expenses	–36,651	–13,551
Expenses resulting from losses	–6,833	–3,629
Miscellaneous other expenses	–8,738	–4,768
Other expenses	**–64,830**	**–37,981**

Other tax expenses include the stability fee of TEUR 36,235 (2015: TEUR 13,047). The rise is attributable to a one-off advance payment amounting to TEUR 22,826 made in 2016.

(14) TAXES ON INCOME

in '000 EUR	2016	2015
Current income taxes	–34,064	–29,277
Deferred income taxes	5,241	971
Income taxes from previous periods	–368	144
Taxes on income	**–29,191**	**–28,162**

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

in '000 EUR	2016	2015
Earnings before taxes	117,619	121,146
Applicable tax rate	25%	25%
Income tax computed	**–29,405**	**–30,287**
Tax effects		
from tax-exempt investment income	1,228	2,573
from other tax-exempt income	14	23
from previous years and tax rate changes	–295	32
from differing international tax rates	270	698
from other non-deductible expenses	–30	–1,794
from other differences	–973	593
Taxes on income	**–29,191**	**–28,162**

Due to the measurement of financial assets classified as available for sale outside profit or loss, deferred taxes were allocated directly to other comprehensive income and thus likewise recognised outside profit or loss. As of 31 December 2016, these deferred taxes amounted to TEUR 3,406 (tax liability) (2015: TEUR 3,173 tax liability).

C. NOTES TO THE BALANCE SHEET

(15) CASH AND BALANCES WITH CENTRAL BANKS

in '000 EUR	31.12.2016	31.12.2015
Cash on hand	26,043	28,814
Balances with central banks	311,962	683,728
Deferred interest	–5	–51
Cash and balances with central banks	**338,000**	**712,491**

Balances at central banks of TEUR 48,383 (2015: TEUR 46,482) are dedicated to the minimum reserve according to the ECB regulation. According to the OeNB's definition, the minimum reserve represents a working balance for ongoing payment transactions. For this reason, the minimum reserve meets the definition of cash and cash equivalents and is therefore reported under cash and balances with central banks.

(16) LOANS AND ADVANCES TO BANKS (L&R)

Loans and advances to banks – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Interbank accounts	151,332	135,049
Money market investments	357	1,525
Loans to banks	12,786	11,680
Bonds	406,748	486,483
Other loans and advances	4,066	15,392
Loans and advances to banks	**575,289**	**650,129**

In loans and advances to banks, the use of hedge accounting led to amortised costs of TEUR 145,488 (2015: TEUR 212,058) being adjusted by the hedged fair value of TEUR 17,509 (2015: TEUR 13,970).

Loans and advances to banks – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	220,389	307,035
Germany	170,075	117,808
Switzerland and Liechtenstein	53,027	64,301
Italy	1,245	764
Other foreign countries	130,553	160,221
Loans and advances to banks	**575,289**	**650,129**

Valuation allowances included – by type

in '000 EUR	31.12.2016	31.12.2015
Portfolio valuation allowances	–259	–198
Loan loss provisions for loans and advances to banks	**–259**	**–198**

(17) LOANS AND ADVANCES TO CUSTOMERS (L&R)

Loans and advances to customers – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Cash advances	263,913	308,174
Overdraft lines	754,764	791,846
Acceptance credits	14,106	13,885
Municipal cover loans	682,058	708,052
Mortgage bond cover	2,640,374	2,674,953
Lombard loans	279,860	115,931
Other loans	2,912,849	2,861,682
Lease receivables (net investment in a lease)	1,156,928	1,236,325
Bonds	345,087	350,334
Other loans and advances	59	176
Loans and advances to customers	**9,049,998**	**9,061,358**

In loans and advances to customers, the use of hedge accounting led to amortised costs of TEUR 766,947 (2015: TEUR 711,007 being adjusted by the hedged fair value of TEUR 46,616 (2015: TEUR 45,460).

Loans and advances to customers – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	5,982,017	5,874,706
Germany	1,097,969	1,100,850
Switzerland and Liechtenstein	685,489	676,600
Italy	913,526	961,440
Other foreign countries	370,997	447,762
Loans and advances to customers	**9,049,998**	**9,061,358**

Loans and advances to customers – breakdown by segment

in '000 EUR	31.12.2016	31.12.2015
Corporate Customers	5,403,932	5,282,178
Private Customers	1,928,813	1,887,495
Financial Markets	519,652	561,497
Corporate Center	1,197,601	1,330,188
Loans and advances to customers	**9,049,998**	**9,061,358**

Loans and advances to customers – breakdown by industry

in '000 EUR	31.12.2016	31.12.2015
Public sector	710,130	753,380
Financial intermediaries	212,102	160,916
Commerce	1,444,498	1,300,700
Industry	603,500	641,661
Trading	507,927	557,895
Tourism	468,957	496,366
Real estate	1,488,892	1,482,299
Other industries	1,402,337	1,461,702
Liberal professionals	186,274	200,754
Private households	2,022,503	2,002,065
Other	2,878	3,620
Loans and advances to customers	**9,049,998**	**9,061,358**

Gross and net investment in leases

The Group mainly leases real estate and to a lesser extent movables under finance leases. For the receivables from finance leases included in this item, gross investment is reconciled with the present value of the minimum lease payments as follows.

in '000 EUR	31.12.2016	31.12.2015
Minimum lease payments	1,372,012	1,475,422
Non-guaranteed residual values	0	0
Gross total investment	**1,372,012**	**1,475,422**
Unrealised financial income	–215,084	–239,097
Net investment	**1,156,928**	**1,236,325**
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	**1,156,928**	**1,236,325**

The cumulative valuation allowance on finance leases amounts to TEUR 28,207 (2015: TEUR 29,952).

Leases – breakdown by maturity

in '000 EUR	31.12.2016	31.12.2015
Gross total investment	**1,372,012**	**1,475,422**
of which up to 1 year	211,771	208,121
of which 1 to 5 years	499,170	503,866
of which more than 5 years	661,071	763,435
Present value of minimum lease payments	**1,156,928**	**1,236,325**
of which up to 1 year	175,531	171,956
of which 1 to 5 years	399,596	396,001
of which more than 5 years	581,801	668,368

Included valuation allowances by type

in '000 EUR	31.12.2016	31.12.2015
Specific valuation allowances	–88,925	–152,248
Portfolio valuation allowances	–15,191	–15,713
Allowance for losses on loans and advances to customers	**–104,116**	**–167,961**

Loan loss provisions – breakdown by segment

in '000 EUR	31.12.2016	31.12.2015
Corporate Customers	–62,690	–86,242
Private Customers	–12,811	–14,936
Financial Markets	–332	–15,542
Corporate Center	–28,283	–51,241
Loan loss provisions for loans and advances to customers	**–104,116**	**–167,961**

Changes in the valuation allowances included

in '000 EUR	individual valuation allowances		portfolio valuation allowances		Total	
	2016	2015	2016	2015	2016	2015
Balance 1 January	**–152,248**	**–153,259**	**–15,713**	**–15,674**	**–167,961**	**–168,933**
Currency differences	3	–1,694	0	0	3	–1,694
Reclassification	274	876	0	0	274	876
Utilisation	25,556	38,339	5	13	25,561	38,352
Reversal	57,359	21,833	1,756	1,320	59,115	23,153
Additions	–19,869	–58,343	–1,239	–1,372	–21,108	–59,715
Balance 31 December	**–88,925**	**–152,248**	**–15,191**	**–15,713**	**–104,116**	**–167,961**

(18) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2016	31.12.2015
Positive market value of fair value hedges	81,664	63,451
Deferred interest on derivative hedges	17,147	12,919
Positive market values of hedges	**98,811**	**76,370**

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

in '000 EUR	Nominal values		Positive market values		Negative market values	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Interest rate swaps	3,833,147	3,156,938	80,796	61,800	96,764	111,010
Cross currency swaps	195,006	186,797	868	1,651	34,205	34,965
Interest rate derivatives	**4,028,153**	**3,343,735**	**81,664**	**63,451**	**130,969**	**145,975**
Derivatives	**4,028,153**	**3,343,735**	**81,664**	**63,451**	**130,969**	**145,975**

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

(19) TRADING ASSETS AND DERIVATIVES

Trading assets and derivatives – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Investment certificates	661	675
Positive market values of derivative financial instruments	271,093	413,945
Deferred interest	37,560	47,021
Trading assets and derivatives	**309,314**	**461,641**

Trading assets and derivatives – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	34,744	41,827
Germany	106,621	179,804
Switzerland and Liechtenstein	518	516
Other foreign countries	167,431	239,494
Trading assets and derivatives	**309,314**	**461,641**

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

in '000 EUR	Nominal values		Positive market values		Negative market values	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Interest rate swaps	4,015,900	4,917,355	220,582	290,249	134,705	142,854
Cross currency swaps	1,283,800	1,348,834	44,269	114,036	88,626	82,230
Interest rate options	230,273	380,999	2,345	2,723	1,903	2,088
Interest rate derivatives	**5,529,973**	**6,647,188**	**267,196**	**407,008**	**225,234**	**227,172**
FX forward transactions	291,676	361,003	2,994	6,410	2,570	5,971
FX swaps	238,380	182,800	727	527	441	355
FX options	3,161	0	176	0	176	0
Currency derivatives	**533,217**	**543,803**	**3,897**	**6,937**	**3,187**	**6,326**
Credit default swaps	0	15,000	0	0	0	211
Credit derivatives	**0**	**15,000**	**0**	**0**	**0**	**211**
Derivatives	**6,063,190**	**7,205,991**	**271,093**	**413,945**	**228,421**	**233,709**

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

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

in '000 EUR	31.12.2016	31.12.2015
Debt securities of public issuers	190,524	223,960
Debt securities of other issuers	142,843	202,507
Investment certificates	2,770	0
Other equity interests	5,410	5,191
Loans and advances to customers	454,932	499,156
Deferred interest	5,729	7,200
Financial assets – designated at fair value	**802,208**	**938,014**

Disclosures on changes in fair value

in '000 EUR	2016	2015
Credit exposure	**802,208**	**938,014**
Collateral	359,116	419,378
Total change in market value	**115,764**	**113,568**
of which due to market risk	110,070	130,092
of which due to credit risk	5,694	–16,524
Change in market value in the reporting period	**2,196**	**–40,910**
of which due to market risk	–20,021	–22,181
of which due to credit risk	22,217	–18,729

The change in fair value due to credit risk is determined using a model in which the change in fair value due to market risk is deducted from the total change in fair value. The disposal of financial instruments at fair value resulted in a realised loss of TEUR –12,702 (2015: TEUR 5,304). This loss was offset by a realised gain on the disposal of derivatives in the amount of TEUR 12,991 (2015: TEUR 15,719). In particular, these derivatives hedge interest rate, currency fluctuation and market price risks. In 2015, Hypo Landesbank Vorarlberg held one credit derivative to hedge credit risk from financial assets which are voluntarily designated at fair value. This was reversed in 2016.

Financial assets designated at fair value – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	525,143	570,004
Germany	67,431	103,811
Switzerland and Liechtenstein	40,254	40,918
Italy	12,028	12,189
Other foreign countries	157,352	211,092
Financial assets – designated at fair value	**802,208**	**938,014**

Financial assets designated at fair value – breakdown by industry

in '000 EUR	31.12.2016	31.12.2015
Public sector	546,509	591,390
Financial institutions	110,668	123,886
Financial intermediaries	35,177	69,035
Commerce	11,733	11,144
Industry	31,964	49,907
Trading	6,488	25,666
Real estate	10,541	14,312
Other industries	27,559	27,529
Liberal professionals	639	660
Private households	20,930	24,485
Financial assets – designated at fair value	**802,208**	**938,014**

(21) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Debt securities of public issuers	329,611	314,629
Debt securities of other issuers	391,179	383,679
Shares	110	110
Investment certificates	5,835	5,921
Other equity interests	19,913	17,764
Deferred interest	11,209	12,506
Other equity investments	11,208	10,789
Other investments in affiliated companies	28	28
Financial assets – available for sale	**769,093**	**745,426**

Financial assets available for sale – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	348,706	363,038
Germany	50,761	33,850
Switzerland and Liechtenstein	41,278	36,859
Italy	4,253	9,488
Other foreign countries	324,095	302,191
Financial assets – available for sale	**769,093**	**745,426**

Financial assets available for sale – breakdown by industry

in '000 EUR	31.12.2016	31.12.2015
Public sector	352,577	332,247
Financial institutions	338,984	317,854
Financial intermediaries	30,186	44,756
Commerce	17	15
Industry	10,805	17,110
Tourism	625	625
Real estate	201	201
Other industries	35,698	32,618
Financial assets – available for sale	**769,093**	**745,426**

"Financial assets – available for sale" includes other investments and shares in associates with a carrying amount of TEUR 11,236 (2015: TEUR 10,817). No fair value was carried on the balance sheet for these assets. It is not possible to reliably determine the fair value of these financial instruments, as they are not traded on an active market, no similar investments were observable on the market, and internal models do not allow a reliable measurement. These assets relate to strategic investments by the Group. There is therefore no intention to sell them. None of the investments not measured at fair value were sold in 2016.

The movements in the available-for-sale remeasurement reserve were recognised outside of profit or loss and thus in other comprehensive income. As of 31 December 2016, this amounted to TEUR 40,888 (2015: TEUR 41,861). In the measurement of available-for-sale assets, deferred taxes were deducted directly from other comprehensive income. Due to disposals of available-for-sale assets, TEUR 64 (2015: TEUR –8,044) was reversed from the reserve in the income statement in the reporting year. Impairments on these assets were recognised through profit or loss under net result from other financial instruments in Note (10) and amounted to TEUR –178 in 2016 (2015: TEUR 1,331).

Due to the application of hedge accounting, the changes in market value of TEUR 30,669 (2015: TEUR 32,343) recognised in other comprehensive income were reduced by the effective hedged fair value change and recognised through profit or loss in the income statement under net result on hedge accounting.

(22) FINANCIAL ASSETS HELD TO MATURITY (HTM)

Financial assets held to maturity – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Debt securities of public issuers	282,147	301,780
Debt securities of other issuers	795,733	658,237
Supplementary capital of other issuers	10,000	9,994
Deferred interest	16,013	17,674
Financial assets – held to maturity	**1,103,893**	**987,685**

In 2016 no valuation allowance was recognised in the net result from other financial instruments (valuation allowance 2015: TEUR 97). The portfolio valuation allowance reduced assets by TEUR 192 in the 2016 financial year (2015: TEUR 190).

Financial assets held to maturity – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	279,444	222,204
Germany	84,711	74,712
Switzerland and Liechtenstein	10,007	0
Italy	0	5,173
Other foreign countries	729,731	685,596
Financial assets – held to maturity	**1,103,893**	**987,685**

Financial assets held to maturity – breakdown by industry

in '000 EUR	31.12.2016	31.12.2015
Public sector	287,073	307,801
Financial institutions	767,667	618,392
Financial intermediaries	14,449	19,440
Commerce	0	8,170
Industry	1,001	5,173
Other industries	33,703	28,709
Financial assets – held to maturity	**1,103,893**	**987,685**

(23) SHARES IN COMPANIES VALUED AT EQUITY

Change in shares in companies measured at equity

in '000 EUR	2016	2015
Carrying value of holding 1 January	**34,554**	**34,593**
Attributable profit/loss	672	1,172
Changes in the scope of consolidation	–81	0
Dividends	–395	–1,211
Carrying value of holding 31 December	**34,750**	**34,554**

The difference between the carrying amount of investments and the pro rata equity of associates included in the consolidated financial statements using the equity method is TEUR 13,011 (2015: TEUR 12,812). This difference was added to the value of the investments and to retained earnings. The gains and losses from these companies were recognised only on a pro rata basis through profit or loss in the income statement under the result from equity consolidation. These gains and losses amounted to TEUR 2,451 in 2016 (2015: TEUR 1,172). Further information on companies measured at equity is provided under Part VII.

(24) INVESTMENT PROPERTY

in '000 EUR	31.12.2016	31.12.2015
Land portion	11,459	7,844
Buildings portion	47,699	35,674
Investment property	**59,158**	**43,518**

In 2016, the property portfolio comprised 57 (2015: 44) properties in Austria, Switzerland, Germany and Italy. The portfolio includes both residential properties with a carrying amount of TEUR 6,082 (2015: TEUR 5,957) and commercial properties with a carrying amount of TEUR 53,075 (2015: TEUR 37,562). The current market value of our property portfolio is TEUR 76,859 (2015: TEUR 51,886).

The properties are valued according to the key parameters shown below on the basis of internal appraisals. They therefore correspond to Level 3 in the fair value hierarchy.

Key parameters for real estate appraisal	2016	2015
Return in %	2.5 – 8.0	3.5 – 7.5
Inflation rate in %	1.5 – 2.0	2.0
Rental loss risk in %	**1.5 – 8.0**	**1.5 – 8.0**

There are no material restrictions on the disposal of these assets. Likewise, there are no contractual obligations to purchase, build or develop such properties. The development of investment property is shown in Note (30). The rental payments reported for investment property are shown in Note (12).

(25) INTANGIBLE ASSETS

Intangible assets – breakdown by type

in '000 EUR	31.12.2016	31.12.2015
Software acquired	1,767	784
Other intangible assets	244	52
Intangible assets	**2,011**	**836**

The development of intangible assets is shown in Note (30).

(26) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

in '000 EUR	31.12.2016	31.12.2015
Land without buildings	951	966
Land with buildings	10,419	10,403
Buildings	58,354	59,158
Operational and office equipment	4,143	5,190
Leased movables	839	362
Construction in progress	206	76
Property, plant and equipment	**74,912**	**76,155**

The gross carrying amount of fully depreciated property, plant and equipment that is still in use is TEUR 9,879 (2015: TEUR 9,575). The development of property, plant and equipment is shown in Note (30).

(27) DEFERRED TAX ASSETS

In the table below, the deferred tax liabilities that on balance represent an asset in the respective tax entity are deducted from the tax assets.

in '000 EUR	31.12.2016	31.12.2015
Temporary differences from the measurement of financial instruments via the income statement	6,653	0
Temporary differences from writing-down assets	2,942	2,639
Temporary differences from provisions	391	441
Temporary differences from social capital	4,331	4,682
Temporary differences from impairments	6,307	9,940
Other temporary differences	1,110	1,855
From tax loss carryforwards	144	146
Deferred tax assets	**21,878**	**19,703**
Set-off of deferred taxes	–12,680	–9,355
Net deferred tax assets	**9,198**	**10,348**

Within the Group, there are loss carryforwards that have not yet been applied but that have been capitalised in the amount of TEUR 367 (2015: TEUR 381). In addition, there are tax loss carryforwards of TEUR 5,377 (2015: TEUR 4,861) that have not been capitalised in the Group. The non-capitalised loss carryforwards in the Group can be carried forward indefinitely.
A breakdown of total deferred tax assets by maturity is shown in Note (44).

(28) NON-CURRENT ASSETS AVAILABLE FOR SALE

in '000 EUR	31.12.2016	31.12.2015
Available for sale real estate	0	12,223
Non-current assets available for sale	**0**	**12,223**

In the previous year, an investment property was reclassified to non-current assets available for sale as a signed purchase contract with an investor was in place as at 31 December 2015. Management's intention to sell was evidenced by conclusion of the purchase contract. However, the purchase contract granted the buyer the right to withdraw from the purchase contract within a defined period. Contrary to expectations and the sales process the investor exercised this option, leading the Group to reclassify the property under its original balance sheet item of investment property again in 2016. As the estimated value less costs to sell exceeded and continues to exceed the carrying amount, the reclassification had no effect on the income statement or other comprehensive income in either 2015 or 2016.

(29) OTHER ASSETS

in '000 EUR	31.12.2016	31.12.2015
Other properties	52,447	50,299
Trade receivables	219	456
Cheque receivables	0	17
Other tax assets	4,362	7,385
Deferred receivables	320	420
Other assets	39,580	29,500
Other assets	**96,928**	**88,077**

Prepaid expenses and any assets not attributable to one of the other asset items are reported under other assets. This item also includes properties that are not property, plant and equipment according to IAS 16, investment property according to IAS 40, or non-current assets available for sale according to IFRS 5. These properties are closely associated with the realisation of collateral from the lending business. A breakdown by maturity is shown in Note (44). Impairments on other properties are recognised under other expenses in Note (13) and amounted to TEUR 0 in 2016 (2015: TEUR 330).

