

SEMI ANNUAL REPORT AS AT 30 JUNE 2016

HYPO LANDESBANK VORARLBERG



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KEY FIGURES OF HYPO LANDESBANK VORARLBERG

Group reporting per IFRS:

in '000 EUR	(Notes)	30.06.2016	31.12.2015	Change in '000 EUR	Change in %
Total assets		13,814,531	13,902,411	-87,880	-0.6
Loans and advances to customers (L&R)		9,071,489	9,061,358	10,131	0.1
Amounts owed to customers (LAC)		5,848,822	4,995,818	853,004	17.1
Liabilities evidenced by certificates (LAC)	(12)	2,546,338	2,402,602	143,736	6.0
Capital resources according to CRR	(20)	1,147,154	1,164,758	-17,604	-1.5
thereof core capital	(20)	882,510	874,848	7,662	0.9
Total capital ratio according to CRR	(20)	14.98%	14.87%	0.11%	0.7

in '000 EUR	(Notes)	01.01.– 30.06.2016	01.01.– 30.06.2015	Change in '000 EUR	Change in %
Net interest income after loan loss provisions		87,881	72,543	15,338	21.1
Net fee and commission income	(3)	16,856	17,631	-775	-4.4
Net trading result	(5)	1,195	10,681	-9,486	-88.8
Administrative expenses	(6)	-49,727	-48,292	-1,435	3.0
Operating result before change in own credit risk		49,015	54,509	-5,494	-10.1
Earnings before taxes		28,879	106,531	-77,652	-72.9

Key figures	(Notes)	01.01.– 30.06.2016	01.01.– 30.06.2015	Change absolute	Change in %
Cost-Income-Ratio (CIR)		59.95%	46.98%	12.97%	27.6
Return on Equity (ROE)		10.17%	12.36%	-2.19%	-17.7
Employees	(17)	718	732	-14	-1.9

The shareholders of Vorarlberger Landes- und Hypothekbank Aktiengesellschaft (Hypo Landesbank Vorarlberg) as at 30 June 2016 are:

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

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

* In October 2015, Standard & Poor's (S&P) announced a new rating for Hypo 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.

GROUP MANAGEMENT REPORT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS AT 30 JUNE 2016

BANKING ENVIRONMENT

Global economy and euro zone

In addition to speculation concerning the interest rate policy decisions of the US Federal Reserve, the first half of 2016 was dominated by the Brexit referendum in the United Kingdom. The Federal Reserve has adopted a wait-and-see approach since raising interest rates in December 2015. In April, the target range for the federal funds rate remained unchanged at between 0.25 % and 0.5 % as expected, with the US central bank noting that it was closely observing economic and financial market developments. It is not known when the next interest rate increases in the US will take place. The decision depends on factors such as the development of the US employment market and the global economic growth outlook.

In March, the European Central Bank resolved a further interest rate cut. The key interest rate fell to zero for the first time in the ECB's history, while penalties for bank deposits were heightened. Negative deposit rates are intended to boost credit growth. The bond-buying programme was renewed and expanded to include corporate bonds. In April, Italy decided to establish a bank bailout fund that is largely privately financed by strong Italian banks and leading insurers. The fund will have a volume of around EUR 5-6 billion and is intended to support distressed lenders, including those suffering from defaults on bad loans.

On 23 June, almost 52 % of British voters elected to leave the EU. Immediately after the result of the referendum was announced, market participants were confronted with new issues such as the form and speed of the exit negotiations and whether other EU countries could also seek to withdraw from the EU.

Austria

According to the latest flash estimate by the Austrian Institute of Economic Research (WIFO), the Austrian economy grew by 0.3 % in the second quarter of 2016 (compared with 0.4 % in the first quarter). Domestic demand was the main growth driver once again, with consumer spending and fixed asset investments both increasing. Industrial activity has slowed slightly in recent times. Non-recurring effects such as the tax reform that was implemented in January and savings resulting from sustained low energy prices are likely to have increased the propensity of private households to spend. Inflation in Austria was at 0.6 % in June 2016.

Stock and bond markets

The stock markets saw varied performance in response to global developments and the resulting uncertainty. In Frankfurt, the DAX experienced one of the weakest starts to a year in its history, with fluctuation well in excess of 1,000 points in the last quarter alone. With the exception of the US indices, the leading stock exchange indices fell between the start of the year and the end of the first six months, with some recording double-digit percentage downturns. Price movements were particularly pronounced in the weeks leading up to the Brexit referendum. With Brexit and monetary policy dominating the news, economic and sentiment indicators were largely ignored by market participants at times. For example, the Ifo business climate index in Germany showed clear signs of recovery in the second quarter. However, there were differences in terms of fundamental share price performance. While the profit trends were broadly unconvincing, the profits reported by individual German companies stood out within the international peer group. In terms of valuation ratios, shares are currently undervalued.

In the wake of the ECB's decision to expand its bond-buying programme beyond the current extent, the monetary watchdogs have been buying non-financial corporate bonds in addition to sovereign bonds since June. Increased demand was observed across all maturity segments. 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 such as bonds. Sovereign bonds in particular enjoyed a price boost as a result. Accordingly, while short-term real yields on euro sovereign bonds had already been negative for some months, negative yields also hit ten-year German government securities for the first time in mid-June.

In the US, the Federal Reserve adopted a wait-and-see policy with regard to further interest rate increases. As interest rates are only expected to rise gradually, yield growth is likely to be limited. As in recent years, the EU finance ministers were confronted with the extensive Greek debt problem. They gave the green light for the payment of the first instalment of the next bailout loan tranche after the Greek parliament resolved additional budget cuts and tax rises.

Commodities and currencies

The currency markets saw substantial appreciation and depreciation trends against the euro in the first six months of 2016. The pound sterling recorded a double-digit fall against the euro in the wake of the Brexit debate and the vote to leave the EU, while the US dollar also lost almost 2 % against the single currency. By contrast, the Brazilian real has recovered since the start of 2016, gaining over 20 % by the midway point of the year. The Japanese yen also recorded slightly less substantial but still double-digit growth against the euro. The uncertainty on

the financial markets prompted many Japanese investors to withdraw from foreign investments and return their funds to the domestic market.

The commodity segment has shown signs of recovery since the start of the year. Gold prices rose by almost 24 % on a USD basis in the first six months of 2016, with investors increasingly flocking to gold as a safe haven in the lead-up to the Brexit referendum in particular. Following a weak start to the year and significant losses from mid-January, crude oil prices recovered significantly to roughly the same level as in June 2015.

BUSINESS DEVELOPMENT

Income statement

In the period to 30 June 2016, Vorarlberger Landes- und Hypothekbank Aktiengesellschaft (hereinafter also referred to as Hypo Landesbank Vorarlberg) generated earnings before taxes of TEUR 28,879 (30 June 2015: TEUR 106,531), thereby falling within the parameters of its medium-term forecasts. The significant change compared with the previous year is due in particular to the IFRS measurement gains recorded in 2015. The loss of confidence as a result of the HETA moratorium led to a widening of the spreads for Hypo Landesbank Vorarlberg's issues, which had a positive impact on the result from the change in the Bank's own credit risk in the previous year. This effect turned around in the first half of 2016, resulting in an expense of TEUR 20,136.

The operating result before changes in the Bank's own credit risk decreased by 10.1 % year-on-year to TEUR 49,015 in the second quarter of 2016 (previous year: TEUR 54,509). Hypo Landesbank Vorarlberg reported consolidated net income after taxes of TEUR 21,566 as at 30 June 2016 (previous year: TEUR 87,132). While the high inflow of liquidity reflects the unqualified confidence among customers, the ECB's policy of negative interest rates had a clear impact on net interest income. The results for the first half of 2016 were also impacted by an above-average contribution to the European resolution fund of around TEUR 6,400. Falling share prices and the withdrawal from business with certain international investment clients that has already begun had an adverse effect on net fee and commission income in the wake of the political debate.

