

SEMI ANNUAL REPORT AS AT 30 JUNE 2014

HYPO LANDESBANK VORARLBERG



CONTENTS

	Page
Key figures of Hypo Landesbank Vorarlberg _____	3
Group management report in accordance with IFRS as at 30 June 2014 _____	4
Consolidated financial statements in accordance with IFRS as at 30 June 2014 _____	10
I. Statement of comprehensive income for the period from 1 January to 30 June 2014 _____	10
II. Balance Sheet Dated 30 June _____	11
III. Statement of changes in shareholders' equity _____	12
IV. Condensed cash flow statement _____	12
V. Notes _____	12
Declaration of the statutory representatives with respect to the interim report per Section 87 (1) no. 3 Austrian Stock Exchange Act (BörseG) _____	23
Branch offices/subsidiaries _____	25

KEY FIGURES OF HYPO LANDESBANK VORARLBERG

Group reporting per IFRS:

in '000 EUR	(Notes)	30.06.2014	31.12.2013	Change in '000 EUR	Change in %
Total assets		14,043,585	14,145,177	-101,592	-0.7
Loans and advances to customers (L&R)		8,777,790	8,485,284	292,506	3.4
Amounts owed to customers (LAC)		4,775,610	4,815,650	-40,040	-0.8
Liabilities evidenced by certificates (LAC)	(12)	2,275,074	1,894,590	380,484	20.1
Capital resources in accordance with CRR/BWG *)	(21)	1,070,021	1,199,302	-129,281	-10.8
thereof core capital/Tier 1*)	(21)	772,382	804,590	-32,208	-4.0
Total capital ratio in accordance with CRR/BWG *)	(21)	12.80%	15.42%	-2.62%	-17.0

*) As of 30 June 2014, the capital ratios are based on the CRR (EU regulation no. 575/2013).

The comparative figures are based on the provisions of the Austrian Banking Act (BWG), which were applicable until 31 December 2013.

in '000 EUR	(Notes)	01.01.- 30.06.2014	01.01.- 30.06.2013	Change in '000 EUR	Change in %
Net interest income after loan loss provisions		69,297	67,198	2,099	3.1
Net fee and commission income	(3)	17,711	18,356	-645	-3.5
Net trading result	(5)	10,962	8,877	2,085	23.5
Administrative expenses	(6)	-46,988	-46,143	-845	1.8
Operating result before change in own credit risk		42,203	42,977	-774	-1.8
Earnings before taxes		44,963	42,289	2,674	6.3

Key figures	(Notes)	01.01.- 30.06.2014	01.01.- 30.06.2013	Change in '000 EUR	Change in %
Cost-Income-Ratio (CIR)		48.83%	46.23%	2.60%	5.6
Return on equity (ROE)		10.68%	11.06%	-0.38%	-3.5
Employees	(17)	714	726	-12	-1.7

The shareholders of Vorarlberger Landes- und Hypothekbank Aktiengesellschaft (Hypo Landesbank Vorarlberg) as at 30 June 2014 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 Moody's*	
Long-term for liabilities with state deficiency guarantee	Aa2
for liabilities without state deficiency guarantee (as of 2 April 2007)	A2
Short-term	P-1

*On 20th June 2014, Moody's changed the rating of Hypo Vorarlberg from A1 with negative outlook to A2 with negative outlook. As a reason, Moody's stated the planned introduction of the Hypo „Sondergesetz“ with the associated haircut of subordinated bonds despite governmental guarantee as well as the forthcoming introduction of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanisms (SRM). In Austria, the BRRD policy runs under the name BIRG and regulates the restructuring or resolution of banks.

GROUP MANAGEMENT REPORT IN ACCORDANCE WITH IFRS AS AT 30 JUNE 2014

BANKING ENVIRONMENT

The four major economies in the euro zone have been on the path to recovery since the beginning of the year. The sentiment indicators also reflected generally positive sentiment. The Japanese economy displayed a growth trend, although the hike in VAT temporarily slowed the pace of growth. The US economy suffered as a result of both weak exports and a cold and severe winter. Nonetheless, the US labour market recovered to the extent that in the first half of the year the US Federal Reserve systematically continued the tightening of the monthly bond purchase volume that was begun in December 2013. Whereas in the USA the tightening of the restrictive monetary policy continued, the European Central Bank cut its key interest rate to a new historic low in June. Owing to the low inflation rate, the ECB kept the option of further monetary policy measures open. The strong influence of the central banks' monetary policy persisted. Starting from February, all eyes increasingly turned to the unrest in Ukraine, the annexation of the Crimean peninsula on the Black Sea and the behaviour of Russia. Signs of escalation had a negative impact on the financial markets, while diplomatic rapprochement brought the markets some degree of recovery.

The development of the stock markets since the beginning of the year resembled a rollercoaster ride. Geopolitical factors in particular led to significant fluctuations for the market development. This is also reflected in the performance of the indices this year despite high price levels. In the euro zone, only the Italian and Spanish leading indices stood out with a double-digit performance. The Japanese stock market marked a decline of almost 3 % on a euro basis in the same period. The stock markets in emerging economies recorded very different results. For example, the stock market barometers in India and Brazil posted extreme or substantial increases, whereas the Chinese stock market hardly moved due to mixed economic data and the Russian stock market declined as a result of the political uncertainty. At the beginning of the year, the Bund Future – the benchmark for German government bonds – picked up momentum again. The trend of rising bond prices and thus falling returns that has been in place for more than 30 years continued in the first half of 2014, with temporary interruptions. The performance of European corporate bonds and global high-yield bonds since the beginning of the year has been similar. There was an unusual recovery trend in emerging market bond indices.

There was a more positive start to the year in 2014 than in 2013 in terms of commodities. The precious metal gold was back in demand following a weak phase – including in its role as a crisis currency – and the gold price reached a level of around

USD 1,300 again. The base metals did not react to the economic recovery as hoped at the beginning of the year. They were influenced less by the plans of the central banks than by the moderate growth impetus from China. Industrial metals also started to recover in the second quarter. Energy resources were repeatedly impacted by geopolitical developments in Ukraine and terrorism in Iraq during the reporting period. Although the euro experienced some fluctuations in relation to the US dollar in the first half of the year, it repeatedly succeeded in returning to a similar level to that recorded at the start of the year. The exchange rate of the euro to the Swiss franc was slightly weaker after the first six months than at the beginning of the year. The Japanese yen even appreciated by around 4.50 % in the reporting period.

BUSINESS PERFORMANCE

The widespread media and political discussion of the possible insolvency of Hypo Alpe Adria Bank International AG caused uncertainty among customers and investors in the first half of 2014. Political leaders, in particular the Minister of Finance as the representative of the Austrian government as the owner, ultimately decided to wind up the bank via a form of company organised under private law. Hypo Landesbank Vorarlberg will not be directly affected by future measures during the implementation of this solution. A joint guarantee on the part of all member banks and the Austrian states exists only for the Pfandbriefstelle – as a joint issuing institution of the Austrian provincial mortgage banks – with regard to outstanding issues which are scheduled to be repaid almost in full by 2017.