(30) STATEMENT OF CHANGES IN ASSETS

in '000 EUR 2015	Acquisition cost 01.01.	Currency translation	Acquisitions	Additions	Disposals	Reclassifications	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,574	174	0	195	–97	0	7,846	784
Other intangible assets	179	0	0	0	–125	0	54	52
Intangible assets	**7,753**	**174**	**0**	**195**	**–222**	**0**	**7,900**	**836**
Owner-occupied land and buildings	95,311	895	0	3,478	–120	526	100,090	69,561
Operational and office equipment	14,637	72	0	2,001	–1,022	3	15,691	5,190
Other property, plant and equipment	2,620	0	0	139	–403	–673	1,683	1,404
Property, plant and equipment	**112,568**	**967**	**0**	**5,618**	**–1,545**	**–144**	**117,464**	**76,155**
Investment property	87,674	0	0	3,301	–875	–32,585	57,515	43,518
Total	**207,995**	**1,141**	**0**	**9,114**	**–2,642**	**–32,729**	**182,879**	**120,509**

in '000 EUR 2015	Cumulative depreciation/amortisation 01.01.	Currency translation	Acquisitions	Regular amortisation	Disposals	Reclassifications	Impairments	Cumulative depreciation/amortisation 31.12.
Software acquired	–6,340	–104	0	–695	77	0	0	–7,062
Other intangible assets	–127	0	0	0	125	0	0	–2
Intangible assets	**–6,467**	**–104**	**0**	**–695**	**202**	**0**	**0**	**–7,064**
Owner-occupied land and buildings	–28,352	–122	0	–2,197	117	25	0	–30,529
Operational and office equipment	–9,863	–59	0	–1,523	944	0	0	–10,501
Other property, plant and equipment	–300	0	0	–17	38	0	0	–279
Property, plant and equipment	**–38,515**	**–181**	**0**	**–3,737**	**1,099**	**25**	**0**	**–41,309**
Investment property	–27,348	0	0	–1,343	222	14,742	–270	–13,997
Total	**–72,330**	**–285**	**0**	**–5,775**	**1,523**	**14,767**	**–270**	**–62,370**

in '000 EUR 2016	Acquisition cost 01.01.	Currency translation	Acquisitions	Additions	Disposals	Reclassifications	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,846	17	0	1,694	0	–1	9,556	1,767
Other intangible assets	54	3	0	189	0	0	246	244
Intangible assets	**7,900**	**20**	**0**	**1,883**	**0**	**–1**	**9,802**	**2,011**
Owner-occupied land and buildings	100,090	80	0	1,353	0	50	101,573	68,773
Operational and office equipment	15,691	5	0	946	–1,230	–516	14,896	4,143
Other property, plant and equipment	1,683	0	0	200	–17	466	2,332	1,996
Property, plant and equipment	**117,464**	**85**	**0**	**2,499**	**–1,247**	**0**	**118,801**	**74,912**
Investment property	57,515	0	0	1,438	–619	36,396	94,730	59,158
Total	**182,879**	**105**	**0**	**5,820**	**–1,866**	**36,395**	**223,333**	**136,081**

in '000 EUR 2016	Cumulative depreciation/amortisation 01.01.	Currency translation	Acquisitions	Regular amortisation	Disposals	Reclassifications	Impairments	Cumulative depreciation/amortisation 31.12.
Software acquired	–7,062	–18	0	–709	0	0	0	–7,789
Other intangible assets	–2	0	0	0	0	0	0	–2
Intangible assets	**–7,064**	**–18**	**0**	**–709**	**0**	**0**	**0**	**–7,791**
Owner-occupied land and buildings	–30,529	–16	0	–2,255	0	0	0	–32,800
Operational and office equipment	–10,501	–4	0	–1,389	1,141	0	0	–10,753
Other property, plant and equipment	–279	0	0	–60	3	0	0	–336
Property, plant and equipment	**–41,309**	**–20**	**0**	**–3,704**	**1,144**	**0**	**0**	**–43,889**
Investment property	–13,997	0	0	–1,761	245	–19,759	–300	–35,572
Total	**–62,370**	**–38**	**0**	**–6,174**	**1,389**	**–19,759**	**–300**	**–87,252**

With regard to reclassification of the investment property item we refer to the disclosures under Note (28). In addition, there was a reclassification from other assets to the investment property item as the real estate portfolio of Hypo Vorarlberg Immo Italia srl, based in Bolzano, was adapted in line with the investment strategy.

(31) AMOUNTS OWED TO BANKS (LAC)

In liabilities to banks, the use of hedge accounting led to amortised costs of TEUR 12,996 (2015: TEUR 7,000) being adjusted by the hedged fair value of TEUR 375 (2015: TEUR 169).

Amounts owed to banks – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Interbank accounts	174,557	332,789
Money market borrowing	312,862	498,618
Loans from banks	72,958	313,080
Amounts owed to banks	**560,377**	**1,144,487**

Amounts owed to banks – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	374,212	701,976
Germany	106,380	282,125
Switzerland and Liechtenstein	21,446	42,547
Other foreign countries	58,339	117,839
Amounts owed to banks	**560,377**	**1,144,487**

(32) AMOUNTS OWED TO CUSTOMERS (LAC)

In liabilities to customers, the use of hedge accounting led to amortised costs of TEUR 256 (2015: TEUR 197) being adjusted by the hedged fair value of TEUR 19,425 (2015: TEUR 13,602).

Amounts owed to customers – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Demand deposits	2,831,803	2,932,407
Time deposits	1,198,607	878,684
Savings deposits	648,335	673,846
Special-interest savings books	603,352	510,881
Amounts owed to customers	**5,282,097**	**4,995,818**

Amounts owed to customers – breakdown by region

in '000 EUR	31.12.2016	31.12.2015
Austria	4,133,202	3,825,835
Germany	576,377	520,915
Switzerland and Liechtenstein	248,772	280,697
Italy	28,299	6,497
Other foreign countries	295,447	361,874
Amounts owed to customers	**5,282,097**	**4,995,818**

Amounts owed to customers – breakdown by segment

in '000 EUR	31.12.2016	31.12.2015
Corporate Customers	1,825,456	1,856,818
Private Customers	2,637,749	2,295,835
Financial Markets	667,594	656,683
Corporate Center	151,298	186,482
Amounts owed to customers	**5,282,097**	**4,995,818**

Amounts owed to customers – breakdown by industry

in '000 EUR	31.12.2016	31.12.2015
Public sector	592,927	636,143
Financial intermediaries	845,173	778,892
Commerce	599,251	516,807
Industry	524,368	426,836
Trading	215,320	221,181
Tourism	45,987	30,852
Real estate	94,732	72,440
Other industries	285,364	300,578
Liberal professionals	144,199	155,080
Private households	1,926,318	1,850,357
Other	8,458	6,652
Amounts owed to customers	**5,282,097**	**4,995,818**

(33) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

Liabilities evidenced by certificates – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Mortgage bonds	1,127,574	1,106,919
Municipal bonds	42,470	40,702
Medium-term fixed-rate notes	1,827	2,017
Bonds	1,260,247	927,219
Housing construction bonds	57,176	68,133
Bonds issued by Pfandbriefbank	175,876	241,236
Deferred interest	17,097	16,376
Liabilities evidenced by certificates	**2,682,267**	**2,402,602**

Repurchased own bonds of TEUR 307,450 (2015: TEUR 324,024) were deducted directly from liabilities evidenced by certificates. In liabilities evidenced by certificates, the use of hedge accounting led to amortised costs of TEUR 2,072,902 (2015: TEUR 1,827,159) being adjusted by the hedged fair value of TEUR 56,715 (2015: TEUR 38,371)

(34) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2016	31.12.2015
Negative market values of fair value hedges	130,969	145,975
Deferred interest on derivative hedging instruments	15,878	14,972
Negative market values of hedges	**146,847**	**160,947**

The nominal values and the negative market values of the hedging instruments are shown in Note (18). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(35) TRADING LIABILITIES AND DERIVATIVES

Trading liabilities and derivatives – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Negative market values of derivative financial instruments	228,421	233,709
Deferred interest	4,622	5,918
Trading liabilities and derivatives	**233,043**	**239,627**

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

(36) FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE (LAFV)

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

in '000 EUR	31.12.2016	31.12.2015
Amounts owed to banks at fair value	149,837	151,660
Amounts owed to customers at fair value	559,628	549,339
Mortgage bonds at fair value	26,206	26,314
Municipal bonds at fair value	734,990	744,635
Bonds at fair value	1,025,826	1.685,788
Housing construction bonds at fair value	199,672	162,229
Bonds issued by Pfandbriefbank at fair value	40,189	44,038
Supplementary capital at fair value	55,633	56,025
Deferred interest	34,403	44,329
Financial liabilities – designated at fair value	**2,826,384**	**3,464,357**

Repurchased own bonds of TEUR 20,918 (2015: TEUR 22,594) were deducted directly from financial liabilities designated at fair value.

Disclosures on changes in fair value

in '000 EUR	2016	2015
Carrying value	**2,826,384**	**3,464,357**
Amount repayable	2,655,412	3,252,545
Difference between carrying value and amount repayable	170,972	211,812
Total change in market value	**195,101**	**230,455**
of which due to market risk	185,007	254,316
of which due to credit risk	10,094	–23,861
Change in market value in the reporting period	**–35,354**	**–154,266**
of which due to market risk	–69,309	–136,030
of which due to credit risk	33,955	–18,236

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

(37) PROVISIONS

Provisions by type

in '000 EUR	31.12.2016	31.12.2015
Severance provisions	16,498	17,310
Pension provisions	5,814	5,994
Service anniversary provisions	2,222	2,194
Social capital	**24,534**	**25,498**
Provisions for guarantees/assumed liability	14,421	21,468
Provisions for credit risks	3,681	6,302
Provisions for ongoing litigation	1,284	2,707
Association obligation provisions	451	524
Provisions for other expenses	4,886	4,790
Other provisions	**24,723**	**35,791**
Provisions	**49,257**	**61,289**

A breakdown by maturity or the expected terms of resulting outflows is shown in Note (44).

Although guarantees and warranties are not shown on the balance sheet, the credit risk they pose is not insubstantial. To account for this default risk, provisions are recognised for customers with certain credit rating deterioration. If a contingent liability from a guarantee or warranty takes effect, we have the right to recourse from the guarantee holder. The collateral provided by the guarantee holder is therefore considered when recognising the provision. Therefore, an inflow of economic benefits in excess of the collateral is not expected.

Credit risk provisions are also intended to cover credit risk from undrawn borrowing facilities. Loans granted to customers but not yet drawn represent contingent liabilities. As these are not shown on the balance sheet, a loan loss provision is possible under provisions only. As they are loan commitments according to IAS 39.2(h), they come under the scope of IAS 37. Provisions for litigation include both the expected legal and consulting costs and the estimated payment obligations to the opposing party resulting from the proceedings.

Provisions for association obligation include pension payment obligations for employees of Hypo-Verband. These are reported under provisions and not social capital because they do not represent expenses for Group employees.

No specific assets or funding are in place for social capital, apart from the pension agreement for employees of the St. Gallen branch. For employees of the St. Gallen branch, the fund assets are invested by Swiss Life AG, Zürich, within the framework of the BVG collective foundation Swiss Life. The fund assets are professionally managed by Swiss Life AG and diversifying the risk is part of the investment strategy.

Employers and employees both pay their contributions into this fund. The fund assets and thus their measurement effects are therefore not included in these consolidated financial statements. Therefore, the provision recognises the net obligation from the present value of the defined benefit obligations less the fair value of the fund assets. Gains and losses from the allocation or reversal of provisions are shown directly in administrative expenses and other comprehensive income. For pension provisions, we are required by law to hold fixed interest securities as collateral for pension recipients'
pension entitlements.

Development of social capital

in '000 EUR 2015	Severance provisions	Pension provisions	Service Anniversary provisions	Total
Present value 1 January	**17,443**	**5,677**	**1,963**	**25,083**
Years of service expense	745	219	178	1,142
Interest expense	328	101	40	469
Payments	–475	–580	–82	–1,137
Actuarial gains/losses	–731	577	95	–59
Present value 31 December	**17,310**	**5,994**	**2,194**	**25,498**

in '000 EUR 2016	Severance provisions	Pension provisions	Service Anniversary provisions	Total
Present value 1 January	**17,310**	**5,994**	**2,194**	**25,498**
Years of service expense	562	351	194	1,107
Interest expense	326	101	44	471
Payments	–805	–587	–79	–1,471
Actuarial gains/losses	–895	–45	–131	–1,071
Present value 31 December	**16,498**	**5,814**	**2,222**	**24,534**

The actuarial gains/losses from severance and pension provisions of TEUR 939 (2015: TEUR 154) recognised in other comprehensive income are attributable to changes in financial assumptions.
For the defined benefit obligation for the employees of the St. Gallen branch, the components of the fund assets are described and the fund assets reconciled below.

Fund asset components

in '000 EUR	2016	2015
Fair value of assets from defined benefit plans	**2,997**	**2,591**
of which equity instruments	182	66
of which debt securities	2,338	2,163
of which properties	420	313
of which other assets from defined benefit plans	57	49
Present value of obligations from defined benefit plans	4,356	3,704
Net defined benefit obligation – St. Gallen branch	**1,359**	**1,113**

Reconciliation of fund assets

TEUR	2016	2015
Fair value of assets from defined benefit plans on 1 January	**2,591**	**2,179**
Currency translation effects	25	239
Interest income from assets	17	48
Gain/loss on remeasurement of assets	–198	–100
Employer contribution payments	248	242
Employee contribution payments	165	161
Plan participant contribution payments	402	188
Disbursements	–253	–366
Fair value of assets from defined benefit plans on 31 December	**2,997**	**2,591**

Changes in other provisions

in '000 EUR 2015	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	**37,231**	**6,287**	**1,143**	**535**	**3,902**	**49,098**
Currency translation	9	0	–2	0	5	12
Allocation	5,798	1,252	1,831	4	4,992	13,877
Use	0	0	–56	–15	–36	–107
Reversal	–21,570	–1,237	–209	0	–4,073	–27,089
Carrying value 31 December	**21,468**	**6,302**	**2,707**	**524**	**4,790**	**35,791**

in '000 EUR 2016	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	**21,468**	**6,302**	**2,707**	**524**	**4,790**	**35,791**
Currency translation	4	–1	3	0	2	8
Allocation	9,358	2,729	1,415	4	5,460	18,966
Use	–386	–811	–1,055	–77	–368	–2,697
Reversal	–16,023	–4,538	–1,786	0	–4,998	–27,345
Carrying value 31 December	**14,421**	**3,681**	**1,284**	**451**	**4,886**	**24,723**

Based on the settlement offer from the state of Carinthia for loans and advances to HETA ASSET RESOLUTION AG, provisions of TEUR 13,609 recognised for the assumption of liability in accordance with PfBrStG were reversed in the fourth quarter of 2016. A further provision of TEUR 3,764 was recognised for the share of Pfandbriefbank's original loans and advances to HETA ASSET RESOLUTION AG that are not yet due and are not covered by the settlement offer.

(38) TAX LIABILITIES

Tax liabilities – breakdown by type

in '000 EUR	31.12.2016	31.12.2015
Tax provision	19,497	14,252
Current tax liability	24	107
Tax liabilities	**19,521**	**14,359**

Development of the tax provision

TEUR	2016	2015
Carrying amount 1 Jan.	**14,252**	**2,022**
Currency translation	4	34
Allocation	19,206	14,090
Use	–13,941	–1,830
Reversal	–24	–64
Carrying amount 31 Dec.	**19,497**	**14,252**

The breakdown by maturity is shown in Note (44).

(39) DEFERRED TAX

In the table below, deferred tax assets are deducted from tax liabilities when they represent a liability in net terms in the respective tax entity. The breakdown by maturity is shown in Note (44).

in '000 EUR	31.12.2016	31.12.2015
Temporary differences from the measurement of financial instruments via the income statement	291	8,751
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	3,406	3,173
Temporary differences from writing down assets	2,524	2,362
Temporary differences from provisions	1,386	3,144
Other temporary differences	7,751	68
Deferred tax liabilities	**15,358**	**17,498**
Set-off of deferred taxes	–12,680	–9,355
Net deferred tax liabilities	**2,678**	**8,143**

(40) OTHER LIABILITIES

in '000 EUR	31.12.2016	31.12.2015
Liabilities in connection with social security	1,463	1,445
Other tax liabilities	29,986	6,347
Trade payments	9,700	5,986
Deferred liabilities	14,073	14,437
Other Liabilities	22,740	36,524
Other Liabilities	**77,962**	**64,739**

(41) SUBORDINATED CAPITAL (LAC)

Subordinated capital – breakdown by type of business

in '000 EUR	31.12.2016	31.12.2015
Subordinated capital	10,000	0
Supplementary capital	378,091	376,265
Deferred interest	924	637
Subordinated capital	**389,015**	**376,902**

In supplementary capital, the use of hedge accounting led to amortised costs of TEUR 147,228 (2015: TEUR 100,000) being adjusted by the hedged fair value of TEUR 9,673 (2015: TEUR 6,928). These hedges switch long-term fixed-interest positions to a variable interest rate.

Changes in Subordinated capital

in '000 EUR	2016	2015
Balance 1 January	**376,902**	**327,415**
New intake/sale from own holdings	11,169	51,039
Repayments	–2,225	–1,199
Change in deferred interest	288	165
Change from hedge accounting measurement	2,881	–518
Balance 31 December	**389,015**	**376,902**

(42) SHAREHOLDERS' EQUITY

Composition of equity – breakdown by type

in '000 EUR	31.12.2016	31.12.2015
Subscribed capital	165,453	165,453
Capital reserve	48,874	48,874
Retained earnings and other reserves	832,026	747,607
Revaluation reserves	8,548	7,160
of which AFS revaluation reserve	10,217	9,517
of which IAS 19 revaluation reserve	–1,669	–2,357
Reserves from currency translation	0	–1
Total parent company shareholders	**1,054,901**	**969,093**
Non-controlling interests	38	48
Total equity	**1,054,939**	**969,141**

The subscribed capital comprises the share capital of TEUR 156,453 (2015: TEUR 156,453), which was fully paid-in. On 31 December 2016, 305,605 (2015: 305,605) shares with a nominal value of EUR 511.9452 were issued. The subscribed capital also includes the fully paid-in participation certificates issued in 2008 of TEUR 9,000 (2015: TEUR 9,000).
On 31 December 2016, 1,000,000 (2015: 1,000,000) participation certificates with a nominal value of EUR 9.00 were issued. The participation certificates have no maturity and are not repayable. Distribution is based on a variable interest rate but can be carried out only if there is a sufficient distributable profit.

Retained earnings include the legal reserve. The reversal of the legal reserve amounting to TEUR 13,437 (2015: TEUR 13,421) is connected to the UGB.

Liable capital as per Section 57 (5) of the Austrian Banking Act is also reported under retained earnings. Liable capital amounting to TEUR 128,479 (2015: TEUR 128,476) may only be reversed in as much as this is necessary to fulfil obligations in accordance with Section 93 of the Austrian Banking Act or to cover other losses to be reported in the annual financial statements. Liable capital must be replenished to the extent of the amount reversed within the following five financial years at the latest.

Transfer of remeasurement reserves

in '000 EUR	AFS remeasurement reserve	IAS 19 remeasurement reserve	Total remeasurement reserves
Balance 1 January 2015	**16,048**	**–2,421**	**13,627**
Currency translation	0	–2	–2
Valuation in reserve	–664	154	–510
Recycling from reserve	–8,044	0	–8,044
Deferred taxes	2,177	–88	2,089
Balance 31 December 2015	**9,517**	**–2,357**	**7,160**

in '000 EUR	AFS remeasurement reserve	IAS 19 remeasurement reserve	Total remeasurement reserves
Balance 1 January 2016	**9,517**	**–2,357**	**7,160**
Currency translation	0	–7	–7
Valuation in reserve	870	939	1,809
Recycling from reserve	64	0	64
Deferred taxes	–234	–244	–478
Balance 31 December 2016	**10,217**	**–1,669**	**8,548**

Dividends of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft can distribute a dividend no larger than the unappropriated surplus of TEUR 15,000 (2015: TEUR 30,000) reported in the separate financial statements according to BWG and UGB.

The net profit according to UGB posted by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft for the 2016 financial year amounted to TEUR 98,390 (2015: TEUR 78,369). After the allocation to reserves of TEUR 109,484 (2015: TEUR 49,394) and the addition of the retained profit of TEUR 26,094 (2015: TEUR 1,025), accumulated profits available for appropriation totalled TEUR 15,000 (2015: TEUR 30,000). Subject to approval by the shareholders' meeting, a dividend of EUR 43.50 (2015: EUR 10.00) is proposed per entitled share based on the shares and the associated share capital of TEUR 156,453 (2015: TEUR 156,453). The dividend distribution will therefore be TEUR 13,294 (2015: TEUR 3,056) for 305,605 (2015: 305,605) shares. For the participation certificates issued in 2008, profits are distributed on the basis of an agreed variable interest rate, provided the interest payments are covered by the previous year's profit.