As at 30 June 2016, net interest income after loan loss provisions amounted to TEUR 87,881 and was thus 21.1 % higher than in the previous year. While loan loss provisions amounted to TEUR 17,069 in the previous year (incl. HETA provision), the conservative accounting policy applied in the past led a reversal of loan loss provisions in 2016. The Bank recognised sufficient provisions for all identifiable risks.

Net fee and commission income amounted to TEUR 16,856 as at 30 June 2016 (-4.4 %). The net trading result declined from

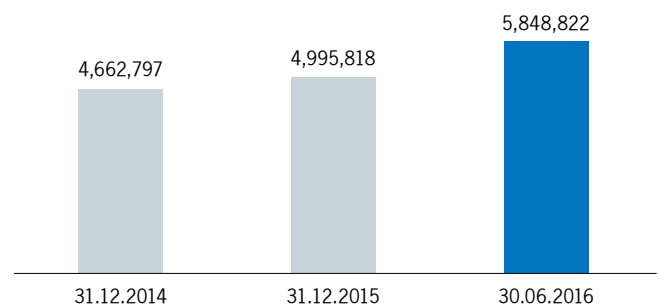
TEUR 10,681 in the previous year to TEUR 1,195 as a result of measurement effects. Administrative expenses rose by 3.0 % year-on-year to TEUR 49,727 in the first half of 2016, while staff costs increased from TEUR 29,450 to TEUR 30,793. The headcount of 718 employees (weighted by employees' activity rate) was down 1.9 % compared with the previous year. Material expenses remained essentially unchanged year-on-year at TEUR 16,194.

The ROE of 10.17 % and the total capital ratio according to CRR of 14.98 % serve to underline the fact that Hypo Landesbank Vorarlberg is a healthy, successful and efficient bank.

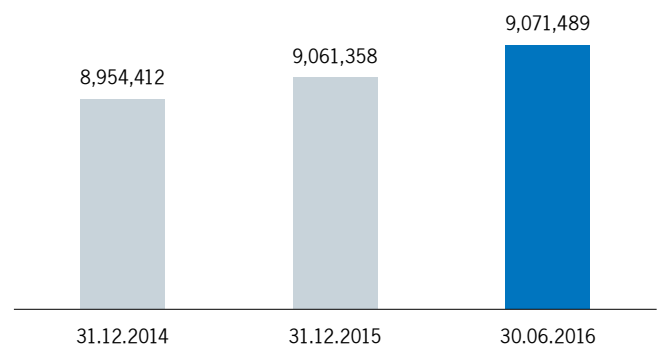
Balance sheet development

Total consolidated assets declined by 0.6 % to TEUR 13,814,531 in the first half of 2016 (previous year: TEUR 13,902,411). TEUR 9,071,489 of this figure was attributable to loans and advances to customers, representing a slight increase compared with the previous year. Under liabilities and equity, liabilities to customers increased significantly by 17.1 % to TEUR 5,848,822 in the first two quarters of 2016. Financial liabilities at fair value amounted to TEUR 3,027,780 as at 30 June 2016 (previous year: TEUR 3,464,357).

Development of liabilities to customers (in ,000 EUR)



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



Own funds

The paid-in capital of Hypo Landesbank Vorarlberg amounted to TEUR 165,453. Capital resources according to CRR amounted to TEUR 1,147,154 as at 30 June 2016 (31 December 2015: TEUR 1,164,758). With a total capital ratio of 14.98 % (31 December 2015: 14.87 %) and a core capital ratio (CET 1) of 11.53 % (31 December 2015: 11.17 %) at the end of the first half of 2016, Hypo Landesbank Vorarlberg already fulfils the highest expansion level of the Basel III standards that have applied since 1 January 2014. These figures are comfortable in light of the risk profile.

Despite the significant improvement in the Bank's capital adequacy, the Managing Board will continue to pay particular attention to building up capital resources in order to ensure an excellent credit rating and hence favourable refinancing conditions for the future.

Debt moratorium at HETA

The moratorium imposed on HETA Asset Resolution AG by the FMA resulted in a temporary deferral of HETA's liabilities to its creditors. HETA was not permitted to make any payments to its creditors – including Hypo Landesbank Vorarlberg – until 31 May 2016. On 21 January 2016, Kärntner Ausgleichszahlungsfonds (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 are to receive only 30 %.

The state of Vorarlberg accepted the offer and a 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 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 Austrian Minister of Finance announced on 18 May 2016 that he had signed a memorandum of understanding (MoU) with certain HETA creditors. KAF intends to present a new public offer; as in January 2016, this will be based on Section 2a of the Austrian Financial Market Stability Act. Under this offer, creditors will receive cash consideration of 75 % for senior debt securities and 30 % for subordinated debt securities. As an alternative, KAF will issue a zero-coupon bearer bond with a federal guarantee and a term of around 13.5 years, which creditors may subscribe for at a conversion ratio of 1:1 and subordinated creditors at a conversion ratio of 2:1.

Some important steps are still to be taken before the offer can be presented by KAF. The offer is set to be published in early September 2016, with settlement scheduled for mid-October 2016.

This is intended to eliminate the prospect of insolvency on the part of HETA and the state of Carinthia, thereby gradually restoring calm to the banking system and the refinancing opportunities available to Austrian banks. The Managing Board of Hypo Landesbank Vorarlberg currently expects this to significantly reduce the financial loss to Hypo Vorarlberg.

Hypo Landesbank Vorarlberg already recognised corresponding provisions for its receivables from HETA in 2014 and 2015 and has recognised a valuation allowance of TEUR 15,000 on its promissory note loan receivables. A provision/valuation allowance of TEUR 38,800 was recognised for the provision of liquidity to Pfandbriefbank.

Panama Papers

Following the publication of the "Panama Papers" in early April 2016, with which Hypo Landesbank Vorarlberg was also linked, the Bank's offshore business is currently being examined as part of a special investigation by the FMA. The Managing Board is confident that the Bank conducted its business within the legal framework at all times. The results of this examination are not yet available. The Chairman of the Managing Board, Michael Grammer, announced his resignation in April in response to the media's prejudgement of the Bank and of himself. At the request of the Supervisory Board, he will remain available to the Bank until the end of 2016.

The extraordinary meeting of the Supervisory Board on 10 August 2016 appointed the current Chief Risk Officer, Michel Haller, as the designated Chairman of the Managing Board. He will take over this position with effect from 1 January 2017. Wilfried Amann, who also has many years of experience in the banking industry and is currently a member of the Managing Board of another regional bank in Vorarlberg, was appointed as a new member of the Bank's Managing Board.

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

The Managing Board acknowledges the inquiry committee proposed by the Vorarlberg state parliamentary group of the SPÖ in late April but does not consider this to be a suitable instrument for reviewing the Bank's offshore strategy.

Rating of Hypo Landesbank Vorarlberg

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.

DEVELOPMENT BY SEGMENT

Corporate Customers/Public Sector

As the leading corporate bank in Vorarlberg, Hypo Landesbank Vorarlberg offers its customers a broad mix of financing and investment solutions. It can also offer corresponding expertise in alternative financing via the capital markets in the form of the placement of promissory note loans and bonds. In cooperation with the European Investment Bank (EIB), loans at attractive conditions can be passed on to eligible small and medium-sized enterprises in particular. Foreign services and expert advice and support with regard to funding programmes and institutions round off the financing portfolio. Hypo Landesbank Vorarlberg also supports its customers with leasing, insurance and property services via its subsidiaries.

