

SEMI ANNUAL REPORT AS AT 30 JUNE 2015

HYPO LANDESBANK VORARLBERG



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KEY FIGURES OF HYPO LANDESBANK VORARLBERG

Group reporting per IFRS:

in '000 EUR	(Notes)	30.06.2015	31.12.2014	Change in '000 EUR	Change in %
Total assets		14,312,568	14,185,492	127,076	0.9
Loans and advances to customers (L&R)		9,223,782	8,954,412	269,370	3.0
Amounts owed to customers (LAC)		4,373,287	4,662,797	-289,510	-6.2
Liabilities evidenced by certificates (LAC)	(12)	2,283,019	2,313,778	-30,759	-1.3
Capital resources in accordance with CRR	(20)	1,086,670	1,091,473	-4,803	-0.4
thereof core capital/Tier 1	(20)	822,881	807,813	15,068	1.9
Total capital ratio in accordance with CRR	(20)	13.31%	13.27%	0.04%	0.3

in '000 EUR	(Notes)	01.01.– 30.06.2015	01.01.– 30.06.2014	Change in '000 EUR	Change in %
Net interest income after loan loss provisions		72,543	69,297	3,246	4.7
Net fee and commission income	(3)	17,631	17,711	-80	-0.5
Net trading result	(5)	10,681	10,962	-281	-2.6
Administrative expenses	(6)	-48,292	-46,988	-1,304	2.8
Operating result before change in own credit risk		54,509	42,203	12,306	29.2
Earnings before taxes		106,531	44,963	61,568	>100.0

Key figures	(Notes)	01.01.– 30.06.2015	01.01.– 30.06.2014	Change absolute	Change in %
Cost-Income-Ratio (CIR)		46.98%	48.83%	-1.85%	-3.8
Return on Equity (ROE)		12.36%	10.02%	2.34%	23.3
Employees	(17)	732	714	18	2.5

The shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft (Hypo Landesbank Vorarlberg) as at 30 June 2015 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	Baa1
liabilities without state deficiency guarantee	Baa1
Short-term	P-2

* In March 2015, Moody's placed the ratings of a number of Austrian banks „under review“, including Hypo Landesbank Vorarlberg. With reference to its revised rating methodology and the issues concerning HETA, Moody's downgraded Hypo Landesbank Vorarlberg from A2 to Baa1 on 7 May 2015.

GROUP MANAGEMENT REPORT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS AT 30 JUNE 2015

BANKING ENVIRONMENT

Global economy and euro zone

Positive financial news meant that the US economy started the year with expectations high, while the sluggish recovery in the euro zone cast a shadow. The actual figures were surprising: Contrary to initial forecasts, US GDP stagnated in the first quarter of 2015 and the strong US dollar proved to be a thorn in the side for exports. The forecasts for the second quarter suggest that the US economy has emerged from its phase of weakness. By contrast, the economic situation in the euro zone improved significantly. The upturn continued and expanded, with Spain and France in particular enjoying surprising growth.

The influence of the central banks persisted, with the European Central Bank (ECB) resolving a multi-billion bond-buying programme. In the second quarter, the efforts to keep Greece in the euro zone overshadowed many other factors. The situation escalated shortly before the end of July and the predefined negotiation period, only settling down again after negotiations were resumed and an additional financial assistance package was agreed. There was a mixed picture within Europe in terms of purchasing managers' indices and indicators of sentiment. The declining growth figures in China were another relevant factor.

Austria

According to the Austrian Institute of Economic Research (WIFO), the domestic economy grew by 0.3 % in the second quarter of 2015 compared with the previous quarter. Although this represented an increase as against the first quarter (+0.2 %), growth momentum in Austria remains extremely weak for the fourth year in succession. WIFO expects the upturn in trade within the EU to lead to a slight acceleration to +1.3 % in 2016. Exports will also be supported by the pronounced depreciation of the euro. The 2015/16 tax reform will boost private demand from 2016 onwards while simultaneously curbing public-sector consumption. The growth until 2016 is too low for the unemployment rate to stabilise. Inflation in Austria was at 1.2 % in June 2015.

Stock and bond markets

Caught between the conflicting influences of the upturn on the bond markets and the sustained crisis in Greece, the international equity markets followed up the highs recorded in April by entering an extended phase of consolidation. Company profits improved, providing a further boost to already rising valuations. The attractiveness of new investments increased. Among European companies, the weak euro and the drop in oil prices led to positive surprises on the earnings front. US companies en-

joyed a slightly improved profit situation following forecast adjustments. However, rising profits were recorded only in the financial sector, with the majority of other corporations impacted by the strength of the US dollar. As a result, the US equity markets recorded weaker performance than their European counterparts.

Despite the temporary phase of weakness, equities were the best asset class for investment in the first half of the year, while the risks inherent to bonds became apparent. After the yields for even long-term German sovereign bonds had fallen to almost zero, mid-April saw a dramatic move in the opposite direction. This was driven by hedge funds closing out their bets on falling yields, as well as the slight increase in forecast inflation on the back of improved economic figures and the high net supply of sovereign bonds in June. Yields have recently fluctuated around this higher level. However, the upturn in yields on the euro bond market was curbed by the ECB's bond-buying programme, which is progressing at full speed. Yields remain extremely low in the long-term view. Yields in the peripheral euro zone countries also rose substantially. Overall, however, spread widening remained under control as a result of the acute concerns about Greece. There was no sign of a return to the refinancing crisis in the debt-hit countries.

Raw materials and currencies

The European Central Bank's monetary policy also had a considerable impact on the currency markets. In the first quarter of 2015, the euro depreciated against every major trading currency in real terms, with the Swiss franc and the US dollar enjoying particularly strong development. In mid-January, the Swiss National Bank caused a sensation among market participants by unpegging the franc from its minimum exchange rate with the euro, resulting in a sharp appreciation. Meanwhile, the US dollar benefited from the recovery of the US employment market, which serves as a yardstick for the first rise in the headline interest rate since 2008.

Among precious metals, the crisis currency of gold continued on its downward path, most recently hitting a five-year low. The uncertainties concerning the debt dispute with Greece provided a temporary boost to gold prices. Since then, however, the \$1,200 mark has receded into the distance. The downward trend has intensified recently as a result of substantial sales of gold futures. The crude oil price was also subject to significant fluctuations, with the lack of positive economic news from China and the possibility of increased supply due to the negotiations on the use of nuclear power in Iran leading to lower prices.