(43) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2015						
Cash and balances with central banks	621,174	210	91,002	7	98	712,491
Loans and advances to banks	338,999	36,509	159,811	2,913	111,897	650,129
Loans and advances to customers	7,080,690	76,053	1,777,475	28,027	99,113	9,061,358
Positive market values of hedges	69,953	0	6,157	0	260	76,370
Trading assets and derivatives	269,300	6,206	143,909	37,781	4,445	461,641
Financial assets – designated at fair value	781,608	26,195	31,889	79,483	18,839	938,014
Financial assets – available for sale	607,298	47,850	81,620	0	8,658	745,426
Financial assets – held to maturity	924,909	51,252	0	0	11,524	987,685
Shares in companies valued at equity	34,554	0	0	0	0	34,554
Investment property	43,518	0	0	0	0	43,518
Intangible assets	505	0	331	0	0	836
Property, plant and equipment	75,000	0	1,155	0	0	76,155
Tax assets	3,389	0	197	0	0	3,586
Deferred tax assets	10,348	0	0	0	0	10,348
Non-current assets available for sale	12,223	0	0	0	0	12,223
Other assets	86,460	39	1,106	0	472	88,077
Total assets	**10,959,928**	**244,314**	**2,294,652**	**148,211**	**255,306**	**13,902,411**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2015						
Amounts owed to banks	1,130,086	874	1,715	2,186	9,626	1,144,487
Amounts owed to customers	4,494,573	264,228	197,034	2,595	37,388	4,995,818
Liabilities evidenced by certificates	2,282,581	0	120,021	0	0	2,402,602
Negative market values of hedges	109,977	7,327	13,253	1,244	29,146	160,947
Trading liabilities and derivatives	217,332	3,012	6,382	7,675	5,226	239,627
Financial liabilities – designated at fair value	2,016,889	27,949	1,180,881	231,874	6,764	3,464,357
Provisions	59,807	0	1,482	0	0	61,289
Tax liabilities	13,769	0	482	0	108	14,359
Deferred tax liabilities	8,143	0	0	0	0	8,143
Other liabilities	62,699	22	1,335	0	683	64,739
Subordinated capital	376,902	0	0	0	0	376,902
Shareholders' equity	969,141	0	0	0	0	969,141
Total liabilities and shareholders' equity	**11,741,899**	**303,412**	**1,522,585**	**245,574**	**88,941**	**13,902,411**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2016						
Cash and balances with central banks	239,633	170	98,006	2	189	338,000
Loans and advances to banks	334,427	31,923	129,087	1,225	78,627	575,289
Loans and advances to customers	7,202,689	74,042	1,648,257	28,515	96,495	9,049,998
Positive market values of hedges	94,570	288	3,953	0	0	98,811
Trading assets and derivatives	226,011	1,389	34,709	42,870	4,335	309,314
Financial assets – designated at fair value	671,673	2,096	24,467	82,450	21,522	802,208
Financial assets – available for sale	602,275	67,127	89,311	0	10,380	769,093
Financial assets – held to maturity	1,047,595	52,333	0	0	3,965	1,103,893
Shares in companies valued at equity	34,750	0	0	0	0	34,750
Investment property	59,158	0	0	0	0	59,158
Intangible assets	1,814	0	197	0	0	2,011
Property, plant and equipment	73,929	0	983	0	0	74,912
Tax assets	824	0	0	0	0	824
Deferred tax assets	9,198	0	0	0	0	9,198
Other assets	96,675	41	33	0	179	96,928
Total assets	**10,695,221**	**229,409**	**2,029,003**	**155,062**	**215,692**	**13,324,387**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2016						
Amounts owed to banks	536,762	2,197	11,546	3,044	6,828	560,377
Amounts owed to customers	4,845,192	200,114	199,791	2,441	34,559	5,282,097
Liabilities evidenced by certificates	2,357,072	0	260,764	0	64,431	2,682,267
Negative market values of hedges	95,238	5,803	19,748	1,560	24,498	146,847
Trading liabilities and derivatives	211,504	1,565	4,035	9,515	6,424	233,043
Financial liabilities – designated at fair value	1,965,533	0	619,905	240,946	0	2,826,384
Provisions	48,791	0	466	0	0	49,257
Tax liabilities	18,913	0	608	0	0	19,521
Deferred tax liabilities	2,678	0	0	0	0	2,678
Other liabilities	76,895	37	623	0	407	77,962
Subordinated capital	389,015	0	0	0	0	389,015
Shareholders' equity	1,054,939	0	0	0	0	1,054,939
Total liabilities and shareholders' equity	**11,602,532**	**209,716**	**1,117,486**	**257,506**	**137,147**	**13,324,387**

The difference between assets and liabilities in the individual currencies does not constitute the Group's open foreign exchange position according to Article 352 CRR. Open foreign exchange positions are hedged with derivative financial instruments such as currency swaps or cross-currency swaps. However, these hedges are not carried in the IFRS balance sheet at nominal value but at market value. The sum of all open foreign exchange positions according to Article 352 CRR was TEUR 7,739 as of 31 December 2016 (2015: TEUR 15,839).

Foreign-denominated assets and liabilities

in '000 EUR	31.12.2016	31.12.2015
Foreign assets	5,527,854	5,768,843
Foreign liabilities	5,057,842	5,804,926

(44) MATURITIES

in '000 EUR 31.12.2015	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	683,677	0	0	0	0	28,814	712,491
Loans and advances to banks	164,554	55,032	124,350	194,867	111,326	0	650,129
Loans and advances to customers	715,574	521,713	551,144	2,550,143	4,668,452	54,332	9,061,358
Positive market values of hedges	0	409	790	43,839	31,332	0	76,370
Trading assets and derivatives	0	86,245	17,945	188,925	167,851	675	461,641
Financial assets – designated at fair value	0	43,913	87,159	247,337	547,488	12,117	938,014
Financial assets – available for sale	1	31,710	55,879	395,474	222,737	39,625	745,426
Financial assets – held to maturity	0	63,742	83,355	394,334	446,254	0	987,685
Shares in companies valued at equity	0	0	0	0	0	34,554	34,554
Investment property	0	0	0	0	0	43,518	43,518
Intangible assets	0	0	0	0	0	836	836
Property, plant and equipment	0	0	0	0	0	76,155	76,155
Tax assets	38	0	3,548	0	0	0	3,586
Non-current assets available for sale	0	0	12,223	0	0	0	12,223
Other assets	7,655	10,859	3,171	2,271	448	63,673	88,077
Assets	**1,571,499**	**813,623**	**939,564**	**4,017,190**	**6,206,182**	**354,353**	**13,902,411**

in '000 EUR 31.12.2015	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Amounts owed to banks	217,914	120,394	170,680	499,911	135,588	0	1,144,487
Amounts owed to customers	3,922,855	99,566	233,455	349,032	390,910	0	4,995,818
Liabilities evidenced by certificates	161	55,692	22,719	1,733,841	590,189	0	2,402,602
Negative market values of hedges	0	1,311	4,230	40,087	115,319	0	160,947
Trading liabilities and derivatives	0	3,253	8,291	93,251	134,832	0	239,627
Financial liabilities – designated at fair value	0	442,718	119,781	2,120,373	781,485	0	3,464,357
Provisions	28	128	5,500	29,725	23,510	2,398	61,289
Tax liabilities	257	0	14,102	0	0	0	14,359
Deferred tax liabilities	400	18,228	–3,747	–3,699	–3,911	872	8,143
Other liabilities	34,948	9,045	15,679	3,513	1,163	391	64,739
Subordinated capital	0	6,540	63,920	148,661	157,781	0	376,902
Shareholders' equity	0	0	0	0	0	969,141	969,141
Total Liabilities and Shareholders' equity	**4,176,563**	**756,875**	**654,610**	**5,014,695**	**2,326,866**	**972,802**	**13,902,411**

in '000 EUR 31.12.2016	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	311,957	0	0	0	0	26,043	338,000
Loans and advances to banks	157,822	39,233	112,575	126,555	139,104	0	575,289
Loans and advances to customers	433,826	784,629	968,318	2,874,145	3,969,078	20,002	9,049,998
Positive market values of hedges	0	206	301	46,094	52,210	0	98,811
Trading assets and derivatives	0	19,345	68,003	60,161	161,144	661	309,314
Financial assets – designated at fair value	883	26,252	92,228	281,870	398,205	2,770	802,208
Financial assets – available for sale	1	76,298	116,027	279,953	268,221	28,593	769,093
Financial assets – held to maturity	0	89,729	110,100	434,411	469,653	0	1,103,893
Shares in companies valued at equity	0	0	0	0	0	34,750	34,750
Investment property	0	0	0	0	0	59,158	59,158
Intangible assets	0	0	0	0	0	2,011	2,011
Property, plant and equipment	0	0	0	0	0	74,912	74,912
Tax assets	61	101	662	0	0	0	824
Deferred tax assets	0	0	3	0	9,165	30	9,198
Other assets	13,051	27,160	639	2,620	447	53,011	96,928
Assets	**917,601**	**1,062,953**	**1,468,856**	**4,105,809**	**5,467,227**	**301,941**	**13,324,387**

in '000 EUR 31.12.2016	Payable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Amounts owed to banks	220,944	56,320	11,523	12,821	258,769	0	560,377
Amounts owed to customers	3,439,838	661,659	178,026	718,654	283,920	0	5,282,097
Liabilities evidenced by certificates	160	26,488	330,942	682,106	1,642,571	0	2,682,267
Negative market values of hedges	0	3,391	4,190	40,285	98,981	0	146,847
Trading liabilities and derivatives	0	3,130	4,267	86,514	139,132	0	233,043
Financial liabilities – designated at fair value	0	398,977	1,049,599	798,458	579,350	0	2,826,384
Provisions	1	121	14,020	11,535	21,714	1,866	49,257
Tax liabilities	162	0	19,359	0	0	0	19,521
Deferred tax liabilities	5	40	8,997	–16,850	–10,881	21,367	2,678
Other liabilities	35,648	31,688	5,564	3,497	733	832	77,962
Subordinated capital	0	0	162,170	170,038	56,807	0	389,015
Shareholders' equity	0	0	0	0	0	1,054,939	1,054,939
Total Liabilities and Shareholders' equity	**3,696,758**	**1,181,814**	**1,788,657**	**2,507,058**	**3,071,096**	**1,079,004**	**13,324,387**

D. FURTHER IFRS INFORMATION

(45) DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method. The net cash flow from operating activities is calculated on the basis of consolidated net profit after adding expenses and deducting income that did not affect cash in the financial year. All expenses and income that did affect cash but are not attributable to operating activities are also eliminated. These payments are included in cash flow from investing or financing activities.

(46) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities

in '000 EUR	31.12.2016	31.12.2015
Liabilities from financial guarantees	318,242	319,397
Other contingent liabilities	29,054	36,456
Contingent liabilities	**347,296**	**355,853**

Contingent liabilities – breakdown by residual duration

in '000 EUR	31.12.2016	31.12.2015
Repayable on demand	107,768	693
Up to 3 months	35	36,051
Up to 1 year	22,137	74,172
Up to 5 years	90,792	116,853
More than 5 years	73,568	41,734
Unlimited	52,996	86,350
Contingent liabilities – breakdown by residual duration	**347,296**	**355,853**

Contingent liabilities from financial guarantees represent commitments to third parties to assume liability for our customers. If the guarantee holder fails to meet its contractual obligations, the beneficiary may utilise the Bank's financial guarantee. In turn, the Bank is able to claim recourse from its customers. The amounts shown represent the maximum amount that could lead to a payment in the event of utilisation. The recognition of contingent liabilities in connection with financial guarantees is difficult, because the utilisation of the commitment cannot be predicted or plausibly estimated. Other contingent liabilities constitute certain trust activities and documentary credit transactions.

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

- **Obligation from the membership required under Section 93 of the Austrian Banking Act of deposit insurance company "Hypo-Haftungs-Gesellschaft m.b.H."**
  If this deposit insurance is utilised, the contribution for the individual bank in line with Section 93a (1) Austrian Banking Act in the financial year is a maximum of 1.5% (2015: 1.5%) of the assessment basis in line with Article 92 (3) lit. a Regulation (EU) No. 575/2013 (CRR), plus 12.5 times the own funds requirement for the position risk as of the last reporting date, when the own funds requirements for market risk are determined according to Part 3 Title IV of Regulation (EU) No. 575/2013, and thus amounts to TEUR 102,870 for the Bank (2015: TEUR 110,400).

- **Liability for the liabilities of "Pfandbriefbank (Österreich) AG"**
  All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for the above liabilities amounting to TEUR 1,929,509 (2015: TEUR 3,343,912). In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability
  - Unlimited for liabilities incurred up to 2 April 2003
  - Limited for liabilities incurred after 2 April 2003 and up to 1 April 2007 if maturity does not exceed 30 September 2017.

Hypo Landesbank Vorarlberg holds the liabilities shown in the table below in trust on behalf of Pfandbriefbank (included in the above liabilities of Pfandbriefbank).

Liabilities to Pfandbriefbank

in '000 EUR	31.12.2016	31.12.2015
Liabilities evidenced by certificates	175,876	241,236
Financial liabilities – designated at fair value	128,134	126,603
Liabilities to Pfandbriefbank	**304,010**	**367,839**

Credit risks per Section (14) Austrian Banking Act (BWG)

in '000 EUR	31.12.2016	31.12.2015
Credit commitments and unutilised credit lines	1,836,215	1,790,742
Credit risks	**1,836,215**	**1,790,742**

These credit risks include loans granted but not yet drawn upon by customers. This primarily includes loan commitments but also unutilised credit lines. The credit risks were recognised at nominal value.

(47) INTEREST-FREE LOANS AND ADVANCE

in '000 EUR	31.12.2016	31.12.2015
Loans and advances to banks	43,843	56,970
Loans and advances to customers	142,406	249,443
Interest-free loans and advances	**186,249**	**306,413**

Interest-free loans and advances to banks mainly constitute non-interest-bearing balances at clearing houses and receivables from payment transactions. Loans and advances to customers are classified as interest-free when the collection of interest payments in future periods can no longer be expected. Sufficient valuation allowances have already been recognised for these loans and advances.

(48) COLLATERAL

Assets provided as collateral

in '000 EUR	31.12.2016	31.12.2015
Loans and advances to banks	350,618	404,955
Loans and advances to customers	3,394,031	3,784,891
Financial assets – designated at fair value	523,651	308,874
Financial assets – available for sale	517,976	509,357
Financial assets – held to maturity	786,302	827,140
Assets provided as collateral	**5,572,578**	**5,835,217**
of which covered pool for mortgage bonds	2,640,374	2,675,953
of which covered pool for public-sector mortgage bonds	1,048,257	1,276,511

The collateral holder is not entitled to sell or repledge the collateral listed. Therefore, there were no reclassifications on the balance sheet for the collateral provided. Loans and advances to banks include collateral deposits from other banks that were provided as collateral in derivative business. Loans and advances to customers include the covered pool for issued and public-sector mortgage bonds. The assets – at fair value and assets – held to maturity provided as collateral relate to a securities account at Oesterreichische Kontrollbank, which is required for participating in refinancing from Oesterreichische Nationalbank.

As a collateral holder, the Bank does not hold collateral that it is permitted to sell in the absence of default by the owner or repledge without the owner's permission.

Assignment of collateral

in '000 EUR	31.12.2016	31.12.2015
Backing for refinancing with central banks	1,068,320	1,034,429
Covered pool for mortgage bonds	2,640,374	2,674,953
Covered pool for public-sector mortgage bonds	1,094,188	1,253,937
Surplus cover for mortgage bonds and municipal bonds	58,959	65,478
Covered pool for trust savings deposits	29,239	29,054
Cover for pension provisions	2,149	2,143
Genuine repurchase agreements – repos	508,466	573,909
Deposits, collateral, margins	170,883	201,314
Collateral – breakdown by assignment	**5,572,578**	**5,835,217**

Use of collateral

in '000 EUR	31.12.2016	31.12.2015
Backing for refinancing with central banks	269,385	446,105
Covered pool for mortgage bonds	1,320,055	1,420,055
Covered pool for public-sector mortgage bonds	743,839	655,995
Surplus cover for mortgage bonds and municipal bonds	58,959	65,478
Covered pool for trust savings deposits	27,140	25,090
Cover for pension provisions	2,149	2,143
Deposits, collateral, margins	170,882	201,314
Collateral – breakdown by use	**2,592,409**	**2,816,180**

(49) SUBORDINATED ASSETS

in '000 EUR	31.12.2016	31.12.2015
Loans and advances to banks	28,076	22,629
Loans and advances to customers	3,070	4,958
Financial assets – designated at fair value	10,905	14,478
Financial assets – available for sale	34,596	33,495
Financial assets – held to maturity	10,447	10,441
Subordinated assets	**87,094**	**86,001**

(50) FIDUCIARY TRANSACTIONS ADVANCES

in '000 EUR	31.12.2016	31.12.2015
Loans and advances to customers	65,551	56,752
Fiduciary assets	**65,551**	**56,752**
Amounts owed to banks	46,388	44,802
Amounts owed to customers	19,932	15,662
Fiduciary liabilities	**66,320**	**60,464**

(51) REPURCHASE AGREEMENTS

No repurchase agreements were held as at 31 December 2016 and 31 December 2015.

(52) RELATED PARTY DISCLOSURES

Related parties include:

- The owners of Vorarlberger Landesbank-Holding and Austria Beteiligungsgesellschaft mbH and their owners,
- The Managing Board and Supervisory Board of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and their next of kin,
- Managing directors of consolidated subsidiaries and their next of kin,
- Senior employees of the subsidiaries of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and their next of kin,
- Senior employees of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft as defined by Section 80 of the Austrian Stock Corporation Act (AktG) and their next of kin,
- Legal representatives and members of the supervisory bodies of significant shareholders,
- Subsidiaries and other companies in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft holds a stake,
- Companies over which related parties exert significant influence.

Advances, loans and warranties

At the end of the year, the Managing Board members and managing directors and their next of kin had received advances, loans and warranties amounting to TEUR 6,936 (2015: TEUR 7,625) at the customary terms and conditions for Bank employees. At the end of the year, the Supervisory Board members and their next of kin had received advances, loans and warranties amounting to TEUR 21,929 (2015: TEUR 22,882) for themselves and for companies for which they are employeesly liable at the customary terms and conditions for the Bank or for Bank employees.

Remuneration

The Managing Board members' annual remuneration comprises a fixed sum and a variable component. In some cases, variable remuneration determined individually by the Managing Board has also been agreed for managing directors and senior employees. There are no share-based remuneration schemes.

In 2016, Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft spent the following amounts for the active Managing Board members.

in '000 EUR	2016	2015
Michael Grahammer	473	332
Johannes Hefel	254	258
Michel Haller	254	255
Managing Board remuneration	**981**	**845**

Remuneration paid to related parties

in '000 EUR	2016	2015
Managing Board members and managing directors	1,853	1,685
Retired Managing Board members and survivors	64	76
Managerial personnel	4,767	4,529
Supervisory Board members	163	184
Remuneration paid to related parties	**6,847**	**6,474**

Severance and pensions

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

in '000 EUR	2016	2015
Managing Board members and managing directors	–31	211
Managerial personnel	715	642

On the contract termination by mutual agreement, Michael Grahammer received a severance payment in accordance with the Salaried Employees Act of TEUR 110.

The Group purchased services amounting to TEUR 67 (2015: TEUR 41) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

in '000 EUR	31.12.2016	31.12.2015
Loans and advances to customers	3,177	3,386
Loans and advances	**3,177**	**3,386**
Amounts owed to customers	207	194
Liabilities	**207**	**194**

Transactions with related companies include loans and credits and business current accounts for our non-consolidated subsidiaries. The receivables generally have an interest rate of 0.25% (2015: 0.25%). One current account with a carrying amount of TEUR 845 (2015: TEUR 838) bears interest at a rate of 0.5% (2015: 0.5%). Liabilities generally have an interest rate of 0.02% (2015: 0.05%). As at the reporting date, no warranties were assumed for related companies, as in the previous year.

Income and expenses from affiliated companies

in '000 EUR	2016	2015
Interest income	11	11
Fee and commission income	2	1
Total income/expenses from affiliated companies	**13**	**12**

Business relationships with associated companies

in ’000 EUR	31.12.2016	31.12.2015
Loans and advances to customers	49,241	42,786
Trading assets and derivatives	1,037	964
Financial assets	266	266
Loans and advances	**50,544**	**44,016**
Amounts owed to banks	1,814	1,967
Amounts owed to customers	1,694	6,762
Trading liabilities and derivates	0	32
Liabilities	**3,508**	**8,761**

Transactions with associated companies include loans, cash advances, credits, business current accounts, savings deposits and time deposits. These transactions are concluded at standard market conditions. As at the reporting date, no warranties were assumed for associated companies, as in the previous year.
We have also concluded derivative transactions with associated companies in the form of interest rate options and interest rate swaps with a nominal value of TEUR 9,000 (2015: TEUR 15,000), which serve these companies as an interest rate cap in connection with long-term financing. In turn, the Group has hedged these options written with options purchased from other counterparties.

Income and expenses from significant shareholders

in ’000 EUR	2016	2015
Interest income	1,302	980
Interest expenses	–17	–4
Fee and commission income	5	3
Total income/expenses from affiliated companies	**1,290**	**979**

Business relationships with shareholders

in ’000 EUR	31.12.2016	31.12.2015
Loans and advances to banks	9,532	10,734
Loans and advances to customers	35,779	33,596
Trading assets and derivatives	71,308	65,836
Financial assets	59,716	74,931
Loans and advances	**176,335**	**185,097**
Amounts owed to banks	0	973
Amounts owed to customers	39,738	67,409
Trading liabilities and derivatives	73,474	75,593
Liabilities	**113,212**	**143,975**

The term shareholder refers to the two holding companies with a direct equity holding in Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, as well as the indirect shareholders, the state of Vorarlberg, Landesbank Baden-Württemberg and Landeskreditbank Baden-Württemberg Förderbank. Transactions with shareholders with significant influence primarily include loans, cash advances, credits, business current accounts, savings deposits and time deposits. We have also concluded derivative transactions with a nominal value of TEUR 2,429,930 (2015: TEUR 2,385,381) with Landesbank Baden-Württemberg to hedge against market price risks. The positive market values of derivatives are partly hedged in connection with cash collateral. There is usually no collateral for the remaining loans and advances.
All of these transactions were concluded at standard market conditions.

Income and expenses from significant shareholders

in ’000 EUR	2016	2015
Interest income	31,589	31,435
Interest expenses	–21,857	–24,953
Fee and commission income	1,558	1,549
Other expenses	–1,366	–1,453
Total income/expenses from significant shareholders	**9,924**	**6,578**

Shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft (no changes to previous year)

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

Because of its competence as a housing bank, Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft has been appointed by the state of Vorarlberg to administer the state housing construction fund. The Bank pays the state of Vorarlberg a liability fee of TEUR 1,366 for its public guarantee (2015: TEUR 1,453). The Group is not in a permanent business relationship with Austria Beteiligungsgesellschaft mbH. Numerous transactions typical of a banking relationship have been conducted with Landesbank Baden-Württemberg.

Business relationship with state-related companies

in ’000 EUR	31.12.2016	31.12.2015
Loans and advances to customers	57,892	62,987
Receivables	**57,892**	**62,987**
Amounts owed to customers	64,201	70,419
Liabilities	**64,201**	**70,419**

Transactions with state-related companies include loans and credits, business current accounts and time deposits, and a security designated as L&R. These transactions were concluded at standard market conditions.

Income and expenses from state-related companies

in '000 EUR	2016	2015
Interest income	573	646
Interest expenses	–222	–190
Fee and commission income	197	187
Total income/expenses from state-related companies	**548**	**643**

There were no doubtful debts due from related parties in financial year 2016 or the comparative period. Therefore, neither provisions nor expenses were required for impairment or write-downs on debts due from related parties.

