Passionate. Sound. Advice.

HYPO LANDESBANK VORARLBERG

A REGION AND ITS BANK

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2014

KEY FIGURES 2014

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

in '000 EUR		31.12.2014	31.12.2013	Change	
				in '000 EUR	in %
Total assets		14,185,492	14,145,177	40,315	0.3
Loans and advances to customers (L&R)	(17)	8,954,412	8,485,284	469,128	5.5
Amounts owed to customers (LAC)	(32)	4,662,797	4,815,650	–152,853	–3.2
Liabilities evidenced by certificates (LAC)	(33)	2,313,778	1,894,590	419,188	22.1
Capital resources according to BWG/CRR*	(67)	1,091,473	1,199,302	–107,829	–9.0
thereof core capital/Tier 1*		807,813	804,590	3,223	0.4
Total capital ratio according to BWG/CRR*		13.27%	15.42%	–2.15%	–13.9

* As of 31 December 2014, the capital ratios are based on the CRR (EU regulation no. 575/2013). The comparative figures from the previous year are based on the provisions of the Austrian Banking Act (BWG), which were applicable until 31 December 2013.

in '000 EUR		2014	2013	Change	
				in '000 EUR	in %
Net interest income after loan loss provisions		95,719	130,092	–34,373	–26.4
Net fee and commission income	(7)	35,624	36,956	–1,332	–3.6
Net trading result	(9)	30,644	22,943	7,701	33.6
Administrative expenses	(11)	–92,101	–91,172	–929	1.0
Operating result before change in own credit risk		54,278	94,908	–40,630	–42.8
Earnings before taxes		53,979	96,134	–42,155	–43.9

Key figures		2014	2013	Change	
				absolut	in %
Cost-income ratio (CIR)		49.42%	49.20%	0.22%	0.5
Return on equity (ROE)		6.45%	12.41%	–5.97%	–48.1
Employees	(54)	723	724	–1	–0.1

The shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft
(Hypo Landesbank Vorarlberg) as at 31 December 2014 are:

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

Rating | Moody's **		
Long-term:	for liabilities with state deficiency guarantee	A1
	for liabilities without state deficiency guarantee	A2
Short-term		P-1

** In March 2015, Moody's placed several Austrian banks "under review", referring to the new rating methodology and the events in relation to HETA. The ratings for Hypo Landesbank Vorarlberg were also set as "review" or "review for downgrade".

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ON THE SAME LEVEL

**HYPO LANDESBANK VORARLBERG
CORPORATE BANK | RESIDENTIAL BANK | INVESTMENT BANK**

We are here for our region and its people. We listen and find solutions for their concerns. This is a commitment that we take very seriously. It is an expression of our tradition and those values that we have exemplified for over a hundred years.

Johannes Hefel
Member of the Managing Board

Michael Grahammer
Chairman of the Managing Board

Michel Haller
Member of the Managing Board

FOR GOOD REASON

HYPO LANDESBANK VORARLBERG FOREWORD – MANAGING BOARD

Dear reader

The past year was marked by economic and political upheavals. Since the beginning of 2014, the European economy has been affected by the conflicts in the Ukraine, the Crimean Peninsula and the Middle East. The European Central Bank (ECB) lowered interest rates during the year to a historic low and banks must pay penalty interest for their deposits at the ECB for the first time since the existence of the euro. In addition, Austrian Vice-Chancellor and Finance Minister Michael Spindelegger announced his surprise resignation in August, the former Hypo Alpe-Adria-International AG was converted into a liquidating company (HETA) and the highly controversial Hypo special law was enacted.

Banking industry in upheaval
No question – changing conditions bring new challenges and the banking industry is undergoing a transformation. In response to the ongoing banking crisis that began in 2008, a veritable wave of regulations has poured into domestic financial institutions. Although the regulations were meant to be implemented gradually, they are already part of daily business and require extensive and time-consuming preparation. We are well equipped for the more stringent regulatory requirements and our operating figures exceed statutory requirements. The business environment for Hypo Landesbank Vorarlberg has been marked by increasing pressure on earnings caused by long-term low interest rates and advances in technology with the associated change in customer behaviour toward more online banking. Currently, young internet start-up companies are formulating new ideas for managing money and are pushing into the financial business with mobile applications.

Innovation and tradition as basis for success
We cannot afford to stand still. Therefore we are continuously developing suitable, up-to-date solutions to fulfil our responsibility to our customers. Innovation and tradition are not mutually exclusive, just the opposite. In challenging times like these, Hypo Landesbank Vorarlberg is characterized by economic sustainability, strong customer focus and excellent advisory services. These values have formed the foundation for our long-term successful business model. Our continuing stable positive earnings development confirms our belief that we are on the right track with our focus on sustainable customer business.

Manageable risk provisions due to good operating result
We were able to continue the positive earnings trend of recent years in 2014 thanks to our solid foundation. Our earnings before taxes of EUR 54.0 million in 2014 confirms that we have a very sustainable economic operation, in spite of the unexpected loan loss provisions for HETA and the Pfandbriefbank (Österreich) AG of over EUR 48 million. Without this effect our pre-tax profit would have been significantly higher, amounting to over EUR 100 million. This high level of risk provisions is indeed painful, but bearable thanks to our excellent operation performance. We assume that the effects of HETA have been digested and that no further extraordinary burdens will be placed on future Hypo Landesbank Vorarlberg results. In this annual report, you will find further details of the development of Hypo Landesbank Vorarlberg in 2014.

Values provide stability and guidance
As the State Bank of Vorarlberg, we are especially connected to our province. We consider the continuing development of the region where we live and work as a responsibility that we approach every day with pleasure and passion. The values of our Bank play a major role. Values shape the attitudes and behaviour of businesses, as well as individuals. Values give stability and guidance, especially in fast-paced and turbulent times. Hypo Landesbank Vorarlberg practices the values of a down-to-earth yet dynamic region and applies them outside the region for clearly defined positioning. We want the solid foundation of our Bank to be seen in the annual report by showing genuine people who voice our approach.

Thank you for your trust and support
More than ever, commitment, competence and close cooperation are needed to remain successful in the future. The Managing Board would like to take this opportunity to thank all those who contributed to the success of Hypo Landesbank Vorarlberg in the past year, especially the customers who have given us their trust, as well as our business partners and shareholder representatives. Very special thanks go to our management and our employees who work continuously to keep our customers satisfied. They were once again a key factor in our success. Only through the interaction of all these people was it possible, despite many challenges, to successfully complete the 2014 financial year. With this foundation, we approach the current year with confidence.

The Managing Board
Michael Grahammer
Johannes Hefel
Michel Haller

WITH GREAT CONFIDENCE

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHAEL GRAHAMMER

How do you rate the 2014 financial year for Hypo Landesbank Vorarlberg?
In a challenging market environment, we were able to continue the positive earnings trend of recent years. Earnings before taxes for the 2014 financial year amounted to EUR 54.0 million, while consolidated net income was EUR 41.3 million. It was a very good year operationally, marked by a stable customer base, a balanced and healthy loan portfolio and consistent cost management. The significant difference in results when compared to 2013 (EUR 96.1 million) is due to the existing claim against HETA, the wind-down company for the former Hypo Alpe-Adria-Bank International AG, as well as the anticipated available liquidity requirements for the Pfandbriefbank which together totalled EUR 48 million in valuation adjustments and reserves. From today's perspective, we view these provisions to be sufficient. Without this effect, our pre-tax profit would have amounted to approximately EUR 100 million.

What else will the HETA wind-down bring?
The higher risk provision requirements are indeed painful and have significantly diminished further capital accumulation. From today's perspective I believe that Hypo Landesbank Vorarlberg has absorbed the immediate effects of the HETA wind-down and that no extraordinary burdens on future earnings will arise. However, due to changes in Moody's rating methodology and the developments around HETA, many Austrian banks, including ourselves, have been placed "under review". The discussions concerning insolvency or the HETA moratorium have greatly damaged the entire Austrian financial system especially in regard to the confidence of customers and investors. The finance minister and authorities must make safeguarding financial stability the main focus of their actions or I fear continued negative consequences for the Austrian economy.

The end of the EUR/CHF minimum exchange rate in January 2015 was unexpected. What effect did this have on Hypo Landesbank Vorarlberg?
The cancellation of the EUR/CHF minimum exchange rate by the Schweizerische Nationalbank (SNB) abruptly increased the liability of Swiss franc borrowers by 15 to 20%. Due to the low interest rate levels for loans in Swiss francs, we currently do not expect major problems serving these loans. Should it become necessary, we are prepared to assist customers by offering repayment extensions or suspensions to help reduce the debt burden. Since the beginning of 2009, we have greatly reduced the number of loans in Swiss francs. As a percentage of total accounts receivable, our CHF loan volume was 19.6% as at 31 December 2014, without including the branch office in St. Gallen it was only 15.0%. Since that branch serves Swiss customers with income and assets in CHF, those loans are not relevant when calculating the CHF risk. Therefore, the outstanding CHF loan volume risk is at an acceptable level for the Bank.

Curriculum Vitae of Michael Grahammer
Michael Grahammer (50) has been Chairman of the Board since May 2012. In addition to his function as Spokesman for the Board, he is responsible for the areas Corporate Customer Sales, Treasury, Accounting, Human Resources, Communication as well as Participation Administration, Real Estate and Leasing, Insurance Brokerage and Hypo Leasing Italy (Sales). Michael Grahammer has been a member of the Board of Hypo Landesbank Vorarlberg since 2004. He began his career in 1993 at Raiffeisen Zentralbank AG after receiving his doctoral degree in commercial sciences from the Vienna University of Business Administration. In 1997, he became head of the Risk Management Department of Raiffeisenbank in the Czech Republic, and was appointed member of its Managing Board in 1999. In 2000, Michael Grahammer returned to Vorarlberg and was appointed Regional Director of Commercial Business at Erste Bank der Österreichischen Sparkassen AG. In 2001 he joined Hypo Landesbank Vorarlberg where he headed the Leasing Department.

What can be expected from Hypo Landesbank Vorarlberg in 2015?
Basically, I see the further development of our Bank in 2015 with confidence. Despite numerous uncertainty factors, the first few months have been generally satisfactory in our core business. We are, however, planning further investments to ensure profitability. As Vienna has become our second core market, we are expanding our location there. In 2014, the Bank also successfully launched services for capital market financing for businesses. This business area will be expanded to better support customers in the placement of promissory note loans and bonds. With no exceptional market turbulence, unexpectedly weak economic development or unforeseeable tightening of regulatory requirements, we expect satisfactory results in 2015.

What measures will you take to continue to be a profitable bank?
The conditions for banking are changing and bring new challenges. The increased pressure on earnings through years of low interest rates, greatly increased regulatory input and changing customer behaviour through greater use of online banking is currently shaping our environment. To keep rising costs (in part due to new regulatory measures) under control and to make processes more efficient, we regularly implement rationalisation projects. These developments have made it difficult to maintain small branches and many banks are being forced to implement branch closings to reduce costs. Hypo Landesbank Vorarlberg remains committed to its branches as important distribution channels, however, in 2014, the branch in Mittelberg was closed and in spring 2015, the branch in Gaschurn will also be closed. In both regions, another branch is available and we will remain close to customers to ensure direct contact and advisory services in the future.

Today, banking requires a great deal of flexibility and we have offered that through the online savings platform hypodirekt.at since 2012. Due to changing customer needs and new technologies, online banking is becoming more and more important, therefore significant investments will be made in this area in the next few years.

QUALITY IN THE FOREGROUND

HYPO LANDESBANK VORARLBERG INTERVIEW WITH JOHANNES HEFEL

Curriculum Vitae of Johannes Hefel
Johannes Hefel (57) has been a member of the Board of Hypo Landesbank Vorarlberg since 1997. His responsibilities include the departments Private Customer Sales, Private Banking, Wealth Management, Asset Management, Logistics and Marketing. He previously worked as a financial analyst and asset manager in Liechtenstein and Frankfurt (Main) for several years. In 1990, he went to the Management Zentrum, St. Gallen (MZSG) as business consultant and management trainer and, beginning in 1993, worked independently in this field for five years. He then returned to Vorarlberg as a member of the Managing Board at Hypo Landesbank Vorarlberg. In 1982, he concluded his business management studies at Leopold-Franzens-University in Innsbruck with a Master's degree and three years later received a doctoral degree in economic and social sciences.

How did the Private Customers segment at Hypo Landesbank Vorarlberg run in 2014?
Conditions such as the extremely low interest rate, the immense regulatory burden, high bank density and changing customer behaviour toward more online banking, have made the environment for the entire banking industry in the Private Customers segment challenging and we also experienced this. We are therefore even more pleased that the Private Customers segment, in spite of these aggravating conditions, posted a positive result in earnings before taxes (after the solidarity contribution) of EUR 6.1 million.

We especially succeeded in strengthening our position as the leading residential construction bank in Vorarlberg. In 2014, we had the highest demand for long-term financing in the Bank's history, most notably in the areas of creating living space and renovation. In the private banking segment we granted 1,600 long-term loans with a volume of almost EUR 240 million. While borrowers appreciated the low interest rates, conservative investment business was difficult. There was strong demand for short-term investments and asset management strategies with capital preservation. As before, customers were comfortable investing in real assets such as real estate.

How important is the private banking business?
Private banking is an essential part of our business. In addition to the traditional business of the Bank, corporate and residential financing, we are also well-positioned as an investment bank and our innovative asset management strategies have drawn notice. Our core competency in this segment is the professional, long-term supportive consultation we offer to customers and an innovative, sustainable product range. Thanks to our solid foundation, we are seen as a strong partner with great integrity and customers throughout Austria feel confident investing with us. Our products and innovative approach have not only convinced customers but also the jury at the "Fuchsbriefe". In addition, the "Elite Report" has again awarded our Bank the highest rating "summa cum laude" for 2015.

What is your response to the current challenging market scenario in investment advisory?
We respond to the desire of our customers to protect their assets in real terms. Therefore we are reacting to the current financial market situation with the classic investment response, namely, Absolute Return in every situation. Our asset management has developed an Absolute Return strategy especially to preserve purchasing power. Our new Hypo Portfolio Fonds Absolute Return has the potential to offer a gross return of 5% p.a. with a volatility of less than 5% over a 5 year rolling period. Broad diversification and a stable hedging strategy ensure the robustness of the portfolio.

You also advise institutional investors. What products and services are in demand?
Institutional investors are still investing primarily in fixed income securities and liquid assets. Because of the current higher price gains on bonds due to falling interest rates, investors are able to achieve expected returns, although this will certainly be more difficult in the future. That is why new approaches are required. Intelligent and innovative solutions that are ensured by means of a quantitative approach with reasonable risk-return profiles are increasingly in demand. Furthermore, institutional investors want to know exactly how they are investing and what risks they are taking, therefore, transparency is a top priority.

In 2014, the wealth management segment was formed. How has it developed so far?
Our strong foundation in private banking allowed us to invest further in this top segment of investment business, wealth management. Last year we enlarged the teams in Vorarlberg and Vienna and exceeded the targets we set for 2014. This has led to a change in infrastructure. We are currently working hard on new premises in Vienna. The move to the architecturally significant Zacherlhaus, just a few steps from Stephansplatz, will take place in the second half of 2015. This move will both provide a clear signal of our continuing growth in the Vienna market and also provide the right conditions for further expansion in corporate and retail banking as well as in private banking.

What were your motives for pursuing growth in the Vienna market?
We see the opportunity to use the excellent position of Hypo Landesbank Vorarlberg as a successful, regionally-based and innovative bank to gain high-net worth individuals, professionals, entrepreneurs, foundations and institutional clients in the greater Vienna and surrounding areas as customers. Our existing excellent network in Vienna and our many years of experience in private banking are a solid foundation for achieving our goals there.

What measures is the Bank taking to retain the trust of its customers in the future?
Current developments in the banking industry naturally pose major challenges. With individualised consultation, the quality of our services and our sustainable business model, we want to convince our customers of our reliability also in the future. Building on these down-to-earth values, close long-term and trusting relationships between clients and consultants arise. Absolute reliability, strong awareness of cost and quality as well as trustworthiness are a matter of course for Hypo Landesbank Vorarlberg. We rely on our more than 700 employees who live our motto "Passionate. Sound. Advice." and practice these values in their day-to-day activities.

DOING THE RIGHT THING

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHEL HALLER

Curriculum Vitae of Michel Haller
Michel Haller (43) was appointed third member of the Board of Hypo Landesbank Vorarlberg in 2012. His responsibilities include the departments Credit Management for Corporate and Private Customers, Overall Bank Risk Management, Legal, Compliance, Auditing, Fund Services, Securities Settlement as well as Real Estate and Risk Management for Hypo Italy. He worked at Hypo Landesbank Vorarlberg from 1995 to 2002, first in the Corporate Customers department and then from 1998 in Treasury, where he headed the Asset Management group. He was also head of Hypo-Kapitalanlage Ges.m.b.H. for two years. In 2002 he became a member of the Board of the Sparkasse Bregenz. Michel Haller was born in Vorarlberg and studied Business Administration and Law at the Leopold-Franzens-University in Innsbruck where he received his Master's degree in 1994.

How do you view 2014 for Hypo Landesbank Vorarlberg in your role as head of Risk Management?
As before, the Managing Board has attached great importance to a very risk-conscious lending and business policy. Hypo Landesbank Vorarlberg only enters into risks that it can manage on its own and concentrates on business areas whose mechanism and rules it understands. This has proven to be an important factor in the sustained success of our bank. Sufficient provisions were made in 2014 for all recognisable risks. Cautious assumptions of value adjustments by HETA led to an almost doubling of risk provisions compared to last year. Apart from this, risk costs at Hypo Landesbank Vorarlberg are at a low level: Following Basel III guidelines, 2.58% of our total loans were non-performing. A prerequisite for the high quality of our loan portfolio is, in addition to professional risk analysis, the ongoing monitoring of collateral to guarantee value.

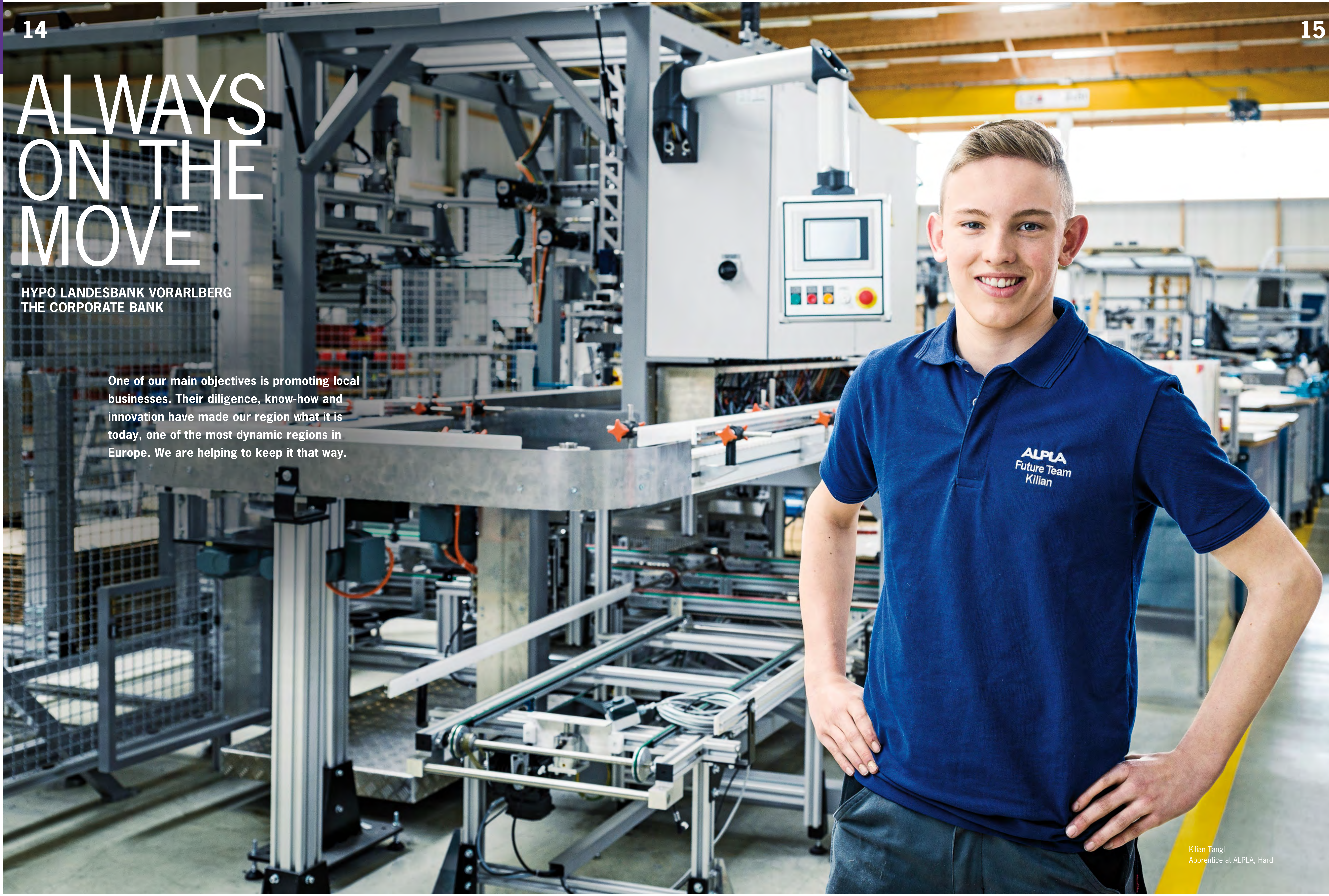
What measures have you taken to address rising costs and declining income?
The previous financial year clearly affirms that we are on the right track with our sustainable business model and our strong focus on customer business. Nevertheless, we find ourselves in a challenging environment. In 2014, we were able to increase net interest income, however results from net fee and commission income declined. At the same time we are confronted with rising costs due to the implementation of new regulatory measures. To counter these developments, it is essential to the Managing Board, that the corporate structure is as lean as possible and to shape processes and work flows more efficient. This will ensure the reasonably constant development of administrative expenses and the necessary operational fitness. Rising costs have unfortunately forced us to impose corresponding increases for instance in credit conditions.

What are the effects of the change from Basel II to Basel III?
The new standards from Basel III, among other things, tightened the capital adequacy requirements. A distinction is now made between "hard" (Core Equity Tier 1) and "additional" (Additional Tier 1) core capital which should help banks cushion losses better. Until the end of 2013, calculation of capital ratios was carried out according to BWG standards, since the beginning of 2014 capital requirements now adhere to CRR guidelines. Therefore the values from 2013 and 2014 are not directly comparable. Our debt/equity ratio was 13.27% and our core capital ratio was 9.82% as at 31 December 2014. The decline from the previous year is attributable to both the change in calculation methodology as well as risk provisions for HETA. Attributable capital resources of Hypo Landesbank Vorarlberg amounted to almost EUR 1.1 billion. Following regulatory guidelines, the equity surplus is currently EUR 433 million and thus brings extra security for our customers.

What are the additional responsibilities in wake of new regulatory agreements?
In addition to tightening the capital adequacy requirements, a leverage ratio was implemented, which should protect the banking sector from excessive debt. Currently, a minimum leverage ratio of 3.0% has been set by the Basel committee as a guideline. According to estimates, we will achieve a value of 5.1%. The Liquidity Coverage Ratio (LCR) refers to short-term liquidity and a minimum value of 100% is required. Hypo Landesbank Vorarlberg will far exceed this value. In addition, the structural liquidity ratio (NSFR) was established which refers to a longer time frame. In our estimation this will have a valuation between 1.2 and 1.4. Although some of the Basel III standards do not become compulsory until 2018, we already meet all known requirements and are in some cases significantly higher. With our core capital and liquidity ratio, we want to remain among the best banks in Austria, therefore we attach great importance to the sustainable strengthening of our capital base.

Today, sustainability is of more importance than ever in every way. How does Hypo Landesbank Vorarlberg put this into practice?
Only through a sustainable business policy the long-term success of our bank can be ensured. Our highest priority is the profitability of the Bank. In addition to social aspects, such as our employees and social surroundings, environmental sustainability is becoming increasingly important. We try to meet our ecological responsibilities with the products that we offer, for instance with Hypo-Klima-Kredit, which supports energy saving investment in residential construction. Highest priority has been given to reducing or preventing environmental impact through more energy efficiency and better use of resources.

Why is the Bank becoming more involved in climate protection?
Because of our strong roots in our home market of Vorarlberg, we consider taking responsibility for our region and its people an important duty – in every way. In 2014, several of the major Vorarlberg companies decided to work together to highlight and make a contribution to finding a solution to the global problem of climate change. The "Klimaneutralitätsbündnis 2025" was presented in January. The goal of this alliance is to achieve climate neutrality in the participating companies by 2025 through responsible handling and conservative use of resources. We have voluntarily committed to a considerable contribution to the maintenance of a liveable environment. Meeting the requirements of the alliance will be very demanding and new investments, for instance in the branch offices, will follow energy conservation guidelines.



ALWAYS ON THE MOVE

**HYPO LANDESBANK VORARLBERG
THE CORPORATE BANK**

One of our main objectives is promoting local businesses. Their diligence, know-how and innovation have made our region what it is today, one of the most dynamic regions in Europe. We are helping to keep it that way.

Kilian Tangl
Apprentice at ALPLA, Hard

ORGANISATIONAL CHART

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Managing Board

Div Corporate Customers
Michael Grahammer, CEO

Corporate Customers Sales
Karl-Heinz Rossmann
- Branch Office for Corporate Customers
- International Services
- Syndication / Structured Finance
- Application Management / E-Banking

Corporate Customers Vienna
Roswitha Klein

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

Human Resources
Egon Helbok

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

Participation Administration
Emmerich Schneider

Hypo Vorarlberg Leasing, Italy
Michael Meyer
- Sales

Hypo Immobilien & Leasing GmbH
Peter Scholz
Wolfgang Bösch

Hypo Versicherungsmakler GmbH
Manfred Bösch
Christoph Brunner

Communication
Sabine Nigsch

St. Gallen Branch Office
Dieter Wildauer, RM
Thomas Reich

Div Private Customers/Private Banking
Johannes Hefel

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

Private Customers Vienna | Mobile Sales Unit
Roswitha Klein

Wealth Management
Beatrice Schobesberger
- Vienna
- Bregenz

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

Logistics
Johann Berchtold
- Information Technology
- Organisation
- Payment Transactions
- Facility and Materials Administration

Marketing
Angelika Rimmele
Karoline Walch
- Marketing Management
- Advertising
- Marketing Controlling

Div Risk Management
Michel Haller

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

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

Group Risk Controlling
Markus Seeger

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

Compliance
Reinhard Kaindl

Corporate and Internal Audit
German Kohler

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

Alexander Ploner
- Real estate

Fonds Service
Florian Gorbach

Securities Settlement
Nora Frischherz

Compliance
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

Vienna Branch Office
Roswitha Klein, RM
Kerstin Forgacs, HPC
Beatrice Schobesberger, HPB / HWM
Tatyana Blaschek, CEE
Mobile Sales Unit
Lothar Mayer

Graz Branch Office
Horst Lang, RM
Dieter Rafler, BM

Wels Branch Office
Friedrich Hörtenhuber, RM
Iris Häuserer, BM

Bludenz Branch Office
Christian Vonach, BOH
Walter Hartmann, BM

Feldkirch Branch Office
Gerold Kaufmann, BOH
Martin Schieder, BM

Götzis Branch Office
Wolfgang Fend, BM

Hohenems Branch Office
Andreas Fend, BOH

Lustenau Branch Office
Graham Fitz, BOH
Helgar Helbok, BM

Höchst Branch Office
Erich Fitz, BM

Bregenz Private Customers Branch Office
Christian Brun, BOH

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

Bregenz Wealth Management
Stefan Schmitt, HPB

Financial Intermediaries
Christoph Schwaninger

Hard Branch Office
Manfred Wolff, BM

Lauterach Branch Office
Karl-Heinz Ritter, BM

Dornbirn Branch Office
Richard Karlinger, BOH
Egon Gunz, BM

LKH-Feldkirch Branch Office
Stefan Kreiner, BM

Rankweil Branch Office
Günter Abbrederis, BM

Egg Branch Office
Stefan Ritter, BM

Riezlern Branch Office
Artur Klauser, BOH + HPB
Heinrich Denninger, HCS

Schruns Branch Office
Hannes Bodenlenz, BM

Lech Branch Office
Reinhard Zangerl, BOH + BM
Egon Smodic, HPB

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

Private Customers
Raymond Plankel

Private Banking
Stephan Bohle

Vorkloster
Udo Seidl, BM

Key Account Management
Rainer Terwart

Corporate Customers Branch Office Germany
Markus Schmid

Messepark
Stephan Spies, BM

Div Division
RM Regional Manager
BOH Branch Office Head
BM Branch Manager Private Customers
HPB Head of Private Banking
HPC Head of Private Customer Services
CEE Head of Central Eastern Europe
HCS Head of Corporate Services
HWM Head of Wealth Management

EXECUTIVE BOARDS

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

MANAGING BOARD

Michael Grahammer
Chairman of the Managing Board, Dornbirn

Johannes Hefel
Member of the Managing Board, Schwarzach

Michel Haller
Member of the Managing Board, Tettnang

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz (Chairman since 1 May 2014; Deputy Chairman until 30 April 2014)

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn (Deputy Chairman since 1 May 2014; Chairman until 30 April 2014)

Friedrich Amann
Entrepreneur (retired), Fraxern

Christian Brand
Chairman of the Managing Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (retired), Ettlingen (until 20 May 2014)

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau

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

Christian Konzett
Lawyer, Bludenz

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis
Member of the Managing Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Ettlingen (since 21 May 2014)

Bernhard Egger
Works Council delegate

Bernhard Köb
Works Council delegate

Elmar Köck
Works Council delegate

Veronika Moosbrugger
Works Council delegate

Cornelia Vonach
Works Council delegate

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

Audit and risk committee

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Friedrich Amann
Karl Fenkart
Elmar Köck
Veronika Moosbrugger

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Jodok Simma, Chairman
Alfred Geismayr, Deputy Chairman
Friedrich Amann
Karl Fenkart
Michael Horn
Bernhard Egger
Veronika Moosbrugger

Remuneration and nomination committee

Alfred Geismayr, Chairman
Jodok Simma, Deputy Chairman
Christian Brand (until 20 May 2014)
Karl Fenkart
Nicolas Stieger
Ulrich Theileis (since 21 May 2014)
Bernhard Egger
Veronika Moosbrugger

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Gabriele Petschinger

Josef Nickerl
Deputy

ESCROW AGENTS

Heinz Bildstein
President of the State Court, Feldkirch

Helmut Schamp
Deputy, Federal Ministry of Finance, Vienna

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Karin Sonnenmoser
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Delegate of Administrative Board of POLYGENA-Group, Altstätten

Eduard Tschofen
Chartered Accountant, Feldkirch

Anselm van der Linde
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Landesbank Baden-Württemberg, Königstein

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Managing Director, Walser Fashion & Lifestyle GmbH, Dornbirn

VALUES THAT REMAIN

HYPO LANDESBANK VORARLBERG
THE RESIDENTIAL BANK

Your own home is a fundamental need. By supporting the creation of living space, we provide security for people. This is why we are here: as a professional, solution-oriented partner with trustworthiness and the knowledge for individual opportunities.