On 11 June 2014, the Austrian Cabinet agreed on a special law for winding up Hypo Alpe Adria Bank International AG (“Hypo-Sondergesetz”). In the interests of the taxpayer, this law aims to achieve the best possible realisation of the Bank's assets and sharing of the costs by former owners and subordinated creditors. For restructuring purposes, the subordinated bonds covered by the Carinthia state guarantee were declared void by law. Hypo Landesbank Vorarlberg does not have any subordinated bonds of Hypo Alpe Adria Bank International AG in its portfolio.

The discussion of this change to the law prompted the rating agency Moody's to lower its rating for bonds with public guarantees in Austria. Eleven banks – including Hypo Landesbank Vorarlberg – were affected by a downgrade on 20 June 2014. The rating for Hypo Landesbank Vorarlberg fell from A1 negative to A2 negative. However, we are still among the best-rated all-purpose banks in Austria.

Income statement

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft (referred to as Hypo Landesbank Vorarlberg for short) generated satisfactory earnings in the first half of 2014. Despite a massive increase in the stability fee from EUR 7.5 million to EUR 12.6 million per year, operating earnings before taxes amounted to EUR 42.2 million as at 30 June 2014 (30 June 2013: EUR 43.0 million). If the bank fee had remained at a constant level, operating earnings would have been higher than in the same period of the previous year at around EUR 45 million.

With earnings before taxes and after valuations of the liabilities side of EUR 45.0 million (30 June 2013: EUR 42.3 million), the Bank is on track with its medium-term planning. Net of taxes, Hypo Landesbank Vorarlberg posted consolidated net income of EUR 33.6 million as at 30 June 2014 (previous year: EUR 32.0 million). Hypo Landesbank Vorarlberg will continue to pursue its sustainable business model and conservative accounting policies.

As at 30 June 2014, net interest income after risk provisioning amounted to EUR 69.3 million and was thus 3.1 % higher than in the previous year. Because our customers' business is still largely stable, loan loss provisions are at a comparatively low level of EUR 16.1 million, down 9.6 % on the first half of 2013. Sufficient provisions were made for all recognisable risks. Net fee and commission income amounted to EUR 17.7 million (- 3.5 %) as at 30 June 2014. The net trading result was higher than the previous year's level at EUR 11.0 million in the second quarter.

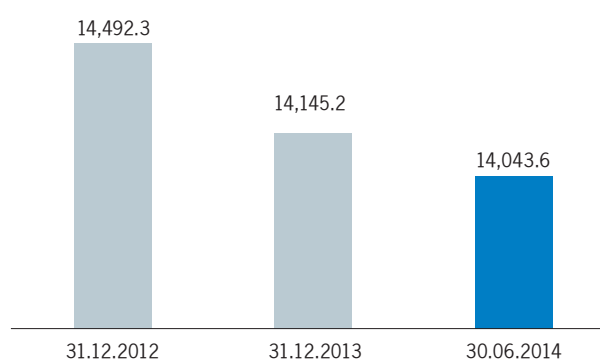
Administrative expenses amounted to EUR 47.0 million (30 June 2013: EUR 46.1 million), while staff costs increased from EUR 27.1 million to EUR 28.1 million. The headcount of 714 employees (weighted by employees' activity rate) was down 1.7 % in comparison to the previous year. Material expenses rose by 1.7 %.

The Cost-Income-Ratio of 48.83 %, a ROE of 10.68 % and the debt/equity ratio in accordance with the CRR of 12.80 % underscore that Hypo Landesbank Vorarlberg is a healthy, successful and very efficient bank.

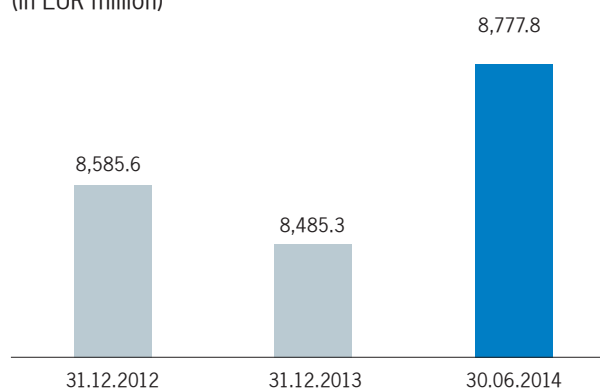
Balance sheet development

As expected, total consolidated assets were down 0.7 % on the previous year's level at EUR 14,043.6 million as at 30 June 2014. EUR 8,777.8 million of this total was attributable to loans and advances to customers, representing an increase of 3.4 % as against 2013. Under liabilities and equity, liabilities to customers decreased in line with planning in the first half of the year and amounted to EUR 4,775.6 million. Financial liabilities at fair value amounted to EUR 4,713.6 million as at 30 June 2014.

Development of total assets (in EUR million)



Development of loans and advances to customers (in EUR million)



Capital resources

The paid-up capital of Hypo Landesbank Vorarlberg amounted to EUR 165.5 million. Equity in accordance with the CRR amounted to EUR 1,070.0 million as at 30 June 2014, equivalent to a debt/equity ratio of 12.80 %. These figures are comfortable in light of the risk profile. The corresponding figures from the previous year (31 December 2013: 15.42 %) are still based on the provisions of the Austrian Banking Act (BWG), which were applicable up to the end of 2013 (Basel II).

With a debt/equity ratio of 12.80 % and a core capital ratio of 9.24 % (31 December 2013: 10.34 % in accordance with Basel II), Hypo Landesbank Vorarlberg already fulfils the highest expansion level of the Basel III standards applicable since 1 January 2014. The Managing Board will continue to pay particular attention to building up capital resources in order to continue to secure a good rating and therefore favourable refinancing for the future.

DEVELOPMENT BY SEGMENT

Corporate Customers/Public Sector

As Vorarlberg's leading corporate bank, Hypo Landesbank Vorarlberg offers leasing, insurance, equity and property services via its subsidiaries in addition to traditional banking products. Foreign services and expert advice and support with regard to funding programmes and institutions round off the financing portfolio.

As a result of new liquidity and refinancing requirements, the capital market is becoming increasingly important as a source of financing for companies. Hypo Landesbank Vorarlberg therefore expanded its range of services at the beginning of 2014 and established the new "Debt Capital Markets" (DCM) business segment. In collaboration with Brüll Kallmus Bank, based in Graz, Hypo Landesbank Vorarlberg supports companies, cities and federal states throughout Austria and southern Germany with the placement and processing of bond issues and promissory note loans.