(53) SHARE-BASED PAY ARRANGEMENTS

No options for participation certificates or shares were outstanding in the reporting period.

(54) HUMAN RESOURCES

	2016	2015
Full-time salaried staff	628	640
Part-time salaried staff	88	80
Apprentices	7	7
Full-time other employees	2	2
Average number of employees	**725**	**729**

(55) SIGNIFICANT EVENTS AFTER THE REPORTING DATE

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG), which is included in the consolidated financial statements using the equity method, is an alternative investment fund according to the Alternative Investment Fund Manager Directive (AIFMD) in the field of venture capital and private equity. The core business focuses on financing small and mid-sized enterprises by providing equity and annex capital. Due to the conversion from an evergreen fund to a closed-end fund, the company essentially still holds two investments.

The financial statements of HUBAG to 30 September 2016 have been issued with an unqualified audit opinion from the auditor and adopted by the Supervisory Board at its meeting on 22 December 2016. Although HUBAG's quarterly report to 31 December 2016 contains a significantly negative quarterly result, there are no further indications of potential threats. Only the developments occurring in 2017 (see explanations below) led to an adjustment of the carrying amount of the investment in HUBAG on the 28 February 2017 reporting date. Following a detailed examination of current developments and insights in the HUBAG group in conjunction with the updated valuation of the HUBAG investee as at the 28 February 2017 reporting date, the Bank concluded that the recognition of the shares held in HUBAG, which is measured at equity, is not to be adjusted in the 2016 consolidated financial reports, as these developments and insights are not to be deemed adjusting events, but rather disclosed as non-adjusting events in 2017 (see explanations below). One investee undertakes research and development in the biotechnology sector; the value of this HUBAG investee therefore depends significantly upon the results of the research. HUBAG has been endeavouring to sell this investee, or alternatively the results of the research, since conclusion of clinical study phase IIb (May 2016). DJP Investments was commissioned to seek out interested parties and made contact with several potential investors. Negotiations with the most serious potential buyer were suspended following performance of a due diligence review in January 2017 and have not recommenced to date. Accordingly, the exit opportunities have decreased considerably. However, negotiations are ongoing with two interested parties in the pharmaceuticals industry. The delays in the exit process are making further cash contributions necessary, although the investee's shareholders have yet to reach an agreement regarding whether and to what extent such contributions should be made. However, a prompt decision is required, both from a going concern perspective as well as from the point of view of maintaining exit opportunities. Due to these circumstances, this HUBAG investment was written off in full as of 28 February 2017 on a worst-case scenario basis.

As from today's perspective the second significant investment does not appear to be saleable in the short term either, the liquidity requirement of the first-mentioned investee is also having an impact on HUBAG. At the time the 2016 consolidated financial statements were prepared, the shareholders of HUBAG had also yet to reach an agreement regarding the required liquidity injection.

For this reason, it is not possible to rule out with any certainty the possibility of HUBAG entering into bankruptcy proceedings in the future. Based on the figures contained in the 2016 consolidated financial statements, such as scenario would lead to an impairment of the shares in HUBAG, which is measured at equity, of up to TEUR 30,392 in 2017. The occurrence of this scenario in 2017 is linked with significant uncertainties; the same applies to any associated impairment.

Based on these developments and insights, the Bank has tested loans and advances to HUBAG amounting to TEUR 23,972 for impairment and determined on the basis of the information available that, even in the event of full impairment to the extent described above, the other assets in HUBAG guarantee the recoverability of these claims.

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2016	89,960	35,485	6,986	35,407	167,838
	2015	87,541	35,498	22,704	37,718	183,461
Loan loss provisions	2016	8,526	151	12,069	26,961	47,707
	2015	–7,895	–256	4,380	–19,044	–22,815
Net fee and commission income	2016	12,265	17,227	2,485	2,050	34,027
	2015	12,638	19,725	1,885	2,318	36,566
Result from hedge relationships	2016	0	0	1,674	0	1,674
	2015	0	0	869	0	869
Net trading result (without change in own credit risk)	2016	2,364	1,490	23,921	223	27,998
	2015	2,591	2,048	–3,729	110	1,020
Result from other financial instruments	2016	429	0	4,338	6,046	10,813
	2015	235	0	15,225	111	15,571
Administrative expense	2016	–33,846	–41,424	–9,033	–12,811	–97,114
	2015	–32,747	–39,488	–8,828	–11,399	–92,462
Other income	2016	5,413	627	72	14,898	21,010
	2015	1,282	1,863	0	14,364	17,509
Other expenses	2016	–18,847	–8,177	–19,759	–18,047	–64,830
	2015	–8,371	–3,070	–6,916	–19,624	–37,981
of which stability fee	2016	–12,247	–5,229	–15,717	–3,304	–36,497
	2015	–4,208	–1,382	–6,206	–1,250	–13,046
Result from equity consolidation	2016	0	0	0	2,451	2,451
	2015	0	0	0	1,172	1,172
Operating result before change in own credit risk	**2016**	**66,264**	**5,379**	**22,753**	**57,178**	**151,574**
	2015	**55,274**	**16,320**	**25,590**	**5,726**	**102,910**
Result from change in own credit risk	2016	0	0	–33,955	0	–33,955
	2015	0	0	18,236	0	18,236
Earnings before taxes	**2016**	**66,264**	**5,379**	**–11,202**	**57,178**	**117,619**
	2015	**55,274**	**16,320**	**43,826**	**5,726**	**121,146**
Assets	2016	5,772,814	1,994,650	3,992,595	1,564,328	13,324,387
	2015	5,698,538	1,957,612	4,503,012	1,743,249	13,902,411
Liabilities and shareholders' equity	2016	2,310,832	3,200,631	7,095,789	717,135	13,324,387
	2015	2,339,442	2,917,967	7,904,646	740,356	13,902,411
Liabilities (incl. own issues)	2016	1,912,516	3,109,884	6,820,063	426,985	12,269,448
	2015	1,942,172	2,831,054	7,672,730	487,314	12,933,270

For the purposes of business management, the Group is organised into business units according to customer and product groups and has the four reportable business segments described below. No business segments have been combined to form these reportable business segments. The management monitors the business units' earnings before taxes separately in order to make decisions on the allocation of resources and to determine the profitability of the units. The segments' performance is assessed on the basis of earnings before taxes and measured in accordance with earnings before taxes in the consolidated financial statements.

Internal reporting is carried out according to these segments on the basis of both the Austrian Corporate Code (UGB) and International Financial Reporting Standards (IFRS). For this reason, no separate reconciliation is required. The liabilities shown in the segments include liabilities, provisions and social capital as well as social capital as well as subordinated capital. Revenue is not calculated per product and service or for groups of similar products and services because of the inordinately high implementation costs that would be required to ascertain this data.

Net interest income is determined per segment on the basis of the internationally accepted Schierenbeck market interest rate method. The effective interest rate is compared to a benchmark interest rate with regard to both receivables and liabilities. The resulting margin contribution is credited to the individual segments. The structure contribution determined from the maturity transformation is assigned to the Financial Markets segment. For this reason, it is not possible to show interest income and interest expenses separately. As the income and expenses per segment are determined directly, there are no transactions or allocations between the segments. In the Corporate Centre segment, an amount of TEUR 34,750 (2015: EUR 34,554) was included in assets from consolidation according to the equity method.

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

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

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

Corporate Centre
All banking transactions with our subsidiaries and associated companies are reported in this segment. Products and income of our online branch hypodirekt.at are likewise recognised in this segment. In addition, income from activities that do not constitute banking business is also allocated to this segment, such as leasing business, insurance brokerage, leasing and utilisation of real estate, real estate brokerage, facility management services, other services and income from subsidiaries and investments.

Recognition and reversal of impairment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Coporate Center	Total
Recognition of impairments	2016	–24,355	–1,878	–196	–7,336	–33,765
	2015	–29,124	–3,465	–15,380	–32,476	–80,445
Reversals of impairments	2016	44,952	2,075	20,807	20,478	88,312
	2015	39,372	3,177	8,279	3,412	54,240

Reporting by region

in '000 EUR		Austria	Other countries	Total
Net interest income	2016	142,169	25,669	167,838
	2015	155,284	28,177	183,461
Loan loss provisions	2016	52,523	–4,816	47,707
	2015	–24,942	2,127	–22,815
Net fee and commission income	2016	33,537	490	34,027
	2015	35,902	664	36,566
Result from hedge relationships	2016	1,674	0	1,674
	2015	869	0	869
Net trading result (without change in own credit risk)	2016	27,580	418	27,998
	2015	179	841	1,020
Result from other financial instruments	2016	9,139	1,674	10,813
	2015	20,485	–4,914	15,571
Administrative expenses	2016	–86,729	–10,385	–97,114
	2015	–82,503	–9,959	–92,462
Other income	2016	14,635	6,375	21,010
	2015	9,954	7,555	17,509
Other expenses	2016	–56,507	–8,323	–64,830
	2015	–23,887	–14,094	–37,981
Result from equity consolidation	2016	2,451	0	2,451
	2015	1,172	0	1,172
Operating result before change in own credit risk	**2016**	**140,472**	**11,102**	**151,574**
	2015	**92,513**	**10,397**	**102,910**
Result from change in own credit risk	2016	–33,955	0	–33,955
	2015	18,236	0	18,236
Earnings before taxes	**2016**	**106,517**	**11,102**	**117,619**
	2015	**110,749**	**10,397**	**121,146**
Assets	2016	11,706,923	1,617,464	13,324,387
	2015	12,274,078	1,628,333	13,902,411
Liabilities and shareholders' equity	2016	13,143,154	181,233	13,324,387
	2015	13,734,011	168,400	13,902,411
Liabilities (incl. own issues)	2016	12,156,106	113,342	12,269,448
	2015	12,832,938	100,332	12,933,270

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(56) EARNINGS BY MEASUREMENT CATEGORY

Earnings by category L&R

in '000 EUR	2016	2015
Interest and similar income	173,962	189,826
Net interest income	**173,962**	**189,826**
Depreciation, amortisation and impairment	–21,260	–70,262
Write-ups and impairment reversals	65,579	24,169
Realised gains	–1,733	–3,155
Net result on hedge accounting	4,158	6,703
Total	924	2,927
Summe	**221,630**	**150,208**

Earnings by category HFT

in '000 EUR	2016	2015
Interest and similar income	38,560	31,717
Net interest income	**38,560**	**31,717**
Depreciation, amortisation and impairment	–23	–42
Write-ups and impairment reversals	46	26
Realised gains	26	0
Trading results	3,781	20,316
Remeasurement of derivatives	–142,852	–125,850
Total	**–100,462**	**–73,833**

Earnings by category AFV

in '000 EUR	2016	2015
Interest and similar income	7,228	9,273
Net interest income	**7,228**	**9,273**
Depreciation, amortisation and impairment	–5,798	–57,693
Write-ups and impairment reversals	21,262	4,783
Realised losses	–6,398	–958
Realised gains	69	0
Total	**16,363**	**–44,595**

Earnings by category AFS

in '000 EUR	2016	2015
Interest and similar income	21,743	23,246
Net interest income	**21,743**	**23,246**
Depreciation, amortisation and impairment	–178	–1,331
Write-ups and impairment reversals	1,975	6,859
Realised losses	–257	–238
Realised gains	932	732
Net result on hedge accounting	217	1,051
Total	**24,432**	**30,319**
Gains/losses recognised in other comprehensive income	934	–8,708

Earnings by category HTM

in '000 EUR	2016	2015
Interest and similar income	23,817	27,129
Net interest income	**23,817**	**27,129**
Depreciation, amortisation and impairment	0	–97
Write-ups and impairment reversals	197	404
Realised losses	–33	–172
Realised gains	0	229
Total	**23,981**	**27,493**

Earnings by category LAC

in '000 EUR	2016	2015
Interest and similar expenses	–60,779	–55,641
Net interest income	**–60,779**	**–55,641**
Write-downs and impairment	–227	–323
Write-ups and reversed impairments	319	70
Realised losses	–53	–38
Realised gains	627	14,492
Net result from hedging	533	–3,109
Total	**–59,580**	**–44,549**

Earnings by category LHFT

in '000 EUR	2016	2015
Interest and similar expenses	–49,005	–50,272
Net interest income	**–49,005**	**–50,272**
Measurement result – derivatives	87,242	9,965
Total	**38,237**	**–40,307**

Earnings by category LAFV

in '000 EUR	2016	2015
Interest and similar expenses	12,312	8,183
Net interest income	12,312	8,183
Write-downs and impairment	2,590	–8,875
Write-ups and reversed impairments	67,381	137,367
Realised losses	–587	–17
Realised gains	1,259	21,998
Total	**82,955**	**158,656**

(57) DISCLOSURES ON FAIR VALUE

in '000 EUR		31.12.2015	
	Notes	**Fair Value**	**Carrying amount**
Assets			
Cash and balances with central banks	(15)	716,010	712,491
Loans and advances to banks	(16)	651,094	650,129
Loans and advances to customers	(17)	9,686,299	9,061,358
Positive market values of hedges	(18)	76,370	76,370
Trading assets and derivatives	(19)	461,641	461,641
Financial assets – designated at fair value	(20)	938,014	938,014
Financial assets – available for sale	(21)	745,426	745,426
Financial assets – held to maturity	(22)	1,045,790	987,685
Liabilities			
Amounts owed to banks	(31)	1,147,581	1,144,487
Amounts owed to customers	(32)	5,012,009	4,995,818
Liabilities evidenced by certificates	(33)	2,355,400	2,402,602
Negative market values of hedges	(34)	160,947	160,947
Trading liabilities and derivatives	(35)	239,627	239,627
Financial liabilities – designated at fair value	(36)	3,464,357	3,464,357
Subordinated capital	(41)	365,360	376,902

in '000 EUR		31.12.2016	
	Notes	**Fair Value**	**Carrying amount**
Assets			
Cash and balances with central banks	(15)	338,062	338,000
Loans and advances to banks	(16)	575,778	575,289
Loans and advances to customers	(17)	9,606,817	9,049,998
Positive market values of hedges	(18)	98,811	98,811
Trading assets and derivatives	(19)	309,314	309,314
Financial assets – designated at fair value	(20)	802,208	802,208
Financial assets – available for sale	(21)	769,093	769,093
Financial assets – held to maturity	(22)	1,159,244	1,103,893
Liabilities			
Amounts owed to banks	(31)	555,349	560,377
Amounts owed to customers	(32)	5,323,774	5,282,097
Liabilities evidenced by certificates	(33)	2,669,732	2,682,267
Negative market values of hedges	(34)	146,847	146,847
Trading liabilities and derivatives	(35)	233,043	233,043
Financial liabilities – designated at fair value	(36)	2,826,384	2,826,384
Subordinated capital	(41)	391,124	389,015

Loans and advances to banks primarily relate to interbank transactions, whose current carrying amounts largely correspond to the fair value. The fair value of fixed-interest transactions with banks was determined on the basis of expected future cash flows.

In the case of loans and advances to customers, the fair value of the fixed-interest transactions was likewise determined on the basis of expected future cash flows taking current market interest rates into account.

In the case of financial assets – held to maturity (HTM), the fair value was determined on the basis of available market prices and quotes. If no reliable market price was available for an asset as of the reporting date, the fair value was determined on the basis of market prices of similar financial instruments with comparable yields, credit risks and maturities.

As amounts owed to banks only relate to interbank transactions, the carrying amount shown largely equates to fair value. The fair value of fixed-interest transactions was determined on the basis of expected future cash flows taking current market interest rates and credit spreads into account.

The repayment amount recognised for variable-rate amounts owed to customers without agreed maturities largely also corresponds to the current market value. The fair value of fixed-interest positions was determined on the basis discounted cash flows.

The fair value of liabilities evidenced by certificates and subordinated capital was recognised on the basis of available market prices and quotes. If no market prices were available for this category, the fair value was measured on the basis of discounted future cash flows taking current market interest rates and credit spreads into account.

To the extent available, the fair values reported in the financial statements were determined exclusively using measurement techniques based on prices of similar instruments in observable market transactions.

Fair value hierarchy for financial instruments not recognised at fair value

in '000 EUR 31.12.2015	Level 1	Level 2	Level 3	Total
Cash and balances with central banks	716,010	0	0	716,010
Loans and advances to banks	414,366	4,160	232,568	651,094
Loans and advances to customers	306,088	23,527	9,356,684	9,686,299
Financial assets – held to maturity	1,035,371	0	10,419	1,045,790
Assets measured at amortised cost	**2,471,835**	**27,687**	**9,599,671**	**12,099,193**
Liabilities to banks	0	0	1,147,581	1,147,581
Amounts owed to customers	0	0	5,012,009	5,012,009
Liabilities evidenced by certificates	2,181,954	0	173,446	2,355,400
Subordinated capital	313,320	36,000	16,040	365,360
Liabilities measured at amortised cost	**2,495,274**	**36,000**	**6,349,076**	**8,880,350**

in '000 EUR 31.12.2016	Level 1	Level 2	Level 3	Total
Cash and balances with central banks	338,062	0	0	338,062
Loans and advances to banks	403,132	0	172,646	575,778
Loans and advances to customers	306,448	25,285	9,275,084	9,606,817
Financial assets – held to maturity	1,146,916	0	12,328	1,159,244
Assets measured at amortised cost	**2,194,558**	**25,285**	**9,460,058**	**11,679,901**
Liabilities to banks	0	0	555,349	555,349
Amounts owed to customers	0	0	5,323,774	5.323,774
Liabilities evidenced by certificates	2,494,187	37,995	137,550	2,669,732
Subordinated capital	345,826	28,758	16,540	391,124
Liabilities measured at amortised cost	**2,840,013**	**66,753**	**6,033,213**	**8,939,979**

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

Fair value hierarchy for financial instruments recognised at fair value

in '000 EUR 31.12.2015	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	76,009	361	76,370
Trading assets and derivatives	675	389,585	71,381	461,641
Financial assets – designated at fair value	107,461	464,507	366,046	938,014
Financial assets – available for sale	704,771	0	40,655	745,426
Total assets measured at fair value	**812,907**	**930,101**	**478,443**	**2,221,451**
Reclassification of assets from level 2 and 3 to level 1	5,047	–5,047	0	0
Reclassification of assets from level 1 and 3 to level 2	–10,223	66,206	–55,983	0
Derivative hedging instruments	0	151,281	9,666	160,947
Trading liabilities and derivatives	0	231,614	8,013	239,627
Financial liabilities – designated at fair value	1,372,596	310,603	1,781,158	3,464,357
Total liabilities measured at fair value	**1,372,596**	**693,498**	**1,798,837**	**3,864,931**
Reclassification of liabilities from level 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from level 1 and 3 to level 2	0	0	0	0

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

In the case of financial assets and liabilities recognised in the financial statements on a recurring basis, the Group determines whether transfers have taken place between hierarchy levels by examining their classification – based on the input parameter of the lowest level that is essential for fair value measurement – at the end of each reporting period. To do so, the Group uses a decision tree defined in the internal measurement guidelines.

The Group has one valuation committee for financial instruments and one valuation committee for real estate. These committees specify guidelines and procedures for recurring and non-recurring fair value measurements. The Head of Asset and Liability Management, the Head of Group Risk Controlling, the Head of Debt Capital Markets and a financial mathematician belong to the valuation committee for financial instruments. Once a year, the valuation committee examines the performance of financial instruments that need to be remeasured in accordance with the Group's accounting policies. The valuation committee reviews the key input factors that were applied during the last measurement by comparing the results of the measurement calculations with external sources in order to assess whether the respective changes and therefore the internal input parameters are plausible. If necessary, the valuation committee will decide to adjust or expand the internal input factors in order to attain the goal of ensuring the most objective measurement of financial instruments possible. The valuation committee for real estate comprises a managing director from Hypo Immobilien & Leasing GmbH, a managing director from Hypo Vorarlberg Immo Italia srl, the Head of Accounting from Hypo Landesbank Vorarlberg and an employee from the property appraisal department. External appraisers are brought in to value important properties. The valuation committee decides annually whether external appraisers are to be consulted. Following meetings with external appraisers, the valuation committee for real estate decides which measurement techniques and input factors are to be used in each individual case.

The reclassification of assets from Level 2 to Level 1 comprises one (2015: one) AFV category financial instrument with a carrying value of TEUR 7,500 (2015: TEUR 5,047). Instead of a derived market valuation, OTC secondary market price sources now available from Bloomberg were used to measure these instruments.

The reclassification of assets from Level 1 to Level 2 in 2016 comprised zero (2015: one) AFV category financial instruments (carrying value in 2015: TEUR 10,223). In 2015, a derived market valuation was used because no OTC secondary market price was available from Bloomberg.

The reclassification of assets from Level 3 to Level 2 comprises eight (2015: seven) AFV category financial instruments with a carrying value of TEUR 170,185 (2015: TEUR 54,002), of which TEUR 36,978 relates to securities (2015: TEUR 0) and TEUR 133,205 to loans (2015: TEUR 54,002), and one (2015: one) HFT category derivative with a carrying value of TEUR 964 (2015: TEUR 1,981). The AFV financial instruments were reclassified because the credit spread was no longer calculated based on the weighted credit spread matrix but rather on the basis of the external rating and the security structure of comparable financial instruments. The carrying value at the end of the previous year was TEUR 157,247 (2015: TEUR 59,576), of which TEUR 35,546 related to securities (2015: TEUR 0) and TEUR 121,701 to loans (2015: TEUR 59,576). The HFT derivatives were reclassified because of the use of available OTC secondary market price sources from Bloomberg. The carrying value at the end of the previous year was TEUR 1,918 (2015: TEUR 2,999).

The reclassification of assets from Level 1 to Level 3 comprises one (2015: one) AFS category financial instrument with a carrying value of TEUR 10,877 (2015: TEUR 7,001). The market price used in the previous year was replaced with an internal measurement model, as no market data were available for the financial instrument and derivation on the basis of the composition of the fund is not suitable.