Tobias Behrens
Behrens Fassade & Dach, Weiler

KEEPING EYES OPEN

HYPO LANDESBANK VORARLBERG ECONOMIC ENVIRONMENT

Global economy and euro zone
Alongside the four major economies in the euro zone, Great Britain was also on a path of expansion from the beginning of the year. The US economy initially suffered from weak exports and the severe winter, but surprised later in the year with higher-than-forecast growth rates. The labour market of the world's biggest economy recovered to such an extent that the bond-buying programme (quantitative easing) was discontinued already in autumn. In Japan, the pace of growth was slowed by a hike in VAT. In a countermove, the Bank of Japan made additional cash injections in the fourth quarter of 2014. In light of a deteriorating economic situation and weak, fragmented opposition, Prime Minister Abe seized the opportunity to hold elections, which he went on to win by promising to reduce government debt.

The major influence of the central banks was confirmed in 2014. The US Federal Reserve (US Fed) took a less offensive stance with its monetary policy and further reduced its stimulus programme – unlike the European Central Bank (ECB) – by curtailing its bond-buying. In contrast, the zero-interest rates remained untouched until further notice. The ECB cut the key interest rates in two stages to an historic low. For the first time in the euro's existence, banks are now paying penalty interest on their deposits with the ECB. Owing to the low inflation rates, the ECB kept the option of further measures open in order to prevent Europe from slipping into deflation. From February of this year, the conflicts in Ukraine, the Crimean Peninsula and the Middle East took centre stage. The Ukraine crisis and the associated sanctions adversely affected the Russian economy, but also Germany as the largest economy in the euro zone. The Ifo Business Climate Index, which indicates how the German economy is to develop, therefore registered a number of setbacks in the second half of 2014.

Austria
After lively development in the second half of 2013, economic momentum in Austria slowed down again in 2014. While GDP growth in the first two quarters of 2014 was 0.9% and 0.5% respectively, it stagnated in the third quarter. Leading indicators had already signalled a decline; overall, real economic growth reached just 0.3% in 2014. According to a forecast by the Austrian Economic Chambers, economic growth is likely to pick up again slowly, but no radical improvement will emerge before spring 2015. Although there were slight increases in private consumption in Austria in 2014, these fell short of the development of average propensity to spend in the euro zone. Among other things, this was due to the considerably higher rates of inflation. According to Statistik Austria (Austrian Statistical Office), while the domestic inflation rate was ust 1.7% in 2014 (2013: 2.0%), this was relatively high compared to the rest of Europe – approximately 1.0% higher on average than the euro zone as a whole. The strongest price pushes came from the residential, catering and food sectors, while the clearest price declines related to fuel.

Despite the low GDP growth and dimmed prospects, the ambivalent development recently observed on the labour market is likely to continue. Although employment is expected to rise, unemployment will continue to grow due to a sharp increase in the supply of labour. After a 0.6% increase in the unemployment rate (by the national definition) to 7.6% in 2013, the Austrian Institute of Economic Research (WIFO) forecasts 8.4% for the end of 2014, a figure which will rise even further in the years to come.

The net saving rate of Austrian households was low once again. According to a forecast by the Austrian National Bank (OeNB), it fell from 7.3% in the previous year to 6.8% in 2014, while the long-term average was just under 10.0%. Reasons for this are lower real disposable income, continued investment in construction, real estate or articles of value as well as increased consumption.

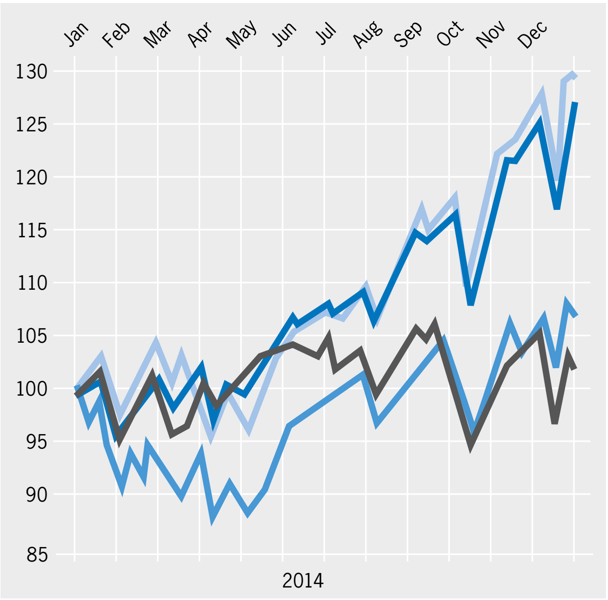
According to Statistik Austria, Austria's public debt was 80.7% of GDP at the end of the third quarter of 2014 (2013: 81.2%) and thus considerably lower than the euro zone average (94.7%).

The level of debt also includes the former Hypo Alpe-Adria-Bank International AG's wind-down company HETA Asset Resolution AG (HETA). The planned HETA sales are expected to reduce overall debt in subsequent years.

Vorarlberg
The results of a recent economic survey reveal that Vorarlberg is heavily dependent on global developments as a strong export state. The business climate index – an average of the current business situation and expectations for six months – improved slightly in the fourth quarter of 2014 compared to the previous year, rising from 19 to 23.3 percentage points. The assessment of the current business situation has deteriorated slightly, but remains at a stable, modestly positive level. 32% of the businesses surveyed rate current business conditions as good, 11% rate them as poor. The outlook for the next half of the year is more positive: 32% of the companies expect business conditions to be more favourable in six months, 62% anticipate an unchanged situation. Only 6% expect unfavourable development in the next half of the year.

The positive sentiment is mainly attributable to continuingly successful export activity in the Vorarlberg economy. Although pressure on prices is intensifying continuously – 42% of companies anticipate falling selling prices in three months – the current earnings situation was rated as good by 47%. All the same, 45% of the companies spoke of an average earnings situation and only 8% of a poor one. Looking ahead to the next six months, 80% expected earnings to remain constant. 42 firms with a total of 19,368 employees took part in the survey, which is carried out quarterly by the industrial division of the Vorarlberg Chamber of Commerce and the Industriellenvereinigung (an industrial association).

Stock exchanges and emerging markets
The development of the stock markets sometimes resembled a rollercoaster ride over the course of 2014. In the second half of the year, a negative impact was made by weaker economic data outside the USA. The military conflicts in the Middle East and Ukraine remain unresolved, but the stock markets repeatedly recovered from price knockbacks. At the start of the fourth quarter, investors' concerns about global economic development intensified. This resulted in a severe global price correction. Despite the high volatility, many investors flocked back to the stock market, especially because of the low potential returns of low-risk alternative investments. Over the year as a whole, the US stock market indices were among the most successful and since January recorded double-digit gains to reach all-time highs. The European leading indices registered only moderate price increases over the course of the year. Certain European indices – including the Viennese ATX – did not return to the level they were at the beginning of the year. Some stock markets of emerging economies (e.g. India and China) reported back with significant price gains.



Development of selected stock indices in 2014 (in EUR)

Nasdaq Composite, S&P 500, DJ Stoxx 50, Nikkei 225

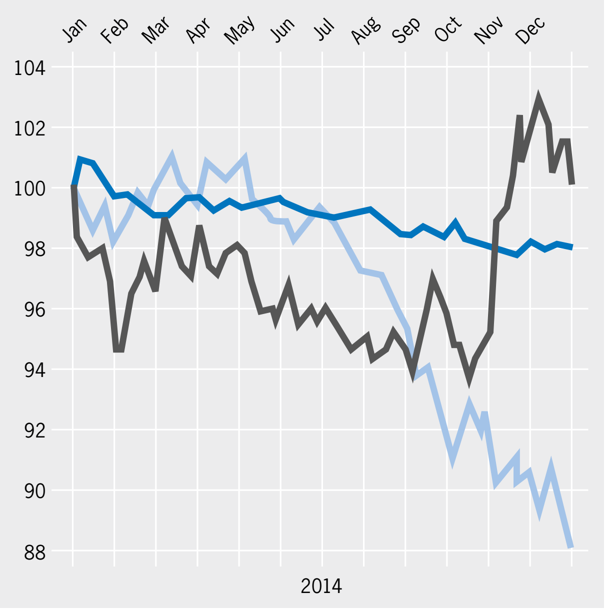
Interest markets

To the surprise of many market participants, the bond markets again made a sharp upward move in the past year. Here, too, the unresolved Ukraine crisis and concerns about global economic development repeatedly drove the German Bund Future to new highs. This depressed the returns on 10-year German government bonds down to 0.6% over the course of the year. The emerging economy and high-yield bond indices developed positively until the summer, but towards the end of the year they slid back close to where they started because of increasing risk. At the end of 2014, Greece hit the headlines again because the political situation remained problematic – even after the elections. Greek government bonds price in the considerable probability that negotiations with the EU and ECB will fail and that there will be a new debt haircut. Until a final decision is made, Greece's bond markets are likely to remain volatile.

Raw materials and currencies

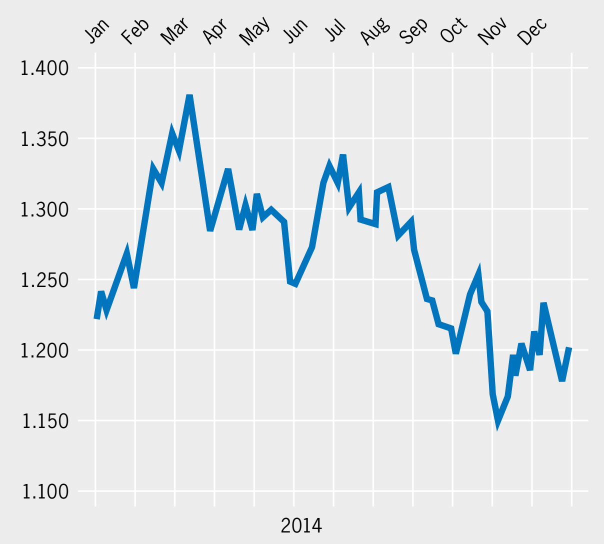
In the commodities market, there was a more positive start to the year in 2014 than in the previous year. The precious metal gold was back in demand as a crisis currency as the Ukraine crisis escalated. However, the base metals did not react to the economic recovery as hoped. The strong US dollar and the modest economic outlook for China and the euro zone hit demand for economically sensitive base metals and energy resources. The drop in the crude oil price excited particular attention. OPEC kept oil production unchanged, which was not in the interests of emerging economies dependent on oil exports. The additional supply generated by fracking in the USA reduced the US economy's need for imports.

Last year, the euro single currency depreciated against numerous other currencies, in some cases drastically. There was even a double-digit loss against the US dollar. With regard to the exchange rate with the Swiss franc, the 1.20 mark was tested for a time. On 15 January 2015, the Swiss National Bank (SNB) created turmoil by unexpectedly cancel the minimum rate of 1.20 francs per euro. The SNB justified this move primarily by pointing to the differences in the monetary policies of the major currency areas. It is as yet unclear what the future price level will be.



Euro in comparison to CHF, JPY and USD 2014

USD, CHF, JPY



Development of gold price in 2014

Gold (per ounce)

THE AUSTRIAN BANKING SECTOR IN 2014

As of the end of the first half of 2014, consolidated total assets of Austrian banks amounted to EUR 1,072 billion, which represents a decline of EUR 18 billion compared to the fourth quarter of 2013 (EUR 1,090 billion).

The difficult environment for European banks, which are still faced with weak economic growth, low profitability, higher credit risk provisions and low interest rates, is also reflected in the performance of the domestic banking sector. The consolidated result of Austria's banks in the first half of the year was negative at minus EUR 0.6 billion. This is a decline of EUR 1.7 billion compared to the first half of 2013. The weak performance of domestic banks is primarily attributable to the effects of persistently low interest rates.

Among other things, high expenses connected to the planned sale of foreign subsidiary banks of Hypo Alpe Adria also made a negative impact. Not including the HETA loss, consolidated earnings would have been EUR 1.08 billion after two quarters. Other adverse effects for the domestic banking sector cannot be ruled out.

In recent years, the traditional business model of Austrian banks, which is increasingly focused on the lending and deposits business, has proved to be a stabilising factor. However, the Austrian saving rate has fallen continuously in the last few years. While the saving rate was still 7.3% of nominally disposable household income in 2013, the OeNB forcasts it to fall to 6.8% in 2014. The saving rate is expected to increase again slightly in the years to come. Low interest rates also affected the growth in deposits made by Austrian non-banks at Austrian banks in 2014. At approximately EUR 360 billion, total deposits at domestic banks were roughly on a par with the first half of 2013 (+ 0.9%). The trend towards overnight deposits continued.

Foreign currency loans to private households and non-financial companies in Austria have declined continuously since autumn 2008. With a decline of 43% since 2008, the FMA's initiative is making a significant impact. At the end of August 2014, outstanding foreign currency loans (predominantly in Swiss francs) amounted to EUR 39 billion at domestic non-banks, which equates to 12% of all loans.

Own resources of Austrian banks have improved continually since 2008 as a result of private and government measures to boost capital and reduced RWAs. Despite the improvement in the debt/equity situation, Austrian banks remain undercapitalised when compared to the rest of Europe. In the OeNB's view, Austria's banks need to continue accumulating capital, especially with regard to their risk profile (e.g. portfolio of foreign currency loans, exposure in Eastern European nations, etc.). In June 2014, the solvency ratio averaged 15.6% and the core capital ratio was 11.9%. However, it should be noted that Austrian banks have a better leverage ratio than their international peers because of their more traditional business model.

Results of operations of Austrian banks
(Source: OeNB)

EUR billion	1.– 4. quarter 2014*	Change in%	1.– 4. quarter 2013	1.– 4. quarter 2012
Net interest income	9.32	5.7%	8.81	8.81
Operating profit	6.04	–1.5%	6.13	6.92
Expected earnings from ordinary activities	–0.17	63.8%	–0.46	4.37

* Expected values for financial year 2014

A GOOD BALANCE

STABLE BUSINESS PERFORMANCE IN 2014

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft (referred to as Hypo Landesbank Vorarlberg for short) can report a good earnings situation in the Group for the 2014 financial year. Consolidated net income was driven by ongoing and stable customer business, a healthy credit portfolio and years of consistent cost management.

Group earnings before taxes amounted to EUR 54.0 million in the 2014 financial year (2013: EUR 96.1 million), and consolidated net income was EUR 41.3 million (2013: EUR 74.5 million). The large year-on-year change is due to Hypo Landesbank Vorarlberg's cautious provision policy. For the existing receivables from HETA – including the liquidity expected to be made available for Pfandbriefbank (Österreich) AG – corresponding valuation allowances and provisions have already been recognised in the 2014 annual financial statements. For further details, please see "Events of material importance after the reporting date".

Hypo Landesbank Vorarlberg has always pursued conservative accounting policies and did not change its measurement principles in 2014. The Managing Board has attached great importance to a risk-aware lending and business policy for many years. This principle is proving – particularly in times of increasing uncertainty and changed risk profiles – to be a major factor in ensuring the long-term success of Hypo Landesbank Vorarlberg.

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

in '000 EUR	2014	Change in%	2013	2012
Net interest income	177,414	3.1%	172,138	177,245
Net interest income after loan loss provisions	95,719*	–26.4%	130,092	142,285
Net fee and commission income	35,624	–3.6%	36,956	37,588
Administrative expenses	–92,101	1.0%	–91,172	–88,228
Operating result before change in own credit risk	54,278*	–42.8%	94,908	176,301
Earnings before taxes	**53,979***	**–43.9%**	**96,134**	**173,700**
Consolidated net income	41,253*	–44.6%	74,492	132,114

*including risk provisioning for the anticipated creditor haircut at HETA

HIGHS AND LOWS

Net interest income
in '000 EUR

Interest-related business made a material contribution to the Group's annual earnings. The increase in loans and advances to customers from EUR 8,485.3 million to EUR 8,954.4 million (+ 5.5%) is also reflected in the positive development of net interest income, which is a success considering the persistent phase of low interest rates. Net interest income was increased by 3.1% year on year and amounted to EUR 177.4 million in the 2014 financial year (2013: EUR 172.1 million).

Loan loss provisions

Hypo Landesbank Vorarlberg only takes on risk that it can manage on its own and focusses on business areas whose mechanisms and rules it understands. Sufficient provisions were made for all recognisable risks in 2014. Loan loss provisions nearly doubled from EUR 42.0 million in the previous year to EUR 81.7 million because of the very cautious assumptions for the expected valuation allowances at HETA. Besides this, risk costs at Hypo Landesbank Vorarlberg are at a low level when compared with the Bank's competitors.

Net fee and commission income
in '000 EUR

Net fee and commission income for the 2014 financial year was EUR 35.6 million, 3.6% lower than in the previous year (2013: EUR 37.0 million). The change is primarily attributable to outsourcing fund accounting from Hypo Landesbank Vorarlberg in the third quarter of 2014, which meant that income was only earned for around three quarters. In business with corporate customers, net fee and commission income was increased slightly year on year. Alongside securities commission, this item also includes fee and commission income from payment transactions, trading in currencies and precious metals, and from lending business.

Net trading result

Hypo Landesbank Vorarlberg maintains a small trading portfolio per Art. 94 CRR with a focus on customer service. The Bank has no proprietary trading operations other than this. The net trading result includes the result of the valuation of derivatives and amounts to EUR 30.6 million in the 2014 financial year (2013: EUR 22.9 million).

Result from other financial instruments

The result from other financial instruments fell to EUR 1.1 million in 2014 (2013: EUR 3.9 million). Other operating income remained at the previous year's level at EUR 16.6 million (2013: EUR 16.6 million).

Administrative expenses
in '000 EUR

Total administrative expenses at Hypo Landesbank Vorarlberg increased to EUR 92.1 million in the year under review (2013: EUR 91.2 million). In order to counter rising costs – due, among other things, to the implementation of new regulatory measures – the Managing Board is paying particular attention to making corporate structures as lean and processes and work flows as efficient as possible. Rationalisation projects such as functional and process analyses are therefore carried out at regular intervals, as was also the case in 2014. These projects contribute to consistently good key return figures by improving productivity and profitability on an ongoing basis. This ensures a reasonably constant development of administrative expenses and the necessary operating strength – even in a challenging political and economic environment.

The Group's staff costs rose by 4.5% to EUR 57.0 million in 2014 (2013: EUR 54.5 million). One reason for this was the reduction of the interest rate from 3% to 2% for personnel provisions. Wages and salaries increased by 5.2% year on year to EUR 42.3 million (2013: EUR 40.2 million). The Group headcount fell from 724 to 723 employees (annual average weighted by employees' activity rate).

Material expenses fell 3.8% year on year from EUR 32.0 million to EUR 30.8 million. The decline compared to 2013 is primarily attributable to outsourcing fund accounting in the third quarter of 2014, which reduced IT expenses.

Proposed distribution of profits

The net profit posted by Hypo Landesbank Vorarlberg for financial year 2014 was EUR 33.0 million according to the Austrian Banking Act (BWG) (2013: EUR 59.9 million). After the allocation to reserves, accumulated profits available for appropriation totalled EUR 5.0 million (2013: EUR 5.0 million). Subject to approval by the shareholders' meeting, a divided of EUR 10 is proposed per entitled share based on the share capital of EUR 156.5 million. The total dividend distribution will therefore be EUR 3.1 million (2013: EUR 3.1 million) for 305,605 shares. For the participation capital issued in 2008, profits are distributed on the basis of an agreed variable interest rate.

Key management indicators in %

	2014	Change in %	2013	2012
Return on Equity (ROE)	6.45%	–48.1%	12.41%	29.72%
Cost-Income-Ratio (CIR)	49.42%	0.5%	49.20%	45.85%
Total capital ratio	13.27%	–13.9%	15.42%	15.02%
Tier 1 capital ratio	9.82%	–5.0%	10.34%	9.32%

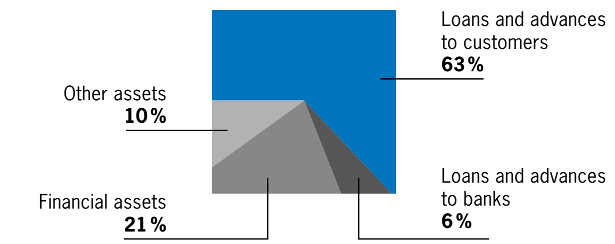
The transition from Basel II to Basel III has tightened capital requirements. Capital ratios were calculated according to BWG until 2013 and according to CRR from the start of 2014, so the figures for 2014 are not directly comparable with those of the previous year. Because of the different type of calculation on one hand and the cautious risk provisioning for HETA on the other, the total capital ratio of Hypo Landesbank Vorarlberg fell from 15.42% in 2013 to 13.27% as of 31 December 2014 and the Tier 1 capital ratio declined to 9.82% (2013: 10.34%).

Hypo Landesbank Vorarlberg therefore continues to exceed statutory requirements, but the Managing Board still attaches great importance to increasing the capital ratios. Return on equity (ROE) before taxes amounted to 6.45% (2013: 12.41%). At the end of the year under review, the Bank's cost/income ratio was 49.42% (2013: 49.20%), once again emphasising Hypo Landesbank Vorarlberg's high efficiency and productivity.

CHANGES IN THE GROUP'S NET ASSETS AND FINANCIAL POSITION

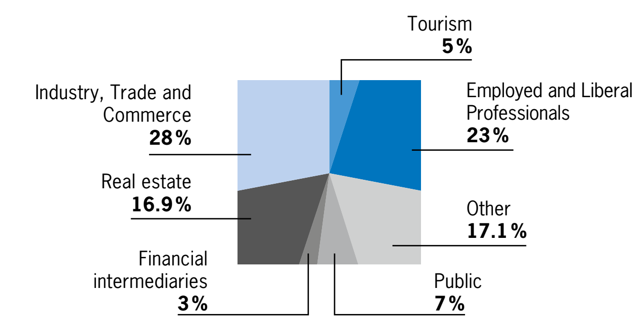
As at 31 December 2014, Hypo Landesbank Vorarlberg's total consolidated assets amounted to EUR 14.2 billion (2013: EUR 14.1 billion). On the liabilities side, customer business declined slightly, whereas the lending business with customers increased on the assets side. The following presents key items broken down into balance sheet assets and liabilities.

Balance sheet assets



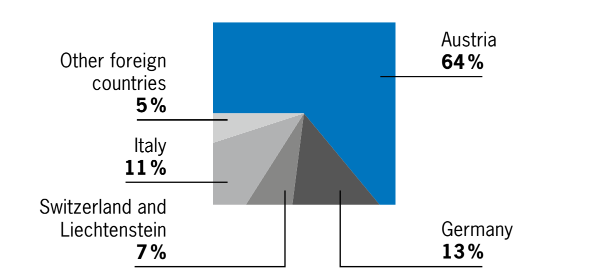
Loans and advances to banks fell by 20.7% to EUR 883.3 million due to reallocations in 2014, compared to EUR 1,114 million in the previous year. By contrast, loans and advances to customers increased from EUR 8,485.3 million to EUR 8,954.4 million, which is a plus of 5.5% on 2013. Financial assets in the form of securities declined by 5.7% to EUR 2,958.9 million compared to 2013 (2013: EUR 3,137.2 million).

Loans and advances to customers – breakdown by industry

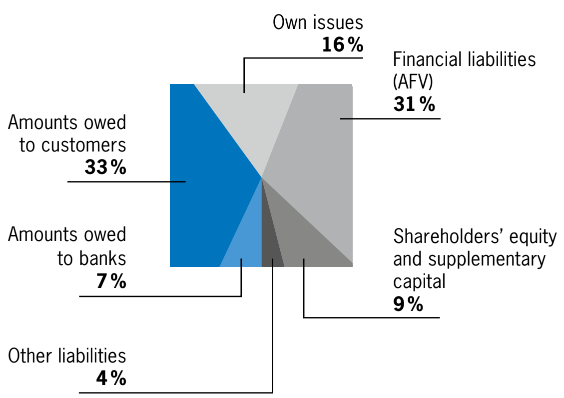


A decline was posted in loans and advances to customers in other industries, whereas strong construction activity in the Bank's core markets contributed to an increase in loans and advances in residential construction. Loans and advances to the public sector also increased year on year.

Loans and advances to customers – breakdown by region

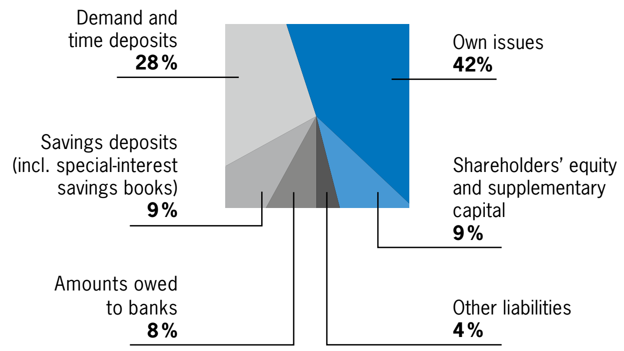


Balance sheet liabilities



Because of reallocations in 2014, liabilities to banks recorded growth of 49.3% to EUR 1,026.9 million (2013: EUR 688.0 million). Total liabilities to customers fell to EUR 4,662.8 million year on year (2013: EUR 4,815.7 million). Savings deposits were also down in 2014, falling 7.1% from EUR 1,325.7 million to EUR 1,231.4 million. Liabilities evidenced by certificates increased by 22.1% to EUR 2,313.8 million (2013: EUR 1,894.6 million), while AFV liabilities fell 14.1% to EUR 4,403.2 million. The balance sheet item shareholders' equity increased by 4.7% year on year to EUR 886.9 million (2013: EUR 847.1 million); Tier 2 capital rose by 2.6% to EUR 327.4 million).

Funding structure



Statement of changes in equity

in '000 EUR	2014	Change in%	2013	2012
Tier 1 capital	**807,813**	**0.4%**	**804,590**	**743,236**
Common Equity Tier 1 capital (according to CRR)	807,813	-	-	-
Additional Tier 1 capital (according to CRR)	0	-	-	-
Tier 1 capital (according to SolV)	-	-	804,590	743,236
Tier 2 capital	**283,660**	**–28.8%**	**398,160**	**458,408**
Tier 2 capital (according to CRR)	283,660	-	-	-
Tier 2 capital (according to SolV)	-	-	398,160	458,408
Deductions	-	-	–3,448	–3,479
Own funds	**1,091,473**	**–9.0%**	**1,199,302**	**1,198,165**
Total risk exposure amount	**8,226,259**	**5.7%**	**7,779,039**	**7,977,219**
Tier 1 capital ratio	9.82%	–5.1%	10.34%	9.32%
thereof Common Equity Tier 1 capital ratio (according to CRR)	9.82%	-	-	-
Total capital ratio	13.27%	–13.9%	15.42%	15.02%

Following a capital increase in 2012, the share capital and participation capital of Hypo Landesbank Vorarlberg amounts to EUR 165.5 million (2013: EUR 165.5 million). At the end of 2012, Hypo Landesbank Vorarlberg issued a subordinated bond for EUR 100 million with a term of ten years. Thanks to this additional boost to its capital, the Bank is well equipped to face the upcoming challenges. Tier 2 capital (T2) is reported at EUR 283.7 million as of 31 December 2014. As a result of Basel III and CRR, the calculation and reporting of capital resources has been regulated differently since 1 January 2014, so direct comparison with the previous year will not be possible until the 2015 financial year. Capital resources according to CRR came to EUR 1,091.5 million as of 31 December 2014 and are consequently well in excess of the minimum required by law. The total capital ratio of Hypo Landesbank Vorarlberg according to CRR was 13.27% as of 31 December 2014; the Tier 1 capital ratio was 9.82%.

Rating of Hypo Landesbank Vorarlberg

On 6 March 2014, Moody's raised the rating outlook for Hypo Landesbank Vorarlberg from A1 negative to A1 stable. In summer, discussions about the "special law for Hypo" to wind up Hypo Alpe Adria Bank caused ratings to deteriorate for a number of Austrian banks. On 20 June 2014, the rating agency Moody's lowered Hypo Landesbank Vorarlberg's rating for unsecured long-term liabilities to A2 negative. This move was based on the expected uncertainty for market participants until the "special law for Hypo" approved in 2014 has been examined with regard to constitutional law. Based on its stable business development and very good earnings and efficiency indicators, Hypo Landesbank Vorarlberg is still one of the best-rated banks in Austria.

US tax program

In 2014, the St. Gallen branch of Hypo Landesbank Vorarlberg participated in the US tax program ("Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks") as category II-bank. Participation in this category requires banks to have reason to believe they may have committed tax-related offenses and/or monetary transaction offenses under U.S. laws. The branch decided in November 2014 to withdraw its participation from the US tax program's category II after a duly executed internal investigation pursuant to which participation in category II seemed not appropriate.