Developments in corporate customer business underline the stable state of the real economy in Austria. The order situation is still good. After companies were restrained in terms of their investments in the past year owing to uncertainty about future economic developments, demand for loans saw an encouraging improvement in the first half of 2014. Growth in the loan portfolio was primarily generated in the markets of Vorarlberg, Styria and southern Germany. The Bank won over customers for demand deposits and term deposits with its good conditions and above all with its credit standing.

As at 30 June 2014, net interest income of EUR 38.7 million (+ 7.9 %) had been generated in the Corporate Customers segment. The companies in the Bank's core areas are in a strong state overall. However, loan loss provisions increased in the first half of the year due to a conservative assessment in lending business. Overall, the Corporate Customers segment generated earnings before taxes of just under EUR 17.9 million in the first half of 2014, representing an increase of 0.3 %.

Private Customers

In private customer business, Hypo Landesbank Vorarlberg is primarily characterised by its high quality and expertise in consulting-intensive services. In residential construction financing, in securities business and with sophisticated forms of investments, the consultants respond flexibly to their customers' wishes.

As before, a large number of customers are taking advantage of the low interest rates to purchase or renovate properties, resulting in a very high level of demand for loans in the first half

of the year. However, it can also be observed that customers are using their savings deposits to repay loans early, resulting in a correspondingly high level of unscheduled repayments. Hypo Landesbank Vorarlberg takes account of individual financing needs with lending products such as the "Hypo-Lebenswert-Kredit", the "Hypo-Lebenszeit-Kredit" and the "Hypo-Kredit Zinslimit", while energy-saving investments are supported with special forms of loan such as the "Hypo-Klimakredit".

With regard to investment, customers' need for security, together with the low interest rates, have led to increased demand for short-term forms of investment, strategies involving value protection and non-cash assets – mainly property. The market situation in investment business also calls for the development or adaptation of products such as the asset management strategies Hypo IQ Maximum Return and the Hypo Value Momentum (individual shares) strategy. In addition to savings accounts with a short term, bonds with a term of up to seven years are also in demand. Hypo Landesbank Vorarlberg's own issues are meeting with a high level of demand from customers and demonstrate their confidence in the security of the Bank.

As a result of the intense competition between banks in deposits business, as well as the falling key interest rates, there is still enormous pressure on margins. This is particularly clear in the Private Customers segment, although a slight increase in net interest income to EUR 15.4 million was recorded here in the first half of 2014 (2013: EUR 14.5 million). Net fee and commission income was also higher than the previous year's level at EUR 8.7 million (EUR 8.5 million).

Private Banking and Asset Management

Hypo Landesbank Vorarlberg's core competencies in private banking are professional and long-term partnership-based customer support and the development of in-house asset management strategies. There was high demand in the first half of 2014 for product innovations such as Hypo IQ Maximum Return, the Hypo Value Momentum (individual shares) strategy and the Hypo Weltdepot Dynamik 90 (shares) strategy with value protection. The capital gain portfolio fund, which invests in shares worldwide, was specially designed for small investors. Overall, these new asset management strategies led to additional mandates in the first half of 2014, while assets under management have also increased since the beginning of the year.

Starting from the fourth quarter of 2014, the new absolute return strategy aims to arm investors against potentially major crises with broad diversification. Long-term hedging strategies that manage market risks by means of dynamic non-predictive adjustment of the bond and share allocation result in a more robust portfolio.

This means that profits are possible not only in rising markets but also in falling markets. Owing to the high demand for individual optimisation of customer portfolios, asset management has developed its own tool. Based on customer requirements and market expectations, this tool presents customers with optimal portfolio combinations that have the lowest level of risk for a given return. More than 200 individual investment solutions have already been implemented, and the tool is used by both private investors and large-scale investors.

As at 30 June 2014, assets under management on the basis of mandates totalled EUR 686.1 million, with the number of mandates managed amounting to 2,691.

Only Austrian bank with international performance standards in asset management

PricewaterhouseCoopers reviews the compliance of our asset management with the Global Investment Performance Standards (GIPS)® on an annual basis and last confirmed this in December 2012. Since 2005, Hypo Landesbank Vorarlberg has been the first and still the only Austrian bank whose asset management is certified according to these internationally-recognised standards.

Financial Markets/Treasury

The capital market development in the first half of 2014 was dominated mainly by the Ukraine crisis and the measures taken by the ECB, but was very positive on the whole. Capital market interest rates continued to fall by up to 0.50 percentage points in the reporting period. The credit spreads continued their narrowing trend and the stock markets reached new all-time highs in some cases. Hypo Vorarlberg's funding activities in the second quarter focused on the issue of the "EUR 500 million senior unsecured benchmark" bond, which was subscribed to by around 100 investors – mainly banks, insurance companies and funds from Germany (47 %), Austria and Scandinavia. The issue has a term of five years. The Bank's conservative risk profile and its good rating were both viewed positively by investors. This issue primarily serves to secure long-term liquidity combined with attractive conditions. In the next few years, Hypo Landesbank Vorarlberg will increasingly re-establish its presence as an international issuer on the capital market.

A net volume of approximately EUR 196 million was invested in bonds by ALM/Investment in the first half of 2014. The weighted remaining term of these new investments is 5.3 years. The total volume of nostro bonds as at the end of June 2014 amounted to EUR 3,069 million.

Hypo Landesbank Vorarlberg still has a good liquidity position. The Bank's readily accessible short-term liquidity amounted to approximately EUR 575 million as at 30 June 2014. Despite high shifts between the currencies (EUR, CHF and USD) and

fluctuations in liquidity, the average level remained relatively constant in the first half of the year. Derivatives trading with customers was very difficult owing to the extremely unfavourable market conditions, with the result that income declined again.

Securities revenues at the Bank's branches amounted to approximately EUR 249 million in the second quarter of 2014. This is equivalent to a decrease of around EUR 60 million or 19.40 % compared to the same quarter of the previous year.

Thanks to the positive market development and the launch of two new special funds, the fund volume under management increased from EUR 6,358 million to EUR 6,646 million in the second quarter. This is equivalent to growth of EUR 288 million or 4.53 %.

The Financial Markets/Treasury business segment developed positively in the first half of the year, with its earnings contribution amounting to EUR 18.3 million (2013: EUR 11.4 million). The further performance will depend to a large extent on the development of the financial markets and the sovereign debt crisis.

Leasing and Real Estate

As at 30 June 2014, the earnings contribution of the Corporate Centre amounted to EUR 6.7 million and was chiefly attributable to lower loan loss provisions. The Corporate Centre includes the Leasing and Real Estate business segments.

Since 2012, Hypo Landesbank Vorarlberg's entire Austrian leasing and real estate business has been combined in one company. The range of services offered by Hypo Immobilien & Leasing GmbH extends from real estate brokerage through property appraisal, construction management, property management and facility management to optimal financing solutions involving vehicle, movables and real estate leasing. Its main headquarters are the Hypo Office in Dornbirn.