The development of corporate customer business, and particularly the low level of risk costs, serves to underline the robust state of the companies in Hypo Landesbank Vorarlberg's core markets. A conservative assessment is still pursued in lending business. The Bank will remain a reliable financing partner for companies and the public sector in future, although companies are continuing to demonstrate a pronounced reluctance with regard to making new investments. Although this trend has intensified in recent years, the level of long-term financing has been maintained.

Net interest income increased from TEUR 43,143 in the first half of the previous year to TEUR 44,466, whereas net fee and commission income declined slightly. This was due in particular to the performance of the stock exchanges and the resulting downturn in securities commission, as well as lower foreign exchange income. Development in the Corporate Customers segment in the first six months was relatively balanced across all markets, with particularly notable earnings and volume development in Southern Germany. Overall, the Corporate Customers segment generated earnings before taxes of TEUR 35,242 as of 30 June 2016, up almost 50 % on the previous year.

Private Customers

In its private customer business, Hypo Landesbank Vorarlberg is synonymous with high-quality advisory services. Even in the age of digitalisation, the Bank is committed to ensuring a personal relationship with its customers. Supplemented by digital services, this forms the basis for customer satisfaction.

Hypo Landesbank Vorarlberg is characterised by innovative solutions that are tailored to the needs of its customers. Individual, personally tailored advice is provided for residential construction financing and sophisticated investments in particular.

Despite substantial challenges – low and falling interest rates, extensive regulations and strong competition – Hypo Landesbank Vorarlberg enjoyed good performance in the Private Customers segment in the first half of 2016. Overall, the Private Customers segment generated earnings before taxes of TEUR 3,185 in the first six months of 2016 (previous year: TEUR 5,354). The year-on-year decrease is primarily attributable to higher expenses accompanied by lower net fee and commission income in the first half of the year.

In the Private Customers segment, demand for long-term financing for the creation of housing remains extremely high. The number of financing arrangements concluded and the average financing volume are both rising continuously, while customer requirements are becoming increasingly individual. Hypo Landesbank Vorarlberg is responding with innovative solutions such as the Hypo-Lebenswert-Kredit and the Hypo-Lebenszeit-Kredit. Energy savings are also supported: With the Hypo-Klimakredit, environmentally conscious customers benefit from a reduced premium in the first years and no processing fee.

With interest rates low, demand for long fixed interest rate periods is continuing to grow. Hypo Landesbank Vorarlberg gives its borrowers the opportunity to fix interest rates for a period of up to 15 years. In the area of financing, the level of unscheduled repayments remains high.

While borrowers are benefiting from historically low interest rates, investors are being driven to reconsider the usual forms of investment – such as savings accounts – as the interest rates achievable are currently significantly lower than the rate of inflation. The only way to achieve returns above inflation at present is by switching to higher-risk forms of investment, something that is only relevant for medium-term to long-term investors. Here, too, Hypo Landesbank Vorarlberg is meeting customer demand for yield and security with innovative asset management products.

Private Banking and Asset Management

Hypo Landesbank Vorarlberg's core competencies in private banking are professional and long-term partnership-based customer support. In the area of asset management, a flexible investment policy is adopted by the Bank's experts. A challenging economic and political environment makes achieving the broadest possible diversification in terms of asset classes particularly important.

As at 30 June 2016, the assets managed by the Asset Management division totalled TEUR 876,540; this represented a reduction of around two per cent due to the market turbulence. The number of mandates managed was 3,103.

The optimisation programme developed by the Bank performs a valuable service. It allows the optimal portfolio to be calculated using a wide range of investment instruments. In this way, customer requirements – especially including target returns, maximum risk limits and the required cash flows – can be addressed individually. The integration of the latest IMF forecasts means the optimised portfolios are kept permanently up-to-date. In addition to private investors, there is strong demand for this service among large-scale investors.

Based on these strong foundations, the Bank intends to continue expanding the top segment in its investment business (Wealth Management), particularly in the Vienna region and in Vorarlberg.

International performance standards in Asset Management

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

Financial Markets/Treasury

On the financial markets, the first half of 2016 was characterised by surprises and central bank policy. The stock markets suffered from global economic concerns and saw a high degree of price volatility. The TLTRO II measures resolved by the ECB will allow banks to obtain secured long-term liquidity from the central bank at even more attractive conditions. To date, Hypo Landesbank Vorarlberg has availed itself of liquidity totalling up to TEUR 1,400,000 under this arrangement. Many market participants were surprised by the outcome of the EU membership referendum ("Brexit") in the United Kingdom on 23 June, which led to price turbulence. The pound sterling subsequently depreciated even further against the euro. The ECB's aggressive approach to buying various bonds combined with economic concerns meant that yields on ten-year German sovereign bonds fell below zero per cent in the first half of the year.

A net volume of approximately TEUR 215,000 was invested in bonds by ALM/Investment in the first half of 2016. The weighted remaining term of these new investments is 6.2 years. The total volume of nostro bonds amounted to around TEUR 2,706,000 as at 30 June 2016.

In the period under review, 24 new issues were carried out with a total volume of around TEUR 509,000. This related to six private placements (including one AT1) with a total volume of TEUR 137,000, six promissory note loans with a total volume of TEUR 15,000, two registered bonds with a total volume of TEUR 20,000, eight retail issues with a total volume of EUR 37,000 and two retained covered bonds in the amount of TEUR 300,000 that were issued as security for the central bank refinancing and for which there was no flow of liquidity.

The Bank's readily accessible short-term liquidity remained at a high level, increasing by around TEUR 50,000 in the first half of 2016 to around TEUR 450,000. Having peaked at just over TEUR 1,000,000 during the first six months, the utilised TLTRO tranches were also repaid ahead of schedule. Although a high level of liquidity is desirable in light of the significant maturities in 2017, negative interest rates mean this involves substantial costs. Foreign exchange and interest rate derivatives trading saw relatively muted development in the first half of the year.

Customer securities sales amounted to around TEUR 431,000 in the first six months of 2016, down around TEUR 210,000 or 32 % on the same period of the previous year. Interest in bonds is limited on account of the sustained low level of yields, with investors tending to focus instead on shares, certificates and warrants.

The fund volume under management increased by 8.9 % to TEUR 6,918,000 in the first half of 2016. This was attributable to five new special funds that were transferred from other depositaries in the second quarter. A further two special funds with a total volume of around TEUR 100,000 will be set up by the end of the year.

The issue volume on the market for European corporate bonds in the first half of 2016 was TEUR 180,000,000. As well as functioning as the co-lead manager for the retail bond issue of an Austrian issuer and a covered bond, a private placement by Hypo Landesbank Vorarlberg in the amount of TCHF 3,500 was placed with an investor in May 2016.

As at 30 June 2016, Hypo Landesbank Vorarlberg's swap group managed 1,093 swaps, interest rate options and currency options with a nominal volume of around TEUR 9,500,000. This represents a reduction of 41 derivatives or a nominal volume of around TEUR 500,000 since the start of the year. Net cash and securities pledged as collateral declined by TEUR 28,000 to TEUR 68,000 in the period under review.

The Financial Markets segment generated operating earnings before taxes of TEUR -21,448 in the first half of 2016. This negative figure was primarily attributable to remeasurement effects. Further development will largely depend on events on the financial markets.