BUSINESS PERFORMANCE

In 2014, Hypo Alpe-Adria-Bank International AG was transformed into a wind-down company (HETA Asset Resolution AG). On 1 March 2015, the Austrian financial market authority ordered the wind-down of HETA in accordance with the Austrian Federal Act on the Restructuring and Resolution of Banks (BaSAG). As part of a moratorium, a payment freeze, or a temporary deferral of HETA's liabilities to its creditors, was declared until 31 May 2016. This also affects HETA's liabilities to Pfandbriefbank (Österreich) AG and a promissory note loan of EUR 30 million granted to HETA by Hypo Landesbank Vorarlberg. There is no direct connection between Hypo Landesbank Vorarlberg and HETA under company law.

Pfandbriefbank – as a joint issuing institution of the Austrian Landes-Hypothekenbanken – carried out issues in trust for Hypo Alpe Adria Bank (now HETA) until 2006. Due to the moratorium, HETA is also not permitted to service its debts with Pfandbriefbank until further notice. In the event of insolvency on the part of Pfandbriefbank, the Pfandbriefstelle Act means that the other Austrian Landes-Hypothekenbanken and their guarantors will be jointly liable for its liabilities. Therefore, all Hypo Banks and their guarantors – including Hypo Landesbank Vorarlberg – are required to offset any liquidity squeezes and provide the required funds for servicing Pfandbriefbank's obligations.

The Austrian Hypo-Banks decided, together with the state of Carinthia, to provide Pfandbriefbank with the necessary liquidity and thereby ensure the proper servicing of its obligations. Operational implementation is the responsibility of Pfandbriefbank, which organises the payment channels by which the funds provided are to be repaid to the bond subscribers on maturity.

For the existing receivables from HETA – including the liquidity expected to be made available for Pfandbriefbank – Hypo Landesbank Vorarlberg has already made corresponding provisions in the results for 2014. As the Managing Board assumes that the guarantee of the state of Carinthia is valid and (at least partially) recoverable, a valuation allowance of EUR 12 million was already recognised on the promissory note loan at HETA in the 2014 annual financial statements. A provision of EUR 36 million was also recognised for the provision of liquidity to Pfandbriefbank. Owing to new ECB requirements, the provision was increased further in the first quarter of 2015 (from 40 % to 50 %), resulting in additional risk costs of EUR 5.75 million.

Effects on the rating of Hypo Landesbank Vorarlberg

On 6 March 2015, the rating agency Moody's placed Hypo Landesbank Vorarlberg "under review" and threatened to lower the rating. Moody's stated that this was due to its revised rating methodology. Publicly owned banks will no longer receive an

uplift in future; instead, the regulations of the BaSAG will become more important.

On 7 May, the main rating for Hypo Landesbank Vorarlberg was downgraded from A2 to Baa1. The outlook remains negative, as the rating agency believes the wind-down of HETA and the resulting liability issues could have negative effects on the Bank's capital adequacy. Hypo Landesbank Vorarlberg remains one of the best-rated Austrian banks.

Income statement

Hypo Landesbank Vorarlberg generated earnings before taxes of EUR 106.5 million in the first six months of 2015 (30 June 2014: EUR 45.0 million). The high year-on-year increase is partly due to the early buyback of the Bank's own liabilities and IFRS measurement gains. 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 changes in the Bank's own credit risk.

The operating result before changes in the Bank's own credit risk amounted to EUR 54.5 million, up 29.2 % on the same quarter of the previous year (EUR 42.2 million). Hypo Landesbank Vorarlberg reported consolidated net income after taxes of EUR 87.1 million as at 30 June 2015 (previous year: EUR 33.6 million). The Bank will continue to pursue a sustainable business model and conservative accounting policies.

As at 30 June 2015, net interest income after risk provisioning amounted to EUR 89.6 million and was thus 5.0 % higher than in the previous year. Loan loss provisions rose from EUR 16.1 million to EUR 17.1 million. The increase in the first quarter was attributable to new requirements imposed by the ECB, under which loan loss provisions for HETA should amount to 50 % (previously 40 %). Customers' business remains largely stable and sufficient provisions have been set aside for all recognisable risks. Net fee and commission income amounted to EUR 17.6 million as at 30 June 2015 (–0.5 %). At EUR 10.7 million, the net trading result for the first half of the year was higher than the previous year's level (EUR 11.0 million).

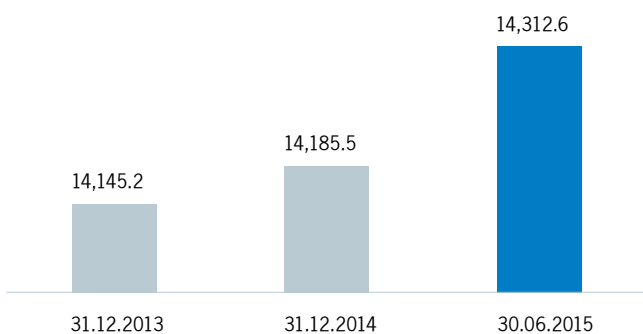
Administrative expenses amounted to EUR 48.3 million (30 June 2014: EUR 47.0 million), while staff costs increased from EUR 28.1 million to EUR 29.4 million. The headcount of 732 employees (weighted by employees' activity rate) was up 2.5 % in comparison to the previous year. Material expenses remained stable year-on-year at EUR 16.3 million.

The cost/income ratio of 46.98 %, a ROE of 12.36 % and a total capital ratio of 13.31 % serve to underline the fact that Hypo Landesbank Vorarlberg is a healthy, successful and efficient bank.

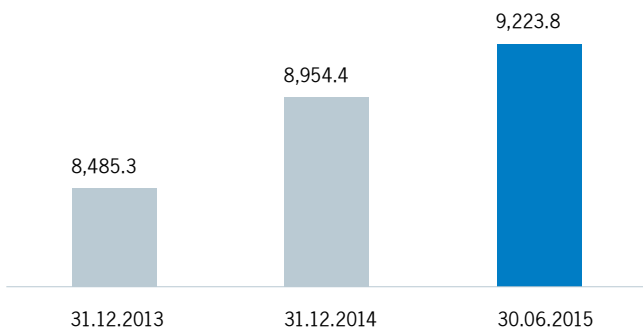
Balance sheet development

Total consolidated assets were up 0.9 % on the previous year's level, amounting to EUR 14,312.6 million as at 30 June 2015. EUR 9,223.8 million of this figure was attributable to loans and advances to customers, representing an increase of 3.0 % as against the first half of 2014. Under liabilities and equity, liabilities to customers declined slightly in the first half of 2015 to EUR 4,373.3 million. Financial liabilities at fair value amounted to EUR 3,935.4 million as at 30 June 2015.

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 1,087.6 million as at 30 June 2015. With a total capital ratio of 13.31 % (31 December 2014: 13.27 %) and a core capital ratio (CET 1) of 10.08 % (31 December 2014: 9.82 %), 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.

The Managing Board will continue to pay particular attention to building up capital resources in order to maintain an excellent credit 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 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.