While real estate brokerage services are offered at the offices in Bregenz, Bludenz and Feldkirch, 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. The collaboration with Hypo Landesbank Vorarlberg was stepped up in 2013. Thanks to a new software package, consultants can now calculate leasing offers for their customers directly at branches.

Vehicle leasing for private customers was also added to the product range. Hypo Vorarlberg Leasing AG, headquartered in Bolzano, focuses on real estate and municipal leasing business.

OUTLOOK

Following slight expansion of the Austrian economy at a rate of 0.3 % in 2013, the economic recovery continued to progress tentatively at the beginning of 2014. According to surveys by the Austrian Institute of Economic Research (WIFO), Austrian companies anticipate an improvement in many respects in 2014. As an export-oriented economy, Austria should increasingly benefit again from the improvement in the international environment. Thanks to the upturn on the markets, a slow but steady increase in exports is anticipated in 2015. Economic growth in Austria is expected to accelerate to 1.4 % in 2014 and 1.7 % in 2015. The key assumption behind this forecast is a slow reduction in uncertainty among investors and consumers, in which the debt crisis in the euro area does not intensify again and geopolitical uncertainties subside.

Although the economy will continually pick up pace in 2014 and 2015, the development on the labour market is likely to remain modest for the time being. Despite growth in employment, the WIFO is forecasting a further rise in unemployment due to the substantial increase in the supply of labour. The inflation rate will still remain at a low level, but the figure for Austria is high in comparison to other EU countries.

Focus areas for 2014

As part of the "Strategy Project 2018", the Managing Board determined that Hypo Landesbank Vorarlberg's strategy will continue to be characterised by high continuity in the future, too. At the same time, the economic and legal conditions entail reorganisation for the entire banking sector. New regulations require it to build up additional equity and secure a cost-optimal liquidity supply. To ensure Hypo Landesbank Vorarlberg's profitability on a sustainable basis, existing customer relationships are to be strengthened by means of cross-selling and the Bank's presence in growth markets outside its home market of Vorarlberg is to be increased.

In corporate customer business, Hypo Landesbank Vorarlberg will continue to responsibly fulfil its role as Vorarlberg's leading corporate bank and supply companies in its existing markets with loans or support them in obtaining financing on the capital market. Owing to a higher level of investing activities, higher demand for loans is expected overall in the Corporate Customers segment in comparison to the previous year. The strong state of the companies in the Bank's market areas means that below-average risk costs are expected, while increased registrations for existing financing are also planned. In addition, Hypo Landesbank Vorarlberg is increasingly offering services relating to payment transactions, documentary business and investments.

In private customer business, Hypo Landesbank Vorarlberg is very popular with investment customers thanks to its good credit standing and high level of security. The Bank will continue to meet its customers' need for security and flexibility with attractive conditions for savings deposits. With regard to private financing, continued willingness to invest is also anticipated in 2014, as housing creation and renovation are still highly important.

For several years, the Bank has been providing greater flexibility by offering various payment transactions and securities transactions (e-brokerage) online. Following the successful launch of the online savings platform hypodirekt.at, it is now also possible to open joint accounts and customers from Germany, Liechtenstein and Switzerland can open overnight savings accounts. The Bank plans to expand its online services further so as to become one of Austria's top direct banks in the future. However, the branches of Hypo Landesbank Vorarlberg are still the most important pillar for sales.

In private banking and asset management, Hypo Landesbank Vorarlberg has developed an excellent reputation for itself in recent years and has established itself throughout Austria. Its assets include an innovative product range and palette and expert, individual advice and support. Building on this foundation, the Bank plans to expand the top segment in investment business with entrepreneurs and high net worth private customers. To this end, a new location will be established in the Zacherlhaus in Vienna in the first quarter of 2015 and the teams in Vorarlberg and Vienna will be expanded.

Expected earnings development in 2014

Despite several elements of political and economic uncertainty, the development in the first half of 2014 was satisfactory overall. Interest-related business continues to represent a stable pillar of the earnings development. Hypo Landesbank Vorarlberg will continue to pursue cautious risk and accounting policies and will make corresponding additions to loan loss provisions. Particular attention has always been paid to a sustainable liquidity policy. The Bank therefore has extensive liquidity reserves that allow for further expansion of the lending volume and mean that net interest income can be expected to stabilise.

By contrast, the Managing Board expects net fee and commission income to decline slightly, partly as a result of transferring fund accounting to Masterinvest. Operating expenses will rise moderately in comparison to the previous year and staff costs are also expected to increase slightly, whereas IT costs will be somewhat lower than the previous year's level.

In general, the Managing Board is anticipating a steep rise in costs for the Bank, partly due to the implementation of the Basel III requirements, the deposit protection fund and the

massive increase in the stability fee for regional banks. This will inevitably result in banking services becoming more expensive, particularly in lending business. Overall, the Managing Board is anticipating a good result in 2014 but expects this to be lower than in 2013 as a result of declining income and higher costs.

The centralised portfolio management of Vorarlberger Landes- und Hypothekbank 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 Hypothekbank 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 2014

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 30 JUNE 2014

Income Statement

in '000 EUR	(Notes)	01.01.– 30.06.2014	01.01.– 30.06.2013	Change in '000 EUR	Change in %
Interest and similar income		136,132	134,455	1,677	1.2
Interest and similar expenses		-50,769	-49,490	-1,279	2.6
Net interest income	(2)	85,363	84,965	398	0.5
Loan loss provisions		-16,066	-17,767	1,701	-9.6
Net interest income after loan loss provisions		69,297	67,198	2,099	3.1
Fee and commission income		19,897	20,581	-684	-3.3
Fee and commission expenses		-2,186	-2,225	39	-1.8
Net fee and commission income	(3)	17,711	18,356	-645	-3.5
Net result on hedge accounting	(4)	260	-892	1,152	-
Net trading result	(5)	10,962	8,877	2,085	23.5
Net result from other financial instruments		-909	-3,270	2,361	-72.2
Administrative expenses	(6)	-46,988	-46,143	-845	1.8
Other income		8,146	6,945	1,201	17.3
Other expenses		-15,352	-9,235	-6,117	66.2
Result from equity consolidation		-924	1,141	-2,065	-
Operating result before change in own credit risk		42,203	42,977	-774	-1.8
Result from change in own credit risk		2,760	-688	3,448	-
Earnings before taxes		44,963	42,289	2,674	6.3
Taxes on income		-11,330	-10,351	-979	9.5
Consolidated net income		33,633	31,938	1,695	5.3
Of which attributable to:					
Parent company shareholders		33,624	31,929	1,695	5.3
Non-controlling interests		9	9	0	0.0