Leasing and Real Estate

In addition to the Bank's core business segments, the "Corporate Centre" item includes the property and leasing business, insurance services and strategic investments. The Corporate Centre generated earnings before taxes of TEUR 11,900 as at 30 June 2016.

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

Hypo Immobilien & Leasing GmbH has its headquarters at the Hypo Office in Dornbirn and additional locations in Bregenz, Bludenz, Feldkirch and Vienna. The area of property appraisal is currently being expanded further, particularly in Vienna. In late 2015, the Vienna team of Hypo Immobilien & Leasing GmbH moved to the new location in the Zacherlhaus together with the Bank. In the meantime, a dedicated real estate broker has commenced activities in Vienna and will act as a bridge to Vorarlberg and the branches in Graz and Wels.

The subsidiary in Bolzano, Hypo Vorarlberg Leasing AG, has additional branches in Como and Treviso. This company develops leasing solutions in the real estate, renewable energy and municipality sectors. It offers its products and services on the northern Italian market.

OUTLOOK

Despite the low underlying momentum of the economy, WIFO is anticipating increased consumption and hence much stronger economic growth in Austria in the years to come. One factor is likely to be the higher spending for the care of approved asylum seekers, which will result in an increase in private and public consumption. The tax reform enacted in 2016 is unburdening the incomes of private households and having a positive effect on consumer spending. The external economic environment is also expected to pick up momentum again in the years to come. All in all, WIFO is forecasting year-on-year GDP growth of 1.7 % in 2016, while the IHS is anticipating GDP growth of 1.6 % in both 2016 and 2017.

Focus areas for 2016

The Managing Board will continue to pursue Hypo Landesbank Vorarlberg's proven, broad-based business model and concentrate on customer business as previously. In order to further strengthen the Hypo Landesbank Vorarlberg brand, a project is being carried out with an external consulting agency to sharpen the brand's profile.

The banking industry is facing another batch of challenges in 2016. New regulations require to build up additional equity and secure a cost-optimal liquidity supply, while costs are rising continuously. This is exacerbated by low interest rates and constant new legal and technological challenges for banks. For example, in connection with the banking package on tax reform on 7 July 2015, the Austrian National Council passed an amendment to banking secrecy (Section 38 BWG) that entails new regulations. Among other things, a central account register will be established at the Austrian Ministry of Finance (BMF) in the third quarter of 2016. In addition, a reporting obligation for inflows and outflows of capital and the introduction of a common reporting standard were approved.

In its corporate customer business, Hypo Landesbank Vorarlberg is a recognised partner for medium-sized and large companies throughout Austria. As the leading corporate bank in Vorarlberg, it will continue to supply its business customers with financing and support them with alternative forms of financing via the capital markets. However, the Managing Board expects to see low demand for credit in 2016. Slight upturns are expected in the markets outside Vorarlberg, i.e. Vienna, Graz, Wels and St. Gallen (CH) in particular. Below-average risk costs are anticipated on account of the solid economic situation of companies in the Bank's market areas. Proximity to the customer and high-quality advisory services will continue to form the basis for all business relationships in future. However, Hypo Landesbank Vorarlberg is open to new technological innovations and intends to use pioneering new applications – particularly for payment transactions – especially in the Corporate Customers segment in future. Investment business with entrepreneurs will also be expanded.

In the Private Customers segment, Hypo Landesbank Vorarlberg is distinguished primarily by consulting-intensive services and offers individual solutions in residential construction financing and for securities transactions including asset management. Because the low interest rates are expected to persist for a long time, the Bank is again anticipating high demand for investments in housing in the second half of 2016, although a slight decline from the current extremely high level is expected.

In its investment business, the Bank's primary objective is to conserve its customers' wealth in real terms. In private banking and asset management, Hypo Landesbank Vorarlberg has developed an excellent reputation for itself in recent years. The Wealth Management segment is being expanded further on this basis. The product range is being enhanced with new asset management strategies adapted to the challenging market conditions.

Digitalisation and changed customer behaviour necessitate new products, but also new business models. Hypo Landesbank Vorarlberg's aim is to connect existing branches with the digital world in a way that enables customers to benefit from optimum interplay between technology and people. The Managing Board is confident that personal consulting will remain indispensable in future, e.g. for large investments or comprehensive assessments. Despite this, the online offering will be extended considerably. The online savings platform hypodirekt.at is particularly valued by customers outside the branch catchment areas of the Bank and will be further expanded.

Expected earnings development in 2016

Despite several elements of political and economic uncertainty, development in the first half of 2016 was satisfactory. Hypo Landesbank Vorarlberg continues to pursue cautious risk and accounting policies and will make corresponding additions to its loan loss provisions. The Managing Board is confident of achieving the anticipated earnings, although the operating result for 2016 will be lower than in the previous years due to falling income and higher costs.

Although interest-related business remains a stable pillar of the Bank's earnings development, it is expected to decline year-on-year. The Managing Board is also anticipating a lower level of net fee and commission income. Operating expenses will rise in 2016 and staff costs are also expected to increase slightly, while a reduction in IT costs is planned. Due to the deposit protection and single resolution fund, costs will be much higher for Hypo Landesbank Vorarlberg. Comprehensive investments will also be made in the further expansion of the online sales channel.

The Managing Board of Hypo Landesbank Vorarlberg already recognised corresponding provisions and valuation allowances for all existing receivables from HETA – including the liquidity expected to be made available for Pfandbriefbank – in its figures for 2014 and 2015. As things stand, this means that no further risk provisioning for HETA is expected to be required.

DISCLAIMER: 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 as well as public funds 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: +43 (0)50 414-1281 or e-mail us at gips@hypovbg.at.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS AT 30 JUNE 2016
I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD OF 1 JANUARY TO 30 JUNE 2016

Income statement

in '000 EUR	(Notes)	01.01.– 30.06.2016	01.01.– 30.06.2015	Change in '000 EUR	Change in %
Interest and similar income		131,137	140,339	-9,202	-6.6
Interest and similar expenses		-46,234	-50,727	4,493	-8.9
Net interest income	(2)	84,903	89,612	-4,709	-5.3
Loan loss provisions		2,978	-17,069	20,047	-
Net interest income after loan loss provisions		87,881	72,543	15,338	21.1
Fee and commission income		18,330	19,604	-1,274	-6.5
Fee and commission expenses		-1,474	-1,973	499	-25.3
Net fee and commission income	(3)	16,856	17,631	-775	-4.4
Net result on hedge accounting	(4)	2,896	-81	2,977	-
Net trading result	(5)	1,195	10,681	-9,486	-88.8
Net result from other financial instruments		3,253	9,561	-6,308	-66.0
Administrative expenses	(6)	-49,727	-48,292	-1,435	3.0
Other income		9,048	7,324	1,724	23.5
Other expenses*		-24,281	-16,375	-7,906	48.3
Result from equity consolidation		1,894	1,517	377	24.9
Operating result before change in own credit risk		49,015	54,509	-5,494	-10.1
Result from change in own credit risk		-20,136	52,022	-72,158	-
Earnings before taxes		28,879	106,531	-77,652	-72.9
Taxes on income		-7,313	-19,399	12,086	-62.3
Earnings after taxes		21,566	87,132	-65,566	-75.2
Net income from discontinued operations		0	0	0	0.0
Consolidated net income		21,566	87,132	-65,566	-75.2
Of which attributable to:					
Parent company shareholders		21,561	87,124	-65,563	-75.3
Non-controlling interests		5	8	-3	-37.5

* In accordance with IFRIC 21, the payment obligation for the annual contribution to the resolution fund and the deposit protection fund is incurred on 1 January. The provisions are fully recognised in other expenses.