The reclassification of assets from Level 2 to Level 3 in 2016 comprised zero financial instruments (2015: six loans, one AFV security). The loans in the previous year were assigned to Level 3 because an internal rating was used instead of an external one. The carrying value of the reclassified AFV loans was TEUR 121,701 in 2015. To measure the securities, an internal measurement model was used instead of the DCF method on the basis of derived input factors observable on the market. The carrying value of the securities reclassified from Level 2 to Level 3 in 2015 was TEUR 3,418.

The reclassification of liabilities from Level 1 to Level 2 comprises one (2015: zero) AFV category financial instrument with a carrying value of TEUR 361,059 (2015: TEUR 0). Because no OTC secondary market price was available from Bloomberg, a derived market valuation was used.

The reclassification of liabilities from Level 3 to Level 2 comprises one (2015: zero) LAFV category financial instrument with a carrying value of TEUR 3,695 (2015: TEUR 0) and three (2015: zero) HFT category derivatives amounting to TEUR 690 (2015: TEUR 0). The measurement of these issues was switched from the internal measurement model to the internal DCF method on the basis of derived input factors observable on the market. At the end of the previous year, the carrying value of the LAFV category financial instruments was TEUR 4,314 (2015: TEUR 0) and TEUR 90 for the derivative (2015: TEUR 0).

The reclassification of liabilities from Level 2 to Level 3 comprises one (2015: one) LAFV category derivative with a carrying value of TEUR 5,102 (2015: TEUR 785). The reclassification was necessary because no input factors observable on the market were available for this issue, and the measurement was therefore made on the basis of an internal measurement model. At the end of the previous year, the carrying value for the financial instrument was TEUR 3,754 (2015: TEUR 866).

Fair value hierarchy for financial assets – breakdown by class

in '000 EUR 31.12.2015	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	75,127	79	75,206
Cross-currency swaps	0	882	282	1,164
Derivative hedging instruments	**0**	**76,009**	**361**	**76,370**
Interest rate swaps	0	264,817	65,746	330,563
Cross-currency swaps	0	120,695	0	120,695
Interest rate options	0	1,333	1,438	2,771
Foreign exchange forwards	0	2,740	4,197	6,937
Investment funds	675	0	0	675
Trading assets and derivatives	**675**	**389,585**	**71,381**	**461,641**
Bonds	107,461	277,439	45,046	429,946
Other	0	0	5,415	5,415
Loans and credits	0	187,068	315,585	502,653
Financial assets – designated at fair value	**107,461**	**464,507**	**366,046**	**938,014**
Bonds	701,680	0	9,132	710,812
Investment funds	3,091	0	2,830	5,921
Shares	0	0	110	110
Other	0	0	28,583	28,583
Financial assets – available for sale	**704,771**	**0**	**40,655**	**745,426**

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

Fair value hierarchy for financial liabilities – breakdown by class

in '000 EUR 31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate swaps	0	123,599	241	123,840
Cross-currency swaps	0	27,682	9,425	37,107
Derivative hedging instruments	**0**	**151,281**	**9,666**	**160,947**
Interest rate swaps	0	146,360	3,105	149,465
Cross-currency swaps	0	79,267	2,230	81,497
Interest rate options	0	1,876	248	2,124
Foreign exchange forwards	0	4,111	2,215	6,326
Other derivatives	0	0	215	215
Trading liabilities and derivatives	**0**	**231,614**	**8,013**	**239,627**
Deposits	0	0	707,561	707,561
Bonds	1,372,596	289,951	1,037,792	2,700,339
Subordinated capital	0	20,652	35,805	56,457
Financial liabilities – designated at fair value	**1,372,596**	**310,603**	**1,781,158**	**3,464,357**

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

Changes in Level 3 financial instruments

in '000 EUR 2015	Opening balance	Purchases/ issues	Sales/ repayments	Addition from Level 1 and Level 2	Reclassification to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	0	0	0	0	0	361	361
Trading assets and derivatives	100,195	0	0	0	–2,999	–25,815	71,381
Financial assets – designated at fair value	323,678	0	–4,994	125,119	–59,576	–18,181	366,046
Financial assets – available for sale	35,570	1,579	–3,708	7,001	0	213	40,655
Level 3 assets measured at fair value	**459,443**	**1,579**	**–8,702**	**132,120**	**–62,575**	**–43,422**	**478,443**
Derivative hedging instruments	9,279	0	0	0	0	387	9,666
Trading liabilities and derivatives	3,662	0	0	785	0	3,566	8,013
Financial liabilities – designated at fair value	2,036,149	41,000	–273,342	0	0	–22,649	1,781,158
Level 3 liabilities measured at fair value	**2,049,090**	**41,000**	**–273,342**	**785**	**0**	**–18,696**	**1,798,837**

in '000 EUR 2016	Opening balance	Purchases/ issues	Sales/ repayments	Addition from Level 1 and Level 2	Reclassification to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	361	0	0	0	0	963	1,324
Trading assets and derivatives	71,381	0	0	0	–1,918	–11,836	57,627
Financial assets – designated at fair value	366,046	0	0	0	–157,247	–49,678	159,121
Financial assets – available for sale	40,655	139	0	10,877	0	2,522	54,193
Level 3 assets measured at fair value	**478,443**	**139**	**0**	**10,877**	**–159,165**	**–58,029**	**272,265**
Derivative hedging instruments	9,666	0	0	0	0	693	10,359
Trading liabilities and derivatives	8,013	0	0	0	–90	5,037	12,960
Financial liabilities – designated at fair value	1,781,158	15,000	–98,612	5,102	–4,314	16,550	1,714,884
Level 3 liabilities measured at fair value	**1,798,837**	**15,000**	**–98,612**	**5,102**	**–4,404**	**22,280**	**1,738,203**

The changes in fair value given relate only to financial instruments that were still held in Level 3 at the end of the reporting period. The changes in fair value shown in the tables above represent gains/losses of financial instruments that were allocated to Level 3 at the end of the year. The changes in the fair value of derivative hedging instruments, which were recognised on the assets side at TEUR 963 (2015: TEUR 361), were recognised in the net result on hedge accounting. The changes in the fair value of trading assets and derivatives of TEUR –11,836 (2015: TEUR –25,815) were recognised under the net trading result in the income statement. The change in the fair value of financial assets designated at fair value of TEUR –49,678 (2015: TEUR –18,181) was recognised under the net trading result in the income statement. The change in the fair value of financial assets available for sale of TEUR 2,522 (2015: TEUR 213) was recognised through profit or loss in the income statement under the net result from other financial instruments at TEUR 2,216 (2015: TEUR 234) and in other comprehensive income at TEUR 306 (2015: TEUR –21). The changes in the fair value of derivative hedging instruments, which were recognised on the liabilities side at TEUR 693 (2015: TEUR 387), were recognised in the net result on hedge accounting. The changes in the fair value of trading liabilities and derivatives of TEUR 5,037 (2015: TEUR 3,566) were recognised under the net trading result. Changes in the fair value of financial liabilities designated at fair value amounted to TEUR 16,550 (2015: TEUR –22,649), of which TEUR –3,293 (2015: TEUR –11,510) was recognised under the net trading result and TEUR 19,843 (2015: TEUR –11,139) was recognised under the result from change in own credit risk.

Disclosures regarding sensitivity of internal input factors

in '000 EUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Derivatives	376	402	–547	–586
Financial assets – designated at fair value	896	2,369	–1,015	–2,649
of which securities	0	16	0	–33
of which loans and credits	896	2,353	–1,015	–2,616
Financial assets – available for sale	176	391	–218	–410
Financial liabilities – designated at fair value	–7,234	–7,608	7,234	7,608
of which issues	–4,800	–5,278	4,800	5,278
of which time deposits	–2,434	–2,330	2,434	2,330
Total	**–5,786**	**–4,446**	**5,454**	**3,963**

The internal input factor that is relevant to financial assets is derived by calculating the credit risk, expressed as credit spread. If CDS spreads are available for a counterparty, the credit risk is measured based on these available input factors. However, if a CDS spread is not observable, the credit risk is measured using the internally calculated default probability combined with the internal rating. In the case of the above sensitivity, the internal ratings were each shifted by one level in parallel.

The internal input factor that is relevant to financial liabilities is derived by determining the current issue level of private placements compared to public placements. In the case of the above sensitivity, the recognised credit spreads were each shifted in parallel by 10 basis points.

(58) DISCLOSURES ON OFFSETTING FINANCIAL INSTRUMENTS

in '000 EUR 31.12.2015	Financial assets (gross)	Recognised amounts set off (gross)	Financial assets (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	528,380	0	528,380	–251,213	–238,764	38,403
Total assets	**528,380**	**0**	**528,380**	**–251,213**	**–238,764**	**38,403**
Negative market values of derivative financial instruments	400,574	0	400,574	–251,213	–143,231	6,130
Total liabilities	**400,574**	**0**	**400,574**	**–251,213**	**–143,231**	**6,130**

in '000 EUR 31.12.2016	Financial assets (gross)	Recognised amounts set off (gross)	Financial assets (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	397,666	0	397,666	–244,728	–117,565	35,373
Total assets	**397,666**	**0**	**397,666**	**–244,728**	**–117,565**	**35,373**
Negative market values of derivative financial instruments	379,890	0	379,890	–244,728	–128,121	7,041
Total liabilities	**379,890**	**0**	**379,890**	**–244,728**	**–128,121**	**7,041**

(59) IMPAIRMENTS AND IMPAIRMENT REVERSALS

Recognition of impairments

in '000 EUR	2016	2015
Loans and advances to customers	–21,260	–70,262
Financial assets – available for sale	–178	–1,331
Financial assets – held to maturity	0	–97
Total	**–21,438**	**–71,690**

Reversals of impairment

TEUR	2016	2015
Loans and advances to customers	65,579	24,169
Financial assets – available for sale	1,975	6,859
Financial assets – held to maturity	197	404
Total	**67,751**	**31,432**

(60) RECATEGORISED ASSETS

Disclosures on securities recategorised in 2008 and 2009

No financial assets were recategorised in 2016. 65 securities with a market value of TEUR 368,632 on the date of recategorisation and 12 securities with a market value on the date of recategorisation of TEUR 360,000 were reclassified from the category AFS to the category L&R in 2008 and 2009 respectively. The carrying amounts and market values of all previously recategorised financial instruments were as follows on 31 December 2016.

in '000 EUR 31.12.2015	Carrying amount	Market value
Loans and advances to banks	4,998	5,001
Loans and advances to customers	30,585	31,091
Total	**35,583**	**36,092**

in '000 EUR 31.12.2015	Amortised cost	Remeasurement reserve*)
Loans and advances to banks	4,998	–2
Loans and advances to customers	30,585	–175
Total	**35,583**	**–177**

in '000 EUR 31.12.2016	Carrying amount	Market value
Loans and advances to customers	22,171	22,710
Total	**22,171**	**22,710**

in '000 EUR 31.12.2016	Amortised cost	Remeasurement reserve*)
Loans and advances to customers	22,171	–123
Total	**22,171**	**–123**

*) Already adjusted for deferred taxes

The actual gains, losses, income and expenses from the reclassified financial instruments recognised in the consolidated financial statements amounted to:

in '000 EUR	2016	2015
Net interest income	36	112
Net result from financial instruments	92	491
Taxes on income	–32	–151
Recording in AFS reserve directly in equity*	–135	–511
Gain / loss after reclassification	**–39**	**–59**

*) adjusted for deferred tax effects

In 2016, no impairment was recognised on the securities recategorised in 2008 (2015: none). In 2016, impairment created in previous years amounting to TEUR 136 (2015: TEUR 636) was reversed following a recovery in the market and repayments at nominal value. The effect of the reversal of the remeasurement reserve as a result of maturity and the timing of the recategorised securities held is offset by the discounting of the amortised cost remeasured at the recategorisation date of the reclassified securities recorded in the net result from other financial instruments.

If the assets had not been reclassified, the following gains and losses would have resulted from continued measurement at fair value.

Simulation without recategorisation in 2008 and 2009

in '000 EUR	2016	2015
Net interest income	36	112
Net result from financial instruments	92	491
Taxes on income	–32	–151
Recording in AFS reserve directly in equity*	71	84
Gain/loss – after reclassification	**167**	**536**

*) adjusted for deferred tax effects

If the assets had not been recategorised, the main impact would have been on the adjustment of the remeasurement reserve outside profit or loss. However, this effect does not come from the securities reclassified in 2009 but the ABS products reclassified in 2008.

(61) FINANCIAL INSTRUMENTS BY CATEGORY

Financial instruments are presented according to measurement category in the corresponding notes to the balance sheet items, as we already distinguish between the measurement categories as per IAS 39 on the balance sheet.

G. FINANCIAL RISKS AND RISK MANAGEMENT

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

(62) OVERALL RISK MANAGEMENT

The Bank's operations involve the following risks:

- Credit risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods or foreign currency risks from the lending business.
- Market risks: The common characteristic of these risks is that they result from price changes in money and capital markets. Market price risks are categorised as interest rate, spread change, stock price, foreign currency or commodity risks.
- Liquidity risk: Liquidity risks can be broken down into maturity and retrieval risks, structural liquidity risk (rollover financing risk) and market liquidity risk. Maturity risk is an unplanned extension of maturities in the lending business. Retrieval risk is the risk that credit commitments are unexpectedly utilised or deposits withdrawn. As a result, a bank may no longer be able to fully meet its payment obligations. Structural liquidity risk arises from the possibility that the required roll-over financing may only be available at less favourable conditions, or not at all. Market liquidity risk is in evidence when positions can only be sold immediately by taking a loss.
- Operational risk: This includes the risk of direct or indirect losses caused by human error, process deficits, technological failure, or external influence. Operational risks also include legal risk.
- Shareholder risk: This covers items including private equity, mezzanine financing, subordinated financing and investments in funds with these components. This also includes subordinated banking securities.
- Real estate risk: This refers to the risk of fluctuations in the value of property owned by the Group. This especially includes properties which serve as collateral (including leased assets) and cannot be sold promptly to third parties as part of realisation ("foreclosed assets"). This does not include owner-occupied properties.
- Risk of excessive indebtedness: This means the risk of a total capital ratio that is too low.
- Money laundering and terrorist financing: the Bank counters these risks with a number of measures. To this end, three computer programs and additional audits are used to check for money laundering. These help employees when classifying customers with regard to the money laundering risk and flag suspicious payments. In addition, they ensure compliance with the legal requirements to carry out embargo checks and checks for politically exposed persons. All employees complete a comprehensive money laundering test, in which they are familiarised with the legal provisions regarding the prevention of money laundering and terrorist financing and reasons to suspect them. In addition, all new employees receive training in the basic induction. A refresher test must be passed every year. In further training, employees are taught about specific provisions and types of money laundering so that suspicious transactions can be recognised. Internal Audit also performs regular checks at the branch offices.
- Macroeconomic risk: macroeconomic risks are potential losses due to exposure to macroeconomic risk factors.
- Model risks: model risk is the risk of significantly underestimating the capital backing for material risks in the Capital Adequacy Process as a result of incorrect input parameters, incorrect assumptions, incorrect models or incorrect application of such models.
- Other risks: These include above all those types of risks for which only rudimentary or no quantification methods exist. Specifically, strategic, reputation, equity, performance and business risks and risks from repayment vehicles in the lending business may be classified as other risks.

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

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

The overall risk management of Hypo Landesbank Vorarlberg is based on a strict separation between Front Office and Back Office. The risk management functions of Hypo Landesbank Vorarlberg are bundled under the responsibility of the Managing Board member responsible for risk management. Risk controlling at Hypo Landesbank Vorarlberg is developed and implemented by group risk controlling. This unit measures credit risks, market risks, liquidity risks and operational risks on a group level. The independent assessment and approval of credit applications is carried out by the credit management departments for corporate and private customers.

The Bank's risk situation and the Capital Adequacy Process are addressed by the Asset & Liability Management Committee (ALM). In this committee, the Managing Board decides on market risk measurement procedures, defines interfaces between Sales and Treasury with regard to the market interest rate method, and the level of market risk and liquidity limits. In addition to the Managing Board as a whole and Corporate and Private Customers Sales, Group Risk Controlling, Controlling, and Treasury departments are also present at committee meetings.

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

(63) MARKET RISK

The objective of the Bank's Asset & Liability Management is the optimal management of market risks. The strict separation of trading units and units and risk control ensures the objective assessment of the risks incurred and the early detection of unfavourable developments. The risks are assessed on a daily basis by Group Risk Controlling, which reports the results of the analyses to the units responsible.

The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service.

The Bank's Asset & Liability Management is controlled via a standard reference interest rate system in line with the market interest rate method. The reference interest rate set determines the distribution of interest income and expenses among branch offices and treasury. Fixed interest rates are therefore determined annually by the Managing Board as a central controlling instrument. The selected fixed interest rates are reviewed regularly and adjusted as necessary, especially for products without contractual maturities (savings deposits and current accounts).

The Bank's measurement of market risk is based on three methods, which are all calculated centrally for the individual bank:

- Value at risk (VaR)
- Change in the present value of Bank equity in stress tests
- Simulations of structural contribution (earnings perspective)

Value at risk indicates the maximum loss at a given probability and holding period. The Bank measures value at risk using SAP software and a historical simulation with the following parameters:

Historical simulation parameters	
Historical period	250 trading days
Holding period	10 trading days
Confidence level	99%

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

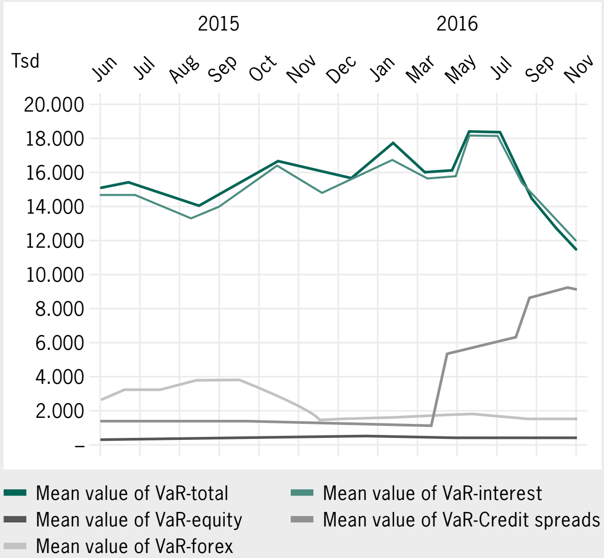
The Bank conducts stress tests in order to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain an absolute worst case scenario. Stress test limits are derived from the Bank's Capital Adequacy Process calculation.

The Bank uses risk-adjusted yield curves to calculate present value keyfigures. In addition to the present value keyfigures, the Bank carries out weekly or monthly gap analyses to manage the fixed interest rates in the money market and the capital market.

Foreign currency risk is relatively small, as the Bank generally disposes of open positions. The Bank is subject to very little equity risk. Otherwise the Bank only holds shares to present sample portfolios in connection with asset management. The volume is minimal.

Interest rates in the euro zone are very low; negative interest rates cannot be ruled out, but have no significant effect on the Bank's interest rate risk.

Development of mean VaR



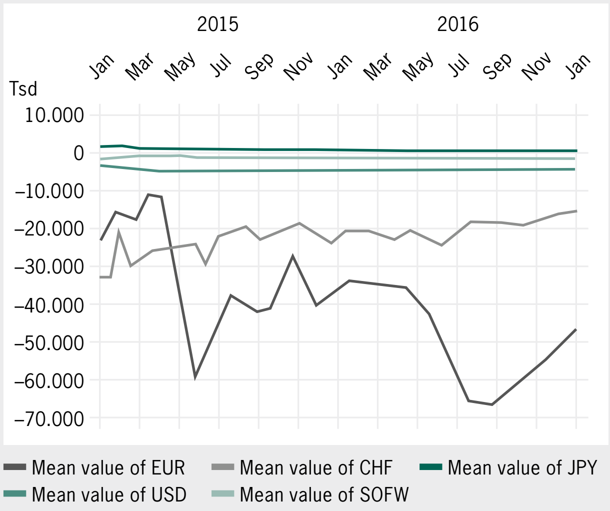
in '000 EUR 2015	Mean value of VaR-total	Mean value of VaR-interest	Mean value of VaR-FX	Mean value of VaR-equity	Mean value of VaR-credit spreads
Jun	15,210	14,991	2,625	387	1,303
Jul	15,672	15,151	3,445	391	1,357
Aug	14,748	14,284	3,372	395	1,357
Sep	14,078	13,221	3,658	475	1,429
Oct	15,267	13,876	4,097	474	1,529
Nov	17,175	16,908	3,949	531	1,214
Dec	15,892	14,748	3,399	579	1,108

in '000 EUR 2016	Mean value of VaR-total	Mean value of VaR-interest	Mean value of VaR-FX	Mean value of VaR-equity	Mean value of VaR-credit spreads
Jan	15,355	15,126	2,504	606	1,137
Feb	16,354	16,090	1,296	622	1,195
Mar	17,648	16,997	1,585	627	1,189
Apr	16,154	16,144	1,640	610	1,160
May	16,234	15,791	1,585	606	5,297
Jun	16,361	16,263	1,732	586	5,231
Jul	18,453	18,808	1,782	600	5,915
Aug	18,273	18,659	1,814	526	6,467
Sep	16,670	17,309	1,442	506	6,775
Oct	13,944	14,084	1,240	511	8,878
Nov	12,731	12,389	1,254	534	9,178
Dec	10,857	12,060	1,179	486	7,050

The VaR for individual risk types developed as follows over the past two years (NB: the VaR could not be calculated in the first half of 2015 due to the extraordinary market situation, namely negative interest rates): as of May 2016, the credit spread risk was calculated for the Bank's entire bond portfolio; prior to this it was calculated for the fair value portfolio only.