In 2014, Hypo Landesbank Vorarlberg established a new business segment (Debt Capital Markets) to assist companies and public issuers in placing promissory note loans and bonds on capital markets. Since then, the Vorarlberg-based property development company Zima Holding AG was successfully supported in issuing a EUR 10 million bond, and the Bank has also been involved in three transactions as a co-manager. In the first half of 2015, the Bank arranged a EUR 75 million promissory note loan for the Sigma Group. In cooperation with the European Investment Bank (EIB), Hypo Landesbank Vorarlberg passes on loans with attractive financing conditions to eligible small and medium-sized enterprises in particular.

The stable state of the real economy in Hypo Landesbank Vorarlberg's market areas continued in the first half of 2015. Investment activity picked up in the industrial sector in particular, although this only had a limited positive impact on demand for loans. Growth in the loan portfolio was primarily generated in the markets of Vienna, St. Gallen and Styria.

As at 30 June 2015, a significant increase in net interest income to EUR 43.1 million (2014: EUR 38.7 million) was achieved in the Corporate Customers segment. Net fee and commission income also rose to EUR 6.1 million (2014: EUR 5.8 million), largely as a result of the higher level of securities commission. Although lending business was still subject to conservative measurement, loan loss provisions declined to EUR 7.3 million. This serves to confirm the strong credit standing of the companies in the Bank's market areas.

Overall, the Corporate Customers segment generated earnings before taxes of EUR 23.5 million in the first half of 2015, representing a significant increase on the previous year (EUR 18.0 million).

Private Customers

In its private customer business, Hypo Landesbank Vorarlberg is characterised primarily by the high quality of its consulting-intensive services such as residential construction financing and sophisticated investments, as well as its proximity to its clients.

Low interest rates mean that demand for financing remains high. Hypo Landesbank Vorarlberg responds to the individual financing needs of its customers with solutions such as the “Hypo-Lebenswert-Kredit”, the “Hypo-Lebenszeit-Kredit” and the “Hypo-Kredit Zinslimit”. Energy-saving investments are supported with special forms of loans such as the “Hypo-Klimakredit”. Demand for longer fixed interest rate periods has risen in recent months as a result of the low level of interest rates, with many borrowers taking the opportunity to secure a favourable interest rate for the longer term. Low interest rates also mean that the volume of extraordinary loan repayments is high.

While borrowers are benefiting from low interest rates, investors are being driven to reconsider the usual forms of investment, as savings rates are currently lower than the rate of inflation. Customers remain keen to ensure the security of their investments. In response to the market situation, the experts at Hypo Landesbank Vorarlberg are developing innovative asset management products. Strong growth rates have been observed in the various areas of asset management. Attractive conditions mean that the Bank’s own issues are also enjoying healthy demand.

Despite intense competition, falling interest rates and new, complex regulations, Hypo Landesbank Vorarlberg recorded encouraging results in the Private Customers segment in the first half of 2015. Net interest income increased to EUR 17.7 million as at 30 June 2015 (2014: EUR 15.4 million) and net fee and commission income was also higher than in the previous year at EUR 9.7 million (2014: EUR 8.7 million). Overall, the Private Customers segment generated earnings before taxes of EUR 5.4 million (after the bank levy) in the first six months of 2015 (30 June 2014: EUR 2.0 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 2015 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 strong performance results for equities, which are in double digits in some cases, supported the positive development of asset management.

The Hypo PF Absolute Return fund, launched at the end of 2014, experienced particularly strong demand. In eight months, its fund assets grew to EUR 50 million. This fund aims to generate continuous capital growth by means of broad diversification in different asset classes and the use of long-term value protection strategies. This investment objective is supported by investments in long/short bonds and stock market index futures, meaning that profits are possible not only in rising markets but

also in falling markets. Overall, these new asset management strategies led to additional mandates in the first half of 2015. As at 30 June 2015, assets managed by the Asset Management division totalled EUR 929.5 million, with the number of mandates managed amounting to 3,074. The volume increased by over 15 %.

Hypo Landesbank Vorarlberg’s Asset Management division developed its own risk/return optimisation tool in response to the high demand for individual optimisation of customer portfolios. Based on customer requirements and market expectations, this tool calculates efficient portfolio combinations that have the lowest level of risk for a given return. There is strong demand for this service from both private investors and large-scale investors. More than 500 customer portfolios have already been optimised using this professional tool.

The strong foundation allows the bank to continue expanding the top segment in the investment business (Wealth Management).

International performance standards in asset management

The auditing company PricewaterhouseCoopers Zürich regularly reviews the compliance of our asset management with the Global Investment Performance Standards (GIPS)[®] on an annual basis. In March 2015, it successfully conducted its most recent audit of the Bank’s asset management with regard to its compliance with these standards as at 31 December 2014. 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 relevant market events for Hypo Landesbank Vorarlberg in the second quarter of 2015 were dominated by the Greek crisis and the impact of the HETA moratorium. The resulting uncertainty essentially brought the issue market to a standstill. Furthermore, liquidity on the bond markets was extremely low and characterised by high volatility. In the second quarter of 2015, the Hypo sector signed a liquidity agreement for the liabilities to Pfandbriefbank (Österreich) AG affected by the HETA moratorium, thereby securing Pfandbriefbank’s liquidity for the long term and ensuring that its maturing issues can be properly served.

A net volume of approximately EUR 54.6 million was invested in bonds by ALM/Investment in the second quarter of 2015. The weighted remaining term of these new investments is 7.9 years. The total volume of nostro bonds as at 30 June 2015 amounted to EUR 3,032 million.

In the second quarter of 2015, Hypo Landesbank Vorarlberg carried out three new issues with a total volume of around EUR 17.7 million. This figure related to two private placements

with a total volume of EUR 15 million and a retail issue with a volume of around EUR 2.7 million.

The high level of liquidity in the first half of the year was used for the early buyback of the Bank's own bonds with terms until 2016/17. Income from foreign exchange and interest rate hedges with customers increased by more than 80 % compared with the previous year.

Customer securities revenues amounted to approximately EUR 641.5 million in the first half of 2015, representing an increase of 37.4 % compared with the same period of the previous year. The positive sentiment on equity markets had a significant impact on the number of share orders from our customers.

The fund volume under management amounted to EUR 7,000 million at the end of June 2015. Although a new special fund client was acquired and the Bank took on a fund mandate in its custodian bank function, the volume declined slightly.

In February, the issue of the Hypo Landesbank Vorarlberg mortgage bond with an issue volume of EUR 300 million was supported by the Debt Capital Markets group as the seller.