Statement of comprehensive income

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013	Change in '000 EUR	Change in %
Consolidated net income	33,633	31,938	1,695	5.3
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	2	-21	23	-
Changes to AFS revaluation reserve	2,025	4,549	-2,524	-55.5
of which changes in measurement	3,610	5,991	-2,381	-39.7
of which changes in holdings	-910	44	-954	-
of which income tax effects	-675	-1,486	811	-54.6
Total items which can be reclassified to consolidated net income	2,027	4,528	-2,501	-55.2
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	0	0	0	0.0
of which changes in measurement	0	0	0	0.0
of which income tax effects	0	0	0	0.0
Total items which cannot be reclassified to consolidated net income	0	0	0	0.0
Other income after taxes	2,027	4,528	-2,501	-55.2
Total comprehensive income	35,660	36,466	-806	-2.2
Of which attributable to:				
Parent company shareholders	35,651	36,457	-806	-2.2
Non-controlling interests	9	9	0	0.0

II. BALANCE SHEET DATED 30 JUNE 2014

Assets

in '000 EUR	(Notes)	30.06.2014	31.12.2013	Change	
				in '000 EUR	in %
Cash and balances with central banks		69,942	593,422	-523,480	-88.2
Loans and advances to banks		1,386,343	1,113,957	272,386	24.5
Loans and advances to customers		8,777,790	8,485,284	292,506	3.4
Positive market values of hedges	(7)	29,028	5,442	23,586	>100.0
Trading assets and derivatives	(8)	594,796	574,137	20,659	3.6
Financial assets – at fair value	(9)	1,179,708	1,182,716	-3,008	-0.3
Financial assets – available for sale	(10)	668,071	778,923	-110,852	-14.2
Financial assets – held to maturity	(11)	1,110,437	1,175,548	-65,111	-5.5
Shares in companies valued at equity		34,080	36,449	-2,369	-6.5
Investment property		53,034	54,556	-1,522	-2.8
Intangible assets		1,324	1,618	-294	-18.2
Property, plant and equipment		75,142	74,684	458	0.6
Tax assets		500	820	-320	-39.0
Deferred tax assets		6,386	6,615	-229	-3.5
Non-current assets available for sale		6,539	3,953	2,586	65.4
Other assets		50,465	57,053	-6,588	-11.5
Total Assets		14,043,585	14,145,177	-101,592	-0.7

Liabilities and shareholders' equity

in '000 EUR	(Notes)	30.06.2014	31.12.2013	Change	
				in '000 EUR	in %
Amounts owed to banks		575,049	687,965	-112,916	-16.4
Amounts owed to customers		4,775,610	4,815,650	-40,040	-0.8
Liabilities evidenced by certificates	(12)	2,275,074	1,894,590	380,484	20.1
Negative market values of hedges	(7, 13)	129,293	126,743	2,550	2.0
Trading liabilities and derivatives	(8, 14)	236,144	238,222	-2,078	-0.9
Financial liabilities – at fair value	(15)	4,713,571	5,123,337	-409,766	-8.0
Provisions		37,320	41,608	-4,288	-10.3
Tax liabilities		10,532	7,874	2,658	33.8
Deferred tax liabilities		5,856	2,486	3,370	>100.0
Other liabilities		79,968	40,505	39,463	97.4
Subordinated and supplementary capital		325,959	319,098	6,861	2.2
Shareholders' equity		879,209	847,099	32,110	3.8
Of which attributable to:					
Parent company shareholders		879,137	847,036	32,101	3.8
Non-controlling interests		72	63	9	14.3
Total Liabilities and shareholder's equity		14,043,585	14,145,177	-101,592	-0.7

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 2013	165,453	48,874	550,836	3,928	9	769,100	67	769,167
Consolidated net income	0	0	31,929	0	0	31,929	9	31,938
Other income	0	0	0	4,549	-21	4,528	0	4,528
Comprehensive income 2013	0	0	31,929	4,549	-21	36,457	9	36,466
Dividends	0	0	-3,181	0	0	-3,181	0	-3,181
Balance 30 June 2013	165,453	48,874	579,584	8,477	-12	802,376	76	802,452
Balance 1 January 2014	165,453	48,874	621,606	11,107	-4	847,036	63	847,099
Consolidated net income	0	0	33,624	0	0	33,624	9	33,633
Other income	0	0	0	2,025	2	2,027	0	2,027
Comprehensive income 2014	0	0	33,624	2,025	2	35,651	9	35,660
Dividends	0	0	-3,550	0	0	-3,550	0	-3,550
Balance 30 June 2014	165,453	48,874	651,680	13,132	-2	879,137	72	879,209

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

Reconciliation to cash and balances with central banks

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Cash and balances with central banks as at 1 January	593,422	532,010
Cash flows from operating activities	-766,085	-740,908
Cash flows from investing activities	247,775	288,023
Cash flows from financing activities	-5,170	-8,414
Cash and balances with central banks as at 30 June	69,942	70,711

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

The same accounting standards observed in preparing the consolidated annual financial statements dated 31 December 2013 were applied to the consolidated interim financial statements. There have been no changes in measurement principles applied with respect to the 31 December 2013 statements.

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

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(2) NET INTEREST INCOME

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Income from cash and balances with central banks	53	167
Income from loans and advances to banks	6,723	6,196
Income from loans and advances to customers	77,831	74,900
Income from leasing business	13,211	13,494
Income from hedging instruments	3,460	1,983
Income from derivatives, other	2,453	1,792
Income from debt securities	30,741	34,400
Income from shares	1,078	1,164
Income from investments in associated companies	582	359
Interest and similar income	136,132	134,455
Expenses from amounts owed to banks	-2,199	-2,497
Expenses from amounts owed to customers	-19,049	-16,888
Expenses from liabilities evidenced by certificates	-6,436	-2,216
Expenses from hedging instruments	-15,728	-17,737
Expenses from derivatives, other	-637	-832
Expenses from liabilities designated AFV	-3,611	-6,279
Expenses from subordinated and supplementary capital	-3,109	-3,041
Interest and similar expenses	-50,769	-49,490
Net interest income	85,363	84,965

(3) NET FEE AND COMMISSION INCOME

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Lending and leasing business	1,855	1,840
Securities business	8,846	9,371
Giro and payment transactions	6,747	6,899
Other service business	2,449	2,471
Fee and commission income	19,897	20,581

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Lending and leasing business	-450	-465
Securities business	-780	-730
Giro and payment transactions	-925	-307
Other service business	-31	-723
Fee and commission expenses	-2,186	-2,225

(4) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Adjustment to loans and advances to banks	3,025	-4,883
Adjustment to loans and advances to customers	11,105	-8,684
Adjustment to financial instruments available for sale	9,824	-16,097
Adjustment to liabilities to customers	-6,898	487
Adjustment to securitised liabilities	-34,748	12,755
Adjustment to subordinated and supplementary capital	-5,373	2,949
Net result from adjustment to underlying transactions from hedging	-23,065	-13,473
Measurement of hedging instruments for loans and advances to banks	-3,399	5,014
Measurement of hedging instruments for loans and advances to customers	-11,079	8,705
Measurement of hedging instruments for available for sale financial instruments	-10,074	16,114
Measurement of hedging instruments for liabilities to customers	6,707	-612
Measurement of hedging instruments for securitised liabilities	34,686	-13,146
Measurement of hedging instruments for subordinated and supplementary capital	6,484	-3,494
Net result of the measurement of hedging instruments	23,325	12,581
Net result from hedging	260	-892

(5) NET TRADING RESULT

in TEUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Trading Results	2,441	643
Result from the valuation of financial instruments – HFT	13	22
Result from the valuation of derivatives	11,500	-106,880
Result from the valuation of financial instruments – AFV	-2,992	115,092
Net trading result	10,962	8,877

(6) ADMINISTRATIVE EXPENSES

Group administrative expenses consist of staff costs, material expenses and depreciation/amortisation of property, plant and equipment and intangible assets.