Events after the reporting date

Cancellation of the minimum euro/Swiss franc rate and interest rate development

On 15 January 2015, the Swiss National Bank (SNB) unexpectedly abolished the minimum rate of 1.20 francs per euro. The SNB justified this move primarily by pointing to the differences in the monetary policies of the major currency areas, which, it was claimed, had markedly intensified in recent times. It is unclear what the future price level will be. However, it can be assumed that the initial overvaluation of the Swiss franc will again weaken somewhat in the longer term.

Lifting the EUR/CHF minimum rate immediately increased the exposure of CHF borrowers by around 20%. Due to the continuing low interest rates in CHF, however, Hypo Landesbank Vorarlberg expects no major problems in servicing these loans. If necessary, the Bank will support customers with extensions or suspensions of redemption payments in order to reduce the burden.

Hypo Landesbank Vorarlberg already began strictly limiting the issue of loans in Swiss francs at the start of 2009. The proportion of CHF financing in the Private Customers segment is 39.88%; the proportion of foreign currency financing in CHF in the Corporate Customers segment is approximately 18.70% of receivables from customers.

In the customer segments, the lending volume in CHF amounted to approximately EUR 1.8 billion as of 31 December 2014. EUR 410.4 million of this is attributable to the St. Gallen branch office, EUR 83 million to frontier workers and EUR 103.8 million to customers based in Switzerland. As a percentage of all customer loans, Hypo Landesbank Vorarlberg's volume of lending in CHF was 19.6% as of 31 December 2014, or 15.0% without the St. Gallen branch office. The CHF loans of the St. Gallen branch are to be subtracted from the calculation of CHF risk, as the customers are Swiss with incomes and securities in CHF and are not affected by changes in the exchange rate.

Debt moratorium at HETA

All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for all liabilities of "Pfandbriefbank (Österreich) AG", universal successor of "Pfandbriefstelle der österreichischen Landes-Hypothekenbanken", amounting to EUR 5,538,652,000 (previous year: EUR 6,169,969,000). In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability

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

Hypo Landesbank Vorarlberg holds (included in liabilities of Pfandbriefbank above) bonds totalling EUR 450,561,000 (previous year: EUR 476,437,000) under "Liabilities evidenced by certificates" and promissory note loans and bonds totalling EUR 259,314,000 (previous year: EUR 398,181,000) under "Financial liabilities – at fair value", so a total of EUR 709,875,000 (previous year: EUR 874,618,000), which were issued by Pfandbriefbank.

By resolution of the Austrian National Council on 8 July 2014, Hypo Alpe-Adria-Bank International AG was transformed into a privately organised wind-down unit without general state liability (Heta Asset Resolution AG). On 1 March 2015, the FMA ordered the wind-down of HETA on the basis of the Federal Act on the Restructuring and Wind-Down 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 of EUR 1,238,167,000 and a bond of EUR 30,000,000 granted to HETA by Hypo Landesbank Vorarlberg.

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 not permitted to service its debts until further notice. In the event of insolvency on the part of Pfandbriefbank, the Pfandbriefstelle Act means that the other Hypo Banks 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. It is noted here that there is no direct connection between Hypo Landesbank Vorarlberg and HETA under company law.

The Managing Board is convinced that the liable parties will be able to provide Pfandbriefbank with liquidity in due time. Thanks to its good business situation, Hypo Landesbank Vorarlberg is equipped for this eventuality and able to raise the amounts currently required itself. The Bank has high liquidity reserves.

For existing receivables from HETA – including the liquidity expected to be made available for Pfandbriefbank – corresponding provisions were already made 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 12,000,000 was recognised on the promissory note loan at HETA. A provision of EUR 36,000,000 was recognised for the provision of liquidity to Pfandbriefbank. The probability and amount of an expected outflow of funds and the collectability of potential claims against HETA and the state of Carinthia are uncertain.

Effects on the rating of Hypo Landesbank Vorarlberg
On 6 March 2015, the Moody's rating agency placed Hypo Landesbank Vorarlberg "under review" and threatened to lower the rating. This is due firstly to Moody's changed rating methodology and secondly to its concern that the wind-down of HETA and the resulting liability issues could have negative effects on the Bank's capital adequacy.

DEVELOPMENT BY SEGMENT

Corporate Customers

With particular expertise in investment and project financing, support measures, foreign services as a provider of alternative forms of financing, Hypo Landesbank Vorarlberg is an established part of the corporate customer business in Austria, Southern Germany and Eastern Switzerland. The bank is also the market leader in Vorarlberg as a corporate bank. The Bank offers leasing, insurance and property services via its subsidiaries. The broad mix of financing products also includes solutions involving equity or near-equity instruments. The stable development in corporate customer business underlines the robust state of the economy in Hypo Landesbank Vorarlberg's core markets. The Bank continued to prove its value as a reliable financing partner for companies and the public sector. Although willingness to invest was modest, as in previous years, Hypo Landesbank Vorarlberg succeeded in achieving above-average credit growth in its market areas. Earnings development in the Vienna and Graz branches and in Southern Germany was particularly notable.

Of the total lending volume, EUR 5,240.7 million was attributable to corporate customers, around 5.1 % more than in the previous year (2013: EUR 4,985.2 million). Risk costs are below average and were again substantially reduced year on year due to the positive ratings of corporate customers in the Bank's core markets.

Earnings before taxes of EUR 44.0 million were achieved in the Corporate Customers segment in 2014. Earnings more than doubled, primarily because of lower risk costs year on year, and are therefore far in excess of expectations. Net interest income was also increased considerably compared to 2013, while net fee and commission income was only slightly higher than the previous year's level. Corporate customers attach great importance to Hypo Landesbank Vorarlberg's very good credit rating. As part of its successful tradition as a corporate bank, Hypo Landesbank Vorarlberg has repeatedly set new priorities in recent years, for example with the Hypo Academy for entrepreneurs and the Hypo breakfast which takes place twice twice a year. Through these events, the Bank offers decision-makers in business an extremely popular communication platform with high visitor numbers.

Private Customers

Regulatory changes, low interest rates and high bank density mean that the environment for banks remains challenging. This makes it clear that the establishment of long-standing business relationships, transparent terms and conditions and a balanced product range geared to customers' requirements in conjunction with best-qualified employees are indispensable for Hypo Landesbank Vorarlberg. According to the motto "Passionate.Sound.Advice.", around 200 employees in the Private Customers segment practice these values in their day-to-day activities. The fact that our customers regularly recommend us motivates us to continue fervently on the path we have taken. In addition, independent testers and regular customer surveys with a professional market research institute show that the Bank is on the right track. The most recent survey in 2013 gave Hypo Landesbank Vorarlberg good marks.

As a universal bank, Hypo Landesbank Vorarlberg offers its customers a comprehensive product range focusing on residential construction financing and investment advisory services. The continued intense competition between banks in deposits business and the falling interest rates result in considerable pressure on conditions and margins. In the past year, the Bank generated good earnings before taxes of EUR 6.1 million in the Private Customers segment. Due to low interest rates, net interest income fell slightly year on year to EUR 31.3 million, while net fee and commission income exceeded the previous year and planning at EUR 17.7 million.

The Bank further expanded its position as the leading residential building bank in Vorarlberg in the past year. In 2014 Hypo Landesbank Vorarlberg registered the highest demand for long-term financing in the Private Customers segment since it was founded, especially with regard to living space creation and renovations. Despite repayments amounting to EUR 132.8 million (including unscheduled repayments of nearly EUR 70.0 million), the lending volume increased year on year to EUR 1.8 billion in 2014. In general, loan loss provisions are at a very low level.

While the low interest rates were welcomed by borrowers, they made conservative investment business more difficult. The need for security coupled with low interest rates led to increased demand for short-term forms of investment, strategies involving value protection and non-cash assets – mainly property. There was also strong demand for the Bank's own issues thanks to attractive products with minimum rates of return. A total volume of around EUR 50 million was issued here. With regard to long-term saving, for example for pensions or asset generation, there was high demand for monthly savings products (e.g. fund-based savings); conservative savers still favour savings and loan contracts.

The online savings platform hypodirekt.at launched in 2012 is already used by nearly 7,700 customers from across Austria. With regard to the overnight savings account, Hypo Landesbank Vorarlberg focuses on absolute transparency and clear parameters in determining interest rates. Since online demand is persistently high and will continue to grow, the bank will invest heavily in this segment.

Private Banking and Asset Management

Asset Management
New cash inflows and the expansion of the service range – for example the computer-assisted optimisation of customer portfolios – led to an increase in customer funds under management. Last year, asset management customers at Hypo Landesbank Vorarlberg profited from new records in important stock indices like Dow Jones and the leading German index DAX. Growth was also posted in the European bond markets and returns again fell to record lows. For example, 10-year German bonds yielded less than 1.0 % p.a. for the first time in their history.

Hypo Landesbank Vorarlberg's asset management products were in high demand, especially by customers with longer-term investment horizons. Innovative asset management products adapted to their environment, like Hypo IQ Maximum Return and the latest product, the Hypo Portfolio Fonds Absolute Return, accordingly led to new contracts. This new 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, but also in falling markets.

The Hypo Value Momentum (individual shares) strategy and the Hypo Weltdepot Dynamik (shares) strategy with value protection are also in very high demand. The two Hypo Dynamik bond strategies with active maturity management surprised observers with above-average performance of 8 % and 13 % respectively – despite the historically low interest rates. The new computer-assisted portfolio optimisation calculates, on the basis of customer requirements and market expectations, efficient portfolio combinations for customers 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 300 customer portfolios have already been optimised using this professional tool.

The Bank acquired many new customers in 2014 thanks to the quality of its services, high security and its good reputation. The number of mandates managed increased by 325 to 2,874 and assets under managements climbed from EUR 677.5 million in the comparative year to EUR 759.4 as of 31 December 2014.

The Bank sees good growth opportunities in Private Banking and Asset Management, so considerable funds will continue to be invested in staff and product development in this segment.

Wealth Management
The strong foundation allows the bank to continue expanding the top segment in the investment business (Wealth Management). The teams in Vorarlberg and Vienna have already been expanded. In order to strengthen its presence, Hypo Landesbank Vorarlberg is moving into new premises in Vienna in the second half of 2015.

International performance standards in Asset Management
Since 2005, Hypo Landesbank Vorarlberg has been the first and still the only Austrian bank whose asset management is certified according to the internationally-recognised Global Investment Performance Standards (GIPS)®. Most recently in March 2015, the auditing company PricewaterhouseCoopers Zürich successfully examined and audited the Bank's asset management with regard to its compliance with these standards as of 31 December 2014.

Superior Private Bank
In private banking and asset management, Hypo Landesbank Vorarlberg has earned an excellent reputation in recent years and has established itself as a quality alternative to other private banking providers. The asset management products and approaches not only won over customers but also the anonymous testers of Fuchsbriefe and Elite Report. In the "Fuchsbriefe", Hypo Landesbank Vorarlberg took a good position in the top quarter of all banks tested. It is notable that Hypo Landesbank Vorarlberg is the only universal and regional bank that was ranked among the top 30 in Germany, Austria, Switzerland, Liechtenstein and Luxembourg.

The "Elite Report", the largest and most comprehensive industry test of its kind, has also repeatedly named Hypo Landesbank Vorarlberg as one of the best private banks in Austria and the German-speaking region for the past several years. For 2015, the bank was rated "summa cum laude" for the fourth time in a row. Hypo Landesbank Vorarlberg is thus included in the highest category of banks receiving awards in the Elite pyramid. These accolades are an endorsement of Hypo Landesbank Vorarlberg's repeated creation of innovative products that offer the right solutions to the challenges of the capital markets.

Treasury/Financial Markets

In terms of performance, 2014 was very positive for the bond and credit markets. However, weak economic momentum in the euro zone, political uncertainty and monetary policy measures by the ECB meant that money and capital market interest rates fell to historic lows. Money market rates actually fell into negative territory in the course of the year due to negative deposit rates at the ECB. Public discussion about winding up the former Hypo Alpe Adria (now HETA) and a possible haircut for subordinated liabilities made investors apprehensive regarding Austrian debt securities from the beginning of the year. In February 2014, rumours of a haircut intensified, which caused credit ratings of Austrian banks to deteriorate. As a result, capital market access was largely cut off for Austrian issuers. The Ukraine crisis and the high exposure of large Austrian banks in Eastern Europe not only put pressure on the domestic stock market in 2014, but also heavily affected the entire Austrian capital market. Despite a challenging capital market environment, Hypo Landesbank Vorarlberg made good use of favourable opportunities regarding the issue of debt securities for own investment and money market management and generated significantly positive earnings. As at 31 December 2014, the earnings contribution of the Financial Markets/Treasury business segment amounted to EUR 30.8 million (previous year: EUR 44.6 million). The economic environment in the current year is a decisive factor in further development. The development of the money and capital markets was much better than expected in 2014, which limited potential for further performance in 2015.

Asset Liability Management
In 2014, a net volume of EUR 790.4 million was invested in bonds by the ALM/Investment unit. Hypo Landesbank Vorarlberg continued to adhere to its low-risk investment policy. Criteria such as LCR or ECB eligibility and eligibility for the public covered pool were significant for new investment in bonds. The weighted remaining term of the new investments is 4.1 years. The average asset-swap spread of the new purchases is 0.48% and the average rating is A+. The ALM/Investment unit achieved a maturity transformation contribution of approximately EUR 6.6 million in 2014, which was above target.

Asset Liability Management – funding
In the reporting year, Hypo Landesbank Vorarlberg issued a public "senior unsecured benchmark issue" with a nominal value of EUR 500 million. Like the issue of the mortgage bond in 2013, the greatest demand came from German investors (mainly banks, asset managers and insurance companies), followed by investors from Austria and Scandinavia. In total, 25 new issues with a total volume of EUR 708.3 million were made in 2014, comprising 15 private placements (total volume EUR 171 million), one EUR senior unsecured benchmark issue and nine retail issues. Buybacks of the Bank's own issues were also carried out in the amount of approximately EUR 602.5 million. In the next few years, Hypo Landesbank Vorarlberg will increasingly act as an international issuer on the capital market.

Money, Foreign Exchange and Interest Derivatives Trading
As in previous years, readily accessible short-term liquidity was again characterised by high volatility in the 2014 financial year. In total, there was an outflow of approximately EUR 350 million over the course of the year; at the end of the year, approximately EUR 300 million was available for money trading. As a result of the high level of overnight deposits, available cash holdings from money trading were likewise invested on a very short-term basis with matching maturities. Money trading managed the Bank's short-term liquidity with approximately 2,000 transactions.

In the "Corporate Treasury Desk" area, revenues and therefore income from foreign exchange transactions and interest rate derivatives declined again year on year, primarily due to regulatory requirements (EMIR), the persistently low interest rate level and numerous geopolitical and economic uncertainties. Nonetheless, over 2,700 customer transactions were carried out in foreign exchange and interest derivatives trading with a total volume of over EUR 4.1 billion.

Fund Service
The Fund Service unit was administering 64 mandates as at 31 December 2014, which reflected a managed volume of EUR 6.8 billion. This equates to growth of 8.4% year on year and is mostly due to the good development of the markets and fresh fund capital. In 2014, Hypo Landesbank Vorarlberg acted as paying agent for 508 foreign fund tranches and fund classes; the same number of fund tranches is expected in 2015. In its role as a tax representative, the Bank calculated and reported dividend-equivalent income and capital gains for 387 mandates in 2014.

Securities trading (non-proprietary)
The branches' annual securities trading volume was around EUR 1.2 billion in 2014, which is a EUR 73.7 million or 6% decline on the previous year. In the year under review, customers tended to invest less in bonds, but an increase in orders was observed in stocks.

Swap unit
As at 31 December 2014, the Swap unit administered a portfolio of 1,172 swaps, interest rate and currency options. Both the total number and the nominal volume of the derivatives declined slightly compared to the previous period. Market conditions led to an increase in the holding of cash and securities collateral to EUR 180 million. The Swap unit again worked intensively on the implementation of the EMIR regulations. In 2014, more than 700 portfolio comparisons were carried out, and approximately 200,000 report sets were sent to REGIS-TR.

Debt Capital Markets
Due to increasing regulatory challenges, banks are faced with rising costs. However, there is high demand for bonds on the capital market, so attractive financing conditions for companies and public issuers dominate here. In order to stay abreast of this development, the "Debt Capital Markets" (DCM) business segment was established on 1 January 2014, offering services relating to capital market financing and assisting customers with the placement of promissory note loans and bonds. A partnership was agreed with Brüll Kallmus Bank AG from Graz for high-volume transactions. In 2014, a large Vorarlberg construction and property development company was successfully supported in a transaction with a volume of EUR 10 million as sole lead arranger. In addition, Hypo Landesbank Vorarlberg was involved in three transactions as co-manager or co-lead. Another DCM priority was to establish a partnership with the European Investment Bank (EIB). In connection with this cooperation, Hypo Landesbank Vorarlberg was granted a credit line of EUR 95 million. These funds can be passed on as loans with attractive financing conditions, especially to eligible small and medium-sized enterprises.

Corporate Center

In addition to these business segments, the "Corporate Center" item includes the property and leasing business, insurance services and strategic investments. Due to the provisions for HETA, the Corporate Center's earnings contribution deteriorated to EUR -26.9 million million as of 31 December 2014 (previous year: EUR 23.1 million).

MAJOR SUBSIDIARIES OF HYPO LANDESBANK VORARLBERG

Hypo Immobilien & Leasing GmbH

Following the merger of Hypo Immobilien GmbH and Hypo SüdLeasing GmbH to create a new company, 2014 was Hypo Immobilien & Leasing GmbH's third financial year. Its main headquarters are the Hypo Office in Dornbirn. Hypo Landesbank Vorarlberg's entire Austrian leasing and real estate business is combined in this company, allowing the Bank to exploit synergies in administration and especially those relating to real estate leasing. 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.

While real estate brokerage services are offered at the branch 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 Swiss leasing market is managed directly by an in-house sales team. As at 31 December 2014, Hypo Immobilien & Leasing GmbH had a headcount of 50 employees. The collaboration with Hypo Landesbank Vorarlberg was stepped up in the past year. Using software, consultants can calculate leasing offers for their customers directly at the branches. Vehicle leasing for private customers was introduced in the previous year and has since established itself and been very well received. Leasing partnerships with third parties were also expanded.

In the real estate sector, a property development project was successfully implemented in Southern Germany. A property valuation department was established in the Vienna branch in 2014, which – as has been the case in Vorarlberg for years – carries out valuations for Hypo Landesbank Vorarlberg especially for financing purposes. Besides this, an ICS system was implemented and the internal guidelines and regulations were completely revised. Each year, property experts publish points of reference in a recommended price brochure to be used when valuing property. In order to make it easier to access this information, Hypo Immobilien & Leasing GmbH is the first real estate company in Vorarlberg to develop a mobile recommended price app which users can download free-of-charge onto their iPhone, iPad or Android smartphone. For 2014, Hypo Immobilien & Leasing GmbH reported earnings before taxes of EUR 1.0 million (2013: EUR 1.3 million). The consolidated earnings before taxes of the companies mainly included in the consolidated financial statements and belonging to the real estate and leasing subgroup came to EUR -7.9 million as at 31 December 2014 (2013: EUR 5.9 million). This result was significantly influenced by the valuation allowance for a leasing commitment. The volume of new business in the movables and vehicle leasing sector amounted to EUR 34.9 million in the 2014 financial year; in real estate leasing, new business amounted to EUR 5.4 million.

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

Due to improved fiscal conditions, the Italian leasing market posted a significant increase in new business in 2014 (+8.9%), especially in the real estate sector from EUR 2.9 billion to EUR 4.1 billion (+38.3%). In the past year, Hypo Vorarlberg Leasing generated new volume of EUR 73.0 million. The company focused on interesting products in the Trentino/South Tyrol region, always ensuring cautious business management and a sideways trend in total assets. As in previous years, emphasis was placed on top-quality lessees and guarantors with valuable lease assets, increased advance payments and attractive lending conditions for new leases. In addition to the real estate sector, a number of new projects were handled in the energy sector (hydropower).

The property market remained at a low level throughout Italy in the reporting year – both with regard to transactions concluded and sales prices, particularly for commercial properties. For this reason, increased risk provisions were recognised to safeguard existing unsecured commitments and to build up the global valuation allowance. Hypo Vorarlberg Leasing AG therefore posted a loss after taxes of EUR 4.0 million for 2014, even though a record level of net interest income was generated at EUR 11 million. In addition, the preparations for entry into the new register 106 for financial intermediaries were completed in 2014, and, in connection with this, the structural organisation of the company was also changed in some areas.

For 2015, Hypo Vorarlberg Leasing AG is aiming to achieve lower new volume of approximately EUR 60 million, which is to be acquired very selectively and in compliance with strict risk criteria. The focus will again be on real estate leasing in the South Tyrol/Trentino region, but interesting projects will also be carried out in movables leasing.

At Hypo Vorarlberg Immo Italia GmbH, 2014 was characterised by a surplus of commercial properties in Italy. This resulted in another price decline, but it was not as sharp as in the previous years. In this difficult environment, Hypo Vorarlberg Immo Italia GmbH nonetheless succeeded in increasing its real estate sales year on year. In addition, various rental and occupancy agreements were concluded. The loss of individual tenants was offset by the conclusion of new rental agreements.

In 2014, Hypo Vorarlberg Immo Italia GmbH generated earnings before taxes of EUR 65,000. As a precaution, valuation allowances were recognised on some properties. For 2015, property prices are expected to stagnate and sales to continue increasing.

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG)

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

Financial year 2013/14 ended with a consolidated net loss of EUR 1.5 million for HUBAG due to non-recurring effects. As of 30 September 2014, total consolidated assets amounted to EUR 117.3 million (previous year: EUR 122.5 million). At a significant investment in terms of volume, a structured exit process was already initiated in the second half of the previous financial year and was successfully concluded in the year under review. There were also sales of smaller investments. As the Alternative Investment Fund Manager Directive (AIFMD) came into force in July 2013, so HUBAG respectively its management company worked intensively on the implementation and the statutory requirements until the filing of the licence application on 21 July 2014. The AIFMD governs the approval, management and marketing of alternative investment funds within the European Union. This also includes venture capital and private equity companies, although comprehensive implementation of the statutory requirements in Austria – as in most EU member states – is only mandatory once certain thresholds are exceeded. Because it exceeds the limits set by this law, HUBAG is one of the alternative investment funds that require a licence for their approval, management and marketing. This entails complete compliance with statutory provisions.

It is still difficult to assess at present how the introduction of the AIFMD will affect the sector and competition. Compliance with the AIFMD indicates – particular to investors of fully-regulated private equity companies – effective risk and liquidity management, a defined investment strategy and effective precautions in terms of conflicts of interest. As such, the AIFMD could help to boost the attractiveness of the asset class.

Hypo Versicherungsmakler GmbH

With a high degree of specialist knowledge and expertise, Hypo Versicherungsmakler successfully mastered the increasing challenges of the insurance market in the past financial year. Revenues increased by 5.1% from EUR 1.3 million in the previous year to EUR 1.4 million. Earnings from ordinary activities were also improved by 13.2% to EUR 268,000 (2013: EUR 236,800). This good performance is down to the employees. For years, Hypo Versicherungsmakler has had a skilful 11-member team for customer service.

Due to the current economic situation, Vorarlberg companies' low investing activity was palpable in the 2014 financial year. This development resulted in very low automatic premium growth. Due to the low rate of inflation, planned premium increases and resulting fee and commission income also largely failed to materialise. The fact that Hypo Versicherungsmakler was nonetheless able to generate revenue growth is mainly attributable to the acquisition of new customers and development into full customers.

Many insurance brokers in Vorarlberg are currently looking for a partner for a strategic realignment. High one-off commissions on the conclusion of life and health insurance policies will soon be a thing of the past and, for many brokers, drastically limit a major source of income. For this reason, Hypo Versicherungsmakler also considered taking over various brokers in 2014 in order to secure a sustainable improvement of results in the medium term. According to current estimates, the expected change in commission payments will have no major impact on Hypo Versicherungsmakler's earnings, because more than 90% of commissions are generated via ongoing income in property insurance.

In 2014, Hypo Versicherungsmakler developed specific consulting software for Hypo Landesbank Vorarlberg and trained the consultants accordingly. Special insurance products are intended both to extend the investment product range and to optimally protect bank customer risks. These investments in the future of insurance consulting are intended to ensure the long-term success of Hypo Versicherungsmakler and generate additional fee and commission income for the Bank in the Private Customers segment.

OUTLOOK FOR 2015

Slight but uncertain economic recovery

The generally weak performance of the Austrian economy in 2014 was characterised by low domestic demand and the lack of external stimuli. Leading indicators are currently showing little sign of a rapid economic revival and are continuing to signal – in the short term – sluggish development of the domestic economy, which is primary attributable to weak exports.

Despite low interest rates, companies' willingness to invest remains subdued. The development of private households' income and consumer demand is also proving modest. If the recovery in the euro zone intensifies as expected and world trade picks up momentum, there will be new growth opportunities for the domestic economy. The weak euro and low commodity prices should also create momentum. According to the Austrian Institute of Economic Research (WIFO), the Austrian economy is likely to expand by 0.5% in 2015 and 1.1% in 2016.

Although the slight expansion will enable growth in employment, the WIFO still expects a further increase in unemployment, because the supply of labour from Austria and abroad will rise somewhat more sharply. In the medium term, inflationary pressure is expected to stay low; the inflation rate will average 1.6% until 2019. Austria has a strong, balanced economy, but structural reforms and a continuation of the consolidation path are of utmost importance to maintain Austria's very high credit rating into the future.

Hypo Landesbank Vorarlberg's priorities 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. With its broad-based business model, it has been able to sustain its success even in the recent economically challenging 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 due to the bank tax among other things. 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 our home market of 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 anticipates weaker demand for loans in 2015, although slight growth is planned – above all in Vienna, Graz, Wels and St. Gallen. As there is high demand for bonds on the capital market, attractive financing conditions for companies and public issuers dominate. Since early 2014, Hypo Landesbank Vorarlberg has increasingly offered its customers services in this area and supported them in the placement of promissory note loans and bonds. In cooperation with the European Investment Bank (EIB), Hypo Landesbank Vorarlberg will also pass on attractive financing conditions to eligible small and medium-sized enterprises in particular.

The businesses in Hypo Landesbank Vorarlberg's market area are robust and well positioned. This situation means that below-average risk costs can again be expected for 2015. Increased registrations are planned for existing financing. Great use of services related to payment transactions and documentary business is anticipated, and investment business with entrepreneurs is to be expanded.

Hypo Landesbank Vorarlberg is very popular in the Private Customers segment thanks to its excellent credit rating. The Bank is primarily distinguished by consulting-intensive services and offers individual solutions in residential construction financing and for securities transactions including asset management.

While the low interest rate level is benefiting borrowers, the conservative deposits business is suffering. Investors are therefore increasingly investing in real assets, e.g. the purchase or renovation of properties. Thanks to attractive product design, Hypo Landesbank Vorarlberg's own issues are also of interest to investors. Fee and commission income is to be kept stable in the Private Customers segment in 2015 via cross-selling. A number of banks are now finding themselves compelled to close locations to cut costs. Increasing pressure on earnings due to the low interest rates, the high regulatory burden and the rising use of online banking are making it increasingly difficult to continue operating small branches. Hypo Landesbank Vorarlberg maintains its clear commitment to its bank branches as an important sales channel. Nevertheless, in 2014 it decided to close the location in Mittelberg (Kleinwalsertal); the branch in Gaschurn (Montafon) will be closed in spring 2015. The bank has another branch in both regions. The objective is to remain close to customers in future in order to guarantee direct contact and personal consultation.

As customers appreciate a high degree of flexibility, Hypo Landesbank Vorarlberg has for several years been offering various payment transactions and securities transactions (e-brokerage) online. An enhancement of online banking is also planned in future. The online savings platform hypodirekt.at is also highly valued by customers, and the plan is to augment it with new products. Due to its good liquidity situation, the Bank is planning to keep the volume of deposits at hypodirekt.at at its current level in 2015.

In private banking and asset management, Hypo Landesbank Vorarlberg has developed an excellent reputation for itself in recent years. Thanks to its expert, individual advice and support in combination with an innovative product range, private and corporate customers throughout Austria see the Bank as a strong partner. Customers with longer-term investment horizons are particularly keen on the Bank's asset management products. Building on this strong foundation, the expansion of the top segment in the investment business (Wealth Management) was started in 2014 and the teams in Vorarlberg and Wien were expanded. In order to strengthen its presence in Vienna, Hypo Landesbank Vorarlberg is moving into a new location in the Zacherlhaus building in the 1st district of Vienna.

In accordance with CRR, Hypo Landesbank Vorarlberg has a total capital ratio of 13.27% and a Tier 1 capital ratio of 9.82%. In order to secure a good rating and subsequently favourable funding in future, there remains a special focus on increasing capital resources.

In the course of 2014, it was decided to increase the stability fee. For 2014, Hypo Landesbank Vorarlberg has a tax burden of EUR 12.7 million and also paid EUR 12.6 million for the bank levy. According to a transitional regulation, the levy will increase to approximately EUR 13.3 million in 2015. Austrian banks – especially regional banks – can no longer be expected to bear these multiple burdens. They are contrary to the goal of strengthening the Austrian banking system by building up capital resources. Therefore, other sectors have now also announced their opposition to these false regulatory signals.

Expected earnings development in 2015

Interest-related business continues to represent a stable pillar of the Bank's 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 a further organic expansion of the lending volume and thus mean that a broad stabilisation of net interest income can be expected.

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

In general, the Managing Board is anticipating another steep 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. Comprehensive investments will also be made for the further expansion of the online sales channel.

For all existing receivables from HETA – including the liquidity expected to be made available for Pfandbriefbank – the Managing Board of Hypo Landesbank Vorarlberg has already made corresponding provisions in the results for 2014. As a precaution, provisions and valuation allowances on direct receivables and the payments to Pfandbriefbank were recognised totalling EUR 48 million, so, as things stand, no further provisions are expected.