As at 30 June 2015, the swap group managed a total portfolio of 1,148 swaps, interest rate and currency options with a nominal volume of around EUR 10.2 billion. Cash and securities pledged as collateral declined by EUR 53 million to EUR 111 million in the period under review.

The Financial Markets business segment developed positively in the first six months of 2015, generating earnings before taxes of EUR 76.7 million. The high year-on-year increase is mainly attributable to measurement effects and the early buyback of the Bank's own liabilities. Further development will largely depend on events on the financial markets.

Leasing and Real Estate

In addition to these business segments, the "Corporate Centre" item includes the property and leasing business, insurance services and strategic investments. As at 30 June 2015, the earnings contribution of the Corporate Centre amounted to EUR 0.9 million.

Hypo Landesbank Vorarlberg's entire Austrian and Swiss leasing and real estate business is combined in the subgroup "Hypo Immobilien & Leasing". The range of real estate services offered by Hypo Immobilien & Leasing GmbH extends from real estate brokerage through property appraisal, construction management and property management to facility management. For private customers and particularly for SMEs, it offers optimal financing solutions involving vehicle, movables and real estate leasing.

Hypo Immobilien & Leasing GmbH has its headquarters at the Hypo Office in Dornbirn and additional locations in Bregenz, Bludenz, Feldkirch and Vienna. The property appraisal area will be expanded further over the course of the year, particularly in Vienna. In late 2015, Hypo Immobilien & Leasing GmbH in Vienna will move to the new location in the Zacherlhaus together with the Bank.

The Bank's subsidiary in Bolzano, Hypo Vorarlberg Leasing AG, develops leasing solutions in the real estate and mechanical engineering sectors and offers its products and services on the northern Italian market. The subsidiary also has branches in Como and Treviso.

OUTLOOK

Despite a slight upturn in economic growth in the first half of 2015, momentum in Austria remains extremely weak for the fourth year in succession. For 2016, WIFO expects the upturn in trade within the EU to lead to a further acceleration in economic growth. Exports will be supported by the depreciation of the euro, while the 2015/16 tax reform is expected to stimulate private consumption from next year onwards. The growth until 2016 is still too low for the unemployment rate to stabilise.

Focus areas for 2015

The Managing Board believes it is very important that Hypo Landesbank Vorarlberg's strategy continues to be characterised by high continuity in the future, too. Thanks to its broad-based business model, the Bank has been able to sustain its success even in recent years. Nonetheless, the economic and legal conditions entail a change of thinking for the entire banking sector. New regulations require it to build up additional equity and secure a cost-optimal liquidity supply, while costs are rising continuously thanks among other things to the bank tax. This is exacerbated by low interest rates and new technological challenges for banking services. These factors are putting a great deal of pressure on the profitability of the Austrian banking sector. To ensure the profitability of Hypo Landesbank Vorarlberg in the long-term, growth markets outside Vorarlberg are to be expanded in particular.

As the leading corporate bank in Vorarlberg, Hypo Landesbank Vorarlberg will continue to supply its business customers with financing. As in the previous year, the Managing Board is anticipating relatively weak demand for loans in 2015, although slight growth is forecast – particularly in the markets of Vienna, Graz, Wels and St. Gallen. The robust state of the companies in the Bank's market areas means that below-average risk costs are still expected, while increased registrations for existing financing are also planned. Because the capital market currently offers attractive financing conditions for companies and public

issuers, the Bank is supporting its customers in the placement of promissory note loans and bonds.

In private customer business, Hypo Landesbank Vorarlberg is very popular with investment customers thanks to its good credit standing. As in the previous year, the propensity to invest among private investors remains high. The Bank satisfies its customers' need for security and individual advice with a broad product range and permanently invests in new online and payment transaction products in order to give them even greater flexibility. With individual credit solutions that are tailored to the customer, Hypo Landesbank Vorarlberg will maintain its position as the leading housing bank in the second half of 2015. Due to the low interest rates, the propensity to invest is expected to remain high in the area of private financing.

Hypo Landesbank Vorarlberg is an advisory bank and also a modern bank that caters to customers' needs. In response to changes in customer behaviour and to provide greater flexibility, it has offered various payment transactions and securities transactions online for a number of years. The Bank has now also successfully positioned itself throughout Austria with its online savings platform hypodirekt.at. The branches will continue to represent 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 these foundations, the Bank plans to further expand wealth management, the top segment in investment business with entrepreneurs and high net worth private customers. To this end, a new location will be established in Vienna in late 2015. The teams in Vorarlberg and Vienna have already been expanded.

Expected earnings development in 2015

Despite several elements of political and economic uncertainty, development in the first half of 2015 was satisfactory. Interest-related business continues to represent a stable pillar of the Bank's earnings development. The Managing Board expects net fee and commission income to decline slightly, partly as a result of the transfer of fund accounting to Masterinvest in 2014. Operating expenses will rise moderately in comparison to the previous year and staff and IT costs are also expected to increase slightly.

Hypo Landesbank Vorarlberg will continue to pursue cautious risk and accounting policies and will make corresponding additions to loan loss provisions. Corresponding provisions were already made in the results for 2014 for all existing receivables from HETA and Pfandbriefbank. At the ECB's request, provisions were increased further in the first quarter, meaning that no further provisions are expected at present.

Particular attention has always been paid to ensuring a sustainable, security-oriented liquidity policy with the supplementary condition of keeping refinancing costs as low as possible.

In general, the Managing Board is anticipating another rise in costs for the Bank in 2015, partly due to the implementation of the Basel III requirements, the deposit protection fund, the resolution fund and the increase in the stability fee for regional banks. This will inevitably result in banking services becoming more expensive, particularly in lending business.

As the non-recurring HETA effect from 2014 no longer applies, the Managing Board expects to record significantly higher annual earnings in 2015 than in the previous year.

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 2015

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD OF 1 JANUARY TO 30 JUNE 2015

Income statement

in '000 EUR	(Notes)	01.01.– 30.06.2015	01.01.– 30.06.2014	Change in '000 EUR	Change in %
Interest and similar income		140,339	136,132	4,207	3.1
Interest and similar expenses		-50,727	-50,769	42	-0.1
Net interest income	(2)	89,612	85,363	4,249	5.0
Loan loss provisions		-17,069	-16,066	-1,003	6.2
Net interest income after loan loss provisions		72,543	69,297	3,246	4.7
Fee and commission income		19,604	19,897	-293	-1.5
Fee and commission expenses		-1,973	-2,186	213	-9.7
Net fee and commission income	(3)	17,631	17,711	-80	-0.5
Net result on hedge accounting	(4)	-81	260	-341	-
Net trading result	(5)	10,681	10,962	-281	-2.6
Net result from other financial instruments		9,561	-909	10,470	-
Administrative expenses	(6)	-48,292	-46,988	-1,304	2.8
Other income		7,324	8,146	-822	-10.1
Other expenses		-16,375	-15,352	-1,023	6.7
Result from equity consolidation		1,517	-924	2,441	-
Operating result before change in own credit risk		54,509	42,203	12,306	29.2
Result from change in own credit risk		52,022	2,760	49,262	>100.0
Earnings before taxes		106,531	44,963	61,568	>100.0
Taxes on income		-19,399	-11,330	-8,069	71.2
Consolidated net income		87,132	33,633	53,499	>100.0
Of which attributable to:					
Parent company shareholders		87,124	33,624	53,500	>100.0
Non-controlling interests		8	9	-1	-11.1