The change in prevent value resulting from a 200 basis point shift in yield curves developed as follows over the past two years.

Development of present value loss due to 200 basis point shift



(64) CREDIT RISK

The Bank's medium-term credit risk objectives and policies are set down in writing in the risk strategy. The analysis factors in the overall bank strategy, business policy requirements, risk adequacy and lending risks. This results in specific, medium-term objectives regarding the portfolio structure and clear limits for all relevant risks (large exposures, foreign currency components, etc.).

The principles of risk behaviour in the lending business are:

- Each borrower's credit standing must be checked and a rating assigned to each corporate customer and business partner in the treasury.
- All credit decisions are subject to the dual-control principle. Apart from a few exceptions, the second opinion on the decision must be given by Back Office.
- The Bank wants to prevent cluster risks in its portfolio.
- The Bank wants to price loans according to credit rating.
- The Bank attempts to obtain higher collateral for low rating classes.
- The currency risk for loans in foreign currency must be minimised with higher collateral, especially in the case of low credit ratings.
- The Bank manages the credit portfolio on overall bank level by diversifying and avoiding cluster risks and implementing measures to prevent major losses.

The Bank calculates the expected loss (EL) for its entire credit portfolio. The Bank has programmed its own solution based on the Capital Requirements Directive and Basel III IRB approach to calculate economic capital or unexpected loss (UL).

The Bank wants to limit lending in countries where systemic or transfer risk cannot be ruled out. For this purpose, the Managing Board sets country limits that are monitored continuously and regularly reported to the Managing Board. The customer group 'banks' is assigned separate volume limits. Banks are important business partners in money market and derivative trading, for example, to whom high-volume and sometimes very short-term loans are extended. These limits are also monitored and reported to the Managing Board on a regular basis.

High limits and line utilisation are reported to the Supervisory Board once a year. Various rating modules specifically configured for the different customer groups are employed in the corporate customer business to measure factors relevant to credit ratings in the different customer segments. These systems meet the Basel III requirements for internal rating systems and the requirements of the FMA's Minimum Standards for the Credit Business (FMA-MSK) for risk classification systems. As a result, borrowers are rated on a 25-level scale (1a to 5e), the last five ratings (5a to 5e) being default levels. The individual ratings are linked to estimated one-year default probabilities. Ratings 1a to 2e denote excellent to very good credit ratings, ratings 3a to 3e stand for medium credit ratings, and ratings 4a to 4e indicate increased default risk. The treasury generally has access to external ratings. If no external ratings are available for a business partner, the Back Office produces an internal rating. External ratings are allocated to the internal rating scale. Rating class 1 is only envisaged for business partners with a very good external rating from a rating agency.

Credit decisions are made according to the dual-control principle. Policies are in place for each area to govern rating and volume authorisations for Front Office and Back Office. A second opinion on the decision is usually required from Back Office. The Bank uses the Basel III definition of default to determine default events. All rating tools feature functions for recording default events. If a default event occurs, the customer in question is assigned a default rating (rating class 5). The Bank uses an early-warning event recovery system to clearly identify payments that are 90 days in arrears. The system initiates a standardised workflow that compels Front Office and Back Office to address cases of late payment. If a case is not resolved within 90 days, it is normally transferred to Central Credit Management (restructuring).

The Bank fully addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and prudent recognition of specific valuation allowances. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria. Loan loss provisions are recognised on the basis of estimates regarding the amount of future credit losses and interest rebates. A loan is to be recognised as impaired when it is likely based on observable criteria that not all interest and repayment obligations will be met in accordance with the contract. The impairment amount equates to the difference between the carrying amount of the loan and the present value of estimated future cash flows including recoverable, discounted collateral. The total amount of loan loss provisions relating to balance sheet receivables is openly deducted from loans and advances to banks and customers. In contrast, loan loss provisions for off-balance sheet items (guarantees, endorsement liabilities, credit commitments) are shown as credit risk provisions. Non-collectable receivables are written down directly. Recoveries on loans previously written down are recognised through profit or loss.

The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide.

The total exposure includes balance sheet receivables but also contingent liabilities such as open commitments or warranties.

Segments broken down by rating (maximum default risk)

in '000 EUR 31.12.2015		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Exposure	Corporate Customers	771,207	1,829,821	4,013,499	244,500	194,955	23,124	7,077,106
	Private Customers	2,854	768,492	1,205,596	41,666	31,677	34,211	2,084,496
	Financial Markets	3,595,345	765,269	138,173	30,586	30,233	73,247	4,632,853
	Corporate Center	118,279	550,151	1,113,501	139,567	307,583	249,559	2,478,640
Total exposure		**4,487,685**	**3,913,733**	**6,470,769**	**456,319**	**564,448**	**380,141**	**16,273,095**

in '000 EUR 31.12.2016		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Exposure	Corporate Customers	756,967	2,051,050	4,131,874	109,968	167,593	5,847	7,223,299
	Private Customers	2,041	841,998	1,175,064	28,317	32,653	28,076	2,108,149
	Financial Markets	3,208,594	607,035	102,643	13,003	0	70,106	4,001,381
	Corporate Center	123,504	663,845	1,062,795	98,934	126,013	233,709	2,308,800
Total exposure		**4,091,106**	**4,163,928**	**6,472,376**	**250,222**	**326,259**	**337,738**	**15,641,629**

Regions broken down by rating (maximum default risk)

in '000 EUR 31.12.2015	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	2,481,260	2,368,150	4,311,718	262,751	376,206	349,959	10,150,044
Italy	9,234	216,605	587,538	113,912	132,191	16,596	1,076,076
Germany	268,933	537,032	856,809	21,076	41,589	278	1,725,717
Switzerland and Liechtenstein	220,664	245,849	523,288	32,744	13,176	10,460	1,046,181
Other foreign countries	1,507,594	546,097	191,416	25,836	1,286	2,848	2,275,077
Total exposure	**4,487,685**	**3,913,733**	**6,470,769**	**456,319**	**564,448**	**380,141**	**16,273,095**

in '000 EUR 31.12.2016	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	2,060,665	2,654,541	4,413,315	122,594	164,554	321,961	9,737,630
Italy	4,000	265,695	519,605	91,874	122,469	6,249	1,009,892
Germany	266,626	547,590	849,946	10,848	33,855	4,195	1,713,060
Switzerland and Liechtenstein	232,523	288,137	544,617	11,474	4,955	4,123	1,085,829
Other foreign countries	1,527,292	407,965	144,893	13,432	426	1,210	2,095,218
Total exposure	**4,091,106**	**4,163,928**	**6,472,376**	**250,222**	**326,259**	**337,738**	**15,641,629**

The Group reports a concentration risk in Italy. In recent years, the property market in Italy has been characterised by falling prices. The Group conducts leasing business only in Northern Italy, where the situation, in relative terms, is better than in the rest of the country.

Industries (maximum default risk)

in '000 EUR	31.12.2016	31.12.2015
Financial intermediaries	3,302,325	3,547,211
Consumers/private customers	2,293,576	2,213,519
Public sector	2,175,965	2,190,951
Real estate	2,068,399	2,055,586
Services	1,904,401	1,690,154
Trading	902,279	973,736
Metals/machinery	371,286	375,327
Construction	405,019	463,583
Transport/communications	369,544	397,398
Tourism	530,151	556,638
Water and energy utilities	244,956	272,787
Other goods	156,171	177,121
Vehicle construction	147,412	154,901
Petroleum, plastics	91,306	98,578
Other industries	678,839	1,105,605
Total	**15,641,629**	**16,273,095**

Exposure in rating class 5

in '000 EUR		31.12.2016	31.12.2015
Corporate Customers	Exposure	167,593	194,955
	Value adjustments	51,428	71,484
Private Customers	Exposure	32,653	31,677
	Value adjustments	10,071	11,836
Financial Markets	Exposure	0	30,233
	Value adjustments	0	15,039
Corporate Center	Exposure	126,013	307,583
	Value adjustments	23,714	47,049
Total	**Exposure**	**326,259**	**564,448**
Total	**Value adjustments**	**85,213**	**145,408**

Non-performing loans
The Bank designates loans in the regulatory asset class of loans in arrears as non-performing loans. These amounted to TEUR 311,699 as at 31 December 2016 (2015: TEUR 565,108), accounting for 1.99% (2015: 3.47%) of the maximum default risk.

Collateral
A uniform and comprehensible collateral measurement policy governs the measurement and acceptance of collateral. During the terms of loans, the collateral is monitored on a regular basis to ensure that it retains value. Collateral is usually measured by the Back Office, or above a certain size by a body independent of the lending process.

The most important type of collateral is real estate. Valuations are reviewed regularly. The fulfilment of operating conditions for the eligibility of such collateral for capital backing is guaranteed. Loans above TEUR 3,000 are remeasured by independent specialists after three years at the most. The Hypo Immobilien & Leasing Group operates as a service provider in this business to ensure uniform, independent valuation.

Employees collateral is only counted when the guarantor or liable party has an excellent credit rating. These are usually public bodies or banks. Discounts are applied to the current market value of financial collateral to account for unexpected fluctuations. In addition, such collateral must be sufficiently liquid to guarantee that it can be realised.

Other collateral is only accepted if it is recoverable and legally enforceable in every respect. The Hypo Immobilien & Leasing Group handles the liquidation of defaulted loans and advances backed by mortgages. In the reporting period, the Hypo Immobilien & Leasing Group acquired two properties (2015: three) at a total of TEUR 1,331 (2015: TEUR 3,050). One of these items originated from another company within the Group.

Depending on the market situation, it may not be easy to convert the acquired properties into cash. Following acquisition, the Hypo Immobilien & Leasing Group analyses whether a sale or a long-term let would be more advantageous. In the event of a sales strategy, an attempt will be made to implement the sale as quickly as possible, taking the proceeds into account. In the event of a letting strategy, the property will be permanently classified as investment property in the Group.

As a result of restructuring measures, an exposure of TEUR 5,529 was rated as healthy in 2016 (2015: TEUR 975). Loan loss provisions of TEUR 2,320 were reversed in 2016 (2015: TEUR 217).

Past due but non-impaired receivables

Length of time overdue	31.12.2016 Exposure in '000 EUR	31.12.2015 Exposure in '000 EUR
Less than 1 day	15,142,501	15,543,694
1 to 60 days	166,693	156,541
61 to 90 days	6,168	2,795
More than 90 days	8	5,617
Total	**15,315,370**	**15,708,647**

Problem customers are managed by departments specialising in problem loan processing. They are immediately transferred to these departments following defined early warning indicators such as the dunning level, default of 90 days, rating, insolvency, coercive measures by third parties or out-of-court settlements. This ensures that problem loans are managed promptly by specialists using defined, standardised processes.

Various strategies and suitable restructuring measures are applied to exposures in problem loan processing. Close monitoring ensures compliance with the restructuring or realisation strategies resolved. The aim is to restore financial health to the customer and return it to the front-office area.

The following are examples of financial measures taken as part of customer restructuring/reorganisation:

- Instalment agreements: Credit instalment arrears or overdrafts are restructured in separate repayment agreements.
- Restructuring of existing credits/loans: Financing without matching maturities or liquidity squeezes that arise are remedied by restructuring the financing, provided this is economically feasible and makes good business sense.
- Acceptance of temporary overdrafts, provided that the reason for the overdraft and the manner and date of settlement are reasonable/foreseeable.
- Restructuring/granting of new credit: If there is a positive going concern forecast, financial monitoring may also be provided for the restructuring process of a company in crisis, with the aim of restoring it to financial health on a sustainable basis.
- Capital waiver, change in collateral positions or assignment of a restructuring interest rate at less than the market rate are further restructuring options.

Additionally, the customer is supported with performance-related measures wherever possible in order to remedy the crisis situation. The following table shows the volume of loans and advances for which agreements were made with the customer regarding concessions (forbearance measures) in order to restructure or rehabilitate the customer because of financial difficulties.

Loans and advances with forbearance measures

in '000 EUR	31.12.2016	31.12.2015
Non-financial companies	18,834	35,801
Private households	1,089	2,148
Loans and advances with forbearance measures on performing loans	**19,923**	**37,949**
Financial intermediaries	0	4,877
Non-financial companies	38,205	230,800
Private households	4,858	15,641
Loans and advances with forbearance measures on nonperforming loans	**43,063**	**251,318**
Total loans and advances with forbearance measures	**62,986**	**289,267**

(65) LIQUIDITY RISK

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

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

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

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

Stress tests
- Liquidity needs versus buffer in crisis situation

The Bank is aware of the key significance of the capital market for funding. The Bank actively manages the maturities of its loans with respect to the discontinuation of the state guarantee. Relationships with investors are established and maintained through regular road shows. The Bank aims for a diverse issuance policy with regard to instruments and investors.

The Bank's liquidity buffer is large enough at all times to accommodate the utilisation of credit commitments (call risk) and ensure that expected payments not received (time risk) do not compromise solvency. In addition, the Bank currently hardly utilises the OeNB's or ECB's marginal lending facility, the SNB repo system and the money market. The Bank participated in the ECB's long-term tenders. Therefore, there is sufficient available liquidity at all times to prevent bottlenecks in the event of a crisis.

Hypo Landesbank Vorarlberg complied in full with the liquidity regulations outlined in the Austrian Banking Act (BWG) and the CRR. There are no other cash flow risks for the Bank besides the risks described here.

The information in the tables on development of maturities on the money and capital markets relate to financial instruments. The expected cash flows are as follows: The disclosures in the derivatives column relate to Notes (18 to 19) and (34 to 35). The disclosures in the assets column relate to Notes (15 to 17) and (20 to 22). The disclosures in the equity and liabilities column relate to Notes (31 to 33) and (36 to 41). The money market table shows all maturities within the next 12 months. The capital market table shows all maturities after the next 12 months.

Maturity profile money market

in '000 EUR	Assets		Liabilities		
31.12.2015	**Assets**	**Derivates**	**Liabilities**	**Derivates**	**Total**
January 2016	1,271,377	289,421	–704,164	–290,484	566,150
February 2016	215,579	278,671	–575,709	–198,958	–280,417
March 2016	292,720	165,920	–203,931	–154,382	100,327
April 2016	100,472	36,102	–178,146	–28,916	–70,488
May 2016	116,338	24,228	–202,622	–16,887	–78,943
June 2016	184,166	14,045	–321,511	–19,946	–143,246
July 2016	394,535	18,657	–494,657	–13,049	–94,514
August 2016	156,595	53,792	–180,280	–34,836	–4,729
September 2016	138,632	39,320	–170,298	–24,914	–17,260
October 2016	94,736	21,867	–168,065	–21,145	–72,607
November 2016	96,094	25,031	–155,929	–21,030	–55,834
December 2016	77,859	62,251	–166,689	–60,714	–87,293

Maturity profile money market

in '000 EUR	Assets		Liabilities		
31.12.2016	**Assets**	**Derivates**	**Liabilities**	**Derivates**	**Total**
January 2017	1,367,219	345,829	–866,001	–346,634	500,413
February 2017	191,456	77,301	–217,821	–76,128	–25,192
March 2017	317,733	104,714	–536,355	–92,574	–206,482
April 2017	107,233	31,925	–167,901	–21,487	–50,230
May 2017	100,662	19,734	–132,933	–11,140	–23,677
June 2017	243,802	35,763	–185,980	–41,026	52,559
July 2017	125,342	94,827	–279,055	–75,295	–134,181
August 2017	120,627	21,223	–405,711	–8,251	–272,112
September 2017	222,840	145,978	–1,185,986	–111,738	–928,906
October 2017	136,983	12,091	–155,183	–10,504	–16,613
November 2017	58,772	12,283	–127,102	–8,989	–65,036
December 2017	81,975	14,874	–117,829	–14,261	–35,241

Development of maturities on the capital market

in '000 EUR	Assets		Liabilities		
31.12.2015	**Assets**	**Derivates**	**Liabilities**	**Derivates**	**Total**
2016	3,268,696	969,342	–3,555,770	–832,367	–150,099
2017	1,512,103	373,204	–3,517,021	–287,977	–1,919,691
2018	1,113,204	108,132	–1,247,565	–86,699	–112,928
2019	1,073,272	290,654	–1,329,986	–303,575	–269,635
2020	1,047,302	317,380	–964,920	–331,921	67,841
2021	863,095	70,254	–342,058	–71,040	520,251
2022	835,207	66,859	–242,949	–69,266	589,851
2023	693,595	59,178	–99,701	–64,344	588,728
2024	718,435	181,119	–144,556	–195,866	559,132
2025	687,543	257,842	–689,802	–256,142	–559
2026	402,271	34,676	–53,781	–36,290	346,876
2027	348,328	31,630	–39,559	–33,171	307,228

Development of maturities on the capital market

in '000 EUR	Assets		Liabilities		
31.12.2016	**Assets**	**Derivates**	**Liabilities**	**Derivates**	**Total**
2017	3,194,611	916,540	–4,430,997	–818,230	–1,138,076
2018	1,192,360	167,344	–2,006,128	–142,727	–789,151
2019	1,118,147	293,457	–1,503,002	–301,895	–393,293
2020	1,090,407	314,343	–1,295,221	–328,410	–218,881
2021	1,028,920	82,749	–552,494	–81,529	477,646
2022	905,332	63,533	–410,782	–60,433	497,650
2023	772,260	56,778	–115,268	–56,940	656,830
2024	753,381	181,323	–144,412	–191,017	599,275
2025	698,114	347,250	–689,744	–347,482	8,138
2026	606,048	36,777	–129,933	–35,770	477,122
2027	354,219	33,289	–89,497	–30,868	267,143
2028	365,205	51,666	–42,773	–50,339	323,759

(66) OPERATING RISK

Operating risks are minimised in the Bank in all divisions through the clear distribution of responsibilities and written procedural instructions. The Bank has written emergency plans in place, and a crisis management manual is made available to all employees. Employees receive regular training to prepare them for crisis events of all kinds. The Bank has critically studied all internal processes multiple times as part of functional analyses.

Loss events at the Bank are recorded in a loss event database. In this database, operating loss events are assigned to different categories. Quality assurance is performed by Operational Risk Managers who review each loss event. For example, the recording of loss events is guaranteed because it is a requirement a necessary entry. The database is analysed for the quarterly OR report.

The Bank places great emphasis on data protection and security measures and conducts a large number of controls and monitoring processes to ensure that entrusted data remains confidential. Internal Audit conducts both regular and unannounced audits to ensure adherence to procedural instructions.

Material transactions and decisions are made exclusively in accordance with the dual-control principle. Well-trained and conscientious employees are of great importance to the Bank. The internal Legal Department designs contracts carefully in consultation with specialist lawyers and university professors to minimise legal risks.

(67) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

Capital management
The Group's capital management objectives and requirements include:

- Compliance with the regulatory capital requirements of CRR
- Maintaining a going concern
- Managing shareholder distributions
- Development of the capital base

Capital adequacy is continuously monitored in accordance with CRR. These data are calculated every month and reported individually and at the level of Vorarlberger Landesbank-Holding to Oesterreichische Nationalbank on a quarterly basis. In 2016, CRR requires institutions to comply with a Common Equity Tier 1 capital ratio of 4.50%, a Tier 1 capital ratio of 6.00% and a total capital ratio of 8.00%. In 2016, an additional capital conservation buffer of 0.625% was created that will increase continuously until 2019 to reach the target ratio of 2.5% as an additional capital conservation buffer on the Common Equity Tier 1 capital. The Bank met the regulatory capital requirements both in the year under review (in accordance with CRR) and the previous year (in accordance with BWG).

The amount of regulatory capital held by the Bank Group is determined by Central Accounting and consists of three tiers.

Common Equity Tier 1 capital – CET1
This includes the eligible and paid-in capital instruments, share premium accounts related to these instruments, retained earnings, eligible profit/loss for the year, accumulated other comprehensive income, and other reserves. CRR provides appropriate transitional regulations for the period from 2014 to 2021. In addition, CRR provides for deductions, such as intangible assets, deferred tax assets, measurement effects due to the institution's own credit risk, and Common Equity Tier 1 instruments of financial sector entities that exceed certain thresholds.

Additional Tier 1 capital – AT1
This includes the eligible and paid-in capital instruments and share premium accounts related to these instruments. CRR also provides appropriate transitional regulations for the period from 2014 to 2021 for these instruments. In addition, deductions are also included in CRR for these items.

Tier 1 capital is the total of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 2 capital – T2
This includes the eligible Tier 2 bonds and subordinated loans and share premium accounts related to these instruments. There are transitional regulations for the period from 2014 to 2021 for subordinated and Tier 2 capital already issued that does not meet the requires of Article 63 CRR. Tier 2 instruments in the last five years of their terms are only eligible to a certain extent. Tier 2 instruments of financial sector entities that exceed certain thresholds are also deductible here.

The sum of Tier 1 and Tier 2 capital gives the attributable own funds. The tables below show the capital requirements pursuant to CRR and the breakdown of the Bank Group's capital.

Pillar 2 of Basel III requires banks additionally to demonstrate their capital adequacy on the basis of internal models. This is to ensure in particular that risks are considered which receive no capital requirements under Pillar 1. Such risks include interest rate risk in the banking book. The Bank employs the Internal Capital Adequacy Assessment Process (ICAAP) to identify, quantify, aggregate and monitor all major risks. The Bank calculates economic capital requirements for each of these risks.

The Bank allocates a capital buffer if economic capital requirements cannot be calculated. The available risk coverage potential is distributed across organisational units and risk types in annual planning. By using the Capital Adequacy Process, the Bank ensures that risk limits are complied with and that risks taken are covered by existing coverage potential. The Bank applies a confidence level of 99.95% for the Capital Adequacy Process on a liquidation basis and a confidence level of 95% on a going concern basis. The holding period is one year in each case. Correlations between individual risk types are not taken into consideration. The Capital Adequacy Process calculation is performed monthly.