COMPLIANCE AND MONEY LAUNDERING

The Compliance department reports directly to the Managing Board and is chiefly responsible for monitoring compliance with Austrian securities and stock exchange regulations as well as the Austrian Banking Act to prevent money laundering.

Compliance
All employees must agree to uphold compliance regulations upon joining Hypo Landesbank Vorarlberg. These regulations are based on the Standard Compliance Code for the lending industry and Austrian securities and exchange regulations. Compliance with these regulations is regularly checked and documented. New hires receive thorough instruction on compliance basics. All employees receive ongoing training and are also informed of any relevant changes. The Compliance department regularly audits for compliance with securities regulations, including the Markets in Financial Instruments Directive (MiFID), implementing any necessary changes jointly with other departments concerned. These regulations are designed for investor protection and to ensure market efficiency and integrity. Regular controls are also carried out here.

Money Laundering
As part of its operating activities, Hypo Landesbank Vorarlberg aims to prevent any form of money laundering and the financing of terrorism. Three IT programs and other checks are used to achieve this as part of money laundering checks. They support employees firstly in classifying customers in terms of money laundering risk and secondly in indicating suspicious payments. This also ensures that the legal obligations concerning the embargo check and the check for politically exposed persons are met. The staff members undergo extensive training on the deterrence of money laundering and the financing of terrorism, in which they receive instruction regarding applicable laws and suspicious circumstances. All new employees are also educated in this. Annual testing is conducted to ensure that employees' knowledge is up-to-date. In additional training courses, staff members are instructed on special characteristics and typologies of money laundering so that suspicious transactions can be recognised. Furthermore regular controls are conducted at the branch offices.

RISK MANAGEMENT

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

Hypo Landesbank Vorarlberg's key risk ratios generally developed positively in 2014. Due to expected developments at HETA, however, corresponding provisions have already been recognised in the 2014 annual financial statements. As the Managing Board of Hypo Landesbank Vorarlberg assumes that the guarantee of the state of Carinthia is valid and (at least partially) recoverable, a valuation allowance of EUR 12 million was recognised on the promissory note loan at HETA. A provision of EUR 36 million was recognised for the joint guarantee at Pfandbriefbank. This diminished operating earnings, which also permitted a smaller increase in capital resources. For this reason, and due to a new mode of calculation in accordance with CRR, the core capital ratio fell from 10.34% to 9.82%, but is still higher than the value prescribed by statute. The Bank designates loans in the regulatory asset class of loans in arrears as non-performing loans. At the end of 2014, no bonds were included therein. These amounted to EUR 427,054,000 as at 31 December 2014 (2013: EUR 439,885,000), accounting for 2.58% (2013: 2.71%) of the maximum default risk. The definition of non-performing loans was changed in 2014 as part of the introduction of Basel III, so the comparative values of the previous year were adjusted to the new calculation method. Rating class 4 (the worst rating class for exposures not in default) changed year on year from EUR 460,099,000 to EUR 458,694,000.

The year under review was characterised by high volatility on the money and capital markets. Value at risk (99%/10 days) consequently rose from EUR 4,488,000 in the previous year to EUR 9,150,000. The main market risks at the Bank are interest rate risk and credit spread risk. Share price and foreign currency risks are of minor significance only. The Bank does not have a large trading book. Liquidity risk at the Bank can be considered low. The Bank hardly utilises the money market for refinancing. Up until 2016, maturities of own bonds will amount to a maximum of EUR 800,000,000 per year.

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

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

Responsibility for setting up and shaping the internal control and risk management system at Hypo Landesbank Vorarlberg lies with the Managing Board as a whole. Hypo Landesbank Vorarlberg distinguishes itself with clear organisational, corporate, control and monitoring functions, especially the dual control principle, IT-supported controls, approval authorities based on risk exposure and monitoring instruments.

In order to further optimise the internal control system, a comprehensive ICS (internal control system) project was carried out from the end of 2009 to January 2013, during which ICS-type documentation for various major core processes was compiled and implemented in order of priority. Since then, additional processes have been incorporated into the documented ICS, and in the year under review enhancements and updates were made to core processes already documented. Further/new processes are included in the documented ICS in accordance with an assessment of materiality and the level of risk for Hypo Bank.

Control environment
Hypo Landesbank Vorarlberg's accounting, which also functions as the Group's accounting, includes such areas as bookkeeping, accounts presentation, reporting, controlling and account management and is the responsibility of the Chairman of the Managing Board. The Bookkeeping and Accounting department creates the balance sheets for the Bank and the Group and the balance sheets for the Bank's subsidiaries. This arrangement guarantees a common approach, especially in the preparation of the Group balance sheets. The close cooperation between the Accounting Department together with the Controlling Department and the Bank's Group Risk Controlling Department allows for uniform and coordinated internal and external reporting for the Bank. The reporting processes including control measures are regulated in work instructions, internal process descriptions, ICS documentation and the Group Manual.

Risk assessment and control measures
As part of the ICS, processes are reviewed and adjusted in terms of their current risk exposure and the existence of clear, effective and efficient risk-reducing measures and controls on an ongoing basis, at least once a year, and are supplemented if necessary. In addition, a control and effectiveness analysis is conducted on an ongoing basis and recognised potential for improvement is acted upon. The financial reporting process is not limited solely to internal and external reporting, but uses guidelines and processes to regulate data acquisition, creating bookings, accounting for transactions, and evaluating transactions ahead of time with various software solutions (Arctis, Geos, SAP, B&S, PMS, etc.).

These programmes offer automatic assistance and controls for correct data entry and use. Manual controls are also used on an ongoing basis in day-to-day business. The organisation, comprehensibility, effectiveness and efficiency of these controls are ensured by ICS monitoring.

Information and Communication
The Bank's reporting is almost entirely automated by means of input systems and automatic interfaces and ensures current data for controlling, earnings statements and other evaluations. Accounting information is based on the same data and is coordinated monthly for reporting purposes. Due to the close cooperation between accounting, controlling and the Bank's overall risk management, actual and target comparisons are performed on an ongoing basis. Mutual controls and coordination between the departments is ensured.

In order to perform their monitoring and control function, the Bank's decision makers periodically receive a number of reports such as the weekly statement, monthly earnings outlook including interest margin earnings extrapolation at the levels of branch offices, departments and the Bank as a whole, actual and target comparisons of volumes and income, ALM reports, risk reports, treasury reports, quarterly cost reports, various statistics and evaluations.

Based on the above fundamentals, period reports are issued to the Supervisory Board, Advisory Board and owners. An interim report in accordance with IFRS is prepared every quarter, whilst at the end of the year the Bank prepares its annual financial statements in line with the Austrian Banking Act (BWG) and the Austrian Business Code (UGB), the Bank's consolidated annual statements in accordance with IFRS and the holding group's consolidated financial statements in accordance with IFRS. Please also refer to the current regulatory reporting requirements to the Austrian National Bank (Österreichische Nationalbank or OeNB) and the Austrian Financial Market Authority (Finanzmarktaufsichtsbehörde or FMA).

An ICS report is prepared for the Managing Board every six months and annually for the Audit Committee of the Supervisory Board and the results of the ICS are reported. ICS reporting uses the bottom up approach. The records on the implemented controls are created when the process owners carry out the operational tasks. These records are combined with the results of the control and effectiveness analysis in the ICS report to be able to issue a statement on the effectiveness of ICS in connection with the results of the audits by Internal Audit.

Monitoring
The quality of the internal control and risk management system is assessed by Internal Audit on an ongoing basis in relation to its dependability, accuracy and the legality of the accounting process and reporting. Internal Audit works closely with the responsible members of the Managing Board and Managing Directors at the subsidiaries and periodically reports to the Audit Committee of the Supervisory Board.

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

Share capital, share denominations and participation capital
The subscribed capital of Hypo Landesbank Vorarlberg consists of share capital of EUR 156.5 million (2013: EUR 156.5 million) that, like the participation capital, is fully paid in. As at 31 December 2014, 305,605 shares and 1,000,000 participation certificates with a nominal value of EUR 9.00 were issued.

Shareholder structure
Vorarlberger Landesbank-Holding made contributions totalling EUR 27.7 million as part of the capital increase in 2012. The equity interests of the shareholders break down as follows:

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

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

DISCLOSURE REGULATION FOR REMUNERATION POLICY AND PRACTICES IN 2014

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

The principles of remuneration policy were established with a view to ensuring sound, effective risk management in accordance with the business strategy. These are decided annually in the Remuneration Committee. The updated principles – which have been adapted to financial year 2014 – were presented and approved on 23 April 2014.

Alongside the Supervisory Board – in particular, the Remuneration Committee headed by Alfred Geismayr – the Internal Audit department also acts as a controlling body. It is responsible for checking that these principles of remuneration policy have been implemented on behalf of the Supervisory Board.

The Remuneration Committee consists of the following members:

- Alfred Geismayr (remuneration expert)
- Jodok Simma
- Ulrich Theileis
- Karl Fenkart
- Nicolas Stieger
- Veronika Moosbrugger (staff representative)
- Bernhard Egger (staff representative)

Apart from all basic banking services, the core business areas of Hypo Landesbank Vorarlberg are its corporate customer business, real estate finance as well as investment.

In geographic terms, Hypo Landesbank Vorarlberg's main business activities are limited to Austria and areas bordering Austria. Because of this business model, the stringent multi-stage authorisation guidelines and the guidelines combined in the risk management manual, the influence that an individual employee can exercise over risky business activities is slight to non-existent. Risks may only be incurred subject to compliance with the dual control principle.

In principle, employees' remuneration is based on fixed salaries that reflect market conditions and are in accordance with the Collective Agreement, with the option for higher payment. Executives and highly qualified employees may also benefit from a variable salary component. Variable remuneration is paid out solely on the basis of salaries.

Certain criteria linked to long-term performance, which are specified and recorded individually in the contract of employment, must be met for payment of the variable components.

Key performance-related criteria in the contracts of employment offering a variable salary component currently in force are:

- Earnings from ordinary activities
- Leadership demonstrated by the respective employee
- Achievement of targets in the employee's own area as specified in the annual target-setting discussion
- Individual targets and personal performance appraisal
- Social performance criteria
- Success in business development

The annual IT based appraisal and target-setting discussion is a key human resources tool, among others, for assessing performance. The appraisal and target-setting discussion is specified in detail in a works agreement recorded for this purpose.

The following bonus system was primarily implemented in contracts of employment to date for the Corporate Customers, Private Customers and Risk Management divisions:

- 25% earnings from ordinary activities
- 25% leadership demonstrated by the respective employee
- 50% achievement of targets in the employee's own area as specified in the annual target-setting discussion

Employees' variable remuneration components are capped and do not exceed the materiality threshold in relation to the total remuneration. Because of the principle of proportionality prevailing in accordance with Section 39b of the Austrian Banking Act, neither a restriction on payment nor a provision of more than one year is required. Bonus agreements from 2013 are revocable and the employer is granted the right of making adjustments if necessary or in the event of changes to the law. In the event of a deterioration in or negative financial position or result of operations (similar to no. 12 (a) of the annex to Section 39b of the Austrian Banking Act), payment may also be cancelled entirely even if individual criteria are met.

The Managing Board has decided to pay all employees of Hypo Landesbank Vorarlberg, subject to certain preconditions, a non-recurring bonus of up to EUR 1,000.00 in 2015 for their dedication and loyalty in financial year 2014.

Remuneration policy for Managing Board members
The Managing Board members of Hypo Landesbank Vorarlberg exercise material influence on the Bank's risk profile. In addition to a fixed basic annual salary, which is paid in fourteen instalments on the normal salary payment dates and a lump-sum for overtime, they are, in principle, entitled to a performance-related bonus subject to certain preconditions. The Managing Board of Hypo Landesbank Vorarlberg receives a capped amount specified in advance in their contracts as a bonus. By capping the bonus, the bank ensures that there is no temptation to pursue an expansionary business policy associated with significant risk. The bonus also guarantees a balanced relationship between fixed and variable remuneration.

The following criteria were selected for stipulating quantitative and qualitative criteria for the performance appraisal from May 2012:

- MuM (money under management) measured against five-year planning figures
- Earnings from ordinary activities measured against five-year planning figures
- Leadership and social skills

The Remuneration Committee is also responsible for Managing Board remuneration. The staff representatives have a right to attend as guests.

OUR COMMON FUTURE

**HYPO LANDESBANK VORARLBERG
SUSTAINABILITY REPORT**

Vorarlberg is our province. We must take care of it – preserve what is good and embrace the new. "Sustainability" is not an empty phrase for us, but rather a living challenge that affects everything we do. Because our region is our future.

Gertrud Baumgärtner
Gertrud`s Garten, Dornbirn

In terms of sustainability, the biggest challenge for a company is to take responsibility for their own actions. To meet all the dimensions of sustainability – economic, environmental and social – requires appropriate measures. The Managing Board places great emphasis on combining economic success, environmental compatibility as well as societal aspects and strives to find the proper balance for these three dimensions. Responsible business practices, highest quality products and services, consistent focus on the needs of customers, attention to both employees and resources and commitment to the social environment characterise the corporate culture of Hypo Landesbank Vorarlberg.

ECONOMIC SUSTAINABILITY

Reliability, stability and security are important principles of sustainable management, especially in the banking sector. Hypo Landesbank Vorarlberg is especially careful of these values in order to maintain the trust from customers, employees, business partners and other social groups. The business model of the Bank is based on stable and responsible principles of corporate governance.

For Hypo Landesbank Vorarlberg, the question of economic success is as important as the manner in which a business operates. The business model of the Bank is focussed on solid, sustainable profitability. The top priority of the Managing Board is to achieve long-term organic growth to ensure the profitability of the bank rather than short-term gains. To ensure these goals, corporate policy and strategies, goal planning and the remuneration system are coordinated. Sustainability is the highest priority in customer business also; therefore, the security of customer investments is more important than speculation and profit taking.

More customers than ever are putting special emphasis on the fair and responsible handling of their money. As a regional bank, Hypo Landesbank Vorarlberg is a strong, reliable partner for the people and businesses in our core markets. Regional savings deposits are in large part allocated as loans to customers and entrepreneurs in the region, which strengthens social and economic cohesion in our market area.

With its down-to-earth and conservative strategy, Hypo Landesbank Vorarlberg was able to achieve good results in 2014. In order to remain successful in the future, in spite of many challenges and changing conditions, Strategy 2018 was developed. With economic, ecological and social objectives in accord, it is possible for the Bank to face the challenges of the markets and ensure sustainable success.

The Bank strengthened its capital base in 2012 with a capital increase and a subordinated bond issue. With this solid foundation, Hypo Landesbank Vorarlberg wants to ensure an excellent rating and a strong refinance situation to remain a reliable partner for its customers. The capital ratios are important figures when assessing the stability and strength of a bank. With a Tier 1 capital ratio of 9.8% as at 31 December 2014, Hypo Landesbank Vorarlberg significantly surpasses the legal requirements and remains a secure haven even in challenging times.

The Bank also tries to meet its environmental responsibilities through its products. Hypo-Klima-Kredit supports residential energy-saving investments. Hypo Landesbank Vorarlberg also finances sustainable and renewable energies in the areas of wind power, photovoltaic, biomass and hydropower in our market area. Currently the volume of financing for these projects amounts to more than EUR 200 million. In addition Hypo Landesbank Vorarlberg customers have the opportunity to invest in sustainable investment products.

ECOLOGICAL SUSTAINABILITY

A sustainable business policy is the basis for long-term business success. At the same time, the issue of ecology is becoming increasingly important – for future generations as well as the customers and employees of Hypo Landesbank Vorarlberg. For the Managing Board it is essential that the Bank takes responsibility for its environment and the impact of its operations.

The Bank has been a long-term sponsor of the VN Klimaschutzpreis which awards innovative energy saving projects in Vorarlberg. For many years, Hypo Landesbank Vorarlberg has taken various measures to reduce the environmental impact of its operations. Optimising the energy efficiency of its buildings is an important factor for sustainable banking operations. Through new building and renovation measures, Hypo Landesbank Vorarlberg applies energy and resource efficiency, for example in the renovation of the headquarters in Bregenz, construction of Hypo Office Dornbirn as well as the current work on the new branch offices in Vienna. These projects are both environmentally friendly and provide long-term cost reductions.

CO_2 emissions in banking operations are mainly generated by energy, paper and water consumption, business travel, as well as waste generation. In day-to-day processes (paper use and waste separation) employees were made aware early of the importance of these issues and we continue to search for further optimisation potential.

Klimaneutralitätsbündnis 2025
A new initiative "Klimaneutralitätsbündnis 2025" was started by companies in Vorarlberg with the goal to attain climate neutrality by 2025 through responsible handling and conservative use of resources. A press conference was held on 9 January 2015 to present this project to the public for the first time. In addition to other major regional companies, Hypo Landesbank Vorarlberg is also a member of the alliance. The Bank has voluntarily committed itself to taking measures to reduce CO_2 emissions and thus make a contribution to climate protection.

Implementation of the measures will be carried out in several steps. To begin, the CO_2 footprint of Hypo Landesbank Vorarlberg will be analysed and potential energy saving opportunities will be identified. These energy efficient measures will be implemented to reduce energy consumption and thus reduce the CO_2 footprint. What cannot be reduced will be compensated for through the purchase of CO_2 certificates of the highest quality. This will support global projects like reforestation, electricity from biomass or wind energy. To meet the requirements of the alliance, the Bank will make new investments as climate-neutral as possible.

Hypo Landesbank Vorarlberg can also raise awareness with relatively little financial outlay through conscious mobility management. The Bank encourages its employees to use public transportation rather than private auto, by offering the incentive of a travel allowance for the commute to and from the work place. Since not all automobile use can be avoided, two hybrid cars, as well as an electric car for shorter distances, have recently been made available to employees at the headquarters in Bregenz.

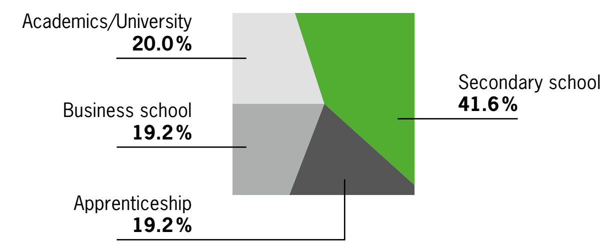
SOCIAL SUSTAINABILITY

The sustainable business success of Hypo Landesbank Vorarlberg is based on the expertise, dedication and motivation of its employees. The Group has approximately 850 employees. Issues such as equal treatment in hiring, remuneration and internal development opportunities are important. Employees are the most valuable asset of a company, which is why it is so important that each individual identifies with and embodies the philosophy and objectives of Hypo Landesbank Vorarlberg.

Training and further education
Hypo Landesbank Vorarlberg is an advisory bank and excels due to the high level of consultancy and customer care. To ensure sustainable personnel development, the Bank values both solid education for career starters and the targeted continuing development of professional skills and social competencies for existing employees. Only when the employees in the branches and in the headquarters are assisted in finding their individual potential, Hypo Landesbank Vorarlberg can remain an attractive employer and a successful company.

Whenever possible, management positions are filled by talented employees from the Bank's own ranks. Young managers in particular receive support to meet the demands of their responsible and challenging positions.

Training profile 2014



In 2014, Hypo Landesbank Vorarlberg invested EUR 604,258 (2013: EUR 546,493) in training and further education. This correlates to EUR 1,012 (2013: EUR 906) per employee. On average our employees spent 3.4 days in courses in 2014. 53 employees passed the banking examinations (Hypo training level 1 and 2); eight employees successfully completed professional career and technical training courses. In addition, seminars in specialised business-related fields and personal development were held. In total, 235 different educational activities were offered in 2014.

Expenditure on training and further education

	2014	Change in %	2013	2012
Expenditure for education and training in EUR *	**604,258**	10.6%	546,493	619,406
Expenditure per employee in EUR	**1,012**	11.7%	906	1,029
Average training days per employee per year	**3.4**	–20.9%	4.3	4.2

* Fees for external events and speakers (including transportation and accommodation costs)

Future executives
The apprentice and trainee programmes are an integral part of future management development at Hypo Landesbank Vorarlberg. Because of the practical training and the extensive knowledge gained, both apprentices and trainees are sought after employees in different areas within the Bank. Since it began in 1999, Hypo Landesbank Vorarlberg has trained over 130 individuals, thus providing a solid foundation for the future. As a company that has won awards for its apprenticeship programmes, the Bank has provided solid training for bankers for many years. Since 2001, 43 young people have chosen this path. In addition, the Group also trains apprentices as IT experts and estate agents.

The Hypo Career Forum in spring has established itself as an annual platform for interested students to go behind the scenes at the Bank. On this evening, the participants learn about the different departments at the Bank and it is an opportunity for both the bank employees and the students to meet for an uncomplicated and personal exchange.

Hypo Landesbank Vorarlberg supports training and further education for students with a focus on financial topics such as the Finanzführerschein (programme for basic financial education) and FiRi (financial and risk management courses) at business and other commercial schools. Participation at professional and educational trade fairs is important to Hypo Landesbank Vorarlberg and helps us obtain talented employees. As in recent years, the Bank was again represented at several apprentice fairs in Vorarlberg, the job fair at the Vorarlberg University of Applied Sciences as well as Career and Competence Innsbruck. At the largest career fair in Austria, “Career Calling” in Vienna, Hypo Landesbank Vorarlberg uses the opportunity to meet with students, recent university graduates and young professionals to lay the foundation for possible future employment.

Employee and executive feedback
An open exchange between employee and management is firmly anchored in the company culture at Hypo Landesbank Vorarlberg. The annual goal-setting discussion with employees offers an opportunity to review last year’s performance and set new goals. In return employees regularly have the opportunity to assess senior management in the areas of decision making, organisational and motivational skills etc. This feedback, last held in 2013, allows managers to reflect on their leadership performance.

Knowledge management
Organised knowledge management is an important part of the sustainable development of a company. Hypo Landesbank Vorarlberg puts great emphasis on the transfer of employee know-how within the Bank. To this end, in 2011, the knowledge platform Hypopedia was created, which allows the flow of information to be brought together in a logical structure. An index and a special search engine simplify the search for work procedures and information, while an updating service on the homepage provides employees a quick overview of all changes in the knowledge base.

Operational processes
Hypo Landesbank Vorarlberg has concluded employment agreements which allow employees flexible working hours. Employees also receive a travel grant for the commute between home and work, a lunch allowance after six months of employment as well as the opportunity to participate in a pension fund.

Promoting company health
In 2007, workplace health promotion was introduced as an integral part of the Bank and has been well received by both branch employees and those at the headquarters in Bregenz. In cooperation with experts, Hypo Landesbank Vorarlberg raises employee awareness concerning numerous health issues. Presentations and workshops focus on various health topics which change yearly. The topic is further explored in hands-on workshops and supports the well-being and performance of employees. Hypo Landesbank Vorarlberg is also supported by outside experts in implementing these topics. In 2014, the theme was “information overload” and workshops were given by employees of the Bank.

The province-wide bicycle competition again took place in May 2014. As in previous years, many employees participated as a team in this fun competition that emphasises the pleasure of everyday physical activity.

Beginning in 2013, local companies which actively support the health of their employees have been honoured with the “salvus” award. The efforts of Hypo Landesbank Vorarlberg were acknowledged and the Bank was awarded the “salvus silver” for 2013/2014, confirming that we have firmly anchored health promotion in our company culture. The promotion will be held again in 2015.

Family friendly corporate culture
For many of our employees the reconciliation of career and family is an important element of the quality of both work and life. Hypo Landesbank Vorarlberg supports a family-friendly corporate culture and thus benefits from the increased motivation and contentment of their employees. The topic family-friendly culture is of great concern to us and this was confirmed by our recent endorsement by the State of Vorarlberg as “Excellent family-friendly business 2014-2015”. At the same time, this award pushes us to further optimise the existing framework for reconciling career and family. Family-friendly measures include job-sharing models, flexible working time, equal opportunity for all employees for further education as well as comprehensive support for employees returning after maternity leave.

KEY EMPLOYEE FIGURES

Key employee figures – Bank

	2014	Change in %	2013	2012
Annual average number of employees (weighted)	**597**	–1.0%	603	602
Annual average number of employees (headcount)	**645**	–0.6%	649	629
thereof apprentices	**6**	–14.3%	7	7
thereof part time	**111**	4.7%	106	88
Number of women (incl. apprentices) in Percent	**60.4%**	–1.9%	61.5%	57.7%
Number of men (incl. apprentices) in Percent	**39.6%**	3.0%	38.5%	40.3%
Average length of employment in years	**10.3**	2.5%	10.0	9.6
Average age in years	**38.1**	1.8%	37.4	36.6

Key employee figures – Group

	2014	Change in %	2013	2012
Annual average number of employees (weighted)	**723**	–0.1%	724	728
Number of employees at year-end (headcount)*	**850**	4.2%	816	819
Number of women	**494**	5.1%	470	472
Number of men	**356**	2.9%	346	347
Total employee training days	**2,292**	–21.2%	2,907	2,760
Training hours per employee	**25.4**	–18.0%	31.0	29.2
Total expenditure (in '000 EUR) for staff development	**669**	8.6%	616	1,031
Cost for staff development per employee in EUR	**925**	8.8%	851	1,416
Average length of employment in years	**9.8**	0.6%	9.8	9.4
Average age in years	**38.4**	1.6%	37.8	37.1

* amended calculation since 2014 - for better comparability the previous year's figures were adjusted

Sponsoring and regional engagements
The Managing Board considers involvement in societal and social issues important criteria in the sustainability of the Bank. Thanks to its solid down-to-earth strategy with focus on customer business, Hypo Landesbank Vorarlberg is a very healthy bank. In order to give something back to the people of the region, the Bank has for many years supported cultural and sporting projects of local institutions. Through this, the economic success of Hypo Landesbank Vorarlberg also benefits less privileged persons and groups. Partnerships are characterized by long-term commitment and strong regional links.

Endowment fund “HYPO für Vorarlberg”
At the end of 2013, Hypo Landesbank Vorarlberg decided to set up an endowment fund to support charitable projects for social initiatives, as well as projects in the fields of science, education and culture. The endowment “HYPO für Vorarlberg” will be funded using 0.65% of the Bank's generated profits per year, almost EUR 215,000 in 2014. A committee comprised of representatives from various social institutions and companies will autonomously decide on the distribution of the fund following established guidelines.

Numerous projects have been supported since the start of the endowment fund in July 2014, including individuals with personal misfortune in need of financial aid as well as various social institutions and regional cultural projects. Requests for support can be submitted at http://spenden.hypovbg.at.

This initiative demonstrates that business success and community involvement are not mutually exclusive, but can go hand in hand. With “HYPO für Vorarlberg”, the Bank is supporting projects and people from different walks of life and creating something of lasting value for our shared environment. At the same time, employees and customers take social responsibility in their work and dealings with the Bank.

RESEARCH AND DEVELOPMENT

The Bank reviews the effects of economic and market developments on earnings, equity and net assets on an on-going basis. To remain competitive, an examination of possible future scenarios as well as knowledge of current market conditions is necessary. For many years we have worked closely with the Vorarlberg University of Applied Sciences. The collaboration includes determining, among other issues, optimisation of the cover pool, optimal allocation of collateral or the calculation of stress scenarios and remedial options for BaSAG.

A product development and implementation process is conducted before adding a new or third party product to our range of products to ensure a coordinated approach and to identify possible risks.

IN THE LONG TERM

**HYPO LANDESBANK VORARLBERG
THE INVESTMENT BANK**

Wealth always includes responsibility. The responsibility to be diligent and efficient. With a high degree of transparency. This requires a reliable partner who knows that long-term planning is more important than short-term success. And who knows what ultimately matters – trust.