Statement of comprehensive income

in '000 EUR	01.01.– 30.06.2015	01.01.– 30.06.2014	Change in '000 EUR	Change in %
Consolidated net income	87,132	33,633	53,499	>100.0
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	-154	2	-156	-
Changes to AFS revaluation reserve	-4,656	2,025	-6,681	-
of which changes in measurement	-5,039	3,610	-8,649	-
of which changes in holdings	-1,169	-910	-259	28.5
of which income tax effects	1,552	-675	2,227	-
Total items which can be reclassified to consolidated net income	-4,810	2,027	-6,837	-
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	82	0	82	100.0
of which changes in measurement	64	0	64	100.0
of which income tax effects	18	0	18	100.0
Total items which cannot be reclassified to consolidated net income	82	0	82	100.0
Other income after taxes	-4,728	2,027	-6,755	-
Total comprehensive income	82,404	35,660	46,744	>100.0
Of which attributable to:				
Parent company shareholders	82,396	35,651	46,745	>100.0
Non-controlling interests	8	9	-1	-11.1

II. BALANCE SHEET DATED 30 JUNE 2015

Assets

in '000 EUR	(Notes)	30.06.2015	31.12.2014	Change in '000 EUR	Change in %
Cash and balances with central banks		524,680	470,699	53,981	11.5
Loans and advances to banks		880,225	883,340	-3,115	-0.4
Loans and advances to customers		9,223,782	8,954,412	269,370	3.0
Positive market values of hedges	(7)	60,579	76,116	-15,537	-20.4
Trading assets and derivatives	(8)	553,249	595,660	-42,411	-7.1
Financial assets – at fair value	(9)	1,043,101	1,123,392	-80,291	-7.1
Financial assets – available for sale	(10)	716,207	721,149	-4,942	-0.7
Financial assets – held to maturity	(11)	1,058,958	1,114,333	-55,375	-5.0
Shares in companies valued at equity		35,030	34,593	437	1.3
Investment property		54,657	60,326	-5,669	-9.4
Intangible assets		1,044	1,286	-242	-18.8
Property, plant and equipment		73,583	74,053	-470	-0.6
Tax assets		3,356	3,590	-234	-6.5
Deferred tax assets		8,576	8,688	-112	-1.3
Non-current assets available for sale		0	0	0	0.0
Other assets		75,541	63,855	11,686	18.3
Total Assets		14,312,568	14,185,492	127,076	0.9

Liabilities and shareholders' equity

in '000 EUR	(Notes)	30.06.2015	31.12.2014	Change in '000 EUR	Change in %
Amounts owed to banks		1,812,716	1,026,928	785,788	76.5
Amounts owed to customers		4,373,287	4,662,797	-289,510	-6.2
Liabilities evidenced by certificates	(12)	2,283,019	2,313,778	-30,759	-1.3
Negative market values of hedges	(7, 13)	166,968	162,475	4,493	2.8
Trading liabilities and derivatives	(8, 14)	281,835	261,761	20,074	7.7
Financial liabilities – at fair value	(15)	3,935,424	4,403,186	-467,762	-10.6
Provisions		60,043	74,181	-14,138	-19.1
Tax liabilities		4,679	2,213	2,466	>100.0
Deferred tax liabilities		14,267	7,927	6,340	80.0
Other liabilities		85,778	55,975	29,803	53.2
Supplementary capital		328,933	327,415	1,518	0.5
Shareholders' equity		965,619	886,856	78,763	8.9
Of which attributable to:					
Parent company shareholders		965,576	886,797	78,779	8.9
Non-controlling interests		43	59	-16	-27.1
Total Liabilities and shareholder's equity		14,312,568	14,185,492	127,076	0.9

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 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
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

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.– 30.06.2015	01.01.– 30.06.2014
Cash and balances with central banks as at 1 January	470,699	593,422
Cash flows from operating activities	-71,183	-766,085
Cash flows from investing activities	128,010	247,775
Cash flows from financing activities	-2,846	-5,170
Cash and balances with central banks as at 30 June	524,680	69,942

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

The same accounting standards observed in preparing the consolidated annual financial statements dated 31 December 2014 were applied to the consolidated interim financial statements. There have been no changes in measurement principles applied with respect to the 31 December 2014 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.– 30.06.2015	01.01.– 30.06.2014
Income from cash and balances with central banks	9	53
Income from loans and advances to banks	8,141	6,723
Income from loans and advances to customers	82,971	77,831
Income from leasing business	12,732	13,211
Income from hedging instruments	8,468	3,460
Income from derivatives, other	5,282	2,453
Income from debt securities	21,962	30,741
Income from shares	726	1,078
Income from investments in associated companies	48	582
Interest and similar income	140,339	136,132
Expenses from amounts owed to banks	-1,307	-2,199
Expenses from amounts owed to customers	-10,070	-19,049
Expenses from liabilities evidenced by certificates	-12,752	-6,436
Expenses from hedging instruments	-18,476	-15,728
Expenses from derivatives, other	-554	-637
Expenses from liabilities designated AFV	-4,714	-3,611
Expenses from supplementary capital	-2,854	-3,109
Interest and similar expenses	-50,727	-50,769
Net interest income	89,612	85,363

(3) NET FEE AND COMMISSION INCOME

in '000 EUR	01.01.– 30.06.2015	01.01.– 30.06.2014
Lending and leasing business	1,909	1,855
Securities business	8,888	8,846
Giro and payment transactions	6,368	6,747
Other service business	2,439	2,449
Fee and commission income	19,604	19,897

in '000 EUR	01.01.– 30.06.2015	01.01.– 30.06.2014
Lending and leasing business	-460	-450
Securities business	-745	-780
Giro and payment transactions	-745	-925
Other service business	-23	-31
Fee and commission expenses	-1,973	-2,186