The Bank's credit risk calculation of economic capital is based on the Basel III IRB approach. With this approach, the consumption of economic capital depends on the volume, collateral and rating of the debtor. Value at risk is employed in the ICAAP for the management of market risk. The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis. In addition, limits are defined for various yield curves, currency pairs or equity position risks.

The Bank calculates economic capital for operational risk using the Pillar 1 basic indicator approach. To quantify structural liquidity risk, Hypo Landesbank Vorarlberg calculates liquidity VaR based on the ICAAP guidelines of the Austria Financial Market Authority/ Austrian National Bank. In-house methods are used for shareholder risk, real estate risk, foreign currency risk in the lending business, migration risk and counterparty default risk. A capital buffer is recognised for other risks.

Regulatory requirements

Total risk exposure according to CRR

in '000 EUR	31.12.2016	31.12.2015
Risk weighted exposure amounts	7,055,220	7,370,273
Total risk exposure amount for settlement/delivery	0	0
Total risk exposure amount for position, foreign exchange and commodities risks	492	428
Total risk exposure amount for operational risk	450,246	419,047
Total risk exposure amount for credit valuation adjustment	38,215	43,233
Total risk exposure amount	**7,544,173**	**7,832,981**

Common Equity Tier 1 capital (CET1) according to CRR

in ’000 EUR	31.12.2016	31.12.2015
Capital instruments eligible as CET1 capital	184,327	184,327
Retained earnings	671,984	572,411
Accumulated other comprehensive income	8,549	7,160
Other reserves	128,472	129,024
Transitional adjustments due to grandfathered CET1 Capital instruments	18,000	21,000
Minority interest given recognition in CET1 capital	17	14
Transitional adjustments due to additional minority interests	12	27
Adjustments to CET1 due to prudential filters	2,769	–18,159
Intangible assets	–1,960	–785
Excess of deduction from AT1 items over AT1 Capital	0	–469
CET1 instruments of financial sector entities where the institution does not have a significant investment	0	0
Other transitional adjustments to CET1 Capital	–15,674	–19,702
Common Equity Tier 1 capital (CET1)	**996,496**	**874,848**

Additional Tier 1 capital (AT1) according to CRR

in ’000 EUR	31.12.2016	31.12.2015
Capital instruments eligible as AT1 capital	10,000	0
Instruments issued by subsidiaries that are given recognition in AT1 capital	4	5
Transitional adjustments due to additional recognition in AT1 capital of instruments issued by subsidiaries	–2	–3
AT1 instruments of financial sector entities where the institution does not have a significant investment	0	0
Other transitional adjustments to AT1 capital	–783	–471
Excess of deduction from AT1 items over AT1 capital (deducted in CET1)	0	469
Additional Tier 1 capital (AT1)	**9,219**	**0**

Tier 2 capital (T2)

in ’000 EUR	31.12.2016	31.12.2015
Capital instruments and subordinated loans eligible as T2 capital	240,810	285,908
Instruments issued by subsidiaries that are given recognition in T2 capital	6	6
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	–2	–4
T2 instruments of financial sector entities where the institution does not have a significant investment	0	0
Other transitional adjustments to T2 capital	0	0
Tier 2 capital (T2)	**240,814**	**285,910**

Composition of own funds according to CRR and capital ratios

in ’000 EUR	31.12.2016	31.12.2015
Common Equity Tier 1 capital (CET1)	996,496	874,848
Additional Tier 1 capital (AT1)	9,219	0
Tier 1 capital	**1,005,715**	**874,848**
Tier 2 capital (T2)	240,814	285,910
Own funds	**1,246,529**	**1,160,758**
CET1 Capital ratio (CET1)	13.21%	11.17%
Surplus of CET1 capital	657,009	522,364
T1 Capital ratio (T1)	13.33%	11.17%
Surplus of T1 capital	553,065	404,870
Total capital ratio	16.52%	14.82%
Surplus of total capital	642,995	534,120

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(68) AUSTRIAN LAW

In line with Section 59a Austrian Banking Act in conjunction with Section 245a (1) Austrian Corporate Code (UGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards applicable in the EU. In line with Section 59a Austrian Banking Act, the disclosures per Section 64 (1) No. 1–19 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the Notes to the consolidated financial statements.

(69) ADDITIONAL DISCLOSURES IN LINE WITH THE AUSTRIAN BANKING ACT

The disclosure pursuant to Section 64 (1) No. 1 BWG on participation in the leasing business can be read in Note (17).

The disclosure pursuant to Section 64 (1) No. 2 BWG on total assets and liabilities in foreign currencies can be read in Note (43).

The disclosure pursuant to Section 64 (1) No. 3 BWG on forward transactions not yet settled on the reporting date can be read in Notes (19 and 35).

The disclosure pursuant to Section 64 (1) No. 4 BWG on residual terms of loans and advances to banks and customers of liabilities to banks and customers can be read in Note (44).

The balance sheet items “Financial liabilities – designated at fair value” and “Subordinated capital (LAC)” include subordinated liabilities. The following table provides details in accordance with Section 64 (1) No. 5 to 6 BWG.

in ’000 EUR	Total number		Carrying value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAFV	10	11	57,636	58,417
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	22	16	379,044	369,811
	Average interest		**Average remaining term**	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAFV	2.450	3.373	6.2	7.2
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	1.917	2.056	3.4	4.0

The following subordinated liabilities exceed 10% of the total amount of the above subordinated liabilities. The conditions of these issues in accordance with Section 64 No. 5 BWG are also given.

- Subordinated bond ISIN XS0267498912, TEUR 100,000, interest rate 3M Euribor +10 bp, currently 0.182%, term 2006 to 2017, no call or conversion option, repaid at end of term at rate of 100.
- Subordinated bond ISIN AT0000A0XB21, TEUR 100,000, fixed interest rate 5%, term 2012 to 2022, no call or conversion option, repaid at end of term at nominal value.

In 2017, bonds and other fixed-income securities in accordance with Section 64 (1) No. 7 BWG totalling TEUR 642,365 (2016: TEUR 827,925) and issued bonds totalling TEUR 1,438,806 (2016: TEUR 889,270) will fall due for repayment.

The disclosure pursuant to Section 64 (1) No. 8 BWG on assets provided as collateral can be read in Note (48).

The disclosure pursuant to Section 64 (1) No. 9 BWG is not made in terms of geographical markets, as these do not differ materially from the location of the Bank’s organisation.

The disclosure pursuant to Section 64 (1) No. 12 BWG is already made in the individual Notes of the consolidated financial statements where the amounts are significant.

The interest expense for subordinated liabilities according to Section 64 (1) No. 13 BWG was TEUR 9,711 in 2016 (2015: TEUR 7,891).

The disclosure pursuant to Section 64 (1) No. 15 BWG can be read in Note (71). The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service. As of 31 December 2016, the trading portfolio includes investment funds of TEUR 661 (2015: TEUR 675).

The disclosure pursuant to Section 64 (1) No. 16 and No. 17 BWG on the breakdown of Tier 1 capital, supplementary capital and consolidated capital can be read in Notes (42 and 67).

The financial information and keyfigures for each country of establishment pursuant to Section 64 (1) No. 18 BWG are disclosed in extract form in the following table.

in '000 EUR 2015	Austria	Switzerland	Italy	Hungary	Czech Republic
Net interest income	164,276	5,041	13,124	492	528
Net fee and commission income	36,224	730	–142	–157	–89
Net result on hedge accounting	869	0	0	0	0
Net trading result	720	406	21	–1	–126
Net result from other financial instruments	15,571	0	0	0	0
Administrative expenses	–82,283	–5,193	–4,918	–30	–38
Earnings before taxes	115,299	1,000	–8,584	6,038	7,393
Taxes on income	–30,812	–175	2,571	305	–51
Number of full-time equivalent employees	671.70	20.00	37.10	0.00	0.00

in '000 EUR 2016	Austria	Switzerland	Italy	Hungary	Czech Republic
Net interest income	147,771	6,270	13,543	254	0
Net fee and commission income	33,694	541	–124	–84	0
Net result on hedge accounting	1,674	0	0	0	0
Net trading result	27,551	441	9	–3	0
Net result from other financial instruments	10,813	0	0	0	0
Administrative expenses	–86,502	–5,342	–5,228	–12	–30
Earnings before taxes	114,614	2,409	490	136	–30
Taxes on income	–27,833	–422	–239	–699	2
Number of full-time equivalent employees	663.50	19.70	42.00	0,00	0,00

Switzerland comprises our branch in St. Gallen. The branch in St. Gallen acts as a universal bank. It focuses on lending, asset management and investment advisory services. It operates in German-speaking Switzerland, especially Eastern Switzerland.

Italy comprises our companies Hypo Vorarlberg Holding (Italy) – G.m.b.H, Hypo Vorarlberg Leasing AG and Hypo Vorarlberg Immo Italia srl. All companies are based in Bolzano. Hypo Vorarlberg Leasing AG conducts property leasing business and occasionally movables leasing business. Hypo Vorarlberg Leasing AG has branches in Como and Treviso. It operates in South Tyrol and Northern Italy. Hypo Vorarlberg Immo Italia srl manages and evaluates the Group's properties in Italy and provides property services for Hypo Vorarlberg Leasing AG and the Group. In addition, Hypo Vorarlberg Immo Italia srl manages and commercialises its own properties. Hypo Vorarlberg Holding (Italy) G.m.b.H. holds the stakes in the two other companies.

Hungary comprises our companies Inprox GY – HIL Kft. and HSL Logisztika Hungary Kft., both based in Budapest. Both companies operate in the property leasing business and each company finances a large commercial property in Hungary. Both companies thus no longer form part of the scope of consolidation in 2016. Further details on the disposal are given in Note (2).

The Czech Republic comprises our companies Inprox Praha Michle – HIL s.r.o. and Inprox Praha Letnany – HIL s.r.o., both based in Prague. Both companies operate in the property leasing business and each company finances a large commercial property in the Czech Republic.

The return on total assets in accordance with Section 64 (1) No. 19 BWG is 0.65% (previous year: 0.67%).

Hypo Landesbank Vorarlberg has issued a participation certificate, but did not call back or take shares in pledge in 2016 or 2015.

(70) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE ACT

The table below provides a breakdown of fees paid to Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Strasse 19 – IZD-Tower, 1220 Vienna per Section 266 UGB.

in '000 EUR	2016	2015
Expenses for auditing the consolidated financial statements	186	180
Expenses for other auditing services	17	19
Expenses for other services	34	18
Total fees	**237**	**217**

(71) DISCLOSURES ON STOCK-EXCHANGE LISTING

A breakdown of securities per Section 64 (1) No. 10 and No. 11 BWG is provided below.

in '000 EUR	Not listed 31.12.2016	Listed 31.12.2016	Not listed 31.12.2015	Listed 31.12.2015	Total 31.12.2016	Total 31.12.2015
Bonds – AFV	94,751	238,616	91,685	334,782	333,367	426,467
Bonds – AFS	14,327	706,463	15,411	682,897	720,790	698,308
Bonds – HTM	4,742	1,073,138	4,593	955,424	1,077,880	960,017
Shares – HFT	650	11	614	61	661	675
Shares – AFV	2,770	5,410	0	5,191	8,180	5,191
Shares – AFS	17,358	8,500	16,795	7,000	25,858	23,795
Shares – HTM	0	10,000	0	9,994	10,000	9,994
Investments	11,208	0	10,789	0	11,208	10,789
Shares in affiliated companies	28	0	28	0	28	28
Total securities	**145,834**	**2,042,138**	**139,915**	**1,995,349**	**2,187,972**	**2,135,264**
of which non-current assets	128,743	2,042,127	126,285	1,995,288	2,170,870	2,121,573
of which current assets	16,441	0	13,016	0	16,441	13,016
of which trading assets	650	11	614	61	661	675

In the interest of improved transparency and informational value of the breakdown of securities, loans and advances to banks and customers were excluded from bonds at fair value.

The difference between cost and the lower repayment amount per Section 56 (2) Austrian Banking Act was TEUR 54,389 (2015: TEUR 56,291). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was TEUR 11,731 (2015: TEUR 8,474). At 31 December 2015, subordinated capital in the portfolio securities totalled TEUR 911 (2015: TEUR 1,427).

(72) SUBSIDIARIES AND HOLDINGS NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The following subsidiaries were not included in the consolidated financial statements as they are of minor importance to the informational value of the consolidated financial statements, both when considered individually and when taken together. In most cases, these companies are project companies which do not undertake business operations and are instead responsible for the realisation of individual assets. Hotel Jagdhof Kessler Betriebs GmbH & Co KG based in Riezlern under takes business operations in the form of a hotel business.

Company name, place in '000 EUR	Percentage of capital	Sharehold-ers' equity	Net result	Total assets	Date of financial statements
HV-Finanzdienstleistungs- und Immobilien GmbH, DE-Kempten	100.00	–23	–7	826	31.12.2016
Hotel Widderstein Besitz & Verwaltungs GmbH, Schröcken	100.00	90	11	90	31.12.2016
"ATZ" Besitz- und VerwaltungsGmbH, Bregenz	100.00	–79	–5	965	31.12.2016
Hotel Jagdhof Kessler Betriebs GmbH & Co KG, Riezlern	100.00	309	46	3,103	31.10.2016
Hotel Jagdhof Kessler BetriebsGmbH, Riezlern	100.00	20	0	23	31.10.2016
Total		**317**	**45**	**5,007**	

The following holdings over which the Group can exert significant influence are not included in the consolidated financial statements, primarily because inclusion would lead to a disproportionately long delay to the consolidated financial statements and also because reconciliation would involve disproportionately high costs, due to IFRS, without significantly increasing the informational value with regard to the Group's net assets and liabilities, financial condition, and results of operations.

Company name, place **in '000 EUR**	**Percentage of capital**	**Shareholders' equity**	**Net result**	**Total assets**	**Date of financial statements**
"Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	33.33	37	0	315	*31.12.2016
MERAN 2000 Bergbahnen AG, IT-Meran	23.39	10,651	105	20,241	31.12.2015
CAMPUS Dornbirn II Investment GmbH, Dornbirn	30.00	3,832	335	20,281	31.12.2015

*) Provisional result

Company name, place **in '000 EUR**	**The Group's share in equity**	**The Group's share in**
"Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	12	0
MERAN 2000 Bergbahnen AG, IT-Meran	2,491	25
CAMPUS Dornbirn II Investment GmbH, Dornbirn	1,150	101
Total	**3,653**	**126**

VI. MANAGING BOARD / SUPERVISORY BOARD

MANAGING BOARD

Michel Haller
Member of the Managing Board, Tettnang
(until 31 December 2016)
Chairman of the Managing Board, Tettnang
(since 01 January 2017)

Johannes Hefel
Member of the Managing Board, Schwarzach

Wilfried Amann
Member of the Managing Board, Bludesch
(since 01 January 2017)

Michael Grahammer
Chairman of the Managing Board, Dornbirn
(until 31 December 2016)

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn

Friedrich Amann
Entrepreneur (retired), Fraxern
(until 28 November 2016)

Astrid Bischof
Entrepreneur, Göfis

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau

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

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis
Member of the Managing Board of Landeskreditbank
Baden-Württemberg – Förderbank (L-Bank), Ettlingen

Veronika Moosbrugger
Chairwoman of the Works Council
Works Council delegate

Bernhard Köb
Works Council delegate

Elmar Köck
Works Council delegate

Gerhard Köhle
Works Council delegate

Cornelia Vonach
Works Council delegate
(until 07 February 2016)

Peter Niksic
Works Council delegate
(since 08 February 2016)

VII. SUBSIDIARIES AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statements:

The shareholdings listed in the following table did not change in financial year 2016. In 2016, Inprox GY – HIL Kft., based in Budapest, was liquidated and the shares in HSL Logisztika Hungary Kft., based in Budapest, were sold. More detailed disclosures in this regard can be found under Note (2). The share of voting rights corresponds to the equity interest.

Company name, place	Percentage of capital	Date of financial statements
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00	31.12.2016
LD-Leasing GmbH, Dornbirn	100.00	31.12.2016
Hypo Vorarlberg Leasing AG, IT-Bolzano	100.00	31.12.2016
Hypo Vorarlberg Holding (Italien) – GmbH, IT-Bolzano	100.00	31.12.2016
Hypo Vorarlberg Immo Italia srl, IT-Bolzano	100.00	31.12.2016
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00	31.12.2016
Hypo Immobilien Besitz GmbH, Dornbirn	100.00	31.12.2016
"Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100.00	31.12.2016
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00	31.12.2016
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00	31.12.2016
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00	31.12.2016
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00	31.12.2016
Hypo Versicherungsmakler GmbH, Dornbirn	100.00	31.12.2016
Hypo Immobilien Investment GmbH, Dornbirn	100.00	31.12.2016
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00	31.12.2016
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100.00	31.12.2016
HIL Immobilien GmbH, Dornbirn	100.00	31.12.2016
HIL BETA Mobilienverwaltung GmbH, Dornbirn	100.00	31.12.2016
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00	31.12.2016
HIL Baumarkt Triester Straße Immobilienleasing GmbH, Dornbirn	100.00	31.12.2016
HIL Real Estate alpha GmbH, Dornbirn	100.00	31.12.2016
HIL Real Estate International Holding GmbH, Dornbirn	100.00	31.12.2016
"Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100.00	31.12.2016
Inprox Praha Michle – HIL s.r.o., CZ-Prague	100.00	31.12.2016
Inprox Praha Letnany – HIL s.r.o., CZ-Prague	100.00	31.12.2016
HSL Logisztika Hungary Kft., HU-Budapest	100.00	31.12.2016
"HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00	31.12.2016
"POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00	31.12.2016
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00	31.12.2016
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00	31.12.2016
D. TSCHERNE Gesellschaft m.b.H., Vienna	100.00	31.12.2016
"HSL-Lindner" Traktorenleasing GmbH, Dornbirn	76.00	31.12.2016

b) Companies consolidated in the consolidated financial statements according to the equity method:

The shareholdings listed in the following table did not change in financial year 2016. In 2016, HTV Kappa Immobilienleasing GmbH, based in Dornbirn, no longer forms part of the scope of consolidation on account of the sale. More detailed disclosures can be found under Note (2). The share of voting rights corresponds to the equity interest in each case.

Company name, place in '000 EUR	Percentage of capital	Sharehol-ders' equity	Total assets	Liabilities	Revenues
Silvretta-Center Leasing GmbH, Bregenz	50.00	1,151	5,687	4,536	498
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz	43.29	70,208	117,245	47,037	–15
MASTERINVEST Kapitalanlage GmbH, Vienna	37.50	4,593	7,668	3,075	39
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33	230	355	125	0
VKL II Grundverwertungsgesellschaft m.b.H., Dornbirn	33.33	490	504	14	1
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33.33	4,650	4,651	1	9
VKL IV Leasinggesellschaft mbH, Dornbirn	33.33	64	64	0	0
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	33.33	41	41	0	0
'Seestadt Bregenz' Besitz- und Verwaltungsgesellschaft mbH, Dornbirn	20.00	1,177	13,327	12,150	16

VKL I (Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H.) – V, Silvretta Center Leasing GmbH and Seestadt Bregenz Besitz- u. Verwaltungsgesellschaft mbH are property companies whose tasks involve either the letting, sale or administration of properties. The business activity of MASTERINVEST Kapitalanlage GmbH involves the management of investment funds in accordance with the Austrian Investment Fund Act. HYPO EQUITY Unternehmensbeteiligungs AG is an alternative investment fund according to AIFMD in the field of venture capital and private equity. The core business focuses on financing small and mid-sized enterprises by providing equity and annex capital. The company essentially holds two investments. The value of one investment, which undertakes research and development in the biotechnology sector, is significantly influenced by the results of the research. This company therefore relies on the injection of liquidity. The financial statements of HYPO EQUITY Unternehmensbeteiligungs AG have been audited and issued with an unqualified audit opinion. They do not contain any indications of particular risks.

With the exception of HYPO EQUITY Unternehmensbeteiligungen AG, all companies included in the consolidated financial statements according to the equity method are based on separate financial statements as at 31 December 2016. The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG were prepared as at 30 September 2016 and included in the consolidated financial statements on this basis, as this company's financial year differs from the calendar year. No interim financial statements were prepared.

The revenues shown in the table for 'Seestadt Bregenz' Besitz- und Verwaltungsgesellschaft mbH and Silvretta-Center Leasing GmbH represent rental income, as the purpose of the companies is letting and leasing. For the other companies, net inter est income is shown under revenues.