Jan Lucas Härle
Restaurant Freigeist, Lustenau

ALL IN ALL

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS DATED 31 DECEMBER 2014

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2014

Income statement

in '000 EUR	(Notes)	2014	2013	Change in '000 EUR	Change in%
Interest and similar income		293,906	284,444	9,462	3.3
Interest and similar expenses		–116,492	–112,306	–4,186	3.7
Net interest income	(5)	**177,414**	**172,138**	**5,276**	**3.1**
Loan loss provisions	(6)	–81,695	– 42,046	–39,649	94.3
Net interest income after loan loss provisions		**95,719**	**130,092**	**–34,373**	**–26.4**
Fee and commission income		39,827	41,451	–1,624	–3.9
Fee and commission expenses		–4,203	–4,495	292	–6.5
Net fee and commission income	(7)	**35,624**	**36,956**	**–1,332**	**–3.6**
Net result on hedge accounting	(8)	646	338	308	91.1
Net trading result	(9)	30,644	22,943	7,701	33.6
Net result from other financial instruments	(10)	1,061	3,942	–2,881	–73.1
Administrative expenses	(11)	–92,101	–91,172	–929	1.0
Other income	(12)	16,604	16,617	–13	–0.1
Other expenses	(13)	–33,591	–27,389	–6,202	22.6
Result from equity consolidation		–328	2,581	–2,909	-
Operating result before change in own credit risk		**54,278**	**94,908**	**–40,630**	**–42.8**
Result from change in own credit risk		–299	1,226	–1,525	-
Earnings before taxes		**53,979**	**96,134**	**–42,155**	**–43.9**
Taxes on income	(14)	–12,726	–21,642	8,916	–41.2
Consolidated net income		**41,253**	**74,492**	**–33,239**	**–44.6**
Of which attributable to:					
Parent company shareholders		41,234	74,472	–33,238	–44.6
Non-controlling interests		19	20	–1	–5.0

Statement of comprehensive income

in '000 EUR	2014	2013	Change in '000 EUR	Change in%
Consolidated net income	**41,253**	**74,492**	**–33,239**	**–44.6**
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	50	–48	98	-
Changes to AFS revaluation reserve	3,396	6,688	–3,292	–49.2
of which changes in measurement	4,551	10,014	–5,463	–54.6
of which changes in holdings	–23	–1,096	1,073	–97.9
of which income tax effects	–1,132	–2,230	1,098	–49.2
Total items which can be reclassified to consolidated net income	**3,446**	**6,640**	**–3,194**	**–48.1**
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	–722	491	–1,213	-
of which changes in measurement	–947	641	–1,588	-
of which income tax effects	225	–150	375	-
Total items which cannot be reclassified to consolidated net income	**–722**	**491**	**–1,213**	-
Other income after taxes	**2,724**	**7,131**	**–4,407**	**–61.8**
Total comprehensive income	**43,977**	**81,623**	**–37,646**	**–46.1**
Of which attributable to:				
Parent company shareholders	43,957	81,603	–37,646	–46.1
Non-controlling interests	20	20	0	0.0

II. BALANCE SHEET DATED 31 DECEMBER 2014

Assets

in '000 EUR	(Notes)	31.12.2014	31.12.2013	Change in '000 EUR	Change in%
Cash and balances with central banks	(15)	470,699	593,422	–122,723	–20.7
Loans and advances to banks	(16)	883,340	1,113,957	–230,617	–20.7
Loans and advances to customers	(17)	8,954,412	8,485,284	469,128	5.5
Positive market values of hedges	(18)	76,116	5,442	70,674	> 100.0
Trading assets and derivatives	(19)	595,660	574,137	21,523	3.7
Financial assets – at fair value	(20)	1,123,392	1,182,716	–59,324	–5.0
Financial assets – available for sale	(21)	721,149	778,923	–57,774	–7.4
Financial assets – held to maturity	(22)	1,114,333	1,175,548	–61,215	–5.2
Shares in companies valued at equity	(23)	34,593	36,449	–1,856	–5.1
Investment property	(24)	60,326	54,556	5,770	10.6
Intangible assets	(25)	1,286	1,618	–332	–20.5
Property, plant and equipment	(26)	74,053	74,684	–631	–0.8
Tax assets		3,590	820	2,770	> 100.0
Deferred tax assets	(27)	8,688	6,615	2,073	31.3
Non-current assets available for sale	(28)	0	3,953	–3,953	-
Other assets	(29)	63,855	57,053	6,802	11.9
Total Assets		**14,185,492**	**14,145,177**	**40,315**	**0.3**

Liabilities and shareholders' equity

in '000 EUR	(Notes)	31.12.2014	31.12.2013	Change in '000 EUR	Change in%
Amounts owed to banks	(31)	1,026,928	687,965	338,963	49.3
Amounts owed to customers	(32)	4,662,797	4,815,650	–152,853	–3.2
Liabilities evidenced by certificates	(33)	2,313,778	1,894,590	419,188	22.1
Negative market values of hedges	(34)	162,475	126,743	35,732	28.2
Trading liabilities and derivatives	(35)	261,761	238,222	23,539	9.9
Financial liabilities – at fair value	(36)	4,403,186	5,123,337	–720,151	–14.1
Provisions	(37)	74,181	41,608	32,573	78.3
Tax liabilities	(38)	2,213	7,874	–5,661	–71.9
Deferred tax liabilities	(39)	7,927	2,486	5,441	> 100.0
Other liabilities	(40)	55,975	40,505	15,470	38.2
Supplementary capital	(41)	327,415	319,098	8,317	2.6
Shareholders' equity	(42)	886,856	847,099	39,757	4.7
Of which attributable to:					
Parent company shareholders		886,797	847,036	39,761	4.7
Non-controlling interests		59	63	–4	–6.3
Total Liabilities and shareholder's equity		**14,185,492**	**14,145,177**	**40,315**	**0.3**

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	Noncontrolling 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	74,472	0	0	74,472	20	74,492
Other income	0	0	–35	7,179	–13	7,131	0	7,131
Comprehensive income 2013	**0**	**0**	**74,437**	**7,179**	**–13**	**81,603**	**20**	**81,623**
Other changes	0	0	1	0	0	1	0	1
Dividends	0	0	–3,668	0	0	–3,668	0	–3,668
Distributions to third parties	0	0	0	0	0	0	–24	–24
Balance 31 December 2013	**165,453**	**48,874**	**621,606**	**11,107**	**–4**	**847,036**	**63**	**847,099**

Balance 1 January 2014	**165,453**	**48,874**	**621,606**	**11,107**	**–4**	**847,036**	**63**	**847,099**
Consolidated net income	0	0	41,234	0	0	41,234	19	41,253
Other income	0	0	51	2,674	–2	2,723	1	2,724
Comprehensive income 2014	**0**	**0**	**41,285**	**2,674**	**–2**	**43,957**	**20**	**43,977**
Reclassifications	0	0	154	–154	0	0	0	0
Other changes	0	0	–1	0	0	–1	0	–1
Dividends	0	0	–4,045	0	0	–4,045	0	–4,045
Distributions to third parties	0	0	–150	0	0	–150	–24	–174
Balance 31 December 2014	**165,453**	**48,874**	**658,849**	**13,627**	**–6**	**886,797**	**59**	**886,856**

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

IV. CASH FLOW STATEMENT

Cashflows from operating activities

in '000 EUR	2014	2013
Consolidated net income	41,253	74,492
Non-cash items included in consolidated net income and reconciliation with cash flow from operating activities		
Impairments/reversals on financial instruments and property, plant and equipment	–40,597	22,983
Allocations/reversals to/from reserves and loan loss provisions	42,829	12,172
Change in other non-cash items	80,923	–41,510
Reclassification of income from the sale of financial instruments and property, plant and equipment	–1,083	–5,851
Other adjustments for interest and income taxes	–161,908	–132,833
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks	251,340	–193,555
Loans and advances to customers	–446,068	–4,167
Trading assets and derivatives	264	–221
Other assets	–9,361	–10,047
Amounts owed to banks	336,414	36,285
Amounts owed to customers	–190,993	99,914
Liabilities evidenced by certificates	355,795	521,093
Financial liabilities – at fair value	–781,551	–627,616
Other liabilities	12,929	–11,789
Interest received	219,240	205,399
Interest paid	–109,892	–133,562
Income tax paid	–15,917	–30,209
Cash flows from operating activities	**–416,383**	**–219,022**

Cashflows from investing activities

in '000 EUR	2014	2013
Cash inflows from the sale of/ repayment on		
Financial instruments	645,659	603,074
Property, plant and equipment and intangible assets	1,846	1,420
Subsidiaries	0	250
Cash outflows for investments in		
Financial instruments	–404,636	–396,980
Property, plant and equipment and intangible assets	–13,071	–10,382
Interest received	70,794	92,646
Dividends and profit distributions received	3,833	4,697
Cash flows from investing activities	**304,425**	**294,725**

Cashflows from financing activities

in '000 EUR	2014	2013
Non-cash changes in supplementary capital	–1,043	–4,222
Dividend payments	–3,871	–3,644
Interest paid	–6,150	–6,138
Cash flows from financing activities	**–11,064**	**–14,004**

Reconciliation to cash and balances with central banks

in '000 EUR	2014	2013
Cash and balances with central banks at end of previous period	**593,422**	**532,010**
Cash flows from operating activities	–416,383	–219,022
Cash flows from investing activities	304,425	294,725
Cash flows from financing activities	–11,064	–14,004
Effects of changes in exchange rate	299	–287
Cash and balances with central banks at end of period	**470,699**	**593,422**

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

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

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

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

The consolidated financial statements for the 2014 financial year and the comparative figures for 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that are in force and published by the International Accounting Standards Board (IASB) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC, formerly SIC, Standing Interpretations Committee) – as applicable in the European Union – and therefore fulfil the requirements of Section 59a of the Austria Banking Act and Section 245a of the Austrian Commercial Code.

On 26 March 2015, the Managing Board of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft authorised release of these annual financial statements.

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

(2) CONSOLIDATION PRINCIPLES AND SCOPE OF CONSOLIDATION ACCOUNTING AND MEASUREMENT METHODS

The consolidated financial statements comprise the financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and its subsidiaries as at 31 December 2014. Subsidiaries are fully consolidated starting from the acquisition date, i.e. the date on which the Group obtains control. Consolidation ends as soon as the parent company no longer controls the subsidiary. The financial statements of the subsidiaries are prepared using uniform accounting policies for the same reporting period as the financial statements of the parent company. Group-internal expenses, income, receivables and payables were eliminated in consolidation. Foreign currency-related differences from consolidation of liabilities and elimination of expenses and income are recorded in the net trading result, through profit and loss. Intra-Group transactions are eliminated, unless they are not of minor importance. Deferred taxes are recognised as required per IAS 12 for temporary differences arising from consolidation. All group-internal transactions, unrealised profits and losses resulting from group-internal transactions and dividends are eliminated in full. The percentage of non-controlling interests is determined as the percentage of subsidiaries' equity held by minority shareholders. A subsidiary's comprehensive income also is allocated to non-controlling interests if this leads to a negative balance.

Any change in the ownership interest in a subsidiary without loss of control is accounted for as an equity transaction. If the parent company loses control of a subsidiary, the following steps are carried out:

- Derecognition of the subsidiary's assets (including good will) and liabilities,
- Derecognition of the carrying amount of the non-controlling equity interests in the former subsidiary,
- Derecognition of the cumulative translation differences recognised in equity,
- Recognition of the fair value of the consideration received,
- Recognition of the fair value of the remaining investment,
- Recognition of the income surpluses or shortfalls in the income statement,
- Reclassification of the components of other income attributable to the parent company in the income statement or in retained earnings, if IFRS requires this.

Business combinations are accounted for using the purchase method. The costs of an acquisition are measured as the sum of the consideration transferred measured at fair value on acquisition and the non-controlling equity interests in the company acquired. With each business combination, the Group decides whether to measure the non-controlling equity interests in the acquired company at fair value or at the corresponding share of the identifiable net assets of the acquired company. Costs incurred as part of the business combination are recognised as expense and shown in the administrative expenses item.

If the Group acquires a company it will assess the appropriate classification and designation of the financial assets and liabilities assumed in debts in accordance with the conditions of the agreement, the economic circumstances and the conditions prevailing on acquisition. This also includes separating the derivatives embedded in host contracts.

Goodwill is measured at cost on initial recognition, which is calculated as the amount by which the total consideration transferred and the amount of the non-controlling equity interests exceeds the Group's identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. Following initial recognition, goodwill is measured at cost less cumulative impairment losses. For the purpose of the impairment test, the goodwill acquired as part of a business combination is allocated to the Group's cash generating units, which are expected to benefit from the business combination, from the date of acquisition. This shall be the case irrespective of whether other assets or liabilities of the acquired entity are allocated to these cash generating units. If the goodwill was allocated to a cash generating unit and a division of this unit is sold, the goodwill attributable to the division sold is taken into account as a component of the carrying amount of the division in establishing the result from the sale of this division. The value of the sold portion of goodwill is established on the basis of the relative values of the division sold and the remaining part of the cash generating unit.

In addition to the parent company, 33 subsidiaries are included in the consolidated financial statements (2013: 36), in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft directly or indirectly holds more than 50% of voting rights or which it otherwise controls. 26 of these companies are domiciled domestically (2013: 29) and seven internationally (2013: 7).

The Group's equity interests in an associated company are accounted for using the equity method. Associated companies are companies not controlled by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, but over which significant influence is exercised by virtue of an equity holding ranging between 20% and 50%. In accordance with the equity method, equity interests in an associated company are recognised in the balance sheet at cost plus changes in the Group's share of the net assets of the associated company that occurred postacquisition. The goodwill associated with the associated company is included in the carrying amount of the equity interests and is subjected neither to scheduled amortisation nor a separate impairment test.

The income statement contains the Group's share of the associated company's profit or loss for the period. Changes shown directly in the equity of the associated company are recognised by the Group in the amount of its equity interest and, where necessary, presented in the statement of changes in equity. Unrealised gains and losses from transactions between the Group and the associated company are eliminated in line with the equity interest in the associated company.

After application of the equity method, the Group establishes whether it needs to recognise an additional impairment loss for its equity interests in an associated company. At each reporting date, the Group determines whether there are objective indications that the equity interest in an associated company could be impaired. If this is the case, the difference between the recoverable amount of the equity interest in the associated company and the carrying amount of the "share of the profit or loss of the associated company" is recognised as an impairment loss through profit and loss.

In the event of a loss of significant influence, the Group measures all equity interests, which it retains in the former associated company, at fair value. Differences between the carrying amount of the equity interest in the associated company at the time significant influence is lost and the fair value of the retained equity interests and the sales proceeds are recognised in the income statement.

10 (2013: 10) significant domestic associated companies were valued using the equity method.

The aggregate total assets of associate holdings not valued at equity amounted to EUR 41,976,000 (2013: EUR 39,128,000) for the past financial year. The aggregate shareholder's equity of these holdings amounted to EUR 14,012,000 (2013: EUR 13,712,000), and a result after taxes totalling EUR 300,000 was achieved (2013: EUR 46,000). Inclusion in our consolidated financial statements using the equity method and based on balance sheet data in accordance with the Austrian Business Code (UGB) as at 31 December 2013 would have a valuation effect of EUR +2,272,000 on the items "Shares in companies valued at equity" and "Equity". Inclusion in the income statement would also have an effect of EUR +87,000 on the result from equity consolidation. The three companies are not included in the consolidated financial statements due to reasons of immateriality and the fact that data and information relevant to the financial statements was not available promptly.

The Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft Group is included in the scope of consolidation of Vorarlberger Landesbank-Holding with its registered office in Bregenz. These consolidated financial statements are included in the Vorarlberger Landesbank Holding Group. The consolidated financial statements of Vorarlberger Landesbank Holding are published in the Official Gazette of the Wiener Zeitung. Vorarlberger Landesbank Holding is wholly owned by the state of Vorarlberg.

The reporting date for the Bank's consolidated financial statements is the same as the reporting date for all companies fully consolidated in the consolidated financial statements. The associated company Hypo Equity Unternehmensbeteiligungen AG has a different reporting date of 30 September 2014.

In 2014, the companies HIL ALPHA Mobilienverwaltung GmbH, HIL Real Estate Austria Holding GmbH and HIL Beteiligungs GmbH were merged with HIL EPSILON Mobilienleasing GmbH within the Group. This merger has no effect on the consolidated financial statements. In addition, HYPO-InvestConsult GmbH and "DS"-Immobilienvermietungsges.m.b.H. were merged with Hypo Immobilien Besitz GmbH, which is included in the consolidated financial statements. The two absorbed companies were empty shell companies.

As of the last reporting date before the merger, HYPO-InvestConsult GmbH had receivables from Hypo Landesbank Vorarlberg of EUR 58,000 and equity of EUR 58,000. The inclusion in the consolidated financial statements had an effect on equity of EUR -4,000.

As of the last reporting date before the merger, "DS"-Immobilienvermietungsges.m.b.H. had receivables from Hypo Landesbank Vorarlberg of EUR 157,000, other receivables of EUR 1,000 and equity of EUR 158,000. The inclusion in the consolidated financial statements had an effect on equity of EUR 155,000.

(3) ACCOUNTING AND MEASUREMENT METHODS

The principal accounting and measurement methods utilised in preparing these consolidated financial statements are outlined in the following. The methods outlined have been applied uniformly by the consolidated companies for the entirety of the specified reporting periods unless otherwise stated. Accounting and measurement were conducted under a going concern assumption. The consolidated financial statements were prepared applying the principle of historical cost. This does not include financial assets available for sale, financial assets and liabilities designated at fair value, trading assets, trading liabilities or derivatives. These assets and liabilities are carried at fair value. Financial instruments which are in an effective hedge relationship (fair value hedge) and are measured at amortised cost are adjusted to effective hedge changes. Income and expenses are deferred pro rata and recorded and shown in the period to which they are economically attributable. The consolidated financial statements consist of the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes. Segment reporting is shown in the notes in Section E.

a) Currency translation

The functional currency of companies included in the consolidated financial statements, i.e. the currency of their respective economic environments, is applied for measuring assets and liabilities. Figures in these consolidated financial statements are stated in euro, the euro being the Group's functional and reporting currency. The assets and liabilities not denominated in euro are translated into euro at market spot rates at the reporting date. Transactions in foreign currencies are translated into the functional currency applying exchange rates effective at the time of the transaction. Gains and losses from translating foreign currency transactions are recorded under the net trading result on the income statement. For changes in the market values of financial instruments in foreign currency designated as AFS, currency translation differences are recorded under the net trading result on the income statement. Translation differences on monetary assets designated as AFV are recorded in the income statement under net trading result as gains/losses from fair value changes.

If a Group company uses a functional currency other than the reporting currency, then assets and liabilities are translated at the average exchange rate on the reporting date and at the average exchange rate for the year for the income statement. Equity is translated at historical exchange rates. Any resulting translation gains and losses from capital consolidation are recognised directly in other comprehensive income and shown separately under shareholders' equity. In the Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft Group, the ECB exchange rates listed below (foreign currency amount for 1 euro) were applied at the reporting date for translating the values of monetary assets and liabilities, including those of subsidiaries not reporting in euro.

FX-Rates	31.12.2014	31.12.2013
CHF	1.2024	1.2276
JPY	145.2300	144.7200
USD	1.2141	1.3791
PLN	4.2732	4.1543
CZK	27.7350	27.4270
GBP	0.7789	0.8337

b) Borrowing costs
Borrowing costs directly attributable to the purchase, construction or production of an asset for which a considerable length of time is required to prepare it for its intended use or sale, are capitalised as part of the cost of the relevant asset. All other borrowing costs are recognised as expense in the period in which they are incurred. Borrowing costs are interest and other costs incurred by a company in connection with borrowing funds.

c) Cash balance
The item cash and balances with central banks in the balance sheet comprises cash on hand and credit balances repayable on demand with central banks. For the purposes of the cash flow statement, cash and cash equivalents comprise the above definition of cash. Cash and balances with central banks were measured at nominal values.

d) Financial instruments
Financial instruments are accounted for in accordance with the categorisation and measurement principles outlined in IAS 39. An asset is recognised on the balance sheet when it is likely to generate future economic benefit for the enterprise and can be reliably measured at cost of acquisition or production or at another value. A liability is recognised on the balance sheet when fulfilment of an existing obligation is likely to result in a direct outflow of resources holding economic benefit and the fulfilment amount can be reliably measured.

Initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Derivatives represent financial instruments per IAS 39. Financial instruments are recognised for the first time when the Group enters into a contract for a financial instrument. Regular way purchases or sales of a financial asset are recognised at the settlement date, i.e. the date on which the asset is delivered. The financial instruments are allocated to the categories described below at the time of their addition. The classification depends on the purpose and the intention of the management, what the financial instrument was acquired for and its characteristics. Financial instruments are measured at their fair value on initial recognition.

Derecognition of financial assets and financial liabilities
A financial asset is derecognised if the contractual rights to the cash flows from a financial asset have expired or the company has assigned its contractual right to cash flows from a financial asset or it has assumed a contractual obligation to pay the cash flows immediately to a third party as part of an agreement and has thereby either transferred substantially all of the risks and rewards associated with ownership of the financial asset or has neither transferred nor retained substantially all of the risks and rewards associated with ownership of the financial asset but has transferred control over the asset. A financial liability is derecognised when the obligation is fulfilled, cancelled or has expired. However, expired liabilities from the savings business are not derecognised.

Classifications of financial instruments
The Group recognises the classifications of financial instruments shown below.

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

Financial assets and liabilities are shown on the balance sheet broken down into these classifications. Explanations and measurement rules for the individual classifications are provided in the Notes on the respective balance sheet items. Financial instruments are either carried at amortised cost or fair value.

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

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

Amortised cost
Amortised cost is the amount representing historical acquisition cost factoring in premiums and discounts and transaction costs. Differences between historical cost and repayment amounts are deferred, amortised using the effective interest method and recorded under net interest income, through profit and loss. Accrued interest on receivables and liabilities, as well as premiums and discounts, are shown with the respective receivables and liabilities within the relevant balance sheet items.

- **L&R category**
  Financial assets for which no active market exists are designated as L&R if these are not derivatives and fixed or definable payments are attributable to the instruments. This applies regardless of whether the financial instruments were issued or were purchased on the secondary market. Financial instruments designated as L&R are initially recognised on the balance sheet at the settlement date at fair value plus directly attributable transaction costs and fees. Subsequent measurement of these financial instruments is at amortised cost. Differences between cost and repayment amounts (premiums and discounts) are amortised pro rata using the effective interest method and recorded as net interest income, affecting the income statement. Impairment affects income and is recorded on the income statement.

- **HTM category**
  Financial assets are designated as HTM if they do not constitute derivatives and fixed or definable payments can be attributed to them, as long as an active market exists and there is an intention and ability to hold them to maturity. Thanks to long-term liquidity planning, the Group is able to hold the financial instruments to maturity.

  Financial instruments designated as HTM are initially recognised on the balance sheet at fair value on the settlement date plus transaction costs and fees. Subsequent measurement of these financial instruments is at amortised cost. Differences between cost and repayment amounts (premiums and discounts) are amortised pro rata using the effective interest method and recorded as net interest income, affecting the income statement. Impairment affects income and is recorded on the income statement.

- **LAC category**
  Financial liabilities that are neither derivatives nor designated at fair value are designated as LAC. Financial instruments designated as LAC are initially recognised on the balance sheet at fair value on the settlement date plus transaction costs and fees. Subsequent measurement of these financial instruments is at amortised cost. Differences between receipts and repayment amounts are amortised pro rata using the effective interest method and recorded as net interest income, affecting the income statement.

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

Active market
Whether or not an active market exists is relevant for assessing the accounting and measurement principles for financial instruments. A market where transactions involving the asset or liability occur with sufficient frequency and volume, meaning that price information is available on an ongoing basis, is to be regarded as active. In line with the provisions of IFRS 13, an active market is the principal market or the most advantageous market. The principal market is the market with the largest volume and the highest activity level for the asset or liability in question. This is generally the home stock exchange for listed securities. The most advantageous market is the market which would maximise the amount to be collected when selling the asset, after taking into account transaction and transport costs, or would minimise the amount to be paid when transferring the liability. However, as we purchase/issue most securities via OTC markets, we must check which market is the principal market for each individual security or, if this does not exist, which market is the most advantageous market.

In assessing whether there is an active market, the Group is guided by several indicators. Firstly, certain asset classes are reviewed to determine if current prices are available. Other factors include currency-specific minimum size (volume) for a securities issue and trade scoring (BVAL score), offered by Bloomberg. The Bloomberg BVAL score represents relative availability and transaction volume, thereby providing an indication of the dependability of market values computed. Securities that are actively traded at binding prices register a high score.

Fair value on active markets
Market prices are used if there is an active market. If current price quotes are not available, the price in the last transaction gives an indication of fair value. However, if market conditions have changed substantially since the last transaction, current fair value is determined using appropriate methods (e.g. applying premiums and discounts). Stock-exchange listings serve as information sources for market prices of financial instruments in the first instance, but also the Bloomberg and Reuters price information systems which are of importance to the OTC secondary market.

Valuation models for inactive or non-existent markets
The valuation models ('mark to' models) utilised include deriving fair value from the market value of a comparable financial instrument (reference bonds) or several comparable identical financial instruments (reference portfolio), as well as present value and option pricing models. For financial instruments for which no active market exists, a DCF model is used to determine fair value. Expected cash flows are discounted at an interest rate reflecting maturity and risk parameters. The following distinction is made in the valuation process depending on the type of financial instrument.

– **The fair value of interest-bearing securities,** such as receivables, liabilities and interest-bearing over-the-counter securities is determined as the present value of future cash flows. This group of financial instruments is therefore valued using the recognised DCF method, in which expected cash flows are first discounted applying the risk-free swap curve. In order to measure credit risk, credit spreads are determined based on a financial instrument that is comparable in terms of duration, currency and credit rating or, if necessary, using a credit risk-adjusted credit spread matrix. Reuters calculates rating-specific and duration-specific credit spreads of corporate bonds. This data is used to create a spread matrix. Spreads for intermediate levels and lower ratings are calculated by linear interpolation (or extrapolation) using the Moody's WARF table. A spread premium of 125 bp is assigned for subordinated bonds with a residual term of up to three years and 150 bp for longer residual terms. If a counterparty's current credit spread is unknown, the last known credit spread is to be used. Maximum input factors observable on the market are taken into account when determining and calculating these aspects. If there are no sufficiently suitable input factors on the market, calculations are performed on the basis of internally-measured input factors. These include internal ratings and internal default probabilities. In the case of liabilities, own credit risk is measured using reference portfolios. The financial instruments to be measured are assigned to the categories of public placements, private placements and retail issues in this process, depending on their placement type. They are also separated into senior unsecured, subordinated and covered bonds. Own credit risk is then determined according to currency and residual duration, taking into account own rating based on available reference portfolios with the same features. An adjustment is made for private placements in order to accommodate the current issue level of private placements compared to public placements. If market data is not available for certain residual durations, the calculation is performed using a linear interpolation or extrapolation of market data.

– **for equity securities,** the valuation method hierarchy below may be employed for the reliable determination of fair value:

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

– **The fair values of derivatives** are determined using input factors observable on the market such as yield curves and exchange rates. Derivatives are discounted using the OIS yield curve and the swap curve that is generally used on the interbank market – especially in hedge accounting. In terms of taking into account credit spreads, each counterparty's credit spread is measured on a net basis, provided that a corresponding netting agreement exists and in due consideration of cash and/or securities collateral. Input factors observable on the market are also taken into account when determining credit spreads, such as CDS spreads. If a CDS spread does not exist for our counterparty, the credit spread is measured using internal default probabilities.

- **HFT category**
This balance sheet item represents securities and derivative financial instruments with a positive market value purchased for generating short-term profits on market price movements or spreads. Also recorded is the positive market value of derivative financial instruments in the banking book and derivative financial instruments in connection with host contracts under the fair value option. Because the Group only employed hedge accounting from the 2010 financial year, derivatives concluded previously that do not constitute hedging instruments in line with IAS 39 and that have a positive market value are designated to this category even though there is no trading intention, as these derivatives are mainly transacted to hedge market price risks. These financial instruments are recognised at fair value as at the settlement date. Transaction costs are recognised immediately through profit and loss in the income statement under commission expense. Measurement is at fair value. Remeasurement and realised gains/losses are reported under trading result. If published price quotations in an active market are available, these are always used as fair value; otherwise, fair value is determined using accepted valuation methods. Interest income and expenses from trading assets and derivatives are recorded in net interest income.

- **AFV category**
Financial assets are voluntarily accounted for at fair value when the financial instrument is in an economic hedge relationship with a derivative financial instrument. Carrying derivative hedges at fair value would create an accounting mismatch between host contract and hedge on the balance sheet and income statement. Voluntary designation at fair value eliminates this accounting mismatch. Financial assets are also accounted for voluntarily at fair value if the financial instrument is part of a portfolio on which management receives regular market value reporting for monitoring and management purposes or the financial instrument contains one or more embedded derivatives required to be separated. Financial instruments may only be assigned this classification upon acquisition.

Financial assets at fair value are securities and loans, the interest rate structures of which are switched from fixed or structured interest payments to variable rates using interest rate swaps. Financial instruments designated as AFV are recognised and measured at fair value on the balance sheet. These financial instruments are recognised at fair value as at the settlement date on the balance sheet. Transaction costs are recognised immediately through profit and loss in the income statement under commission expense. Changes in fair value are reported under trading result, affecting the income statement. Impairment on AFV instruments is implicitly contained in the fair value of the financial instrument, and thus not treated separately. Interest income and the amortisation of differences between cost and repayment amount are recorded in net interest income.

- **AFS category**
Under this balance sheet item, the Group shows financial instruments not designated to any other category. Financial instruments designated as AFS are recognised and measured at fair value in the balance sheet. These financial instruments are recognised in the balance sheet at the settlement date at fair value plus transaction costs. Changes in fair value are reported under other comprehensive income in the AFS revaluation reserve. Impairment affects income and is recorded on the income statement. Reversals of impairment on ownership interests are directly recorded under AFS valuation reserve. Reversals of impairment on debt securities are carried at original amortised cost on the income statement. Upon sale of a financial asset, net remeasurement gains/losses recorded in the AFS valuation reserve are reversed and transferred to the result from other financial instruments. If reliable market value data is not available for equity instruments in this category, measurement is at historical cost.

- **LHFT category**
Derivative financial instruments with negative fair value purchased for the purpose of profiting from short-term price movements or spreads are shown under this balance sheet item. The negative fair value of derivative financial instruments in the banking book is also recorded here. Remeasurement and realised gains/losses are reported under trading result. Derivative financial instruments are recognised on the trade date under trading liabilities. In addition, interest rate derivatives linked with underlying transactions under the fair value option are shown here. Interest income and expenses from trading liabilities and derivatives are recorded in net interest income.