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Staff costs	-28,079	-27,065
Material expenses	-16,344	-16,074
Depreciation/amortisation of property, plant and equipment and intangible assets	-2,566	-3,004
Administrative expenses	-46,989	-46,143

Of which staff costs

in '000 EUR	01.01.– 30.06.2014	01.01.– 30.06.2013
Wages and salaries	-21,461	-20,053
Statutory social security contributions	-5,645	-5,411
Voluntary social benefits	-171	-735
Expenses for retirement benefits	-773	-786
Social capital	-29	-80
Staff costs	-28,079	-27,065

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

in '000 EUR	30.06.2014	31.12.2013
Positive market values of fair value hedges	23,862	5,052
Deferred interest on derivative hedges	5,166	390
Positive market values of hedges	29,028	5,442

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

in '000 EUR	30.06.2014	31.12.2013
Interest rate swaps	2,350,835	2,054,590
Cross currency swaps	97,372	66,937
Interest rate derivatives	2,448,207	2,121,527
Nominal values of fair value hedges	2,448,207	2,121,527

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

in '000 EUR	30.06.2014	31.12.2013
Interest rate swaps	22,060	2,777
Cross currency swaps	1,802	2,275
Interest rate derivatives	23,862	5,052
Positive market values of fair value hedges	23,862	5,052

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

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

in '000 EUR	30.06.2014	31.12.2013
Debt securities of other issuers	0	190
Investment certificates	706	759
Positive market values of derivative financial instruments	526,822	513,056
Deferred interest	67,268	60,132
Trading assets and derivatives	594,796	574,137

Nominal values from derivatives – breakdown by type of business

in '000 EUR	30.06.2014	31.12.2013
Interest rate swaps	6,223,459	6,518,537
Cross currency swaps	879,065	792,449
Interest rate options	435,757	600,452
Interest rate derivatives	7,538,281	7,911,438
FX forward transactions	746,232	1,074,858
FX swaps	156,747	608,638
FX options	1,419	5,785
Currency derivatives	904,398	1,689,281
Nominal values from derivatives	8,442,679	9,600,719

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

in '000 EUR	30.06.2014	31.12.2013
Interest rate swaps	422,036	397,663
Cross currency swaps	97,143	95,261
Interest rate options	3,450	3,470
Interest rate derivatives	522,629	496,394
FX forward transactions	3,652	15,862
FX swaps	417	529
FX options	124	271
Currency derivatives	4,193	16,662
Positive market values from derivatives	526,822	513,056

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

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

in '000 EUR	30.06.2014	31.12.2013
Debt securities of public issuers	306,450	294,102
Debt securities of other issuers	312,807	346,127
Investment certificates	3,184	0
Other equity interests	5,464	5,431
Loans and advances to customers	540,815	527,541
Deferred interest	10,988	9,515
Financial assets – at fair value	1,179,708	1,182,716

(10) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

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

in '000 EUR	30.06.2014	31.12.2013
Debt securities of public issuers	239,647	231,053
Debt securities of other issuers	371,633	486,118
Shares	110	110
Investment certificates	17,634	16,200
Other equity interests	18,896	18,594
Deferred interest	8,330	15,325
Other equity investments	11,727	11,429
Other investments in affiliated companies	94	94
Financial assets – available for sale	668,071	778,923

(11) FINANCIAL ASSETS - HELD TO MATURITY (HTM)

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

in '000 EUR	30.06.2014	31.12.2013
Debt securities of public issuers	334,607	301,816
Debt securities of other issuers	751,174	841,885
Supplementary capital of other issuers	9,983	9,979
Deferred interest	14,673	21,868
Financial assets – held to maturity	1,110,437	1,175,548

(12) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

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

in '000 EUR	30.06.2014	31.12.2013
Mortgage bonds	606,451	579,674
Municipal bonds	38,936	152,237
Medium-term fixed-rate notes	2,138	2,302
Bonds	1,099,174	579,526
Housing construction bonds	70,964	94,234
Bonds issued by Pfandbriefstellen	451,998	476,360
Deferred interest	5,413	10,257
Liabilities evidenced by certificates	2,275,074	1,894,590

(13) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	30.06.2014	31.12.2013
Negative market values of fair value hedges	113,996	111,714
Deferred interest on derivative hedging instruments	15,297	15,029
Negative market values of hedges	129,293	126,743

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

in '000 EUR	30.06.2014	31.12.2013
Interest rate swaps	96,230	104,079
Cross-currency swaps	17,766	7,635
Interest rate derivatives	113,996	111,714
Negative market values of fair value hedges	113,996	111,714

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	30.06.2014	31.12.2013
Negative market values of derivative financial instruments	227,395	232,031
Deferred interest	8,749	6,191
Trading liabilities and derivatives	236,144	238,222

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

in '000 EUR	30.06.2014	31.12.2013
Interest rate swaps	182,532	171,724
Cross-currency swaps	39,223	36,632
Interest rate options	2,185	2,481
Interest rate derivatives	223,940	210,837
FX forward transactions	3,212	15,408
FX swaps	120	5,513
FX options	123	273
Currency derivatives	3,455	21,194
Negative market values from derivatives	227,395	232,031

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	30.06.2014	31.12.2013
Amounts owed to banks at fair value	153,441	151,956
Amounts owed to customers at fair value	589,646	578,729
Mortgage bonds at fair value	25,591	24,248
Municipal bonds at fair value	731,560	700,737
Bonds at fair value	2,672,944	3,087,055
Housing construction bonds at fair value	153,737	143,198
Bonds issued by Pfandbriefstellen at fair value	268,407	313,099
Subordinated capital at fair value	41,043	39,674
Supplementary capital at fair value	21,814	21,404
Deferred interest	55,388	63,237
Financial liabilities at fair value	4,713,571	5,123,337

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

in '000 EUR	30.06.2014	31.12.2013
Liabilities from financial guarantees	353,488	277,606
Other contingent liabilities	29,334	33,652
Contingent liabilities	382,822	311,258

**Credit risks in accordance with section 51 (14) of the Austrian
Banking Act (BWG)**

in '000 EUR	30.06.2014	31.12.2013
Loan commitments and unutilised credit lines	1,577,778	1,610,378
Credit risks	1,577,778	1,610,378