Statement of comprehensive income

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015	Change in '000 EUR	Change in %
Consolidated net income	21,566	87,132	-65,566	-75.2
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	11	-154	165	-
Changes to AFS revaluation reserve	-2,319	-4,656	2,337	-50.2
of which changes in measurement	-2,554	-5,039	2,485	-49.3
of which changes in holdings	-538	-1,169	631	-54.0
of which income tax effects	773	1,552	-779	-50.2
Total items which can be reclassified to consolidated net income	-2,308	-4,810	2,502	-52.0
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	-81	82	-163	-
of which changes in measurement	-117	64	-181	-
of which income tax effects	36	18	18	100.0
Total items which cannot be reclassified to consolidated net income	-81	82	-163	-
Other income after taxes	-2,389	-4,728	2,339	-49.5
Total comprehensive income	19,177	82,404	-63,227	-76.7
Of which attributable to:				
Parent company shareholders	19,172	82,396	-63,224	-76.7
Non-controlling interests	5	8	-3	-37.5

II. BALANCE SHEET DATED 30 JUNE 2016

Assets

in '000 EUR	(Notes)	30.06.2016	31.12.2015	Change in '000 EUR	Change in %
Cash and balances with central banks		684,305	712,491	-28,186	-4.0
Loans and advances to banks		607,980	650,129	-42,149	-6.5
Loans and advances to customers		9,071,489	9,061,358	10,131	0.1
Positive market values of hedges	(7)	138,469	76,370	62,099	81.3
Trading assets and derivatives	(8)	430,518	461,641	-31,123	-6.7
Financial assets – at fair value	(9)	859,363	938,014	-78,651	-8.4
Financial assets – available for sale	(10)	750,725	745,426	5,299	0.7
Financial assets – held to maturity	(11)	980,614	987,685	-7,071	-0.7
Shares in companies valued at equity		34,319	34,554	-235	-0.7
Investment property		43,732	43,518	214	0.5
Intangible assets		1,358	836	522	62.4
Property, plant and equipment		74,699	76,155	-1,456	-1.9
Tax assets		10,259	3,586	6,673	>100.0
Deferred tax assets		10,329	10,348	-19	-0.2
Non-current assets available for sale		12,103	12,223	-120	-1.0
Other assets		104,269	88,077	16,192	18.4
Total Assets		13,814,531	13,902,411	-87,880	-0.6

Liabilities and shareholders' equity

in '000 EUR	(Notes)	30.06.2016	31.12.2015	Change in '000 EUR	Change in %
Amounts owed to banks		402,685	1,144,487	-741,802	-64.8
Amounts owed to customers		5,848,822	4,995,818	853,004	17.1
Liabilities evidenced by certificates	(12)	2,546,338	2,402,602	143,736	6.0
Negative market values of hedges	(7, 13)	180,093	160,947	19,146	11.9
Trading liabilities and derivatives	(8, 14)	269,762	239,627	30,135	12.6
Financial liabilities – at fair value	(15)	3,027,780	3,464,357	-436,577	-12.6
Provisions		58,115	61,289	-3,174	-5.2
Tax liabilities		7,948	14,359	-6,411	-44.6
Deferred tax liabilities		2,941	8,143	-5,202	-63.9
Other liabilities		90,871	64,739	26,132	40.4
Subordinated debt capital		394,484	376,902	17,582	4.7
Shareholders' equity		984,692	969,141	15,551	1.6
Of which attributable to:					
Parent company shareholders		984,639	969,093	15,546	1.6
Non-controlling interests		53	48	5	10.4
Total Liabilities and shareholder's equity		13,814,531	13,902,411	-87,880	-0.6

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve (available for sale)	Reserves from currency translation	Total parent company shareholders	Non-controlling interests	Total Shareholders' equity
Balance 1 January 2015	165,453	48,874	658,848	13,629	-6	886,798	59	886,857
Consolidated net income	0	0	87,124	0	0	87,124	8	87,132
Other income	0	0	-149	-4,582	3	-4,728	0	-4,728
Comprehensive income 2015	0	0	86,975	-4,582	3	82,396	8	82,404
Dividends	0	0	-3,518	0	0	-3,518	0	-3,518
Distributions to third parties	0	0	-100	0	0	-100	-24	-124
Balance 30 June 2015	165,453	48,874	742,205	9,047	-3	965,576	43	965,619
Balance 1 January 2016	165,453	48,874	747,606	7,162	-2	969,093	48	969,141
Consolidated net income	0	0	21,561	0	0	21,561	5	21,566
Other income	0	0	10	-2,398	-1	-2,389	0	-2,389
Comprehensive income 2016	0	0	21,571	-2,398	-1	19,172	5	19,177
Other changes	0	0	-138	0	0	-138	0	-138
Dividends	0	0	-3,488	0	0	-3,488	0	-3,488
Balance 30 June 2016	165,453	48,874	765,551	4,764	-3	984,639	53	984,692

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

IV. CONDENSED CASH FLOW STATEMENT

Cashflows from operating activities

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Consolidated net income	21,566	87,132
Non-cash items included in consolidated net income	11,440	42,525
Change in assets from operating activities	37,043	-308,903
Change in liabilities from operating activities	-202,808	72,534
Interest received	110,364	113,635
Interest paid	-70,135	-69,316
Income tax paid	-18,300	-8,793
Cash flows from operating activities	-110,830	-71,186

Cashflows from investing activities

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Cash inflow from the sale/repayment of Financial instruments	226,379	240,316
Property, plant and equipment and intangible assets	750	744
Cash outflows for investments in financial instruments	-172,560	-134,129
Property, plant and equipment and intangible assets	-5,548	-9,902
Interest received	26,439	30,255
Dividends and profit distributions received	2,476	726
Cash flows from investing activities	77,936	128,010

Cashflows from financing activities

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Cash changes in subordinated capital	8,397	938
Dividends	-3,488	-3,394
Interest paid	-201	-387
Cash flows from financing activities	4,708	-2,843

Reconciliation to cash and balances with central banks

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Cash and balances with central banks at 1 January	712,491	470,699
Cash flows from operating activities	-110,830	-71,186
Cash flows from investing activities	77,936	128,010
Cash flows from financing activities	4,708	-2,843
Cash and balances with central banks at 30 June	684,305	524,680

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

The same accounting standards observed in preparing the consolidated annual financial statements dated 31 December 2015 were applied to the consolidated interim financial statements. There have been no changes in measurement principles applied with respect to the 31 December 2015 statements.

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

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

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(2) NET INTEREST INCOME

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Income from cash and balances with central banks	-635	9
Income from loans and advances to banks	4,269	8,141
Income from loans and advances to customers	78,397	82,971
Income from leasing business	11,842	12,732
Income from hedging instruments	11,852	8,468
Income from derivatives, other	6,763	5,282
Income from debt securities	16,174	21,962
Income from shares	644	726
Income from investments in associated companies	0	48
Income from investments, other	1,831	0
Interest and similar income	131,137	140,339
Expenses from amounts owed to banks	-1,030	-1,307
Expenses from amounts owed to customers	-17,206	-10,070
Expenses from liabilities evidenced by certificates	-14,360	-12,752
Expenses from hedging instruments	-18,223	-18,476
Expenses from derivatives, other	-318	-554
Expenses from liabilities designated AFV	8,670	-4,714
Expenses from supplementary capital	-3,767	-2,854
Interest and similar expenses	-46,234	-50,727
Net interest income	84,903	89,612

(3) NET FEE AND COMMISSION INCOME

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Lending and leasing business	2,346	1,909
Securities business	7,750	8,888
Giro and payment transactions	5,968	6,368
Other service business	2,266	2,439
Fee and commission income	18,330	19,604