- **LAFV category**
Financial liabilities are voluntarily accounted for at fair value when the financial instrument is in a hedge relationship with a derivative financial instrument. Carrying derivative hedges at fair value would create an accounting mismatch between host contract and hedge on the balance sheet and income statement. Voluntary designation at fair value eliminates this accounting mismatch. Financial liabilities are also voluntarily accounted for at fair value if the financial instrument contains one or more embedded derivatives required to be separated. Financial instruments may only be assigned this classification upon acquisition. These are primarily financial liabilities in connection with fixed-rate issues and time deposits of institutional investors. Interest rate swaps are concluded to hedge resulting interest rate risk. New issues containing embedded derivatives, fixed rate issues and time deposits are designated to this category upon acquisition to avoid an accounting mismatch arising from the hedging derivative. Financial instruments designated as LAFV are recognised and measured at fair value on the balance sheet. These financial instruments are recognised at fair value as at the settlement date on the balance sheet. Transaction costs are recognised immediately through profit and loss in the income statement under commission expenses. Changes in fair value are reported through profit and loss in the net trading result or in the result from change in own credit risk. Interest income and expenses are recorded in net interest income.

e) Financial guarantees
In accordance with IAS 39, a financial guarantee is a contract in which the guarantor is obligated to make specific payments to reimburse the guarantee holder for losses incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The obligation to pay from a financial guarantee is recorded when the guarantor enters into the contract, i.e. upon acceptance of the guarantee offer. Initial measurement is at fair value at the recognition date. Thus the fair value of a financial guarantee is generally zero upon contract conclusion, as with contracts in line with the market the value of the contractual premium corresponds to the value of the guarantee obligation. If the guarantee premium is received in full upon contract commencement, the premium is initially recorded as a liability and distributed pro rata through maturity. If guarantee premiums are paid on an ongoing basis, these are shown deferred in fee and commission income. Provisions are recognised in the amount expected to be payable if there are indications of deterioration in the guarantee holder's credit standing.

f) Embedded derivatives
Embedded derivatives are derivatives that are part of and attached to a primary financial instrument. They are separated from the primary financial instrument and carried and measured separately at market value (fair value) as a stand-alone derivative if the characteristics and risks of the embedded derivative are not closely connected with those of the host contract and the host contract is not designated as HFT or AFV. Changes in measurement affect income and are recorded on the income statement. The host contract is carried and measured according to the rules for the relevant financial instrument's classification. The Group holds financial instruments with embedded derivatives in Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft. For residential construction financing, the Bank offers its customers the "Zinslimitkredit" loan product, in which an optional interest cap of 5 % or 6 % can be agreed for terms of 12 or 20 years respectively. This embedded derivative is closely connected with the host contract. For this reason the embedded derivative was not separated. The Bank also holds embedded derivatives for convertible bonds, inflation, fund and equity-linked payouts, CMS steepeners, CMS floaters, reverse floaters, multi-tranches and PRDC's. These securities are voluntarily designated at fair value, as the embedded structures are hedged by derivative financial instruments.

g) Repo and securities lending agreements
Repo agreements are transactions in which securities are bought or sold at spot prices under an agreement to resell to or buy back from the same counterparty at a specific time. Securities sold in repo transactions (regular way sales) continue to be recognised and measured as securities in the balance sheet of the lender because all material risks and opportunities remain with the pledgor. Consequently, we continue to bear the credit, market price and liquidity risks of securities sold in repo transactions as the pledgor. Cash flows from repo transactions are shown on the balance sheet as amounts owed either to banks or to customers depending on the counterparty. Agreed interest payments are recorded as interest expense in accordance with the maturity. Cash outflows under reverse repos are correspondingly recognised and measured as loans and advances to banks or customers. Securities purchased in repo transactions (regular way purchase) are not measured and shown on the balance sheet. Agreed interest on reverse repos is recorded as interest income in accordance with maturity. Amounts advanced from reverse repos and owed on repos with the same counterparty are not eliminated against each other. This may very well lead to securities collateral on a net basis, meaning that in the case of reverse repos and repos with the same counterparty, the securities sold in repo transactions or the securities received collateralise the net position arising from reverse repos and repos. Accounting for securities lending transactions is similar to that of securities in genuine repurchase agreements. The remaining loaned securities stay in the securities portfolio and are measured as per IAS 39. Borrowed securities are not recognised or measured. Collateral we provide for securities lending transactions continue to be shown as loans and advances on the balance sheet. Collateral received from securities lending transactions are carried as liabilities. The Group generally uses internationally recognised clearing houses such as Eurex Clearing AG or the Swiss National Bank when concluding repurchase agreements. Settlement is standardised and secured to the highest possible degree in this process, meaning that a performance risk is not to be anticipated on the part of the counterparty. Settlement is very often performed in the form of a tri-party repo transaction.

h) Impairment of financial assets
Specific and portfolio valuation allowances are recognised for credit default risks. Identifiable risks from the credit business are covered by recognising specific and portfolio valuation allowances. Portfolio valuation allowances are recognised for additional non-specific risks occurring to financial asset groups with similar credit risk characteristics, in amounts determined according to Basel II parameters (projected loss rates, default probabilities). The loss identification period (LIP) is applied as a correction factor for default probability. The time value of money is also factored into the loss given default (LGD). The loan loss provision created is set off against the underlying asset. A potential loan loss is assumed when there are indications of payment delay for a specific period, forced collection measures, pending insolvency or over-indebtedness, filing or opening bankruptcy proceedings or unsuccessful restructuring. Loan losses are to be recognised when the expected recoverable amount of a financial asset is lower than the applicable carrying value, i.e. a loan is likely (in part) uncollectible. When this is the case, for financial assets the loss is recognisable at amortised cost, by way of indirect impairment (loan loss provisions) or a direct writedown, affecting the income statement. The recoverable amount is determined as present value applying the original effective interest rate from the financial asset. Unrecoverable loans are directly written down in the corresponding amount, affecting the income statement; amounts received on loans already written down are recorded as income. At each reporting date, the Group determines whether objective indications of impairment on a financial asset or a group of financial assets have arisen. In the case of a financial asset, an impairment is present only if, as a result of one or more events that occurred after initial recognition of the asset, there is an objective indication of an impairment and the effect of this loss (or these losses) on the expected future cash flows of the financial asset or the group of financial assets can be reliably estimated.

- **Financial assets recognised at amortised cost**
If there is an objective indication that an impairment has occurred, then the amount of the loss results from the difference between the carrying amount of the asset and the present value of the expected future cash flows. The calculation of the present value of the expected future cash flows of collateralised financial assets reflects the cash flows that result from realisation less the costs of obtaining and selling the collateral. For loans and advances, impairment is set off against the underlying receivable in the respective balance sheet item. The loss (allocation) is reported in the income statement in the loan loss provisions item. Loan loss provisions include specific valuation allowances for loans and receivables for which there are objective indications of impairment. In addition, loan loss provisions include portfolio valuation allowances for which there are no objective indications of impairment when considered individually. In the case of bonds in the categories HTM and L&R, impairment is recognised

in the balance sheet directly by reducing the relevant asset items, and in the income statement in the result from other financial instruments.

Interest income from individually impaired assets is deferred further on the basis of the reduced carrying amount, applying the interest rate that was used for discounting the future cash flows for the purpose of calculating the impairment loss. This interest income is included in the interest and similar income item. Loans are derecognised together with the associated impairment if there is no realistic prospect of future recovery and all collateral has been claimed and utilised. If the impairment increases or decreases in one of the subsequent periods due to an event that occurs after the impairment was recognised, then in the case of loans and receivables the previously recognised allowance account is increased or reduced by the difference. In the case of bonds in the categories HTM and L&R, the carrying amount is increased or reduced directly in the balance sheet. Decreases in impairment are reported in the income statement in the same item as the impairment loss itself.

- **Available-for-sale financial assets**
  In the case of debt instruments classified as available for sale, an individual examination is performed to determine whether there is an objective indication of impairment based on the same criteria as for financial assets recognised at amortised cost. However, the impairment amount recognised is the cumulative loss from the difference between amortised cost and the current fair value less any impairment previously recognised through profit and loss. In recognising impairment, all losses that were previously recognised in other comprehensive income in the revaluation reserves item are transferred to the income statement in the result from other financial instruments. If the fair value of a debt instrument which is classified as available for sale increases in one of the subsequent periods and this increase can objectively be attributed to a credit event that occurred after the impairment was recognised through profit and loss, then the impairment is reversed and the amount of the reversal is recognised through profit and loss in the result from other financial instruments. Impairment losses and reversals of impairment are recognised directly against the asset in the balance sheet. In the case of equity instruments classified as available for sale, a significant or long-lasting decrease in the fair value below the asset's cost is also considered an objective indication. If there is an indication of impairment, the cumulative difference between cost and the current fair value less any impairment previously recognised through profit and loss is transferred from the revaluation reserves item in other result to the income statement in the item result from other financial instruments. Impairment losses on equity instruments cannot be reversed in the income statement. Increases in fair value after the impairment are recognised directly in other comprehensive income. Impairment losses and reversals of impairment are recognised directly against the asset in the balance sheet.

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

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

- **Fair value hedges**
  Fair value hedges are used to reduce fair value risk. For designated and qualified fair value hedges, the change in fair value of the hedging derivate is recognised through profit and loss in the result from hedge relationships. In addition, the carrying amount of the hedged transaction must be adjusted through profit and loss for the gain or loss attributable to the hedged risk. Interest rate risks are primarily hedged using fair value hedges. Therefore, hedged underlying transactions are primarily made up of financial instruments with fixed and structured interest in the form of purchased and issued securities and loans as well as time deposits. Interest rate risks and currency risks are hedged in combination in individual cases. When a hedging instrument expires, is sold, terminated or exercised, or when the hedge relationship no longer fulfils the criteria for hedge accounting, the hedge relationship is terminated. In this case, the adjustment of the carrying amount of a hedged financial instrument is reversed through profit and loss in the result from hedge relationships until the maturity of the financial instrument.

j) Offsetting financial instruments
Financial assets and liabilities are set off and reported as a net amount in the balance sheet only if there is a right at the same time to set off the reported amounts against each other and the intention is to settle on a net basis or to settle the associated liability simultaneously with the realisation of the asset.

k) Leasing
Determining whether an arrangement contains a lease is based on the substance of the arrangement at the time it is concluded and requires an assessment of whether the fulfilment of the contractual arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. A lease is an arrangement whereby the lessor transfers the right to use an asset to the lessee for an agreed period in exchange for a payment or a number of payments. We classify leases under which substantially all of the risks and rewards associated with ownership of the financial asset are transferred as finance leases. All other leases within the Group are classified as operating leases.

- **Accounting as lessor**
  Leases are assessed based on how the economic risks and rewards of ownership of the leased item are distributed between the lessor and the lessee and are carried accordingly as finance or operating leases. Leased assets attributable to the lessee (finance leases) are shown at net investment in the lease (present value) under loans and advances to customers (Note 17). The net investment in the lease comprises the present value of the contractually agreed payments taking into account any residual values. Interest income is recognised evenly over time as periodic interest calculated based on remaining net investment in the lease. Lease payments due are recorded as interest income (interest income portion, affecting income) and charged against the balance of receivables (repayment portion not affecting income). Finance lease income is shown as interest income (Note 5). In the Group, receivables from finance leases under which the leased asset is attributable to the lessee primarily relate to real estate properties. In the case of operating leases, the leased assets are reported in the property, plant and equipment item or in real estate under "investment property" and are depreciated in line with the applicable principles for the respective assets. Lease income is recognised on a straight-line basis over the term of the lease. Lease payments received in the period and depreciation are shown under other income and under other expenses. Leases in which the Group is the lessor are classified almost exclusively as finance leases.

- **Accounting as lessee**
  The Group has not concluded any finance leases. In an operating lease the Group as real estate lessee shows the full amount of lease instalments made as lease expense under administrative expenses. In 2014, the Group conducted no sale-and-lease-back transactions.

l) Investment property
Investment property is measured at cost including incidental costs on initial recognition. In any subsequent measurement, investment property is stated at cost less cumulative scheduled depreciation and/or cumulative impairment losses. Investment property represents properties held to generate lease income and/or capital gains, not for providing services, for administrative purposes or for sale as part of ordinary business activities. Leased real estate properties are also shown under this balance sheet item when leased assets are attributable to the lessor (operating lease). Lease income is recognised over the contract term on a straight-line basis. Mixed-use properties are not divided into a non-owner occupied portion to which IAS 40 applies and an operationally utilised portion measured as per IAS 16 if the leased portion comprises less than 20% of total space. The entire property is treated as property, plant and equipment in such cases. For these properties, shown under financial assets, a depreciation period of 25 to 50 years generally applies. These properties are depreciated on a straight-line basis over their expected useful life. A duly sworn, court-certified appraiser on the staff of Hypo Immobilien & Leasing GmbH regularly prepares valuation appraisals for investment properties. For the valuation of the corresponding assets, methods deployed by the appraiser include the capitalised income and comparative value methods. The value determined by the appraiser is then compared with the real estate market and further adjusted as necessary. Appraisals are also prepared by independent third parties for larger real estate properties.

Rental income is recognised in other income. Depreciation and maintenance expenses for these properties are shown under other expenses. During the period under review, no contingent lease instalments were recorded as income. Disclosure of operating expenses for those investment properties for which no rental income was achieved during the period under review causes disproportionately large expenditure without increasing the informational value of the financial statements with regard to the Group's core business.

m) Intangible assets
Intangible assets not acquired as part of a business combination are stated at cost on initial recognition. The cost of intangible assets acquired as part of a business combination equates to their fair value at the time of acquisition. In subsequent periods, intangible assets are stated at cost less cumulative depreciation and cumulative impairment losses. Intangible assets are only recognised when it is likely the company will receive the expected benefits and costs of acquisition or production can be reliably determined. Development costs for software developed in-house are not capitalised as they do not fulfil the conditions for capitalisation. These costs are immediately recognised through profit and loss in the income statement in the year they are incurred. A distinction is made between intangible assets with limited useful lives and those with unlimited useful lives. Intangible assets with a limited useful life are depreciated on a straight-line basis over their economic useful life and tested for possible impairment if there are indications that the intangible as asset could be impaired. The amortisation period and amortisation method for intangible assets with a limited useful life are reviewed at least at the end of each reporting period. Changes in the amortisation method or amortisation period required because of changes in the anticipated useful life or the anticipated consumption of the asset's future economic benefits are treated as changes to estimates. Depreciation of intangible assets with limited useful lives is recognised in the income statement in the category of expenditure that equates to the function of the intangible asset in the company. The balance sheet item for the Group's intangible assets comprises software acquired. Software acquired has a limited useful life. Amortisation and impairment of software acquired is recognised through profit and loss under administrative expenses. Scheduled amortisation is recorded on a straight-line basis over the estimated useful life. Amortisation is effected using the following typical operational useful lives.

Typical operational useful life	in years
Standard software	3
Other Software	4
Securities administration software	10

n) Property, plant and equipment
Property, plant and equipment are stated at cost less cumulative scheduled amortisation and/or cumulative impairment expenses. Scheduled amortisation is recorded on a straight-line basis over the estimated useful life. Physical usage, technological aging and legal/contractual restrictions are factored in when determining the useful life of property, plant and equipment. Land is not subject to scheduled depreciation. Cost includes the costs for replacing part of an item of property, plant and equipment and the borrowing costs for material, long-term construction projects if the recognition criteria are fulfilled. As of the reporting date and in the previous-year period, there were no liabilities or obligations from asset purchases or the construction of plant. There was no restriction on titles and no property, plant or equipment was pledged as security for liabilities either. Amortisation is effected using the following typical operational useful lives.

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

Impairment is additionally recorded when the recoverable amount is below the carrying value of the asset. Property, plant and equipment are derecognised either on disposal or if economic benefit is no longer expected from the further use or sale of the recognised asset. The gains or losses resulting from derecognition of the asset are determined as the difference between the net sales proceeds and the carrying amount of the asset and recognised in the income statement in other income or other expenses in the period.

o) Impairment of non-financial assets
At each reporting date, the Group determines whether there are indications of an impairment of non-financial assets. If there are

such indications or if an annual impairment test on an asset is required, the Group makes an estimate of the recoverable amount of the asset concerned. The recoverable amount of an asset is the higher of the fair value of an asset or a cash generating unit less costs to sell and the value in use. The recoverable amount must be determined for each individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset must be impaired and is written down to its recoverable amount. To calculate the value in use, the expected future cash flows are discounted to their present value based on a discount rate before taxes that reflects the current market expectations for the interest effect and the specific risks of the asset. An appropriate valuation model is used to determine the fair value less costs to sell. The Group bases its assessment of impairment on detailed budget and forecast calculations, which are prepared separately for each of the Group's cash generating units to which individual assets are allocated. Budget and forecast calculations of this kind usually extend over five years. Impairment losses of continuing operations are recognised through profit and loss in the categories of expenditure to which the function of the impaired asset equates in the Group. This does not apply to previously revalued assets if appreciation from the revaluation was recognised in other income. In this case, the impairment is also recognised up to the amount from a previous revaluation in other income. Non-financial assets are tested for impairment once a year (as at 31 December). A test will also take place if circumstances indicate that the value could be impaired.

p) Tax assets

- **Current taxes**
  Current tax assets and liabilities are calculated based on the tax regulations of the relevant countries applying current tax rates, which determine the amount of refunds and back taxes due from/to tax authorities. Assets and liabilities are recognised only for expected claims vis-à-vis the tax authority. Current tax assets and tax liabilities are set off only if the Group has a legally enforceable right to set off the reported amounts against each other and actually intends to settle on a net basis. In the Group, this takes place particularly in the context of group taxation. Here, current tax assets from and liabilities to the tax authority are set off against each other in line with tax law provisions. Current tax expenses accruing on income are shown on the consolidated income statement under taxes on income.

- **Deferred taxes**
  Deferred tax assets are recognised and measured using the balance-sheet based liability method. Measurement is performed for each tax entity at the rates applicable by law for the period of assessment. Deferred tax items are not discounted to present value. The effects from the recognition or reversal of deferred taxes are also included in the consolidated income statement under taxes on income, unless the deferred tax assets and liabilities relate to items measured in other comprehensive income. In this case, the deferred taxes are recognised / reversed in other comprehensive income. Deferred tax assets are recognised for temporary differences in the measurement of assets and liabilities on the IFRS consolidated balance sheet versus tax accounting statements under local tax regulations applicable to Group companies. Deferred tax assets are only recognised when there are sufficient deferred tax liabilities within the same tax entity, or it is sufficiently likely that the same tax entity will generate taxable income. This also applies to the recognition of deferred tax assets on tax loss carryforwards. Deferred tax liabilities are recognised for temporary differences in the measurement of assets and liabilities on the IFRS consolidated balance sheet versus tax accounting statements under local tax regulations applicable to Group companies. Deferred tax assets and liabilities are set off when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority either for the same tax entity or, in the case of different tax entities, the intention is either to settle the current tax liabilities and assets on a net basis or to settle the liability simultaneously with the realisation of the asset.

q) Non-current assets held for sale and liabilities in connection with assets held for sale
Non-current assets are classified as held for sale if they can be sold in their current condition and are likely to be sold within 12 months of their classification as such. Assets classified as held for sale are reported in the balance sheet item "Non-current assets held for sale". Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Real estate properties which were the subject of finance leases are reported under the item "Non-current assets held for sale". These finance leases were ended or cancelled ahead of schedule. Also shown in this account are leased assets to be sold upon lease contract expiration. If there is a realistic possibility of realising the property, the Group assigns it to this balance sheet item within 12 months. These assets are not depreciated; impairment is taken instead if fair value less realisation costs fall below carrying value. Hypo Immobilien & Leasing GmbH and the leasing companies oversee realisation of these assets. Properties that cannot be realised within the medium term are generally leased or land leased, at which time they are reclassified as investment property. If it does not appear realistic that the property will be realised within 12 months or leased in the medium term, it is reclassified to the "Other assets" balance sheet item. A disposal group is a group of assets, in some cases with the associated liabilities, which a company intends to sell in a single transaction. The measurement basis and the criteria for classification as held for sale are applied to the whole group. Assets that form part of a disposal group are reported in the balance sheet under the item "Non-current assets held for sale". Liabilities in connection with assets held for sale that form part of a disposal group are reported in the balance sheet under the item "Liabilities in connection with non-current assets held for sale". No liabilities are held in connection with available-for-sale assets. All income and expenses accruing in connection with available- for-sale assets are recorded on the income statement under other income or other expenses.

r) Provisions
A provision is recognised if the Group has a current legal or de-facto obligation arising from a past event, the fulfilment of which is likely to involve the outflow of resources with economic benefit in an amount that can be reliably estimated. Provisions are thus recorded for uncertain liabilities to third parties and onerous contracts in the amount of expected utilisation. The amount of provisions recognised represents a best estimate of the expense necessary to fulfil obligations existing as of the reporting date. Risks and uncertainties are factored into these estimates. Provisions are carried at present value if the interest effect is significant. Credit risk provisions for off-balance sheet transactions (particularly warranties and guarantees) and litigation provisions are also reported under provisions. Expenses or income from the reversal of credit risk provisions for off-balance sheet items are recognised in the income statement under loan loss provisions. All other expenses or income in connection with provisions are reported under administrative expenses and the other expenses item. The Group's social capital is also shown under provisions. Social capital refers to the provisions for defined benefit and defined contribution plans for employees. Social capital comprises provisions for pensions, severance, service anniversary bonuses and disability/incapacity risk. The recognised liability arising from a defined benefit plan is equivalent to the present value of the obligation less the fair value of the plan assets available for direct fulfilment of obligations. The present value of the obligation exceeds the fair value of the plan assets in all plans. The resulting liability is contained in the balance sheet under the "Provisions" item.

- **Pensions**
  Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft has defined benefit pension obligations to 12 pension plan participants and their survivors (2013: 12). This is a final salary pension plan based on a works agreement. These claimants are receiving pension benefits, and thus no longer make contributions. There is no intention to close this agreement. On the basis of the statutory requirement according to the Swiss Occupational Pensions Act (BVG), 21 employees (2013: 19) of the St. Gallen branch office are entitled to a defined-benefit pension. The Group and the employees make contributions to the BVG collective foundation Swiss Life, which is managed by Swiss Life AG. 15 (2013: 21) active employees are entitled to a disability pension. A defined contribution retirement plan was established for active employees with pension entitlement. There is no other de facto obligation from normal commercial practice.

- **Severance**
  Austrian labour law previously required severance payments to departing employees under certain circumstances. Regulations on severance claims are given in section 23 of the Austrian Employee Act. These include in particular ending employment due to pensioning. All employees hired prior to 31 December 2002 enjoy these severance entitlements. The maximum severance due is equal to one year's salary. This is calculated based on final salary. It is a defined benefit pension plan. The Group has recognised severance provisions for these entitlements. These regulations do not apply to employees hired after 31 December 2002. Contributions are deposited monthly to a severance fund for these employees. There are no other severance obligations.

- **Service anniversary bonuses**
  All employees are entitled to two months' pay as a service anniversary bonus after 25 and 40 years of employment. The right to a service anniversary bonus is based on the collective agreement which sets out the requirements for this right and the bonus amount. Contributions to defined contribution retirement plans are expensed on an ongoing basis. Compulsory contributions to the "New Severance" fund are also expensed on ongoing basis. There are no other benefit obligations.

s) Fiduciary transactions
Fiduciary transactions involving the holding or placing of assets on behalf of third parties are not shown on the balance sheet. Commission payments on these transactions are shown on the income statement under net fee and commission income.

t) Recognition of income and expenses and description of items in the income statement
Income is recognised when it is probable that the company will receive the economic benefit and the income can be reliably measured. The following designations and criteria are used to recognise income for items in the income statement:

- **Net interest income**
  Interest income is deferred to and recorded in the relevant periods as long as the interest is deemed collectible. Income primarily representing consideration for the usage of capital (typically calculated based on interest rate or similar mechanisms factoring in maturity and/or borrowed amount) is classified as (interest-) similar income. Interest expenses are recorded in a similar fashion to interest income. Differences arising from the purchase and the issue of securities are recognised in the income statement using the effective interest method. Income from investments (dividends) is also in this account. The dividends are not recognised in the income statement until the legal claim to payment of the dividend arises.

- **Loan loss provisions**
  The recognition and reversal of specific and portfolio valuation allowances for balance sheet and off-balance sheet lending transactions is reported in this item. The item also includes direct write-downs of loans and advances to banks and customers and additions from amounts received on loans and advances to banks and customers already written down.

- **Net fee and commission income**
  Income and expenses from and attributable to the service business are shown under net fee and commission income. This item contains income and expenses primarily in connection with fees and commissions from payment transactions, securities business, lending business, insurance and real estate brokerage business and foreign currency/exchange business. Lending fees in connection with new financing are not recorded as fee and commission income, but instead under interest income as part of the effective interest rate. Net fee and commission income is deferred to the applicable period and only recognised when the service has been rendered in full.

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

- **Net trading result**
  The net trading result is comprised of three components:
  – Result from trading in securities, promissory note loans, precious metals and derivative instruments
  – Result from the valuation of derivative financial instruments that do not form part of the trading book and are not in a hedge relationship as defined in IAS 39
  – Result from use of the fair value option

  Market prices are generally used for measuring the fair value of trading assets and liabilities. The present value method or suitable valuation models are used for determining the fair value of non-listed products. The trading result reflects both realised net gains/losses and net measurement changes in trading activities. It also includes ineffective portions from hedging and currency gains and losses.The trading result does not include interest and dividend income and funding costs shown under net interest income.

- **Net result from other financial instruments**
  Gains/losses from the sale and measurement of securities held in the portfolio of financial assets, investments and shares in unconsolidated subsidiaries are shown under the net result from other financial instruments. The result from other financial instruments includes both realised gains and losses from the disposal and measurement of financial instruments designated as HTM, L&R and LAC. Not included are gains and losses from the HFT, AFV, LHFT and LAFV classifications recorded under net trading result. Income from financial assets L&R represents measurement changes and realised gains and losses on securities not part of our original customer business.

- **Administration expenses**
  Administrative expenses comprise the following expenses accrued for the reporting period: staff costs, materials expenses and amortisation, depreciation and impairment on property, plant and equipment and intangible assets. Impairment on goodwill is not included. Staff costs comprise wages and salaries, bonus payments, statutory and voluntary social benefits, and staff-based taxes and fees. Expenses and income from severance, pension and service anniversary provisions are also partially included in this item. Materials expenses include IT expenses, building expenses, advertising and PR expenses, legal and advisory expenses, staff development expenses (training, recruiting) and other office expenses. Amortisation, depreciation and impairment cover land without buildings, land with buildings and buildings used by the Group itself, operational and office equipment and leased movables under operating leases.

- **Other income**
  The item comprises income that is not directly attributable to the ongoing business activities entailed in banking operations. This includes rental income from properties that have been let, gains on the disposal of assets, other revenues from leasing business and operating cost income. Income from operating leases is recognised on a straight-line basis over the term of the leases.

- **Other expenses**
  The item comprises expenses that are not directly attributable to the ongoing business activities entailed in banking operations. These include amortisation of properties that have been let, losses on the disposal of assets, impairment of goodwill, expenses incurred in leasing business, other taxes expenses that do not constitute income taxes, operating cost expenses and expenses resulting from losses or operational risk.

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

u) Material judgements, assumptions and estimates
In preparing the consolidated financial statements, management makes estimates and assumptions affecting the balance sheet, notes and the reporting of income and expenses during the period under review. These primarily involve estimating the value of assets, determining uniform useful lives for property, plant and equipment Group-wide and the accounting and measurement of provisions. Estimates and opinions are based on assumptions reflecting the latest updated data available. Circumstances in evidence at the time of preparation of the consolidated financial statements and forecasts pertaining to the global economic and industry environments deemed realistic are applied for estimating future business results. Actual figures may differ from estimates due to developments influencing these external factors that are contrary to assumptions and beyond the control of management. Assumptions underlying estimates of substantial scope are outlined below. Actual values may differ from assumed and estimated values in individual cases.

- **Impairment on loans and advances to banks and customers**
  The Group reviews the credit portfolio at least quarterly for impairment. An assessment is made as to whether identifiable events reduce the expected cash flows from the credit portfolio. Non-adherence to payment deadlines and agreements, monitoring and analysis of customers' financial situation and rating changes may provide indications of the need to recognise an impairment. In making estimates, management utilises assumptions based on historical default probability data for comparable credit portfolios. A 1 % increase in the impairment ratio (risk provision to obligations) would have increased loan loss provisions by the amount of EUR 1,692,000 (2013: EUR 1,589,000) at the existing exposure level. A 1 % decrease in the impairment ratio would have lowered loan loss provisions by the amount of EUR 1,692,000 (2013: EUR 1,589,000) at the existing exposure level. Portfolio impairment for defaults that has occurred but has not yet been recognised are measured on the basis of historical default probabilities, expected loss rates and the adjustment factor from the loss identification period (LIP). A 1 % linear and relative shift in default probabilities would have resulted in an increase/decrease of EUR 128,000 (2013: EUR 126,000). Overall, a 1 % increase in the default probabilities would change the expected loss from non-impaired loans and advances by EUR 255,000 (2013: EUR 304,000). The LIP was carried at 180 days. If the LIP factor is increased by 30 days, this would lead to an increase in the portfolio valuation allowance of EUR 2,125,000 (2013: EUR 2,535,000). The development of credit risk provisions is presented under Note (17). The effects on the income statement are presented under Note (6). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 9,837,752,000 (2013: EUR 9,599,241,000).

- **Impairment on financial instruments available for sale**
  With these financial instruments the Group distinguishes between debt and equity securities. Impairment is recognised on debt securities when events are expected to lead to reduced future cash flows. Impairment is recognised on equity securities when the market value of the financial instrument is more than 20 % below cost in the 6 months prior to the reporting date or more than 10 % below cost over the preceding 12 months. The Group factors in normal share price volatility in determining if impairment must be recognised. If all market value fluctuations had been deemed significant or permanent, this would have reduced the revaluation reserve by EUR 1,393,000 (2013: 1,874,000) and the net result from other financial instruments by EUR 1.393,000 (2013: 1.874,000). The resulting effects from the assumptions and estimates can be seen in other income (Section III) and in the result from other financial instruments Note (10). They do not impact the carrying amounts of these financial instruments. The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 721,149,000 (2013: EUR 778,923,000).

- **Impairment on financial instruments held to maturity**
  The Group reviews these financial instruments for potential impairment on an ongoing basis, for example by monitoring rating changes and price movements. If there is a rating deterioration, the price movements of the financial instrument are monitored. An impairment is recognised if the price changes related to a rating deterioration. If all differences between market value and carrying value were deemed a lasting impairment, this would reduce the net result from other financial instruments by EUR 141,000 (2013: 2,172,000). The carrying amounts on which these assumptions and judgements are based are presented under Note (22). Effects on the income statement are presented under Note (10). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 1,114,333,000 (2013: EUR 1,175,548,000).