(17) HUMAN RESOURCES

	01.01.– 30.06.2014	01.01.– 30.06.2013
Full-time salaried staff	629	648
Part-time salaried staff	74	66
Apprentices	8	9
Full-time other employees	3	3
Average number of employees	714	726

(18) DISCLOSURES ON FAIR VALUE**Fair value hierarchy for financial instruments recognised at fair value**

in '000 EUR				
31.12.2013	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	5,442	0	5,442
Assets held for trading and derivatives	953	498,680	74,504	574,137
Financial assets – at fair value	234,843	407,346	540,527	1,182,716
Financial assets – available for sale	730,630	18	48,275	778,923
Total assets	966,426	911,486	663,306	2,541,218
Reclassification from Levels 2 and 3 to Level 1	199,570	-174,191	-25,379	0
Reclassification from Levels 1 and 3 to Level 2	-17	227,021	-227,004	0
Derivative hedging instruments	0	126,545	198	126,743
Liabilities held for trading and derivatives	0	222,612	15,610	238,222
Financial liabilities – at fair value	2,008,601	999,415	2,115,321	5,123,337
Total liabilities	2,008,601	1,348,572	2,131,129	5,488,302
Reclassification from Levels 2 and 3 to Level 1	2,008,601	-2,008,601	0	0
Reclassification from Levels 1 and 3 to Level 2	0	0	0	0
in '000 EUR				
30.06.2014	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	29,028	0	29,028
Assets held for trading and derivatives	705	501,339	92,752	594,796
Financial assets – at fair value	230,302	613,727	335,679	1,179,708
Financial assets – available for sale	628,567	0	39,504	668,071
Total assets	859,574	1,144,094	467,935	2,471,603
Reclassification from Levels 2 and 3 to Level 1	18,344	-10,181	-8,163	0
Reclassification from Levels 1 and 3 to Level 2	0	227,637	-227,637	0
Derivative hedging instruments	0	123,687	5,606	129,293
Liabilities held for trading and derivatives	0	232,622	3,522	236,144
Financial liabilities – at fair value	2,146,235	387,039	2,180,297	4,713,571
Total liabilities	2,146,235	743,348	2,189,425	5,079,008
Reclassification from Levels 2 and 3 to Level 1	591,232	-591,232	0	0
Reclassification from Levels 1 and 3 to Level 2	0	22,847	-22,847	0

Development of financial instruments in Level 3

in '000 EUR 2013	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassi- fication to Level 1 and Level 2	Changes in fair value	Closing balance
Assets held for trading, derivatives	0	0	0	56,159	0	18,345	74,504
Financial assets – at fair value	566,268	45,864	-263,018	466,679	-272,219	-3,047	540,527
Financial assets – available for sale	48,559	335	-11,409	8,163	0	2,627	48,275
Total assets	614,827	46,199	-274,427	531,001	-272,219	17,925	663,306
Derivative hedging instru- ments	0	0	0	198	0	0	198
Liabilities held for trading, derivatives	0	0	0	2,555	0	13,055	15,610
Financial liabilities – at fair value	0	117,000	0	2,002,994	0	-4,673	2,115,321
Total liabilities	0	117,000	0	2,005,747	0	8,382	2,131,129
in '000 EUR 2014	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassi- fication to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instru- ments	0	0	0	0	0	0	0
Assets held for trading	74,504	0	0	0	422	17,826	92,752
Financial assets – at fair value	540,527	10,088	-2,911	0	-216,423	4,398	335,679
Financial assets – available for sale	48,275	119	-12	1,426	-8,163	-2,141	39,504
Total assets	663,306	10,207	-2,923	1,426	-224,164	20,083	467,935
Derivative hedging instru- ments	198	0	0	0	0	5,408	5,606
Liabilities held for trading	15,610	0	0	0	12	-12,100	3,522
Financial liabilities – at fair value	2,115,321	0	-10,512	25,533	-22,440	72,395	2,180,297
Total liabilities	2,131,129	0	-10,512	25,533	-22,428	65,703	2,189,425

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 sensitivities

in '000 EUR	Positive fair value change with alter- native measurement parameters		Negative fair value change with alter- native measurement parameters	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Derivatives	502	377	802	361
Financial assets – at fair value	2,510	3,428	3,325	5,015
of which securities	44	81	78	120
of which loans and credits	2,466	3,347	3,247	3,347
Financial assets – available for sale	368	440	377	473
Financial liabilities – at fair value	9,870	10,815	9,870	10,815
of which issues	6,878	7,305	6,878	7,305
of which time deposits	2,992	3,510	2,992	3,510
Total	13,250	15,060	14,374	16,664

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2014	38,735	15,437	13,513	17,678	85,363
	2013	35,893	14,493	14,606	19,973	84,965
Loan loss provisions	2014	-10,004	-1,160	268	-5,170	-16,066
	2013	-8,673	-580	101	-8,615	-17,767
Net fee and commission income	2014	5,837	8,743	1,565	1,566	17,711
	2013	5,798	8,499	2,044	2,015	18,356
Result from hedge relationships	2014	0	0	260	0	260
	2013	0	0	-892	0	-892
Net trading result	2014	1,044	645	9,350	-77	10,962
	2013	1,199	734	6,813	131	8,877
Result from other financial instruments	2014	0	0	-925	16	-909
	2013	0	0	-3,192	-78	-3,270
Administrative expenses	2014	-15,614	-20,370	-5,166	-5,838	-46,988
	2013	-15,373	-20,577	-5,539	-4,654	-46,143
Other income	2014	244	177	7	7,718	8,146
	2013	268	201	8	6,468	6,945
Other expenses	2014	-2,293	-1,440	-3,342	-8,277	-15,352
	2013	-1,224	-595	-1,884	-5,532	-9,235
Result from equity consolidation	2014	0	0	0	-924	-924
	2013	0	0	0	1,141	1,141
Operating result before change in own credit risk	2014	17,949	2,032	15,530	6,692	42,203
	2013	17,888	2,175	12,065	10,849	42,977
Result from change in own credit risk	2014	0	0	2,760	0	2,760
	2013	0	0	-688	0	-688
Earnings before taxes	2014	17,949	2,032	18,290	6,692	44,963
	2013	17,888	2,175	11,377	10,849	42,289
Assets	2014	5,630,109	1,805,576	5,014,678	1,593,222	14,043,585
	2013	5,332,714	1,741,012	5,383,898	1,687,553	14,145,177
Liabilities and shareholders' equity	2014	2,016,099	2,466,319	9,040,812	520,355	14,043,585
	2013	2,187,469	2,447,023	8,973,071	537,614	14,145,177
Liabilities (incl. own issues)	2014	1,643,833	2,371,139	8,852,729	296,675	13,164,376
	2013	1,786,199	2,355,181	8,801,530	355,168	13,298,078

F. FINANCIAL RISKS AND RISK MANAGEMENT

The full disclosure on the organisational structure, risk management and the risk capital situation (per Section 26 Austrian Banking Act and the Disclosure Implementation Regulation – Off-VO and 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.
- **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.