(4) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	01.01.– 30.06.2015	01.01.– 30.06.2014
Adjustment to loans and advances to banks	-1,688	3,025
Adjustment to loans and advances to customers	-8,492	11,105
Adjustment to financial instruments available for sale	-7,639	9,824
Adjustment to liabilities to banks	135	0
Adjustment to liabilities to customers	7,634	-6,898
Adjustment to securitised liabilities	15,796	-34,748
Adjustment to supplementary capital	1,887	-5,373
Net result from adjustment to underlying transactions from hedging	7,633	-23,065
Measurement of hedging instruments for loans and advances to banks	2,925	-3,399
Measurement of hedging instruments for loans and advances to customers	9,288	-11,079
Measurement of hedging instruments for available for sale financial instruments	8,583	-10,074
Measurement of hedging instruments for liabilities to banks	-142	0
Measurement of hedging instruments for liabilities to customers	-8,428	6,707
Measurement of hedging instruments for securitised liabilities	-17,700	34,686
Measurement of hedging instruments for supplementary capital	-2,240	6,484
Net result of the measurement of hedging instruments	-7,714	23,325
Net result from hedging	-81	260

(5) NET TRADING RESULT

in '000 EUR	01.01.– 30.06.2015	01.01.– 30.06.2014
Trading results	7,542	2,441
Result from the valuation of financial instruments – HFT	395	13
Result from the valuation of derivatives	-48,674	11,500
Result from the valuation of financial instruments – AFV	51,418	-2,992
Net trading result	10,681	10,962

(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.– 30.06.2015	01.01.– 30.06.2014
Staff costs	-29,450	-28,079
Material expenses	-16,346	-16,344
Depreciation/amortisation of property, plant and equipment and intangible assets	-2,496	-2,566
Administrative expenses	-48,292	-46,989

Of which staff costs

in '000 EUR	01.01.– 30.06.2015	01.01.– 30.06.2014
Wages and salaries	-22,307	-21,461
Statutory social security contributions	-5,792	-5,645
Voluntary social benefits	-440	-171
Expenses for retirement benefits	-572	-773
Social capital	-339	-29
Staff costs	-29,450	-28,079

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

in '000 EUR	30.06.2015	31.12.2014
Positive market values of fair value hedges	53,101	65,399
Deferred interest on derivative hedges	7,478	10,717
Positive market values of hedges	60,579	76,116

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

in '000 EUR	30.06.2015	31.12.2014
Interest rate swaps	3,127,018	2,555,846
Cross currency swaps	188,348	119,343
Interest rate derivatives	3,315,366	2,675,189
Derivatives	3,315,366	2,675,189

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

in '000 EUR	30.06.2015	31.12.2014
Interest rate swaps	51,198	63,823
Cross currency swaps	1,903	1,576
Interest rate derivatives	53,101	65,399
Derivatives	53,101	65,399

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	30.06.2015	31.12.2014
Investment certificates	1,007	686
Positive market values of derivative financial instruments	489,409	539,795
Deferred interest	62,833	55,179
Trading assets and derivatives	553,249	595,660

Nominal values from derivatives – breakdown by type of business

in '000 EUR	30.06.2015	31.12.2014
Interest rate swaps	5,121,308	5,821,263
Cross currency swaps	1,399,916	1,110,141
Interest rate options	395,367	408,990
Interest rate derivatives	6,916,591	7,340,394
FX forward transactions	667,653	739,757
FX swaps	151,910	453,648
FX options	1,117	1,718
Currency derivatives	820,680	1,195,123
Options on top-quality securities	0	28,520
Derivatives on top-quality securities	0	28,520
Credit default swaps	15,000	15,000
Credit derivatives	15,000	15,000
Derivatives	7,752,271	8,579,037

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

in '000 EUR	30.06.2015	31.12.2014
Interest rate swaps	346,655	441,628
Cross currency swaps	121,647	81,809
Interest rate options	2,938	3,930
Interest rate derivatives	471,240	527,367
FX forward transactions	17,656	10,240
FX swaps	512	1,664
FX options	1	55
Currency derivatives	18,169	11,959
Options on top-quality securities	0	469
Derivatives on top-quality securities	0	469
Derivatives	489,409	539,795

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

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

in '000 EUR	30.06.2015	31.12.2014
Debt securities of public issuers	264,827	284,269
Debt securities of other issuers	240,157	267,426
Investment certificates	1,842	6,055
Other equity interests	5,203	5,409
Loans and advances to customers	522,275	552,301
Deferred interest	8,797	7,932
Financial assets – at fair value	1,043,101	1,123,392

(10) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

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

in '000 EUR	30.06.2015	31.12.2014
Debt securities of public issuers	305,468	295,324
Debt securities of other issuers	362,386	364,499
Shares	110	110
Investment certificates	10,513	18,714
Other equity interests	17,846	19,389
Deferred interest	9,067	12,358
Other equity investments	10,789	10,727
Other investments in affiliated companies	28	28
Financial assets – available for sale	716,207	721,149

(11) FINANCIAL ASSETS HELD TO MATURITY (HTM)

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

in '000 EUR	30.06.2015	31.12.2014
Debt securities of public issuers	312,226	327,672
Debt securities of other issuers	723,445	757,513
Supplementary capital of other issuers	9,991	9,985
Deferred interest	13,296	19,163
Financial assets – held to maturity	1,058,958	1,114,333

(12) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

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

in '000 EUR	30.06.2015	31.12.2014
Mortgage bonds	902,267	618,781
Municipal bonds	40,200	43,034
Medium-term fixed-rate notes	2,143	2,012
Bonds	934,998	1,107,012
Housing construction bonds	70,472	79,361
Bonds issued by Pfandbriefstelle	326,379	450,529
Deferred interest	6,560	13,049
Liabilities evidenced by certificates	2,283,019	2,313,778

(13) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	30.06.2015	31.12.2014
Negative market values of fair value hedges	150,738	143,856
Deferred interest on derivative hedging instruments	16,230	18,619
Negative market values of hedges	166,968	162,475

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

in '000 EUR	30.06.2015	31.12.2014
Interest rate swaps	110,584	111,459
Cross currency swaps	40,154	32,397
Interest rate derivatives	150,738	143,856
Derivatives	150,738	143,856

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 TEUR	30.06.2015	31.12.2014
Negative market values of derivative financial instruments	274,218	255,463
Deferred interest	7,617	6,298
Trading liabilities and derivatives	281,835	261,761

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

in '000 EUR	30.06.2015	31.12.2014
Interest rate swaps	157,976	190,913
Cross currency swaps	97,931	51,364
Interest rate options	2,099	2,661
Interest rate derivatives	258,006	244,938
FX forward transactions	15,395	9,701
FX swaps	703	529
FX options	1	55
Currency derivatives	16,099	10,285
Credit default swaps	113	240
Credit derivatives	113	240
Derivatives	274,218	255,463