- **Fair values of financial instruments measured at fair value in measurement level 3**
  Many financial instruments measured at fair value are not traded on an active market. Valuation models are employed to determine fair value for these instruments. With the valuation models employed, the Group uses prices in observable, current market transactions in similar instruments as a reference, utilising observable market data in valuation models whenever available. See Note (57) regarding valuation model sensitivity. With regard to the income statement, these assumptions and estimates impact the net trading result in Note (9). With regard to the measurement of OTC derivatives, credit risk is also taken into account when calculating fair value in the form of a credit value adjustment (CVA) or a debt value adjustment (DVA). If netting agreements are in place, CVAs and DVAs are calculated on the basis of the net position for each counterparty, in due consideration of collateral, default probabilities and credit default swap spreads (CDS spreads) observable on the market. This involves a change in accounting estimates. The effect of the recognition of credit risk amounted to EUR -4,612,000 (2013: EUR -3,389,000) and was recognised in the net trading result. The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 459,443,000 (2013: EUR 663,306,000) and that of liabilities to EUR 2,049,090,000 (2013: EUR 2,131,129,000).

- **Income tax**
  The Group has dealings with several different tax authorities. Material estimates are made in measuring tax provisions under Note (38). Reconciliation statements (financial versus tax accounting) are used to determine each company's taxable income based on country-specific financial accounting. Also, additional tax obligations expected in connection with ongoing or announced tax audits are recorded under tax provisions. Upon conclusion of a tax audit, the difference between expected and actual back tax owed is charged against income and recorded in the income statement under income taxes from previous periods and deferred taxes. Judgements are required to determine the amount of deferred tax assets to be recognised based on the probable timing and amount of future taxable income and future tax planning strategies. Tax assets are recognised on the basis of planning figures over a period of five years. Disclosures relating to deferred taxes are shown in Notes (27) and (39). The effects on the income statement are presented under Note (14). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 12,278,000 (2013: EUR 7,435,000) that of liabilities to EUR 10,140,000 (2013: EUR 10,360,000).

- **Provisions**
  Amounts recognised for provisions represent a best estimate of the expense necessary to settle the present obligation as of the reporting date. Risks and uncertainties are factored into these estimates. The provisions recognised in the balance sheet are shown under Note (37). The effects on the income statement are reported in the loan loss provisions item under Note (6) for warranties and lending risks and in administrative expenses under Note (11) in other cases. The carrying amount of provisions – excluding social capital – subject to judgements, assumptions and estimates amounts to EUR 49,098,000 (2013: EUR 18,514,000).

- **Social capital**
  Provisions for pensions, severance pay and service anniversary bonuses under the old regulations are for defined benefit obligations. The present value of social capital was calculated applying the following actuarial parameters:

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

Actuarial parameters for the calculation of the present value of social capital	2014	2013
Interest rate/domestic	2.00 %	3.00 %
Annual indexing for pension provisions	2.50 %	3.50 %
Annual indexing (collective bargaining and performance-based salary increases) for other Provisions	2.00 %	2.50 %
Fluctuation rate for severance provisions	2.00 %	2.00 %
Fluctuation rate for other provisions	8.00 %	8.00 %
Individual career trend	2.50 %	2.50 %

  Actuarial gains and losses resulting from the adjustment of actuarial parameters were recorded under other comprehensive income in the amount of EUR –947,000 (2013: EUR 641,000). Deferred taxes resulting from recognition were also recorded directly under other comprehensive income in the amount of EUR 225,000 (2013: EUR –150,000). For 2015, pension benefits to be paid are projected at EUR 342,000 (2014: EUR 341,000), severance payments at EUR 298,000 (2014: EUR 335,000) and service anniversary bonuses at EUR 76,000 (2014: EUR 49,000).

  The amount of social capital is determined on the basis of actuarial computations. The discount factor is the relevant lever for the amount of social capital. Lowering the discount factor by 0.5 % would result in an increase in staff costs in the amount of EUR 1,663,000 (2013: EUR 1,573,000); increasing the discount factor by 0.5 % would result in a decrease in staff costs in the amount of EUR 1,504,000 (2013: EUR 1,419,000). Lowering the salary trend/pension trend by 0.5 % would result in a decrease in staff costs in the amount of EUR 1,439,000 (2013: EUR 1,396,000); increasing the salary trend/pension trend by 0.5 % would result in an increase in staff costs in the amount of EUR 1,569,000 (2013: EUR 1,531,000). Lowering the fluctuation rate by 0.5 % would result in an increase in staff costs in the amount of EUR 95,000 (2013: EUR 84,000); increasing the fluctuation rate by 0.5 % would result in a decrease in staff costs in the amount of EUR 95,000 (2013: EUR 84,000). The carrying amounts of the social capital are shown under Note (37). Effects on the income statement are presented under Note (11). The carrying amount of social capital subject to judgements, assumptions and estimates amounts to EUR 25,083,000 (2013: EUR 23,094,000).

- **Leases**
  Judgements are required on the part of the lessor particularly when differentiating between finance leases and operating leases; the criteria here is the transfer of substantially all of the risks and rewards from the lessor to the lessee. The carrying amount of finance leases subject to judgements, assumptions and estimates amounts to EUR 1,287,887,000 (2013: EUR 1,333,128,000).

(4) APPLICATION OF REVISED AND NEW IFRS AND IAS

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

a) First-time application of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has made a number of changes to existing standards and issued new standards and interpretations, application of which is mandatory for 2014. These rules must also be observed in the EU and concern the following areas:

- **Revision to IAS 27 – Preparation of Separate Financial Statements**
  In May 2011, the IASB published a revised version of this standard. The objective is to set standards in relation to the accounting for investments in subsidiaries, associates and joint ventures, if a company decides to present separate financial statements. The amendments come into effect for financial years beginning on or after 1 January 2014. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 11 December 2012. The Group does not prepare any separate IFRS financial statements.

- **Revision of IAS 28 – Investments in Associates and Joint Ventures**
  In May 2011, the IASB published a revised version of this standard. The objective is to codify the accounting for investments in associates and to issue the provisions on the application of the equity method if investments in associates and joint ventures are to be accounted for. The amendments come into effect for financial years beginning on or after 1 January 2014. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 11 December 2012. The Group examined its investments in associates and consistently identified these as joint ventures. As we already include these companies in the consolidated financial statements using the equity method, this resulted in no changes in the Group's scope of consolidation.

- **Amendment to IAS 32 – Offsetting of Financial Assets and Financial Liabilities**
  In December 2011, the IASB published the amendments to IAS 32. The provisions on the offsetting of financial instruments remain essentially unchanged. Only the guidance was clarified. Additional disclosures were also introduced in IFRS 7 Financial Instruments. Future disclosures will be required for instruments under master netting arrangements or similar obligations even if underlying instruments are not shown netted off. The amendments come into effect for financial years beginning on or after 1 January 2014. Application must be effected retrospectively. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 13 December 2012. The Group added appropriate disclosures to Note (58).

- **Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets**
  In May 2013, the IASB published the amendments to IAS 36. This amendment aims to clarify that the recoverable amount for an asset – when this is fair value less costs of disposal – only needs to be disclosed for impaired assets. The amendments come into effect for financial years beginning on or after 1 January 2014. Application must be effected retrospectively. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 19 December 2013.

- **Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting**
  In June 2013, the IASB published the amendments to IAS 39. This amendment aims to provide a remedy in cases where a derivative which has been designated as a hedging instrument is to be transferred from one counterparty to a central counterparty due to legal or regulatory requirements. It allows hedge accounting to continue irrespective of novation, which would not be permitted without this amendment. The amendments come into effect for financial years beginning on or after 1 January 2014. Application must be effected retrospectively. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 19 December 2013. The Group has not transferred its existing OTC derivatives to central counterparties, so we are have not yet been affected by this amendment.

- **Publication of IFRS 10 – Consolidated Financial Statements**
  The new standard published in May 2011 replaces IAS 27 Consolidated and Separate Financial Statements in relation to consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities and creates a standard definition for control, which must be applied to all companies included the special purpose entities previously analysed under SIC-12. An investor controls an investment if it is exposed both to variable returns from the involvement with the investment and has the ability to affect these returns through its power over the investment. Control must be determined on the basis of all present facts and circumstances and be reviewed in the event of changes to circumstances. The new standard was endorsed by the EU on 11 December 2012. The Group examined its investment portfolio thoroughly. The provisions of IFRS 10 did not result in an expansion of the scope of consolidation.

- **Publication of IFRS 11 – Joint Arrangements**
  The new standard published in May 2011 replaces IAS 31 Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 now distinguishes between two types of joint arrangements – joint operations and joint ventures – and uses the rights and obligations under the arrangement to distinguish between the two types. The previous option of proportionate consolidation of joint ventures, which is not used by the Group, has been abolished and application of the equity method is mandatory. The new standard was endorsed by the EU on 11 December 2012. The Group examined its investments in associates and consistently identified these as joint ventures. As we already include these companies in the consolidated financial statements using the capital adequacy method, this resulted in no changes in the scope of consolidation.

- **Publication of IFRS 12 – Disclosure of Interests in Other Entities**
  The standard published in May 2011 codifies the aim of disclosure requirements with regard to disclosures of the type, associated risks and financial repercussions of interests in subsidiaries, associates and joint ventures as well as unconsolidated structured entities. In comparison with IAS 27 or SIC-12, IFRS 12 requires more comprehensive disclosures in the notes and stipulates which minimum information must be provided to fulfil the objective. The new standard was endorsed by the EU on 11 December 2012. The Group fulfilled the required disclosure obligations under Notes (73 to 75).

b) New standards and interpretations not yet applied
The IASB has issued further standards and revisions of standards and interpretations that are not mandatory for the 2014 financial year.

- **Annual Improvement Project 2010-2012 cycle**
  In December 2013, the IASB published revisions to existing IAS/IFRS rules as part of its annual improvement programme. The proposed amendments have not yet been endorsed by the EU. The amendments mainly relate to clarifications regarding IFRS 2 (definition of vesting conditions), IFRS 3 (accounting for contingent consideration in a business combination), IFRS 8 (aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets), IFRS 13 (definition short-term receivables and payables), IAS 16 and IAS 38 (revaluation method - proportionate restatement of accumulated depreciation) and IAS 24 (definition of key management personnel). The amendments were endorsed by the EU on 17 December 2014 and are applicable for financial years beginning on or after 1 February 2015. The Group does not expect this to result in any material changes.

- **Annual Improvement Project 2011-2013 cycle**
  In December 2013, the IASB published revisions to existing IAS/IFRS rules as part of its annual improvement programme. The proposed amendments have not yet been endorsed by the EU. These amendments primarily relate to clarifications regarding IFRS 1 (Meaning of "effective IFRSs"), IFRS 3 (scope of exception for joint ventures), IFRS 13 (scope of paragraph 52 (portfolio exception)) and IAS 40 (clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property). The amendments were endorsed by the EU on 18 December 2014 and are applicable for financial years beginning on or after 1 January 2015. The Group does not expect this to result in any material changes.

- **Publication of IFRS 9 – Financial Instruments**
  In July 2014, the IASB published IFRS 9. The standard is to replace the regulations of IAS 39. IFRS 9 deals with the classification, measurements and impairment of financial instruments and with hedge accounting. The standard is applicable to financial years beginning on or after 1 January 2018. However, the standard has not yet been endorsed by the EU. The application of IFRS 9 will have an extensive impact on the classification and measurement of the Group's financial assets and liabilities. A considerable increase is expected in financial assets to be measured at fair value. In addition, the impairment requirements are expected to push up the amount of impairment. On the other hand, the Group expects no material effects on hedge accounting.

- **Publication of IFRS 14 – Regulatory Deferral Accounts**
  In January 2014, the IASB published IFRS 14. IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. The new standard applies to financial years beginning on or after 1 January 2016. However, the new standard has not yet been endorsed by the EU. The standard will have no effect on the Group.

- **Publication of IFRS 15 – Revenue from Contracts with Customers**
  In May 2014, the IASB published IFRS 15. FRS 15 specifies how and when an IFRS reporter will recognise revenue. To provide users of financial statements with more informative, relevant disclosures, the standard provides a single, principles-based five-step model to be applied to all contracts with customers. The new standard applies to financial years beginning on or after 1 January 2017. The new standard has not yet been endorsed by the EU. The Group expects no material changes, as the standard is not applicable to leases and financial instruments – and therefore not applicable to the majority of our revenue.

- **Amendment to IAS 19 – Defined Benefit Plans: Employee Contributions**
  In November 2013, the IASB published the amendments to IAS 19 in relation to employee contributions. The amendment clarifies paragraph 93. The paragraph relates to accounting for employee contributions set out in the formal terms of a defined benefit plan. The amendment applies to financial years beginning on or after 1 July 2014. The amendment was endorsed by the EU on 17 December 2014. The amendment therefore applies in the EU to financial years beginning on or after 1 February 2015. The Group expects the amendment to result only in a minor adjustment with regard to defined benefit plans.

- **Publication of IFRIC 21 – Levies**
  In May 2013, the IASB published IFRIC 21. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred. The interpretation applies to financial years beginning on or after 1 January 2014. The amendment was endorsed by the EU on 13 June 2014. IFRIC 21 therefore applies in the EU to financial years beginning on or after 17 June 2014. The Group does not expect this interpretation to result in any changes

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(5) NET INTEREST INCOME

in '000 EUR	2014	2013
Income from cash and balances with central banks	72	282
Income from loans and advances to banks	2,457	3,125
Income from loans and advances to customers	171,726	144,640
Income from leasing business	26,264	26,277
Income from hedging instruments	14,168	6,274
Income from derivatives, other	11,848	11,030
Income from debt securities	63,539	88,118
Income from shares	2,633	2,362
Income from investments in affiliated companies	0	50
Income from equity investments, other	1,199	2,286
Interest and similar income	**293,906**	**284,444**
Expenses from amounts owed to banks	–1,927	–2,285
Expenses from amounts owed to customers	–25,506	–28,235
Expenses from liabilities evidenced by certificates	–22,702	–15,887
Expenses from hedging instruments	–35,816	–37,237
Expenses from derivatives, other	–12,563	–12,541
Expenses from liabilities designated AFV	–11,855	–9,984
Expenses from supplementary capital	–6,123	–6,137
Interest and similar expenses	**–116,492**	**–112,306**
Net interest income	**177,414**	**172,138**

An amount of EUR 2,671,000 from unwinding was recorded under interest income from loans and advances to customers (2013: EUR 3,082,000). Interest income from loans and advances measured at amortised cost amounts to EUR 231,554,000 (2013: EUR 208,180,000). Interest expense on loans and advances measured at amortised cost amounts to EUR – 56,258,000 (2013: EUR – 52,544,000).

Of which income from debt securities

in '000 EUR	2014	2013
Income from debt securities – HFT	2	5
Income from debt securities – AFV	10,952	28,852
Income from debt securities – AFS	22,013	25,867
Income from debt securities – HTM	30,572	33,394
Income from debt securities	**63,539**	**88,118**

Of which income from shares

in '000 EUR	2014	2013
Income from shares – HFT	9	7
Income from shares – AFV	231	231
Income from shares – AFS	1,930	1,662
Income from shares – HTM	463	462
Income from shares	**2,633**	**2,362**

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

(6) LOAN LOSS PROVISIONS

in '000 EUR	2014	2013
Additions to valuation allowances	–71,115	–60,205
Reversals of valuation allowances	25,248	22,762
Direct write-downs of loans and advances	–1,619	–2,877
Income from amounts received on loans and advances already written down	3,034	3,233
Additions to provisions	–40,430	–7,349
Reversals of provisions	3,187	2,390
Loan loss provisions	**–81,695**	**–42,046**

In 2014, the loss from the direct write-down of loans and advances and consumption of loan loss provisions created amounted to EUR 36,717,000 (2013: EUR 30,510,000). There were no indications of a need to recognise additional impairment as of the preparation date of the consolidated financial statements. Additions to provisions include the provision for the guarantee to Pfandbriefstelle/ Pfandbriefbank according to Section 2 of the Austrian Pfandbriefstelle Act (PfBrStG) of EUR 36,000,000 (2013: EUR 0). More detailed disclosures are given under Note (75).

(7) NET FEE AND COMMISSION INCOME

in '000 EUR	2014	2013
Lending and leasing business	4,121	4,254
Securities business	17,877	19,067
Giro and payment transactions	13,100	13,395
Other service business	4,729	4,735
Fee and commission income	**39,827**	**41,451**

in '000 EUR	2014	2013
Lending and leasing business	–935	–949
Securities business	–1,454	–1,447
Giro and payment transactions	–1,766	–1,863
Other service business	–48	–236
Fee and commission expenses	**–4,203**	**–4,495**

Fee and commission income from financial assets or liabilities, which are not classified as measured at fair value through profit or loss, amounts to EUR 8,886,000 (2013: EUR 9,316,000). Fee and commission expenses on financial assets or liabilities, which are not classified as measured at fair value through profit or loss, amount to EUR – 467,000 (2013: EUR – 425,000). Fee and commission income from fiduciary activities amounts to EUR 1,331,000 (2013: EUR 1,313,000).

(8) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	2014	2013
Adjustment to loans and advances to banks	9,661	–5,837
Adjustment to loans and advances to customers	21,121	–12,562
Adjustment to financial instruments available for sale	17,998	–21,672
Adjustment to financial instruments with banks	–198	0
Adjustment to liabilities to customers	–19,760	879
Adjustment to securitised liabilities	–57,150	18,014
Adjustment to supplementary capital	–9,387	3,346
Net result from adjustment to underlying transactions from hedging	**–37,715**	**–17,832**
Measurement of hedging instruments for loans and advances to banks	–10,909	6,209
Measurement of hedging instruments for loans and advances to customers	–21,425	12,737
Measurement of hedging instruments for available for sale financial instruments	–18,834	21,974
Measurement of hedging instruments for liabilities to banks	200	0
Measurement of hedging instruments for liabilities to customers	20,377	–1,045
Measurement of hedging instruments for securitised liabilities	57,861	–17,776
Measurement of hedging instruments for supplementary capital	11,091	–3,929
Net result of the measurement of hedging instruments	**38,361**	**18,170**
Net result on hedge accounting	**646**	**338**

(9) NET TRADING RESULT

in '000 EUR	2014	2013
Trading result	–1,552	–823
Result from the valuation of financial instruments – HFT	77	75
Result from the valuation of derivatives	14,660	–116,032
Result from the valuation of financial instruments – AFV	17,459	139,723
Net trading result	**30,644**	**22,943**

Of which trading result

in '000 EUR	2014	2013
Currency-based transactions	–1,077	–88
Interest-based transactions	–479	–734
Result from consolidation of liabilities	4	–1
Trading result	**–1,552**	**–823**

Currency-related transactions include translation differences from assets and liabilities in foreign currencies. In 2014, the translation differences totalled EUR – 3,200,000 (2013: EUR 4,394,000).

Of which result from the valuation of financial instruments HFT

in '000 EUR	2014	2013
HFT – realised gains	14	70
HFT – realised losses	–2	0
HFT – appreciation in value	93	63
HFT – depreciation/amortisation	–28	–58
Result from the valuation of financial instruments – HFT	**77**	**75**

Of which result from the valuation of derivatives

in '000 EUR	2014	2013
Interest rate swaps	25,949	–97,521
Cross-currency swaps	–17,718	–24,176
Interest rate options	280	1,155
Credit default swaps	–7	0
Securities options	–49	0
Currency options	1	0
Foreign exchange forwards	85	–474
Currency swaps	6,119	4,984
Result from the valuation of derivatives	**14,660**	**–116,032**

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

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

in '000 EUR	2014	2013
Realised gains on assets AFV	940	6,277
Realised gains on liabilities LAFV	10,195	1,555
Realised losses on assets AFV	–10,251	–579
Realised losses on liabilities LAFV	–413	–11
Impairment reversals on assets AFV	56,704	1,330
Impairment reversals on liabilities LAFV	64,134	154,098
Impairments on assets AFV	–8,160	–20,018
Impairments on liabilities LAFV	–95,690	–2,929
Result from the valuation of financial instruments – AFV	**17,459**	**139,723**

In the 2014 reporting year, credit risk was hedged using credit derivatives or similar instruments. A credit default swap was concluded for this purpose in 2014, which hedges items of the proprietary securities portfolio.

(10) NET RESULT FROM OTHER FINANCIAL INSTRUMENTS

in '000 EUR	2014	2013
Realised gains on sales of financial instruments	2,352	3,536
Realised losses on sales of financial instruments	–1,045	–1,920
Impairment reversals on financial instruments	2,900	8,154
Impairments on financial instruments	–3,146	–5,828
Net result from other financial instruments	**1,061**	**3,942**

In the year under review, an amount of EUR -23,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2013: EUR – 1,096,000).
The reclassification is contained in the following table under the items "AFS – realised gains" and "AFS – realised losses".

Net result from other financial instruments by measurement classification

in '000 EUR	2014	2013
AFS – realised gains	165	874
AFS – realised losses	–268	–1,874
AFS – impairment reversals	628	2,223
AFS – impairments	–285	–1,791
Result from financial assets AFS	**240**	**–568**
HTM – realised gains	177	1,131
HTM – realised losses	–749	0
HTM – impairment reversals	703	3,248
HTM – impairments	–256	–760
Result from financial assets HTM	**–125**	**3,619**
L&R – realised gains	1,399	606
L&R – realised losses	–23	–46
L&R – impairment reversals	1,562	2,670
L&R – impairments	–2,143	–2,837
Result from financial assets L&R	**795**	**393**
LAC – realised gains	611	925
LAC – realised losses	–5	0
LAC – impairment reversals	7	13
LAC – impairments	–462	–440
Result from liabilities LAC	**151**	**498**
Net result from other financial instruments	**1,061**	**3,942**

(11) ADMINISTRATIVE EXPENSES

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

in '000 EUR	2014	2013
Staff costs	–56,956	–54,523
Materials expenses	–30,763	–31,966
Depreciation/amortisation of property, plant and equipment and intangible assets	–4,382	–4,683
Administrative expenses	**–92,101**	**–91,172**

Of which staff costs

in '000 EUR	2014	2013
Wages and salaries	–42,332	–40,231
Statutory social security contributions	–10,884	–10,454
Voluntary social benefits	–802	–858
Expenses for retirement benefits	–1,738	–1,121
Social capital	–1,200	–1,859
Staff costs	**–56,956**	**–54,523**

Expenses for retirement and other benefits include contributions to defined contribution plans as an employee retirement benefit and pension fund contributions of EUR 1,131,000 (2013: EUR 1,043,000).

Of which material expenses

in '000 EUR	2014	2013
Building expenses	–4,971	–4,660
IT expenses	–11,299	–12,045
Advertising and PR expenses	–4,316	–4,539
Legal and advisory expenses	–1,883	–1,710
Communications expenses	–1,218	–1,324
Organisational form-related expenses	–2,111	–2,608
Staff development expenses	–1,073	–1,091
Other materials expenses	–3,892	–3,989
Materials expenses	**–30,763**	**–31,966**

Building expenses include payments for rented and leased assets. For 2015, minimum lease expenses of EUR 1,547,000 are projected (2014: EUR 1,363,000); the projected amount for the next five years is EUR 7,159,000 (2014: EUR 6,237,000).

Minimum lease payments from non-terminable operating leases

in '000 EUR	2014	2013
Up to 1 year	–1,079	–1,216
More than 1 year to 5 years	–2,865	–3,232
More than 5 years	–4,404	–6,011
Minimum lease payments from non-terminable operating leases (lessee)	**–8,348**	**–10,459**

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

in '000 EUR	2014	2013
Depreciation of property, plant and equipment	–3,727	–3,706
Impairment of property, plant and equipment	0	–321
Depreciation/amortisation of intangible assets	–655	–656
Depreciation/amortisation of property, plant and equipment and intangible assets	**–4,382**	**–4,683**

(12) OTHER INCOME

in '000 EUR	2014	2013
Income from operating leases	4,175	4,046
Income from the disposal of assets	4,390	3,998
Other revenue from leasing business	1,747	1,958
Operating cost income	2,160	1,938
Merchandise revenues	1,316	1,389
Revenues from consultancy and other services	507	432
Miscellaneous other income	2,309	2,856
Other income	**16,604**	**16,617**

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

Minimum lease payments from non-terminable operating leases

in '000 EUR	2014	2013
Up to 1 year	3,389	3,113
More than 1 year to 5 years	8,184	8,634
More than 5 years	8,382	173
Minimum lease payments from non-terminable operating leases (lessor)	**19,955**	**11,920**

(13) OTHER PAYMENTS

in '000 EUR	2014	2013
Depreciation/amortisation investment properties	–2,642	–1,691
Impairment investment properties	–300	–700
Depreciation/amortisation other assets	–1,750	–2,173
Impairment other assets	–295	–550
Disposals of remaining carrying amounts	–1	–3
Losses on the disposal of assets	–2,463	–1,965
Other expenses from leasing business	–2,731	–2,627
Operating cost expenses	–2,387	–2,550
Cost of merchandise	–1,296	–1,377
Other tax expenses	–12,924	–7,880
Expenses resulting from losses	–2,349	–314
Miscellaneous other expenses	–4,453	–5,559
Other expenses	**–33,591**	**–27,389**

Other tax expenses include the stability tax in the amount of EUR 12,567,000 (2013: EUR 7,504,000).

(14) TAXES ON INCOME

in '000 EUR	2014	2013
Current income taxes	–10,274	–22,190
Deferred income taxes	–2,414	732
Income taxes from previous periods	–38	–184
Taxes on income	**–12,726**	**–21,642**

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

in '000 EUR	2014	2013
Earnings before taxes	53,979	96,134
Applicable tax rate	25 %	25 %
Income tax computed	**–13,495**	**–24,034**
Tax effects		
from tax-exempt investment income	2,728	1,035
from other tax-exempt income	19	850
from previous years and tax rate changes	–228	213
from differing international tax rates	3	51
from other non-deductible expenses	–2,101	–243
from other differences	348	486
Taxes on income	**–12,726**	**–21,642**

Deferred taxes from the measurement of financial instruments designated as available-for-sale in equity are recognised directly under other comprehensive income and thus also in equity.
As at 31 December 2014, these deferred taxes totalled EUR 5,350,000 (tax liabilities) (2013: tax liabilities of EUR 4,218,000).

C. NOTES TO THE BALANCE SHEET

(15) CASH AND BALANCES WITH CENTRAL BANKS

in '000 EUR	31.12.2014	31.12.2013
Cash on hand	29,031	33,888
Balances with central banks	441,667	559,526
Deferred interest	1	8
Cash and balances with central banks	**470,699**	**593,422**

Balances with central banks of EUR 45,528,000 comprise the minimum reserve per ECB regulations (2013: EUR 50,233,000). According to the definition of the Austrian National Bank, the minimum reserve represents a working balance for current payment transactions. The minimum reserve therefore fulfils the definition of "cash and cash equivalents" and is accordingly reported under cash and balances with central banks.

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

Loans and advances to banks – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Interbank accounts	124,014	148,161
Money market investments	58,660	357,197
Loans to banks	27,828	101,937
Bonds	666,635	500,711
Other loans and advances	6,203	5,951
Loans and advances to banks	**883,340**	**1,113,957**

In loans and advances to banks, the use of hedge accounting led to amortised cost of EUR 216,268,000 (2013: EUR 169,025,000) being adjusted by the hedged fair value of EUR 16,261,000 (2013: EUR 6,600,000).

Loans and advances to banks – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	452,803	728,538
Germany	129,473	107,135
Switzerland and Liechtenstein	41,099	72,413
Italy	1,598	724
Other foreign countries	258,367	205,147
Loans and advances to banks	**883,340**	**1,113,957**

Valuation allowances included – by type

in '000 EUR	31.12.2014	31.12.2013
Portfolio valuation allowances	–258	–141
Loan loss provisions for loans and advances to banks	**–258**	**–141**

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

Loans and advances to customers – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Cash advances	355,791	356,287
Overdraft lines	699,852	717,325
Acceptance credits	13,835	11,862
Municipal cover loans	726,273	720,149
Mortgage bond cover	2,353,626	2,066,906
Lombard loans	81,725	110,289
Other loans	3,060,940	2,899,896
Lease receivables (net investment in a lease)	1,287,887	1,333,128
Bonds	374,373	269,310
Other loans and advances	110	132
Loans and advances to customers	**8,954,412**	**8,485,284**

In loans and advances to customers, the use of hedge accounting led to amortised costs of EUR 571,924,000 (2013: EUR 423,390,000) being adjusted by the hedged fair value of EUR 50,969,000 (2013: EUR 29,860,000).

Loans and advances to customers – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	5,756,505	5,404,352
Germany	1,110,155	1,027,094
Switzerland and Liechtenstein	608,252	561,971
Italy	1,006,514	1,041,570
Other foreign countries	472,986	450,297
Loans and advances to customers	**8,954,412**	**8,485,284**

Loans and advances to customers – breakdown by segment

in '000 EUR	31.12.2014	31.12.2013
Corporate Customers	5,240,673	4,985,214
Private Customers	1,774,556	1,673,542
Financial Markets	614,834	451,975
Corporate Center	1,324,349	1,374,553
Loans and advances to customers	**8,954,412**	**8,485,284**

Loans and advances to customers – breakdown by industry

in '000 EUR	31.12.2014	31.12.2013
Public sector	629,624	458,888
Financial intermediaries	245,147	146,882
Commerce	1,081,916	1,013,770
Industry	781,297	778,550
Trading	635,115	605,333
Tourism	443,405	417,296
Real estate	1,497,325	1,464,515
Other industries	1,540,340	1,592,291
Liberal professionals	203,594	177,453
Private households	1,889,581	1,781,024
Other	7,068	49,282
Loans and advances to customers	**8,954,412**	**8,485,284**

Gross and net investment in leases

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

in '000 EUR	31.12.2014	31.12.2013
Minimum lease payments	1,565,722	1,630,242
Non-guaranteed residual values	0	0
Gross total investment	**1,565,722**	**1,630,242**
Unrealised financial income	–277,835	–297,114
Net investment	**1,287,887**	**1,333,128**
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	**1,287,887**	**1,333,128**

Total valuation allowances on finance leases amounted to EUR 39,168,000 (2013: EUR 22,118,000).