The definition of non-performing loans has been changed in the course of change-over to Basel III as of 1 January 2014. Non-performing loans are equivalent to the supervisory asset class „exposures in default” (until the end of 2013, interest-free loans in default were added). Until then, individual accounts 90 days past due were included in this supervisory asset class. Basel III (also in the standardized approach for credit risk) focuses on the customer in total. The non-performing loans according to their previous definition rose from EUR 260,789,000 to EUR 291,141,000. The non-performing loans according to their new definition rose from EUR 446,380,000 to EUR 463,980,000.

The maturity transformation was increased, starting from a low level. The Bank’s risk-bearing capacity was guaranteed at all times within the limits set by the Managing Board. There are no significant volumes of the Bank’s own issues scheduled for repayment this year.

The value at risk (VaR) for individual risk types compared to the previous year is shown below:

VaR (99% / 10 days) Interest rate risk (Mean value)

in '000 EUR	2014	2013
January	4,297	3,414
February	4,883	3,128
March	5,489	2,687
April	6,888	4,476
May	8,027	3,767
June	8,424	2,359

VaR (99% / 10 days) Foreign currency risk (Mean value)

in '000 EUR	2014	2013
January	688	940
February	692	1,058
March	602	1,190
April	434	1,291
May	386	1,156
June	394	1,636

VaR (99% / 10 days) Equity risk (Mean value)

in '000 EUR	2014	2013
January	239	214
February	228	216
March	192	222
April	200	202
May	188	227
June	184	265

VaR (99% / 10 days) Creditspread risk (Mean value)

in '000 EUR	2014	2013
January	1,239	3,788
February	1,368	3,587
March	1,295	3,162
April	1,244	3,014
May	1,247	2,669
June	1,226	2,534

VaR (99% / 10 days) Marketrisk (Mean value)

in '000 EUR	2014	2013
January	4,664	5,072
February	5,157	5,263
March	5,649	4,389
April	7,021	4,999
May	8,143	4,181
June	8,693	3,992

(20) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

As of 1 January 2014 the requirements of CRR (EU Regulation No. 575/2013) came into effect. Previously the regulatory capital requirements were calculated according to legal provisions of the Austrian Banking Act. Based on legal changes, the information as of the reporting date as well as comparative figures are shown in separate tables, relating to the regulations valid at the respective time.

Capital requirements per Section 22 Austrian Banking Act as at 31 Dezember 2013

in '000 EUR	31.12.2013
Assessment basis per Section 22 Austrian Banking Act	7,363,339
Capital resource requirement for solvency	589,067
Capital requirement for settlement risk	0
Capital requirement for position risks	0
Capital resource requirement for operational risk	33,256
Total capital resource requirements	622,323

Capital requirements in accordance with CRR as at 30 June 2014

in '000 EUR	30.06.2014
Risk-weighted receivables	7,787,164
Risk exposure amount for settlement and delivery risks	0
Total receivables amount for position, foreign currency and goods position risks	659
Total amount of risk positions for operational risks	423,834
Total amount of risk positions for adjustment of credit valuation	145,697
Total risk exposure	8,357,354

Consolidated capital per Section 23 in conjunction with Section 24 Austrian Banking Act as at 31 Dezember 2013

in '000 EUR	31.12.2013
Core capital (Tier 1)	804,590
Paid-in capital	165,453
Capital reserves	48,874
Retained earnings	441,796
Liable capital	126,005
Minority interests per Section 24 (2) no. 1 Austrian Banking Act	63
Consolidation per Section 24 (2) no. 2 Austrian Banking Act	23,835
Intangible assets	-1,436
Supplementary capital resources (Tier 2)	398,160
Supplementary capital	90,586
Remeasurement reserve	79,574
Subordinated capital	228,000
Deductions	-3,448
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	1,199,302
Assessment basis (banking book)	7,363,339
Core capital ratio (banking book)	10.93%
Solvency ratio (banking book)	16.29%
Assessment basis (modified)	7,779,039
Core capital ratio	10.34%
Solvency ratio	15.42%

Consolidated capital resources in accordance with CRR as at 30 June 2014

Common equity tier 1 capital (CET1)

in '000 EUR	30.06.2014
Capital instruments eligible as common equity tier 1 capital	184,327
Retained profits	472,254
Accumulated other income	10,668
Other reserves	126,603
Transitional adjustment due to grandfathered capital instruments of common equity tier 1 capital	24,000
Minority interests	15
Transitional adjustment due to additional minority interests	38
Adjustments to common equity tier 1 capital due to deduction and correction items	-4,490
Intangible assets	-1,324
Items to be deducted from the items of additional tier 1 capital and that exceed additional tier 1 capital	-9,221
Instruments of common equity tier 1 capital from companies in the financial sector in which the Bank does not hold a significant interest	-3,825
Other transitional adjustments to common equity tier 1 capital	-26,663
Common equity tier 1 capital (CET1)	772,382

Additional tier 1 capital (AT1)

in '000 EUR	30.06.2014
Capital instruments eligible as additional tier 1 capital	0
Instruments issued by subsidiaries that are included under additional tier 1 capital	6
Transitional adjustment due to additionally recognised instruments issued by subsidiaries that are included under additional tier 1 capital	-5
Instruments of additional tier 1 capital from companies in the financial sector in which the Bank does not hold a significant interest	-2,584
Other transitional adjustments to additional tier 1 capital	-6,638
Items to be deducted from the items of additional tier 1 capital and that exceed additional tier 1 capital	9,221
Additional tier 1 capital (AT1)	0

Tier 2 capital (T2)

in '000 EUR	30.06.2014
Capital instruments and subordinated loans eligible as tier 2 capital	308,118
Instruments issued by subsidiaries that are included under tier 2 capital	10
Transitional adjustments due to additionally recognised instruments issued by subsidiaries that are included under tier 2 capital	-8
Instruments of tier 2 capital from companies in the financial sector in which the Bank does not hold a significant interest	-14,171
Other transitional adjustments to tier 2 capital	3,690
Tier 2 capital (T2)	297,639

Capital resources and capital ratios

in '000 EUR	30.06.2014
Common equity tier 1 capital (CET1)	772,382
Additional tier 1 capital (AT1)	0
Tier 1 capital	772,382
Tier 2 capital (T2)	297,639
Capital resources	1,070,021
Common Equity Tier 1 Capital ratio (CET1)	9.24%
Surplus of common equity tier 1 capital	438,088
Tier 1 Capital Ratio (T1)	9.24%
Surplus of tier 1 capital	312,728
Total Capital Ratio	12.80%
Surplus of total capital resources	401,433

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 STATUTORY 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 quarterly 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, 1 August 2014

**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

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

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*050-number for local rate





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