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	30.06.2015	31.12.2014
Amounts owed to banks at fair value	149,337	153,606
Amounts owed to customers at fair value	557,591	583,696
Mortgage bonds at fair value	26,247	27,201
Municipal bonds at fair value	770,951	747,778
Bonds at fair value	2,134,371	2,439,833
Housing construction bonds at fair value	150,103	159,710
Bonds issued by Pfandbriefstelle at fair value	42,480	176,194
Supplementary capital at fair value	55,019	60,232
Deferred interest	49,325	54,936
Financial liabilities at fair value	3,935,424	4,403,186

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

in '000 EUR	30.06.2015	31.12.2014
Liabilities from financial guarantees	346,020	319,331
Other contingent liabilities	32,801	36,763
Contingent liabilities	378,821	356,094

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

in '000 EUR	30.06.2015	31.12.2014
Loan commitments and unutilised credit lines	2,013,925	1,829,672
Credit risks	2,013,925	1,829,672

(17) HUMAN RESOURCES

	01.01.– 30.06.2015	01.01.– 30.06.2014
Full-time salaried staff	642	629
Part-time salaried staff	79	74
Apprentices	9	8
Full-time other employees	2	3
Average number of employees	732	714

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

in '000 EUR				
31.12.2014	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	76,116	0	76,116
Trading assets and derivatives	1,155	494,310	100,195	595,660
Financial assets – at fair value	195,919	603,795	323,678	1,123,392
Financial assets – available for sale	685,579	0	35,570	721,149
Total assets	882,653	1,174,221	459,443	2,516,317
Reclassification of assets from levels 2 and 3 to level 1	18,360	-10,198	-8,162	0
Reclassification of assets from levels 1 and 3 to level 2	0	262,797	-262,797	0
Derivative hedging instruments	0	153,196	9,279	162,475
Trading liabilities and derivatives	0	258,099	3,662	261,761
Financial liabilities – at fair value	2,005,159	361,878	2,036,149	4,403,186
Total liabilities	2,005,159	773,173	2,049,090	4,827,422

TEUR				
30.06.2015	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	60,338	241	60,579
Trading assets and derivatives	1,007	468,849	83,393	553,249
Financial assets – at fair value	192,069	545,927	305,105	1,043,101
Financial assets – available for sale	673,196	0	43,011	716,207
Total assets	866,272	1,075,114	431,750	2,373,136
Reclassification of assets from levels 2 and 3 to level 1	10,322	-5,012	-5,310	0
Reclassification of assets from levels 1 and 3 to level 2	0	1,135	-1,135	0
Derivative hedging instruments	0	154,515	12,453	166,968
Trading liabilities and derivatives	0	273,531	8,304	281,835
Financial liabilities – at fair value	1,031,715	1,011,015	1,892,694	3,935,424
Total liabilities	1,031,715	1,439,061	1,913,451	4,384,227
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	-706,714	706,714	0	0

Fair value hierarchy for financial assets – breakdown by class

in '000 EUR 31.12.2014	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	74,749	0	74,749
Cross currency swaps	0	1,367	0	1,367
Derivative hedging instruments	0	76,116	0	76,116
Interest rate swaps	0	401,532	89,768	491,300
Cross currency swaps	0	87,268	0	87,268
Interest rate options	0	2,180	1,798	3,978
Currency options	0	55	0	55
Foreign exchange forwards	0	3,275	8,629	11,904
Other derivatives	469	0	0	469
Investment funds	686	0	0	686
Trading assets and derivatives	1,155	494,310	100,195	595,660
Bonds	189,864	318,878	47,042	555,784
Investment funds	6,055	0	0	6,055
Other	0	0	5,633	5,633
Loans and credits	0	284,917	271,003	555,920
Financial assets – at fair value	195,919	603,795	323,678	1,123,392
Bonds	660,137	0	12,042	672,179
Investment funds	17,280	0	1,434	18,714
Shares	0	0	110	110
Other	8,162	0	21,984	30,146
Financial assets – available for sale	685,579	0	35,570	721,149

in '000 EUR 30.06.2015	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	58,670	241	58,911
Cross currency swaps	0	1,668	0	1,668
Derivative hedging instruments	0	60,338	241	60,579
Interest rate swaps	0	333,705	70,556	404,261
Cross Currency swaps	0	126,875	0	126,875
Interest rate options	0	1,535	1,403	2,938
Currency options	0	0	0	0
Foreign exchange forwards	0	6,734	11,434	18,168
Other derivatives	0	0	0	0
Investment funds	1,007	0	0	1,007
Trading assets and derivatives	1,007	468,849	83,393	553,249
Bonds	184,917	277,944	47,127	509,988
Investment funds	1,842	0	0	1,842
Other	5,310	0	0	5,310
Loans and credits	0	267,983	257,978	525,961
Financial assets – at fair value	192,069	545,927	305,105	1,043,101
Bonds	664,334	0	12,586	676,920
Investment funds	8,862	0	1,652	10,514
Shares	0	0	110	110
Other	0	0	28,663	28,663
Financial Assets – available for sale	673,196	0	43,011	716,207

Development of financial instruments in Level 3

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
Trading assets and derivatives	74,504	0	0	0	-11,028	36,719	100,195
Financial assets – at fair value	540,527	10,000	-10,036	0	-220,537	3,724	323,678
Financial assets – available for sale	48,275	121	-7,835	1,434	-8,163	1,738	35,570
Total assets	663,306	10,121	-17,871	1,434	-239,728	42,181	459,443
Derivative hedging instruments	198	0	0	0	0	9,081	9,279
Trading liabilities and derivatives	15,610	0	0	0	-28	-11,920	3,662
Financial liabilities – at fair value	2,115,321	0	-152,426	25,493	-22,440	70,201	2,036,149
Total liabilities	2,131,129	0	-152,426	25,493	-22,468	67,362	2,049,090

in '000 EUR 2015	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
Trading assets and derivatives	100,195	0	0	0	-2,998	-13,804	83,393
Financial assets – at fair value	323,678	0	0	0	-5,633	-12,940	305,105
Financial assets – available for sale	35,570	62	0	7,000	0	379	43,011
Total assets	459,443	62	0	7,000	-8,631	-26,124	431,750
Derivative hedging instruments	9,279	0	0	0	0	3,174	12,453
Trading liabilities and derivatives	3,662	0	0	0	0	4,642	8,304
Financial liabilities – at fair value	2,036,149	0	-138,055	0	0	-5,400	1,892,694
Total liabilities	2,049,090	0	-138,055	0	0	2,416	1,913,451

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 alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	30.06.2015	31.12.2014	30.06.2015	31.12.2014
Derivatives	416	799	-604	-1,129
Financial assets – at fair value	2,487	2,174	-3,261	-3,225
of which securities	12	24	-15	-74
of which loans and credits	2,475	2,150	-3,246	-3,151
Financial assets – available for sale	626	385	-163	-405
Financial liabilities – at fair value	-8,185	-8,813	8,185	8,813
of which issues	-5,557	-5,842	5,557	5,842
of which time deposits	-2,628	-2,971	2,628	2,971
Total	-4,656	-5,455	4,157	4,054