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Lending and leasing business	-306	-460
Securities business	-580	-745
Giro and payment transactions	-577	-745
Other service business	-11	-23
Fee and commission expenses	-1,474	-1,973

(4) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Adjustment to loans and advances to banks	8,531	-1,688
Adjustment to loans and advances to customers	20,225	-8,492
Adjustment to financial instruments available for sale	9,550	-7,639
Adjustment to liabilities to banks	-426	135
Adjustment to liabilities to customers	-17,987	7,634
Adjustment to securitised liabilities	-51,330	15,796
Adjustment to supplementary capital	-5,617	1,887
Net result from adjustment to underlying transactions from hedging	-37,054	7,633
Measurement of hedging instruments for loans and advances to banks	-7,888	2,925
Measurement of hedging instruments for loans and advances to customers	-21,011	9,288
Measurement of hedging instruments for available for sale financial instruments	-9,896	8,583
Measurement of hedging instruments for liabilities to banks	438	-142
Measurement of hedging instruments for liabilities to customers	19,339	-8,428
Measurement of hedging instruments for securitised liabilities	52,627	-17,700
Measurement of hedging instruments for supplementary capital	6,341	-2,240
Net result of the measurement of hedging instruments	39,950	-7,714
Net result on hedge accounting	2,896	-81

(5) NET TRADING RESULT

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Trading results	808	7,542
Result from the valuation of financial instruments – HFT	-55	395
Result from the valuation of derivatives	-11,708	-48,674
Result from the valuation of financial instruments – AFV*	12,150	51,418
Net trading result	1,195	10,681

* Not including change in own credit risk

(6) ADMINISTRATIVE EXPENSES

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

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Staff costs	-30,793	-29,450
Material expenses	-16,194	-16,346
Depreciation/amortisation of property, plant and equipment and intangible assets	-2,740	-2,496
Administrative expenses	-49,727	-48,292

Of which staff costs

in '000 EUR	01.01.– 30.06.2016	01.01.– 30.06.2015
Wages and salaries	-22,925	-22,307
Statutory social security contributions	-5,946	-5,792
Voluntary social benefits	-697	-440
Expenses for retirement benefits	-1,213	-572
Social capital	-12	-339
Staff costs	-30,793	-29,450

C. NOTES TO THE BALANCE SHEET**(7) POSITIVE MARKET VALUES OF HEDGES****Breakdown by type of hedge**

in '000 EUR	30.06.2016	31.12.2015
Positive market values of fair value hedges	127,484	63,451
Deferred interest on derivative hedges	10,985	12,919
Positive market values of hedges	138,469	76,370

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

in '000 EUR	30.06.2016	31.12.2015
Interest rate swaps	3,541,221	3,156,938
Cross currency swaps	193,494	186,797
Interest rate derivatives	3,734,715	3,343,735
Derivatives	3,734,715	3,343,735

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

in '000 EUR	30.06.2016	31.12.2015
Interest rate swaps	127,484	63,451
Cross currency swaps	10,985	12,919
Interest rate derivatives	127,484	63,451
Derivatives	127,484	63,451

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

(8) TRADING ASSETS AND DERIVATIVES**Trading assets and derivatives – breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Investment certificates	595	675
Positive market values of derivative financial instruments	378,546	413,945
Deferred interest	51,377	47,021
Trading assets and derivatives	430,518	461,641

Nominal values from derivatives – breakdown by type of business

in '000 EUR	30.06.2016	31.12.2015
Interest rate swaps	4,200,019	4,917,355
Cross currency swaps	1,322,637	1,348,834
Interest rate options	282,983	380,999
Interest rate derivatives	5,805,639	6,647,188
FX forward transactions	300,443	361,003
FX swaps	251,237	182,800
Currency derivatives	551,680	543,803
Credit-Default-Swaps	0	15,000
Credit derivatives	0	15,000
Derivatives	6,357,319	7,205,991

**Positive market values from derivatives –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Interest rate swaps	298,190	290,249
Cross currency swaps	66,720	114,036
Interest rate options	2,610	2,723
Interest rate derivatives	367,520	407,008
FX forward transactions	7,776	6,410
FX swaps	3,250	527
Currency derivatives	11,026	6,937
Derivatives	378,546	413,945

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

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

in '000 EUR	30.06.2016	31.12.2015
Debt securities of public issuers	199,668	223,960
Debt securities of other issuers	178,480	202,507
Investment certificates	2,698	0
Other equity interests	5,124	5,191
Loans and advances to customers	466,538	499,156
Deferred interest	6,855	7,200
Financial assets – at fair value	859,363	938,014

(10) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

**Financial assets available for sale –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Debt securities of public issuers	335,141	314,629
Debt securities of other issuers	371,509	383,679
Shares	110	110
Investment certificates	5,937	5,921
Other equity interests	18,365	17,764
Deferred interest	8,782	12,506
Other equity investments	10,853	10,789
Other investments in affiliated companies	28	28
Financial assets – available for sale	750,725	745,426

(11) FINANCIAL ASSETS HELD TO MATURITY (HTM)

**Financial assets held to maturity –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Debt securities of public issuers	271,625	301,780
Debt securities of other issuers	687,515	658,237
Supplementary capital of other issuers	9,997	9,994
Deferred interest	11,477	17,674
Financial assets – held to maturity	980,614	987,685

(12) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

**Liabilities evidenced by certificates –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Mortgage bonds	1,143,612	1,106,919
Municipal bonds	44,532	40,702
Medium-term fixed-rate notes	1,850	2,017
Bonds	1,096,457	927,219
Housing construction bonds	59,891	68,133
Bonds issued by Pfandbriefbank	192,454	241,236
Deferred interest	7,542	16,376
Liabilities evidenced by certificates	2,546,338	2,402,602

(13) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	30.06.2016	31.12.2015
Negative market values of fair value hedges	164,213	145,975
Deferred interest on derivative hedging instruments	15,880	14,972
Negative market values of hedges	180,093	160,947

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

in '000 EUR	30.06.2016	31.12.2015
Interest rate swaps	119,720	111,010
Cross currency swaps	44,493	34,965
Interest rate derivatives	164,213	145,975
Derivatives	164,213	145,975

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

(14) TRADING LIABILITIES AND DERIVATIVES**Trading liabilities and derivatives –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Negative market values of derivative financial instruments	264,147	233,709
Deferred interest	5,615	5,918
Trading liabilities and derivatives	269,762	239,627

**Negative market values from derivatives –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Interest rate swaps	159,457	142,854
Cross currency swaps	94,514	82,230
Interest rate options	2,132	2,088
Interest rate derivatives	256,103	227,172
FX forward transactions	7,318	5,971
FX swaps	726	355
Currency derivatives	8,044	6,326
Credit default swaps	0	211
Credit derivatives	0	211
Derivatives	264,147	233,709

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

**(15) FINANCIAL LIABILITIES –
DESIGNATED AT FAIR VALUE (LAFV)****Financial liabilities – designated at fair value –
breakdown by type of business**

in '000 EUR	30.06.2016	31.12.2015
Amounts owed to banks at fair value	153,509	151,660
Amounts owed to customers at fair value	570,625	549,339
Mortgage bonds at fair value	27,487	26,314
Municipal bonds at fair value	760,296	744,635
Bonds at fair value	1,195,488	1,685,788
Housing construction bonds at fair value	187,918	162,229
Bonds issued by Pfandbriefbank at fair value	41,551	44,038
Supplementary capital at fair value	55,918	56,025
Deferred interest	34,988	44,329
Financial liabilities at fair value	3,027,780	3,464,357