(73) DISCLOSURES ON NON-CONTROLLING INTERESTS

There are non-controlling interests in “HSL-Lindner” Traktorenleasing GmbH, based in Dornbirn. This company’s financial information is presented in the table below.

in ’000 EUR	31.12.2016	31.12.2015
Assets	2,066	2,953
Financial assets	2,027	2,941
of which current	1,188	1,630
of which non-current	839	1,311
Other assets	39	12
Liabilities	1,908	2,755
Financial liabilities	1,848	2,653
of which non-current	1,848	2,653
Other liabilities	60	102
Shareholders’ equity	158	198
of which non-controlling interests	38	48

TEUR	2016	2015
Net interest income	62	68
Other income	925	42
Other expenses	–923	–40
Earnings before taxes	13	72
Taxes on income	–3	–17
Income after taxes	10	55
of which non-controlling interests	2	13
Dividends/distributions	50	100
of which non-controlling interests	12	24

(74) DISCLOSURES ON MATERIAL JOINT VENTURES AND ASSOCIATES

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

HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz

in '000 EUR	30.09.2016	30.09.2015
Assets	117,245	116,405
Financial assets	117,160	116,323
of which current	9,642	14,014
of which non-current	107,518	102,309
Other assets	85	82
Liabilities	47,038	46,661
Financial liabilities	41,589	41,589
davon kurzfristige	10,589	34,089
of which non-current	31,000	7,500
Other liabilities	5,449	5,072
Shareholders' equity	70,207	69,744

in '000 EUR	2016	2015
Net interest income	–15	2,777
Other income	2,256	60
Other expenses	–1,778	–1,279
Earnings before taxes	463	1,558
Taxes on income	0	399
Income after taxes	463	1,957
Dividends/distributions	0	1,993

MASTERINVEST Kapitalanlage GmbH, Vienna

in '000 EUR	31.12.2016	31.12.2015
Assets	7,668	8,280
Financial assets	5,194	5,860
of which current	2,643	0
of which non-current	2,551	5,860
Other assets	2,474	2,420
Liabilities	3,075	3,748
Provisions	133	134
Other liabilities	2,942	3,615
Shareholders' equity	4,593	4,532

in '000 EUR	2016	2015
Net interest income	39	35
Other income	628	544
Other expenses	–327	–470
Earnings before taxes	1,012	1,060
Taxes on income	–215	–446
Income after taxes	797	614
Dividends/distributions	735	400

'Seestadt Bregenz' Besitz- und Verwaltungsgesellschaft m.b.H., Dornbirn

in '000 EUR	31.12.2016	31.12.2015
Assets	13,327	12,142
Other assets	13,327	12,142
Liabilities	12,150	10,831
Financial liabilities	12,099	10,736
of which non-current	12,099	10,736
Other liabilities	51	95
Shareholders' equity	1,177	1,311

in '000 EUR	2016	2015
Net interest income	–334	–305
Other income	333	320
Other expenses	0	–5
Earnings before taxes	–132	–67
Taxes on income	–2	–2
Consolidated net income	–134	–69
Dividends/distributions	0	0

Silvretta-Center Leasing GmbH, Bregenz

in ’000 EUR	31.12.2016	31.12.2015
Assets	5,687	5,504
Other assets	5,687	5,504
Liabilities	4,536	4,538
Financial liabilities	4,400	4,399
of which non-current	4,400	4,399
Other liabilities	136	139
Shareholders’ equity	1,151	966

in ’000 EUR	2016	2015
Net interest income	–11	–16
Other income	500	508
Other expenses	–186	–194
Earnings before taxes	239	229
Taxes on income	–54	–43
Income after taxes	185	186
Dividends/distributions	0	0

Below, Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H, VKL II Grundverwertungsgesellschaft m.b.H., VKL III Gebäudeleasing-Gesellschaft m.b.H., VKL IV Leasinggesellschaft mbH and VKL V Immobilien Leasinggesellschaft m.b.H. are aggregated in the presentation of financial information, because all these companies pursue the same objective, and the shareholder structure and shareholdings in all these companies are identical.

Vorarlberger Kommunalgebäudeleasing Gesellschaften

in ’000 EUR	31.12.2016	31.12.2015
Assets	5,615	12,391
Financial assets	686	2,362
of which current	0	1,229
of which non-current	686	1,133
Other assets	4,929	10,029
Liabilities	140	6,878
Financial liabilities	136	6,866
of which current	136	195
of which non-current	0	6,671
Other liabilities	4	12
Shareholders’ equity	5,475	5,513

in ’000 EUR	2016	2015
Net interest income	10	83
Other income	374	122
Other expenses	–20	–117
Earnings before taxes	328	–77
Taxes on income	–10	2
Income after taxes	318	–75
Dividends/distributions	357	489

(75) DISCLOSURES ON STRUCTURED AND NON-CONSOLIDATED ENTITIES

Hypo Landesbank Vorarlberg is a member of Pfandbriefstelle der österreichischen Landes- und Hypothekenbanken. As joint issuing institution of the Landes- und Hypothekenbank, Pfandbriefstelle – and from 15 January 2015 its legal successor Pfandbriefbank (Österreich) AG – has the primary task of issuing mortgage bonds, public-sector mortgage bonds and non-funded bonds in trust and providing the funds thus procured to its members. Pfandbriefbank also carries out lending activities and transactions that affect the members collectively.

In addition to Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, the following institutions are members of Pfandbriefstelle:

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

Pfandbriefbank is a publicly owned bank. For this reason, there are no shares or ownership structures in Pfandbriefbank. Each member bank delegates a member of the Board of Directors and therefore has one vote. The simple majority of votes cast is required for a valid decision. If votes are tied, the Chairman's vote decides. Decisions on the charter or any change to the charter, the liquidation of Pfandbriefbank and the distribution of the proceeds therefrom require a two-thirds majority of the votes cast. With effect from the start of 2015, Pfandbriefstelle's operations were transferred to Pfandbriefbank (Österreich) AG by way of universal succession according to Section 92 BWG. Pfandbriefstelle is the sole shareholder of Pfandbriefbank.

Since 2004, Pfandbriefbank has been subject to the provisions of the Pfandbriefstelle Act (PfBrStG). According to Section 2 PfBrStG, the members have joint and several liability for the liabilities of Pfandbriefbank and, in conjunction with Section 92 (6) BWG, for the liabilities of Pfandbriefbank. The members' guarantors have joint and several liability for all liabilities of Pfandbriefbank that came into existence before 2 April 2003. For all liabilities incurred after 2 April 2003 and up to 1 April 2007, the guarantors only have joint and several liability if the agreed maturities do not exceed 30 September 2017. The guarantors are no longer liable for liabilities incurred after 1 April 2007. For the liabilities for which guarantors are no longer liable, other liability arrangements can be made between the member banks on a case-by-case basis. However, this only applies if they are disclosed in the issue conditions.

The volume of Pfandbriefbank issues for which the members and their guarantors have joint and several liability was TEUR 1,929,509 as of 31 December 2016 (2015: TEUR 3,343,912). TEUR 304,010 of this (2015: TEUR 367,839) is attributable to Hypo Landesbank Vorarlberg. Some member banks are liable in the event of default on the basis of state law. This is different from the joint guarantee on the part of the member banks and guarantors for liabilities of Pfandbriefbank. If Pfandbriefbank does not meet its obligations to bondholders, the creditors of Pfandbriefbank can claim the amount due directly from the member banks and/or their creditors on the basis of the statutory joint guarantees. Subsequently, the member banks and/or creditors making the payment can make recourse claims against the other member banks, guarantors and/or Pfandbriefbank subject to certain conditions. Ultimately, all joint creditors making payments can claim recourse from the member bank whose issue is affected. According to the provisions of state law, this recourse claim can also be made against the relevant state as indemnitor.

Recognised liabilities to Pfandbriefbank

in '000 EUR	31.12.2016	31.12.2015
Liabilities evidenced by certificates	175,876	241,236
Financial liabilities – designated at fair value	128,134	126,603
Liabilities to Pfandbriefbank	**304,010**	**367,839**

Interest expenses from liabilities to Pfandbriefbank

in '000 EUR	2016	2015
Interest expenses for liabilities evidenced by certificates	–40	–310
Interest expenses for liabilities – designated at fair value	–3,006	–1,899
Interest expenses from liabilities to Pfandbriefbank	**–3,046**	**–2,209**

MANAGEMENT BOARD DECLARATION

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

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

Bregenz, 10 April 2017

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The members of the Managing Board

Michel Haller
Chairman of the Managing Board

Johannes Hefel
Member of the Managing Board

Wilfried Amann
Member of the Managing Board

REPORT OF THE SUPERVISORY BOARD

On an ongoing basis, the Supervisory Board monitors the managerial activities of the Managing Board within the framework established by law, the articles of association and the Supervisory Board rules of procedure. The Supervisory Board convened for eight meetings at which it discussed the Managing Board reports pertaining to important plans and relevant events, the position and development of the Bank, its subsidiaries and holdings. The Supervisory Board adopted the planning for financial years 2016 and 2017, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory and Managing Boards, and adopted the necessary resolutions. The Supervisory Board also dealt with the election of the new Managing Board member at its extraordinary meeting of 10 August 2016.

Committees

The Audit and Risk Committee of the Supervisory Board held three meetings in 2016 to perform its extended control tasks to monitor the effectiveness of the internal control system, risk management system and Internal Audit. It dealt particularly intensively with financial reporting in the annual and quarterly financial statements. In addition, the committee conducted a review of the restructuring plan.

The Loan Committee of the Supervisory Board met twelve times in the 2016 reporting year. It examined the loans and credits that required its consent. Especially intense it has dealt with the financial reporting in the annual and quarterly financial statements.

The Remuneration and nomination Committee of the Supervisory Board met five times in 2016, dealing with the appropriate implementation of the remuneration requirements stipulated in Section 39b BWG. At its meeting of 27 April 2016, the committee not only set the Managing Board members' variable remuneration for 2015, but also dealt with the resignation of the Chairman of the Managing Board, Michael Grahammer, and the termination of his contract. At the extraordinary meeting of 18 July 2016, a hearing was held involving candidates for the Managing Board and a unanimous recommendation issued to the Supervisory Board.

Corporate Governance Code

The Supervisory Board reviewed and discussed with the Managing Board business events requiring Supervisory Board approval pursuant to laws, the articles of association and/or the rules of procedure, granting approval accordingly. The Supervisory Board employed the Corporate Governance Code as a guideline in its activities.

Audit

The 2016 financial statements and management report were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, appointed by the annual meeting of shareholders to audit the financial statements. As indicated by the unqualified audit opinion given by this company, the financial statements and management report conform to legal requirements. The consolidated financial statements for 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. They were also audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, and issued with an unqualified audit opinion. The Supervisory Board will formally adopt the relevant resolutions following detailed discussions.

Thanks and recognition

The Supervisory Board would like to express its thanks and recognition towards the members of the Managing Board, the managers and above all the employees for their excellent achievements in the financial year 2016. Particular thanks are due to Michael Grahammer for his work as a member and Chairman of the Managing Board The Supervisory Board would like to wish him the very best for his new ventures.

Bregenz, April 2017

Chairman of the Supervisory Board
Jodok Simma

AUDITOR'S REPORT *)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, Bregenz,

and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2016 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRSs) as adopted by EU, and the additional requirements under Section 245a UGB and Section 59a BWG.

Basis for Opinion
We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing. Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have identified the following Key Audit Matters:

1. Loan loss provisions and credit risk provisions
2. Valuation of securities, own issues and derivatives

1. Loan loss provisions and credit risk provisions

Description:
Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft shows significant loan loss provisions and credit risk provisions in its consolidated financial statements as of December 31, 2016.

International Financial Reporting Standards require an entity to review the credit portfolio for impairment and necessity for loan loss provisions.

The appropriateness of loan loss provisions and credit risk provisions are significant areas, in which management uses estimates. The identification of impairment and the determination of recoverable amount includes uncertainty and therefore contains various assumptions and factors, such as the financial situation of the counterparty, assumptions of future cash flows and the value of collateral. Using different assumptions and valuation methods might lead to different estimations of impairment or loan loss provisions.

We refer to management disclosures in the notes to the consolidated financial statements notes (3) "Accounting Policies", (17) "Loans and advances to customers (L&R)", (37) "Provisions", (64) "Credit Risk".

How key audit matters were addressed in the context of the audit:
We have assessed the design and effectiveness of the internal controls regarding individual and lump-sum loan loss provision calculation, including the quality of the underlying data and systems. For loan loss provisions and credit risk provisions calcu-lated on an individual basis, we have tested the estimations regarding impairment identification and quantification, including projections of future cash flows, valuation of collateral and the recoverable amount in case of default on a sample basis.

We have assessed the appropriateness of disclosures regarding loan loss provisions and credit risk provisions made by the management in the notes to the consolidated financial statements.

2. Valuation of securities, own issues and derivatives

Description:
Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft shows significant securities, own issues and derivatives in its consolidated financial statements as of December 31, 2016.

The valuation of securities, own issues and derivatives was a key audit topic due to the importance of those financial instruments to the group. Management makes significant assumptions due to the complexity and because of limited availability of external evidence for the valuation of those financial instruments.

We refer to management disclosures in the following notes to the financial statements:
• Securities (Notes 3, 16, 17, 19, 20, 21, 22, 57)
• Own issues (Notes 3, 33, 36, 41, 57)
• Derivatives (Notes 3, 18, 19, 34, 35, 37)

How key audit matters were addressed in the context of the audit:
We have assessed the price verification processes as well as the design and effectiveness of the group's significant controls regarding data input for the valuation. In case of not reliable market prices where a higher degree of estimation is involved, we have assessed the assumptions and methods used by the group. Based on a sample, we have assessed the valuation of securities, own issues and derivatives in accordance with their classification pursuant to IAS 39.

We have assessed the appropriateness of disclosures regarding valuation of those financial instruments made by the management in the notes to the consolidated financial statements.

Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a UGB and Section 59a BWG for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as man-agement determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and ap-propriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these mat-ters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Comments on the Management Report for the Group
Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion
In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, com-prising the details in accordance with Section 243a UGB, and is consistent with the consolidated financial statements.

Statement
Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Responsible Austrian Certified Public Accountant
The engagement partner on the audit resulting in this independent auditor's report is Mr. Wolfgang Tobisch, Certified Public Accountant.

Vienna, April 10, 2017

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Andrea Stippl mp
Wirtschaftsprüferin / Certified Public Accountant

Mag. Wolfgang Tobisch mp
Wirtschaftsprüfer / Certified Public Accountant

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*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

BRANCH OFFICES/ SUBSIDIARIES

HEADQUARTERS

Bregenz
Hypo-Passage 1

Bregenz Corporate Customers Branch Office
Stephan Sausgruber
Branch Office Head,
Bregenz Coporate Customers
Head of Key Account Management

Markus Schmid
Head of Corporate Customers Centre Germany

Bregenz Private Customers Branch Office
Christian Brun
Branch Office Head,
Bregenz Private Customers

Raymond Plankel
Head of Service and Private Customers

Stephan Bohle
Head of Private Banking

Wealth Management Bregenz Branch Office
Stefan Schmitt
Head of Wealth Management Bregenz

Financial Intermediaries Branch Office
Christoph Schwaninger
Head of Financial Intermediaries

Internal Departments

Johann Berchtold
Head of IT, Organisation and Payment Transactions

David Blum
Head of Strategic Bank Management

Klaus Diem
Head of Legal Department

Bernhard Egger
Head of Bookkeeping and Registration

Nora Frischherz
Head of Accounting

Stefan Germann
Head of Credit Management Corporate Customers

Florian Gorbach
Head of Treasury

Martin Heinzle
Head of Credit Management Private Customers

Egon Helbok
Head of Human Resources

Peter Holzer
Head of Controlling

Martha Huster
Ombudsperson

Reinhard Kaindl
Head of Compliance

German Kohler
Head of Corporate and Internal Audit

Sabine Nigsch
Head of Communication

Herbert Nitz
Head of Private Customers

Wilhelm Oberhauser
Head of Logistics, Sustainability

Angelika Rimmele
Head of Marketing

Karl-Heinz Rossmann
Head of Corporate Customers

Roland Rupprechter
Head of Asset Management

Emmerich Schneider
Head of Participation Administration

Markus Seeger
Head of Group Risk Controlling

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

BRANCH OFFICES

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

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Rathausplatz 6
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Egon Gunz, Branch Office Head Private Customers and Head of Private Banking

Dornbirn Messepark
Messestraße 2
Stephan Spies, Branch Office Manager

Egg
Wälderpark, HNr. 940
Stefan Ritter, Branch Office Manager

Feldkirch
Neustadt 23
Martin Schieder, Branch Office Manager

Feldkirch hospital
Carinagasse 47 – 49
Stefan Kreiner, Branch Office Manager

Götzis
Hauptstraße 4
Franz Altstätter, Branch Office Manager

Graz
Joanneumring 7
Horst Lang, Regional Manager Styria and Head of Corporate Customers
Dieter Rafler, Branch Office Manager Private Customers
Gerhard Vollmann, Head of Private Banking

Hard
Landstraße 9
Manfred Wolff, Branch Office Manager

Höchst
Hauptstraße 25
Erich Fitz, Branch Office Manager

Hohenems
Bahnhofstraße 19
Andreas Fend, Branch Office Head

Lauterach
Hofsteigstraße 2a
Karl-Heinz Ritter, Branch Office Manager

Lech
HNr. 138
Reinhard Zangerl, Branch Office Head and Head of Corporate Customers

Lustenau
Kaiser-Franz-Josef-Straße 4a
Graham Fitz, Branch Office Head and Head of Corporate Customers
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Tatyana Blaschek, Head of CEE-Desk

Mobile Sales Unit, Austria
Lothar Mayer

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Branch Office (Online)
Markus Felder, Branch Office Manager

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Dieter Wildauer, Regional Manager Switzerland
Thomas Reich, Head of Back Office

SUBSIDIARIES IN AUSTRIA

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

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

Hypo Versicherungsmakler GmbH
Dornbirn, Poststraße 11
Harald Dür, Managing Director and Management Spokesman
(from 1 February 2016)
Manfred Bösch, Managing Director and Management Spokesman
(until 31 January 2016)
Christoph Brunner, Managing Director

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IMPRINT

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Bregenz / Austria

Designed by
go biq communication, Dornbirn / Austria

Photographs
Studio Fasching

Print
Vorarlberger Verlagsanstalt, Dornbirn / Austria

Global Investment Performance Standards (GIPS®) on page 40:
The centralised portfolio management of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft having registered offices in Bregenz qualifies as a firm within the meaning of the Global Investment Performance Standards (GIPS®). The firm comprises all asset management mandates of private and institutional customers that are managed in the context of the bank's centralised investment process. It does not include decentralised organisational units and other units of the group that operate independently. The firm is in compliance with the GIPS®.
For a list of all composites along with a detailed description, please contact Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft at: T +43 (0) 50 414-1281 or email us at gips@hypovbg.at

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

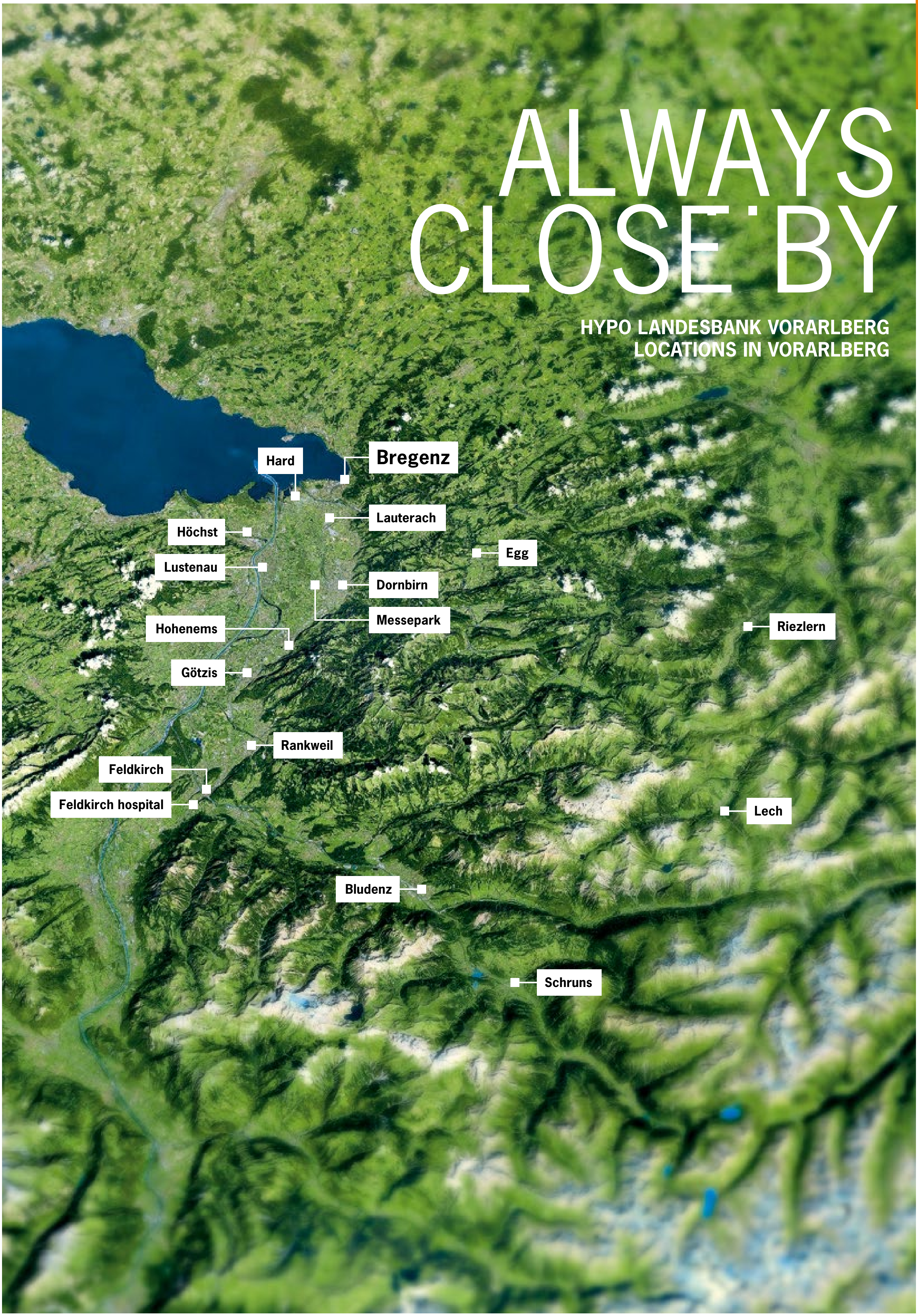
A BANK WITH POTENTIAL

HYPO LANDESBANK VORARLBERG LOCATIONS IN THE ALPINE REGION

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

ALWAYS CLOSE BY

HYPO LANDESBANK VORARLBERG LOCATIONS IN VORARLBERG



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Whether with personal finance planning, a new home, further developing your own business or your investments, it is always important to set goals. We support you in fulfilling these goals. And in keeping them in sight.