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2015	43,143	17,675	11,199	17,595	89,612
	2014	38,735	15,436	13,513	17,679	85,363
Loan loss provisions	2015	-7,312	-745	222	-9,234	-17,069
	2014	-10,004	-1,160	269	-5,171	-16,066
Net fee and commission income	2015	6,132	9,657	623	1,219	17,631
	2014	5,838	8,743	1,564	1,566	17,711
Result from hedge relationships	2015	0	0	-81	0	-81
	2014	0	0	260	0	260
Net trading result	2015	1,036	876	9,123	-354	10,681
	2014	1,044	645	9,350	-77	10,962
Result from other financial instruments	2015	158	0	11,759	-2,356	9,561
	2014	0	0	-924	15	-909
Administrative expenses	2015	-17,139	-21,012	-4,470	-5,671	-48,292
	2014	-15,614	-20,370	-5,166	-5,838	-46,988
Other income	2015	418	183	0	6,723	7,324
	2014	244	177	7	7,718	8,146
Other expenses	2015	-2,919	-1,280	-3,661	-8,515	-16,375
	2014	-2,293	-1,440	-3,342	-8,277	-15,352
Result from equity consolidation	2015	0	0	0	1,517	1,517
	2014	0	0	0	-924	-924
Operating result before change in own credit risk	2015	23,517	5,354	24,714	924	54,509
	2014	17,950	2,031	15,531	6,691	42,203
Result from change in own credit risk	2015	0	0	52,022	0	52,022
	2014	0	0	2,760	0	2,760
Earnings before taxes	2015	23,517	5,354	76,736	924	106,531
	2014	17,950	2,031	18,291	6,691	44,963
Assets	2015	5,861,121	1,956,208	4,775,311	1,719,928	14,312,568
	2014	5,567,835	1,847,883	5,039,457	1,730,317	14,185,492
Liabilities and shareholders' equity	2015	1,986,785	2,716,063	8,814,374	795,346	14,312,568
	2014	2,262,352	2,876,163	8,381,049	665,928	14,185,492
Liabilities (incl. own issues)	2015	1,601,591	2,632,176	8,553,385	559,797	13,346,949
	2014	1,863,592	2,782,240	8,168,590	484,214	13,298,636

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.
- 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 first half of the year, non-performing loans increased from EUR 427,050 thousand to EUR 600,980 thousand as a result of the HETA receivables classified as non-performing.

Maturity transformation is at a low level. The Bank's risk-bearing capacity was guaranteed at all times within the limits set by the Managing Board. The Bank's own bonds are scheduled for repayment this year in the amount of EUR 325,346 thousand in November. These repayments are already financed.

(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.

Total risk exposure according to CRR

in '000 EUR	30.06.2015	31.12.2014
Risk-weighted receivables	7,649,376	7,734,032
Risk exposure amount for settlement and delivery risks	0	0
Total receivables amount for position, foreign currency and goods position risks	45,927	447
Total amount of risk positions for operational risks	419,047	423,834
Total amount of risk positions for adjustment of credit valuation	52,532	67,946
Total risk exposure	8,166,882	8,226,259

Common Equity Tier 1 capital (CET1) according to CRR

in '000 EUR	30.06.2015	31.12.2014
Capital instruments eligible as common equity Tier 1 capital	184,327	184,327
Retained profits	510,242	513,915
Accumulated other income	13,623	13,623
Other reserves	129,050	129,050
Transitional adjustment due to grandfathered capital instruments of common equity Tier 1 capital	21,000	24,000
Minority interests	15	14
Transitional adjustment due to additional minority interests	26	35
Adjustments to common equity Tier 1 capital due to deduction and correction items	-4,289	-4,289
Intangible assets	-993	-1,235
Items to be deducted from the items of additional Tier 1 capital and that exceed additional Tier 1 capital	-594	-2,092
Instruments of common equity Tier 1 capital from companies in the financial sector in which the Bank does not hold a significant interest	0	-639
Other transitional adjustments to common equity Tier 1 capital	-29,526	-48,896
Common equity Tier 1 capital (CET1)	822,881	807,813

Additional Tier 1 capital (AT1) according to CRR

in '000 EUR	30.06.2015	31.12.2014
Capital instruments eligible as additional Tier 1 capital	0	0
Instruments issued by subsidiaries that are included under additional Tier 1 capital	5	5
Transitional adjustment due to additionally recognised instruments issued by subsidiaries that are included under additional Tier 1 capital	-3	-4
Instruments of additional Tier 1 capital from companies in the financial sector in which the Bank does not hold a significant interest	0	-84
Other transitional adjustments to additional Tier 1 capital	-596	-2,009
Items to be deducted from the items of additional Tier 1 capital and that exceed additional Tier 1 capital	594	2,092
Additional Tier 1 capital (AT1)	0	0

Tier 2 capital (T2)

in '000 EUR	30.06.2015	31.12.2014
Capital instruments and subordinated loans eligible as Tier 2 capital	263,787	285,194
Instruments issued by subsidiaries that are included under Tier 2 capital	7	9
Transitional adjustments to additionally recognised instruments issued by subsidiaries that are included under Tier 2 capital	-4	-8
Instruments of Tier 2 capital from companies in the financial sector in which the Bank does not hold a significant interest	0	-2,238
Other transitional adjustments to Tier 2 capital	0	703
Tier 2 capital (T2)	263,790	283,660

Composition of capital resources in accordance with CRR and capital ratios

in '000 EUR	30.06.2015	31.12.2014
Common equity Tier 1 capital (CET1)	822,881	807,813
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital	822,881	807,813
Tier 2 capital (T2)	263,790	283,660
Capital resources	1,086,670	1,091,473
Common Equity Tier 1 Capital ratio (CET1)	10,08%	9,82%
Surplus of common equity Tier 1 capital	455,371	478,762
Tier 1 Capital Ratio (T1)	10,08%	9,82%
Surplus of Tier 1 capital	332,868	355,369
Total Capital Ratio	13,31%	13,27%
Surplus of total capital resources	433,320	433,372

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, 3 August 2015

**Vorarlberger Landes- und Hypothekenbank
Aktiengesellschaft**

The members of the Managing Board



Mag. Dr. Michael Grahammer
CEO, Chairman of the Managing Board

Sales Corporate Customers,
Accounting



Mag. Dr. Johannes Hefel
Managing Board member

Sales Private Customers



Mag. Michel Haller
Managing Board member

Risk Management

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

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