D. FURTHER IFRS INFORMATION**(16) CONTINGENT LIABILITIES AND CREDIT RISKS****Contingent liabilities**

in '000 EUR	30.06.2016	31.12.2015
Liabilities from financial guarantees	233,508	319,397
Other contingent liabilities	37,391	36,456
Contingent liabilities	270,899	355,853

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

in '000 EUR	30.06.2016	31.12.2015
Credit commitments and unutilised credit lines	2,019,768	1,790,742
Credit risks	2,019,768	1,790,742

(17) HUMAN RESOURCES

	01.01.– 30.06.2016	01.01.– 30.06.2015
Full-time salaried staff	625	642
Part-time salaried staff	85	79
Apprentices	6	9
Full-time other employees	2	2
Average number of employees	718	732

(18) DISCLOSURES ON FAIR VALUE**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 – 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	812,907	930,101	478,443	2,221,451
Reclassification of assets from levels 2 and 3 to level 1	5,047	-5,047	0	0
Reclassification of assets from levels 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 – at fair value	1,372,596	310,603	1,781,158	3,464,357
Total liabilities	1,372,596	693,498	1,798,837	3,864,931
Reclassification of assets from levels 2 and 3 to level 1	0	0	0	0
Reclassification of assets from levels 1 and 3 to level 2	0	0	0	0

in '000 EUR				
30.06.2016	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	137,558	911	138,469
Trading assets and derivatives	583	354,143	75,792	430,518
Financial assets – at fair value	82,553	473,071	303,739	859,363
Financial assets – available for sale	697,841	0	52,884	750,725
Total assets	780,977	964,772	433,326	2,179,075
Reclassification of assets from levels 2 and 3 to level 1	0	0	0	0
Reclassification of assets from levels 1 and 3 to level 2	-11,076	40,363	-29,287	0
Derivative hedging instruments	0	165,295	14,798	180,093
Trading liabilities and derivatives	0	261,879	7,883	269,762
Financial liabilities – at fair value	535,373	673,804	1,818,603	3,027,780
Total liabilities	535,373	1,100,978	1,841,284	3,477,635
Reclassification of liabilities from levels 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from levels 1 and 3 to level 2	-376,782	376,782	0	0

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 credit	0	187,068	315,585	502,653
Financial assets - 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 30.06.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	136,802	12	136,814
Cross currency swaps	0	756	899	1,655
Derivative hedging instruments	0	137,558	911	138,469
Interest rate swaps	0	274,798	70,969	345,767
Cross Currency swaps	0	70,521	0	70,521
Interest rate options	0	1,265	1,344	2,609
Foreign exchange forwards	0	7,559	3,467	11,026
Investment funds	583	0	12	595
Trading assets and derivatives	583	354,143	75,792	430,518
Bonds	79,855	284,633	16,871	381,359
Investment funds	2,698	0	0	2,698
Other	0	0	5,231	5,231
Loans and credits	0	188,438	281,637	470,075
Financial assets – at fair value	82,553	473,071	303,739	859,363
Bonds	694,713	0	20,717	715,430
Investment funds	3,128	0	2,809	5,937
Shares	0	0	110	110
Other	0	0	29,248	29,248
Financial Assets – available for sale	697,841	0	52,884	750,725

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
Supplementary capital	0	20,652	35,805	56,457
Financial liabilities – at fair value	1,372,596	310,603	1,781,158	3,464,357

in '000 EUR				
30.06.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	130,137	2,384	132,521
Cross currency swaps	0	35,158	12,414	47,572
Derivative hedging instruments	0	165,295	14,798	180,093
Interest rate swaps	0	163,102	3,587	166,689
Cross currency swaps	0	92,897	0	92,897
Interest rate options	0	1,961	170	2,131
Other derivatives	0	3,919	4,126	8,045
Trading liabilities and derivatives	0	261,879	7,883	269,762
Deposits	0	0	725,249	725,249
Bonds	535,373	653,046	1,056,973	2,245,392
Supplementary capital	0	20,758	36,381	57,139
Financial liabilities – at fair value	535,373	673,804	1,818,603	3,027,780

Development of financial instruments in Level 3

in '000 EUR 2015	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassifica- tion to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	0	0	0	0	0	361	361
Trading assets and derivatives	100,195	0	0	0	-2,999	-25,815	71,381
Financial assets – 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
Total assets	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 – at fair value	2,036,149	41,000	-273,342	0	0	-22,649	1,781,158
Total liabilities	2,049,090	41,000	-273,342	785	0	-18,696	1,798,837

in '000 EUR 2016	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassifica- tion to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	361	0	0	0	0	550	911
Trading assets and derivatives	71,381	0	0	15	-122	4,518	75,792
Financial assets – at fair value	366,046	0	0	0	-28,449	-33,858	303,739
Financial assets – available for sale	40,655	64	0	11,330	0	835	52,884
Total assets	478,443	64	0	11,345	-28,571	-27,955	433,326
Derivative hedging instruments	9,666	0	0	0	0	5,132	14,798
Trading liabilities and derivatives	8,013	0	0	0	0	-130	7,883
Financial liabilities – at fair value	1,781,158	0	-34,263	4,820	0	66,888	1,818,603
Total liabilities	1,798,837	0	-34,263	4,820	0	71,890	1,841,284

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

Disclosures regarding sensitivity of internal input factors

in '000 EUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Derivatives	515	402	-747	-586
Financial assets – at fair value	2,005	2,369	-2,277	-2,649
of which securities	5	16	-33	-33
of which loans and credits	2,000	2,353	-2,244	-2,616
Financial assets – available for sale	283	391	-352	-410
Financial liabilities – at fair value	-7,107	-7,608	7,107	7,608
of which issues	-5,045	-5,278	5,045	5,278
of which time deposits	-2,062	-2,330	2,062	2,330
Total	-4,304	-4,446	3,731	3,963

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2016	44,466	17,878	3,908	18,651	84,903
	2015	43,143	17,675	11,199	17,595	89,612
Loan loss provisions	2016	4,861	641	-1,402	-1,122	2,978
	2015	-7,312	-745	222	-9,234	-17,069
Net fee and commission income	2016	6,001	8,668	1,005	1,182	16,856
	2015	6,132	9,657	623	1,219	17,631
Result from hedge relationships	2016	0	0	2,896	0	2,896
	2015	0	0	-81	0	-81
Net trading result	2016	1,404	675	-921	37	1,195
	2015	1,036	876	9,123	-354	10,681
Result from other financial instruments	2016	12	0	3,296	-55	3,253
	2015	158	0	11,759	-2,356	9,561
Administrative expenses	2016	-17,338	-21,697	-4,658	-6,034	-49,727
	2015	-17,139	-21,012	-4,470	-5,671	-48,292
Other income	2016	2,106	257	68	6,617	9,048
	2015	418	183	0	6,723	7,324
Other expenses	2016	-6,270	-3,237	-5,504	-9,270	-24,281
	2015	-2,919	-1,280	-3,661	-8,515	-16,375
Result from equity consolidation	2016	0	0	0	1,894	1,894
	2015	0	0	0	1,517	1,517
Operating result before change in own credit risk	2016	35,242	3,185	-1,312	11,900	49,015
	2015	23,517	5,354	24,714	924	54,509
Result from change in own credit risk	2016	0	0	-20,136	0	-20,136
	2015	0	0	52,022	0	52,022
Earnings before taxes	2016	35,242	3,185	-21,448	11,900	28,879
	2015	23,517	5,354	76,736	924	106,531
Assets	2016	5,656,347	1,958,012	4,495,535	1,704,637	13,814,531
	2015	5,698,538	1,957,612	4,503,012	1,743,249	13,902,411
Liabilities and shareholders' equity	2016	2,432,753	3,319,375	7,308,301	754,102	13,814,531
	2015	2,339,442	2,917,967	7,904,646	740,356	13,902,411
Liabilities (incl. own issues)	2016	2,062,329	3,235,020	7,047,984	484,506	12,829,839
	2015	1,942,172	2,831,054	7,672,730	487,314	12,933,270

F. FINANCIAL RISKS AND RISK MANAGEMENT

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

(19) OVERALL RISK MANAGEMENT

The Bank's operations involve the following risks:

- **Credit risk:** This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods.
- **Market risks:** The common characteristic of these risks is that they result from price changes in money and capital markets. Market price risks are categorised as interest rate, spread change, stock price, foreign currency or commodity risks.
- **Liquidity risk:** Liquidity risks can be broken down into maturity and retrieval risks, structural liquidity risk (rollover financing risk) and market liquidity risk. Maturity risk is an unplanned extension of maturities in the lending business. Retrieval risk is the risk that credit commitments are unexpectedly utilised or deposits withdrawn. As a result, a bank may no longer be able to fully meet its payment obligations. Structural liquidity risk arises from the possibility that the required roll-over financing may only be available at less favourable conditions, or not at all. Market liquidity risk is in evidence when positions can only be sold immediately by taking a loss.
- **Operational risk:** This includes the risk of direct or indirect losses caused by human error, process deficits, technological failure, or external influence. Operational risks also include legal risk.
- **Shareholder risk:** This covers items including private equity, mezzanine financing, subordinated financing and investments in funds with these components. This also includes subordinated banking securities.
- **Real estate risk:** This refers to the risk of fluctuations in the value of property owned by the Group. This especially includes properties which serve as collateral (including leased assets) and cannot be sold promptly to third parties as part of realisation ("foreclosed assets"). This does not include owner-occupied properties.
- **Macroeconomic risk:** Changes in the economic environment are reflected e.g. in the quality of the loan portfolio or margins. Generally speaking, this risk materializes in other types of risk.
- **Other risks:** These include above all those types of risks for which only rudimentary or no quantification methods exist. Specifically, strategic, reputation, equity, performance and business risks may be classified as other risks.

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

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

The overall risk management of Hypo 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 the risks on a group level. The independent assessment and approval of credit applications is carried out by the credit management departments for corporate and private customers.

The Bank's risk situation and the Capital Adequacy Process are addressed by the Asset & Liability Management Committee (ALM). In this committee, the Managing Board decides on market risk measurement procedures, defines interfaces between Sales and Treasury with regard to the market interest rate method, and the level of market risk and liquidity limits. Group risk controlling, controlling, and treasury departments are also present at committee meetings.

The strategies, procedures and approaches adopted for the management of risks are documented in writing. The Bank maintains a risk management manual and a credit manual, which are available to all employees. These manuals are updated on a regular basis. Additionally, the Bank has outlined all relevant work processes in written procedures that are likewise available to all employees.

Non-performing loans correspond to the regulatory asset class of loans in arrears. In the second quarter, non-performing loans declined from TEUR 550,256 to TEUR 522,504.

Maturity transformation was expanded in 2015, but remains at a low level. The Bank's risk-bearing capacity was guaranteed at all times within the limits set by the Managing Board. No further significant repayments of the Bank's own bonds are scheduled for this year.

The value at risk (VaR) for market risk developed as follows compared with the previous year (NB: VaR could not be calculated in the first half of 2015 due to technical problems. The problems arose in connection with negative interest rates. In this period, market risk was controlled using other risk management tools such as gap analyses):

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

in '000 EUR	2016	2015
January	15,126	0
February	16,090	0
March	16,997	0
April	16,144	0
May	15,791	0
June	16,263	14,991

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

in '000 EUR	2016	2015
January	2,504	0
February	1,296	0
March	1,585	0
April	1,640	0
May	1,585	0
June	1,732	2,625

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

in '000 EUR	2016	2015
January	606	0
February	622	0
March	627	0
April	610	0
May	606	0
June	586	387

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

in '000 EUR	2016	2015
January	1,137	0
February	1,195	0
March	1,189	0
April	1,160	0
May	5,297	0
June	5,231	1,303

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

in '000 EUR	2016	2015
January	15,355	0
February	16,354	0
March	17,648	0
April	16,154	0
May	16,234	0
June	16,361	15,210

(20) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

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

Total risk exposure according to CRR

in '000 EUR	30.06.2016	31.12.2015
Risk-weighted exposure amount	7,157,005	7,370,274
Total risk exposure amount for position, foreign exchange and commodities risks	719	428
Total risk exposure amount for operational risk	450,246	419,047
Total risk exposure amount for credit valuation adjustment	49,209	43,232
Total risk exposure amount	7,657,179	7,832,981

Common Equity Tier 1 capital (CET1) according to CRR

in '000 EUR	30.06.2016	31.12.2015
Capital instruments eligible as CET1 capital	184,327	184,327
Retained earnings	572,766	572,411
Accumulated other comprehensive income	7,160	7,160
Other reserves	128,472	129,024
Transitional adjustment due to grandfathered CET1 capital instruments	18,000	21,000
Minority interests given recognition in CET1 capital	18	14
Transitional adjustment due to additional minority interests	12	27
Adjustments to CET1 due to prudential filters	-23,493	-18,159
Intangible assets	-1,307	-785
Excess of deduction from AT1 items over AT1 capital	0	-469
Other transitional adjustments to CET1 capital	-12,925	-19,702
Common equity Tier 1 capital (CET1)	873,030	874,848

Additional Tier 1 capital (AT1) according to CRR

in '000 EUR	30.06.2016	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 adjustment due to additional recognition in AT1 capital of instruments issued by subsidiaries	-2	-3
Other transitional adjustments to AT1 capital	-522	-471
Excess of deduction from AT1 items over AT1 capital (deducted in CET1)	0	469
Additional Tier 1 capital (AT1)	9,480	0

Tier 2 capital (T2)

in '000 EUR	30.06.2016	31.12.2015
Capital instruments and subordinated loans eligible as T2 capital	264,641	289,907
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	-3	-3
Tier 2 capital (T2)	264,644	289,910

Composition of capital resources in accordance with CRR and capital ratios

in '000 EUR	30.06.2016	31.12.2015
Common equity Tier 1 capital (CET1)	873,030	874,848
Additional Tier 1 capital (AT1)	9,480	0
Tier 1 capital	882,510	874,848
Tier 2 capital (T2)	264,644	289,910
Own funds	1,147,154	1,164,758
CET1 capital ratio	11.40%	11.17%
Surplus of CET1 capital	528,457	522,364
T1 capital ratio	11.53%	11.17%
Surplus of T1 capital	423,079	404,870
Total capital ratio	14.98%	14.87%
Surplus of total capital	534,580	538,120

G. DISCLOSURES PERTAINING TO AUSTRIAN LAW**(21) AUSTRIAN LAW**

In line with Section 59a Austrian Banking Act in conjunction with Section 245a (1) Austrian Corporate Code (UGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards applicable in the EU. In line with Section 59a Austrian Banking Act, the disclosures per Section 64 (1) no. 1 – 15 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the Notes to the consolidated financial statements.

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

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

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

Bregenz, 16 August 2016

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The members of the Managing Board



Michael Grahammer
CEO, Chairman of the Managing Board

Sales Corporate Customers,
Accounting



Johannes Hefel
Managing Board member

Sales Private Customers



Michel Haller
Managing Board member

Risk Management

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