Leases – breakdown by maturity

in '000 EUR	31.12.2014	31.12.2013
Gross total investment	**1,565,722**	**1,630,242**
of which up to 1 year	230,979	231,114
of which 1 to 5 years	497,003	507,337
of which more than 5 years	837,740	891,791
Present value of minimum lease payments	**1,287,887**	**1,333,128**
of which up to 1 year	190,070	192,189
of which 1 to 5 years	374,235	379,476
of which more than 5 years	723,582	761,463

Loan loss provisions – breakdown by type

in '000 EUR	31.12.2014	31.12.2013
Individual valuation allowances	–153,259	–144,060
Portfolio valuation allowances	–15,674	–13,762
Other valuation allowances	0	–971
Loan loss provisions for loans and advances to customers	**–168,933**	**–158,793**

Loan loss provisions – breakdown by segment

in '000 EUR	31.12.2014	31.12.2013
Corporate Customers	–99,930	–115,399
Private Customers	–17,612	–19,120
Financial Markets	–12,197	–439
Corporate Center	–39,194	–23,835
Loan loss provisions for loans and advances to customers	**–168,933**	**–158,793**

Changes in the individual valuation allowances included

in '000 EUR	2014	2013
Balance 1 January	–144,060	–138,734
Currency differences	–217	939
Reclassification	729	606
Utilisation	35,090	27,616
Reversal	24,612	22,201
Additions	–69,413	–56,688
Balance 31 December	**–153,259**	**–144,060**

Changes in the portfolio valuation allowances included

in '000 EUR	2014	2013
Balance 1 January	–13,762	–10,760
Reclassification	–971	0
Utilisation	8	16
Reversal	636	415
Additions	–1,585	–3,433
Balance 31 December	**–15,674**	**–13,762**

Changes in the other valuation allowances included

in '000 EUR	2014	2013
Balance 1 January	–971	–1,076
Reclassification	971	0
Utilisation	0	1
Reversal	0	147
Additions	0	–43
Balance 31 December	**0**	**–971**

Total changes of valuation allowances

in '000 EUR	2014	2013
Balance 1 January	–158,793	–150,570
Currency differences	–217	939
Reclassification	729	606
Utilisation	35,098	27,633
Reversal	25,248	22,763
Additions	–70,998	–60,164
Balance 31 December	**–168,933**	**–158,793**

(18) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2014	31.12.2013
Positive market value of fair value hedges	65,399	5,052
Deferred interest on derivative hedges	10,717	390
Positive market values of hedges	**76,116**	**5,442**

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

in '000 EUR	31.12.2014	31.12.2013
Interest rate swaps	2,555,846	2,054,590
Cross currency swaps	119,343	66,937
Interest rate derivatives	**2,675,189**	**2,121,527**
Derivatives	**2,675,189**	**2,121,527**

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

in '000 EUR	31.12.2014	31.12.2013
Interest rate swaps	63,823	2,777
Cross currency swaps	1,576	2,275
Interest rate derivatives	**65,399**	**5,052**
Derivatives	**65,399**	**5,052**

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

in '000 EUR	31.12.2014	31.12.2013
Interest rate swaps	111,459	104,079
Cross currency swaps	32,397	7,635
Interest rate derivatives	**143,856**	**111,714**
Derivatives	**143,856**	**111,714**

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

(19) TRADING ASSETS AND DERIVATIVES

Trading assets and derivatives – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Debt securities of other issuers	0	190
Investment certificates	686	759
Positive market values of derivative financial instruments	539,795	513,056
Deferred interest	55,179	60,132
Trading assets and derivatives	**595,660**	**574,137**

Trading assets and derivatives – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	56,226	39,929
Germany	233,955	213,318
Switzerland and Liechtenstein	1,481	3,031
Other foreign countries	303,998	317,859
Trading assets and derivatives	**595,660**	**574,137**

Nominal values from derivatives – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Interest rate swaps	5,821,263	6,518,537
Cross currency swaps	1,110,141	792,449
Interest rate options	408,990	600,452
Interest rate derivatives	**7,340,394**	**7,911,438**
FX forward transactions	739,757	1,074,858
FX swaps	453,648	608,638
FX options	1,718	5,785
Currency derivatives	**1,195,123**	**1,689,281**
Options on top-quality securities	28,520	0
Derivatives on top-quality securities	**28,520**	**0**
Credit default swaps	15,000	0
Credit derivatives	**15,000**	**0**
Derivatives	**8,579,037**	**9,600,719**

Positive market values from derivatives – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Interest rate swaps	441,628	397,662
Cross currency swaps	81,809	95,261
Interest rate options	3,930	3,470
Interest rate derivatives	**527,367**	**496,393**
FX forward transactions	10,240	15,862
FX swaps	1,664	529
FX options	55	272
Currency derivatives	**11,959**	**16,663**
Options on top-quality securities	469	0
Derivatives on top-quality securities	**469**	**0**
Derivatives	**539,795**	**513,056**

Negative market values from derivatives – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Interest rate swaps	190,913	171,724
Cross currency swaps	51,364	36,632
Interest rate options	2,661	2,481
Interest rate derivatives	**244,938**	**210,837**
FX forward transactions	9,701	15,408
FX swaps	529	5,513
FX options	55	273
Currency derivatives	**10,285**	**21,194**
Credit default swaps	240	0
Credit derivatives	**240**	**0**
Derivatives	**255,463**	**232,031**

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

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

in '000 EUR	31.12.2014	31.12.2013
Debt securities of public issuers	284,269	294,102
Debt securities of other issuers	267,426	346,127
Investment certificates	6,055	0
Other equity interests	5,409	5,431
Loans and advances to customers	552,301	527,541
Deferred interest	7,932	9,515
Financial assets – at fair value	**1,123,392**	**1,182,716**

Notes on credit risk

in '000 EUR	2014	2013
Credit exposure	**1,123,392**	**1,182,716**
Collateral	509,244	431,181
Total change in market value	**154,479**	**116,169**
thereof due to market risk	152,274	120,045
thereof due to credit risk	2,205	–3,876
Change in market value during the reporting period	**38,310**	**–16,811**
thereof due to market risk	32,229	–29,500
thereof due to credit risk	6,081	12,689

Changes in fair value due to credit risk are measured by means of a model in which fair value changes due to credit risk are deducted from the overall change in fair value. The disposal of financial instruments at fair value resulted in a realised loss of EUR -32,106,000 (2013: EUR 5,272,000). This loss is offset by a realised gain of EUR 32,579,000 (2013: EUR -6,044,000) from the disposal of derivatives. These derivatives are primarily for hedging risks in connection with interest rate changes, currency movements and market price changes. In 2014, we held a credit derivative to hedge credit risk from financial assets voluntarily designated at fair value.

Financial assets designated at fair value – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	650,981	618,608
Germany	126,098	150,416
Switzerland and Liechtenstein	44,907	43,716
Italy	12,107	15,432
Other foreign countries	289,299	354,544
Financial assets – at fair value	**1,123,392**	**1,182,716**

Financial assets designated at fair value – breakdown by industry

in '000 EUR	31.12.2014	31.12.2013
Public sector	696,435	682,191
Financial institutions	166,915	219,914
Financial intermediaries	79,307	89,424
Commerce	14,995	3,751
Industry	65,693	71,141
Trading	34,879	40,972
Real estate	16,328	12,321
Other industries	21,981	31,799
Liberal professionals	682	1,605
Private households	26,177	26,261
Other	0	3,337
Financial assets – at fair value	**1,123,392**	**1,182,716**

(21) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Debt securities of public issuers	295,324	231,053
Debt securities of other issuers	364,499	486,118
Shares	110	110
Investment certificates	18,714	16,200
Other equity interests	19,389	18,594
Deferred interest	12,358	15,325
Other equity investments	10,727	11,429
Other investments in affiliated companies	28	94
Financial assets – available for sale	**721,149**	**778,923**

Financial assets available for sale – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	361,478	404,414
Germany	39,677	36,089
Switzerland and Liechtenstein	4,988	10,302
Italy	19,787	27,230
Other foreign countries	295,219	300,888
Financial assets – available for sale	**721,149**	**778,923**

Financial assets available for sale – breakdown by industry

in '000 EUR	31.12.2014	31.12.2013
Public sector	308,214	237,150
Financial institutions	287,021	338,598
Financial intermediaries	37,032	39,990
Commerce	11,820	35,221
Industry	34,399	56,757
Tourism	625	384
Real estate	201	204
Other industries	41,837	70,619
Financial assets – available for sale	**721,149**	**778,923**

The financial assets available for sale item represents other holdings and shares in affiliated companies with a carrying value of EUR 10,755,000 (2013: EUR 11,523,000). These assets were not carried at fair value on the balance sheet. The fair values of these financial instruments cannot be reliably determined, as these assets are not traded on an active market, comparable investments are not observable on a market and internal models are inadequate for valuation. These assets represent strategic investments of the Group. There is thus no intention to sell. In 2014, none of the investments, which were not measured at fair value, were sold. However, two companies were merged with a company included in the consolidated financial statements.

Changes in the available-for-sale revaluation reserve were recorded directly in equity under other comprehensive income. As at 31 December 2014, this amount was EUR 55,557,000 (2013: EUR 39,048,000). In measuring available-for-sale assets, deferred taxes were directly deducted from the other comprehensive income. In the year under review, an amount of EUR – 23,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2013: EUR – 1,096,000). Impairment charges for these assets were recognised in the income statement in the item net result from other financial instruments under Note (10) and amounted to EUR 285,000 in 2014 (2013: EUR 1,791,000). As a result of using hedge accounting, the changes in market value recorded under other comprehensive income were reduced by the effective hedged fair value change of EUR – 39,216,000 (2012: EUR – 25,717,000) and recognised in the income statement under the result from hedge relationships.

(22) FINANCIAL ASSETS HELD TO MATURITY (HTM)

Financial assets held to maturity – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Debt securities of public issuers	327,672	301,816
Debt securities of other issuers	757,513	841,885
Supplementary capital of other issuers	9,985	9,979
Deferred interest	19,163	21,868
Financial assets – held to maturity	**1,114,333**	**1,175,548**

In 2014, an impairment of EUR 256,000 (2013: EUR 760,000) was recognised and reported in the result from other financial instruments. Assets were cut by EUR 230,000 (2013: 408,000) in the 2014 financial year as a result of the portfolio valuation allowance.

Financial assets held to maturity – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	214,742	277,364
Germany	108,334	108,003
Switzerland and Liechtenstein	5,001	0
Italy	5,174	38,933
Other foreign countries	781,082	751,248
Financial assets – held to maturity	**1,114,333**	**1,175,548**

Financial assets held to maturity – breakdown by industry

in '000 EUR	31.12.2014	31.12.2013
Public sector	334,531	308,221
Financial institutions	686,795	690,275
Financial intermediaries	41,281	63,884
Commerce	8,165	8,166
Industry	5,174	24,026
Other industries	38,387	80,976
Financial assets – held to maturity	**1,114,333**	**1,175,548**

(23) SHARES IN COMPANIES VALUED AT EQUITY

Change in shares in companies measured at equity

in '000 EUR	2014	2013
Carrying value of holding 1 January	36,449	34,778
Attributable profit/loss	–328	2,582
Dividends	–1,528	–911
Carrying value of holding 31 December	**34,593**	**36,449**

The difference between the carrying amount of holdings and pro rata equity in associated companies included in the consolidated financial statements applying the equity method was EUR 12,850,000 (2013: EUR 14,707,000). This difference was added to the value of the holdings and to retained earnings. Gains and losses on consolidated companies were recorded only on a pro rata basis in the income statement under the result from equity consolidation. In 2014, these gains and losses amounted to EUR – 328,000 (2013: EUR 2,582,000). Further information on companies valued at equity is given under item VII.

(24) INVESTMENT PROPERTY

in '000 EUR	31.12.2014	31.12.2013
Land portion	11,272	9,835
Buildings portion	49,054	44,721
Investment property	**60,326**	**54,556**

In 2014, the real estate portfolio comprised 62 properties in Austria, Switzerland, Germany and Italy (2013: 63). The portfolio contains both residential properties with a carrying amount of EUR 6,288,000 (2013: EUR 6,816,000) and commercial properties with a carrying amount of EUR 54,038,000 (2013: EUR 47,739,000). The current market value of our property portfolio is EUR 70,216,000 (2013: EUR 61,500,000).

Property valuations are performed in due consideration of key parameters and are based on internal appraisals. They therefore represent Level 3 in the fair value hierarchy.

Key parameters for real estate appraisal	2014	2013
Return in %	4–8%	4–8%
Inflation rate in %	2.50%	2.50%
Rental loss risk in %	1.5–8%	1.5–8%

There are no material restrictions as to the disposal of these assets. Nor are there any contractual obligations to purchase, construct or develop such properties. The development of investment property is shown in Note (30). Lease payments recognised for investment property are shown in Note (12).

(25) INTANGIBLE ASSETS

Intangible assets – breakdown by type

in '000 EUR	31.12.2014	31.12.2013
Software acquired	1,234	1,616
Other intangible assets	52	2
Intangible assets	**1,286**	**1,618**

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

(26) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

in '000 EUR	31.12.2014	31.12.2013
Land without buildings	1,192	1,313
Land with buildings	10,223	10,167
Buildings	56,736	57,587
Operational and office equipment	4,774	4,676
Leased movables	373	393
Construction in progress	755	548
Property, plant and equipment	**74,053**	**74,684**

The gross carrying amount of any fully depreciated property, plant and equipment that is still in use is EUR 8,975,000 (2013: EUR 9,991,000). The development of property, plant and equipment is shown in Note (30).

(27) DEFERRED TAX ASSETS

In the table below, deferred tax liabilities are deducted from tax assets when they represent an asset in net terms in the respective tax entity.

in '000 EUR	31.12.2014	31.12.2013
Temporary differences from writing-down assets	2,353	1,756
Temporary differences from provisions	150	157
Temporary differences from social capital	4,687	4,286
Temporary differences from impairments	9,032	6,959
Other temporary differences	1,000	938
From tax loss carryforwards	256	493
Deferred tax assets	**17,478**	**14,589**
Set-off of deferred taxes	–8,790	–7,974
Net deferred tax assets	**8,688**	**6,615**

Group companies hold unused tax loss carry-forwards in the amount of EUR 725,000 recognised as assets (2013: EUR 1,707,000). In addition, there are tax loss carryforwards of EUR 155,000 (2013: EUR 414,000) not recognised as assets in the Group. Non-capitalised loss carryfowards in the Group may be carried forward without restrictions. The breakdown by maturity is shown in Note (44).

(28) NON-CURRENT ASSETS AVAILABLE FOR SALE

in '000 EUR	31.12.2014	31.12.2013
Available for sale real estate	0	3,953
Non-current assets available for sale	**0**	**3,953**

The properties reported in the previous year were not sold in 2014. Therefore, they were reclassified as investment property. A profit of EUR 0 (2013: EUR 1,052,000) was achieved from the sale in 2014. Non-current assets held for sale and the income and expenses resulting therefrom were recognised in the Corporate Center segment.

(29) OTHER ASSETS

in '000 EUR	31.12.2014	31.12.2013
Other real estate	38,845	36,948
Trade receivables	485	608
Other tax claims	525	6,667
Deferred loans and advances	372	591
Other assets	23,628	12,239
Other assets	**63,855**	**57,053**

Deferred and any other assets not falling into other asset categories are reported under other assets. Also shown in this account are properties constituting neither property, plant and equipment per IAS 16, investment property per IAS 40, nor non-current assets available for sale per IFRS 5. These properties are closely related to the realisation of collateral from the lending business. The breakdown by maturity is shown in Note (44). Impairment on the other real estate properties was recorded under other expenses (Note 13), which in 2014 came to EUR 295,000 (2013: EUR 550,000).

(30) STATEMENT OF CHANGES IN ASSETS

in '000 EUR 2013	Acquisition cost 01.01.	Currency translation	Acquisitions	Additions	Disposals	Reclassifications	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,526	–34	0	267	–473	7	7,293	1,616
Other intangible assets	128	0	0	0	0	0	128	2
Intangible assets	**7,654**	**–34**	**0**	**267**	**–473**	**7**	**7,421**	**1,618**
Owner-occupied land and buildings	85,597	19	0	8,414	0	36	94,066	67,754
Operational and office equipment	13,222	–13	0	1,124	–361	0	13,972	4,676
Other property, plant and equipment	2,053	2	0	526	–21	0	2,560	2,254
Property, plant and equipment	**100,872**	**8**	**0**	**10,064**	**–382**	**36**	**110,598**	**74,684**
Investment property	79,996	–1	0	1,093	–2,862	–1,116	77,110	54,556
Total	**188,522**	**–27**	**0**	**11,424**	**–3,717**	**–1,073**	**195,129**	**130,858**

in '000 EUR 2013	Cumulative depreciation/amortisation 01.01.	Currency translation	Acquisitions	Regular amortisation	Disposals	Reclassifications	Impairments	Cumulative depreciation/amortisation 31.12.
Software acquired	–5,407	12	0	–655	373	0	0	–5,677
Other intangible assets	–126	0	0	0	0	0	0	–126
Intangible assets	**–5,533**	**12**	**0**	**–655**	**373**	**0**	**0**	**–5,803**
Owner-occupied land and buildings	–24,058	11	0	–1,954	0	–1	–310	–26,312
Operational and office equipment	–7,897	9	0	–1,735	337	0	–10	–9,296
Other property, plant and equipment	–293	0	0	–17	4	0	0	–306
Property, plant and equipment	**–32,248**	**20**	**0**	**–3,706**	**341**	**–1**	**–320**	**–35,914**
Investment property	–21,448	0	0	–1,691	1,218	67	–700	–22,554
Total	**–59,229**	**32**	**0**	**–6,052**	**1,932**	**66**	**–1,020**	**–64,271**

in '000 EUR 2014	Acquisition cost 01.01.	Currency translation	Acquisitions	Additions	Disposals	Reclassifications	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,293	33	0	256	–8	0	7,574	1,234
Other intangible assets	128	0	0	51	0	0	179	52
Intangible assets	**7,421**	**33**	**0**	**307**	**–8**	**0**	**7,753**	**1,286**
Owner-occupied land and buildings	94,066	167	0	1,150	–121	49	95,311	66,959
Operational and office equipment	13,972	14	0	1,797	–1,146	0	14,637	4,774
Other property, plant and equipment	2,560	–1	0	430	–320	–49	2,620	2,320
Property, plant and equipment	**110,598**	**180**	**0**	**3,377**	**–1,587**	**0**	**112,568**	**74,053**
Investment property	77,110	0	0	3,339	–1,255	8,480	87,674	60,326
Total	**195,129**	**213**	**0**	**7,023**	**–2,850**	**8,480**	**207,995**	**135,665**

in '000 EUR 2014	Cumulative depreciation/amortisation 01.01.	Currency translation	Acquisitions	Regular amortisation	Disposals	Reclassifications	Impairments	Cumulative depreciation/amortisation 31.12.
Software acquired	–5,677	–16	0	–655	8	0	0	–6,340
Other intangible assets	–126	–1	0	0	0	0	0	–127
Intangible assets	**–5,803**	**–17**	**0**	**–655**	**8**	**0**	**0**	**–6,467**
Owner-occupied land and buildings	–26,312	–18	0	–2,022	0	0	0	–28,352
Operational and office equipment	–9,296	–11	0	–1,689	1,133	0	0	–9,863
Other property, plant and equipment	–306	0	0	–16	22	0	0	–300
Property, plant and equipment	**–35,914**	**–29**	**0**	**–3,727**	**1,155**	**0**	**0**	**–38,515**
Investment property	–22,554	0	0	–2,642	298	–2,150	–300	–27,348
Total	**–64,271**	**–46**	**0**	**–7,024**	**1,461**	**–2,150**	**–300**	**–72,330**

(31) AMOUNTS OWED TO BANKS (LAC)

In liabilities to banks, the use of hedge accounting led to amortised costs of EUR 5,000,000 (2013: EUR 0) being adjusted by the hedged fair value of EUR 198,000 (2013: EUR 0).

Amounts owed to banks – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Interbank accounts	407,026	384,992
Money market borrowing	49,575	50,463
Loans from banks	570,321	200,873
Other liabilities	6	51,637
Amounts owed to banks	**1,026,928**	**687,965**

Amounts owed to banks – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	648,916	124,702
Germany	149,354	308,779
Switzerland and Liechtenstein	53,797	85,170
Other foreign countries	174,861	169,314
Amounts owed to customers	**1,026,928**	**687,965**

(32) AMOUNTS OWED TO CUSTOMERS (LAC)

In liabilities to customers, the use of hedge accounting led to amortised costs of EUR 137,000,000 (2013: EUR 23,000,000) being adjusted by the hedged fair value of EUR 18,881,000 (2013: EUR – 879,000).

Amounts owed to customers – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Demand deposits	3,028,026	3,212,551
Time deposits	403,330	277,421
Savings deposits	715,157	698,758
Special-interest savings books	516,284	626,920
Amounts owed to customers	**4,662,797**	**4,815,650**

Amounts owed to customers – breakdown by region

in '000 EUR	31.12.2014	31.12.2013
Austria	3,514,784	3,693,334
Germany	565,834	494,811
Switzerland and Liechtenstein	254,584	251,837
Italy	4,217	4,011
Other foreign countries	323,378	371,657
Amounts owed to customers	**4,662,797**	**4,815,650**

Amounts owed to customers – breakdown by segment

in '000 EUR	31.12.2014	31.12.2013
Corporate Customers	1,782,755	1,771,282
Private Customers	2,176,329	2,317,461
Financial Markets	490,494	488,489
Corporate Center	213,219	238,418
Amounts owed to customers	**4,662,797**	**4,815,650**

Amounts owed to customers – breakdown by industry

in '000 EUR	31.12.2014	31.12.2013
Public sector	528,999	460,255
Financial intermediaries	718,277	694,673
Commerce	473,640	505,633
Industry	217,221	370,924
Trading	211,234	222,761
Tourism	42,181	38,822
Real estate	82,878	111,163
Other industries	402,417	318,503
Liberal professionals	125,314	101,184
Private households	1,829,371	1,842,376
Other	31,265	149,356
Amounts owed to customers	**4,662,797**	**4,815,650**

(33) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

Liabilities evidenced by certificates – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Mortgage bonds	618,781	579,674
Municipal bonds	43,034	152,237
Medium-term fixed-rate notes	2,012	2,302
Bonds	1,107,012	579,526
Housing construction bonds	79,361	94,234
Bonds issued by Pfandbriefstellen	450,529	476,360
Deferred interest	13,049	10,257
Liabilities evidenced by certificates	**2,313,778**	**1,894,590**

The repurchase by the Group of outstanding bonds valued at EUR 12,433,000 was directly charged to liabilities evidenced by certificates (2013: EUR 42,561,000). In liabilities evidenced by certificates, the use of hedge accounting led to amortised cost of EUR 1,111,799,000 (2013: EUR 793,161,000) being adjusted by the hedged fair value of EUR 41,392,000 (2013: EUR – 15,759,000)

(34) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2014	31.12.2013
Negative market values of fair value hedges	143,856	111,714
Deferred interest on derivative hedging instruments	18,619	15,029
Negative market values of hedges	**162,475**	**126,743**

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

(35) TRADING LIABILITIES AND DERIVATIVES

Trading liabilities and derivatives – breakdown by type of business

in '000 EUR	31.12.2014	31.12.2013
Negative market values of derivative financial instruments	255,463	232,031
Deferred interest	6,298	6,191
Trading liabilities and derivatives	**261,761**	**238,222**

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

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

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

in '000 EUR	31.12.2014	31.12.2013
Amounts owed to banks at fair value	153,606	151,956
Amounts owed to customers at fair value	583,696	578,729
Mortgage bonds at fair value	27,201	24,248
Municipal bonds at fair value	747,778	700,737
Bonds at fair value	2,439,833	3,087,055
Housing construction bonds at fair value	159,710	143,198
Bonds issued by Pfandbriefstellen at fair value	176,194	313,099
Supplementary capital at fair value	60,232	61,078
Deferred interest	54,936	63,237
Financial liabilities at fair value	**4,403,186**	**5,123,337**

The repurchase by the Group of outstanding bonds valued at EUR 71,523,000 was directly charged to financial liabilities designated at fair value (2013: EUR 166,133,000).

Notes on own credit risk

in '000 EUR	2014	2013
Carrying value	**4,403,186**	**5,123,337**
Repayment amount	4,127,165	4,776,330
Difference between carrying and repayment amount	276,021	347,007
Total change in market value	**384,721**	**348,059**
thereof due to market risk	390,346	353,983
thereof due to credit risk	–5,625	–5,924
Change in market value during the reporting period	**36,662**	**–152,906**
thereof due to market risk	36,363	–151,680
thereof due to credit risk	299	–1,226

The credit spread of market data is determined for the computation of the market value of financial liabilities – LAFV. Changes in fair value due to credit risk are measured by means of a differentiated consideration of the financial instruments in terms of currency, duration, placement type and collateral/risk structure. Changes in fair value due to credit risk are measured by means of a model in which fair value changes due to credit risk are deducted from the overall change in fair value.

(37) PROVISIONS

Provisions by type

in '000 EUR	31.12.2014	31.12.2013
Severance provisions	17,443	15,517
Pension provisions	5,677	5,868
Service anniversary provisions	1,963	1,709
Social capital	**25,083**	**23,094**
Provisions for guarantees/ assumed liability	37,231	713
Provisions for credit risks	6,287	12,670
Provisions for ongoing litigation	1,143	2,893
Association obligation provisions	535	524
Other provisions	3,902	1,714
Other provisions	**49,098**	**18,514**
Provisions	**74,181**	**41,608**

The breakdown by maturity and the expected timing of any resulting outflows is shown in Note (44).

Guarantees and warrantees are not shown on the balance sheet, but pose material credit risk. To cover this default risk, provisions are recognised for customers with specific worsening of credit ratings. If a contingent liability from a guarantee or warranty takes effect, we have the right to have recourse to the guarantee holder. The collateral provided by the guarantee holder is therefore taken into account when recognising the provision. For this reason, an inflow of economic benefits other than the collateral should not be anticipated. In 2014, following the moratorium of HETA Asset Resolution AG by the Austrian financial market authority in connection with the guarantee of the Austrian regional mortgage banks (Landeshypothekenbanken) and their federal states (see note 46), we recognised a provision of EUR 36,000,000. This is the reason for the sharp increase in provisions for guarantees/assumed liability.

Credit risk provisions are similarly recognised to cover credit risk from unused credit lines. Unutilised credit commitments to customers represent contingent liabilities. As these are not shown on the balance sheet, risk can only be covered by provisions. As credit commitments per IAS 39.2(h) are concerned, IAS 37 applies. Litigation provisions include expected costs for legal action and counsel and estimated payment obligations to plaintiffs.

Association obligation provisions include pension benefits due to employees of the Hypo Group. These are shown under provisions instead of social capital because no expense accrues to Group employees.

No specific assets or funding are in place for social capital, apart from the pension agreement for employees of the St. Gallen branch. For employees of the St. Gallen branch, the fund assets are invested by Swiss Life AG, Zürich, within the framework of the BVG collective foundation Swiss Life. Employers and employees both pay their contributions into this fund. The fund assets and thus their measurement effects are therefore not included in these consolidated financial statements. Therefore, the provision recognises the net obligation from the present value of the defined benefit obligations less the fair value of the fund assets. No specific assets or funding are in place for social capital. Income/expenses from the allocation/reversal of provisions are recorded directly in administrative expenses. For pension provisions, we are required by law to hold fixed interest securities backing pension plan participants' pension entitlements.

The present value of the defined benefit obligations and the adjustments based on experience in the past five years amounted to:

in '000 EUR	Present value	Adjustment
For 2014	5,677	–0.9%
For 2013	5,868	–4.9%
For 2012	6,001	14.9%
For 2011	5,243	–21.1%
For 2010	6,576	8.0%

Change in social capital

in '000 EUR 2013	Severance provisions	Pension provisions	Service Anniversary provisions	Total
Present value 1 January	15,144	6,001	1,630	22,775
Years of service expense	741	238	155	1,134
Interest expense	431	160	49	640
Payments	–447	–242	–84	–773
Actuarial gains/losses	–352	–289	–41	–682
Present value 31 December	**15,517**	**5,868**	**1,709**	**23,094**

in '000 EUR 2014	Severance provisions	Pension provisions	Service Anniversary provisions	Total
Present value 1 January	15,517	5,868	1,709	23,094
Years of service expense	699	227	155	1,081
Interest expense	440	151	51	642
Payments	–211	–518	–63	–792
Actuarial gains/losses	998	–51	111	1,058
Present value 31 December	**17,443**	**5,677**	**1,963**	**25,083**

Actuarial gains and losses arising from severance and pension provisions in the amount of EUR 947,000 (2013: EUR – 641,000) recorded under the statement of comprehensive income are attributable to changes in financial parameters.

For the defined benefit obligation for the employees of the St. Gallen branch, the components of the fund assets are described and the fund assets reconciled below.

Fund asset components

in '000 EUR	2014	2013
Fair value of assets from defined benefit plans	2,179	1,696
of which equity instruments	26	17
of which debt securities	1,856	1,442
of which properties	262	204
of which other assets from defined benefit plans	35	33
Present value of obligations from defined benefit plans	2,648	1,907
Net defined benefit obligation – St. Gallen branch	**469**	**211**

Reconciliation of fund assets

in '000 EUR	2014	2013
Fair value of assets from defined benefit plans on 1 January	**1,696**	**1,577**
Currency translation effects	36	–1
Interest income from assets	52	47
Gain/loss on remeasurement of assets	8	125
Employer contribution payments	184	163
Employee contribution payments	123	108
Plan participant contribution payments	465	817
Disbursements	–385	–1,140
Fair value of assets from defined benefit plans on 31 December	**2,179**	**1,696**

Changes in other provisions

in '000 EUR 2013	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	1,462	8,813	1,913	521	2,219	14,928
Currency translation	0	0	0	0	–19	–19
Allocation	216	5,349	1,615	63	697	7,940
Use	0	–170	–44	–60	–140	–414
Reversal	–965	–1,322	–591	0	–1,043	–3,921
Carrying value 31 December	**713**	**12,670**	**2,893**	**524**	**1,714**	**18,514**

in '000 EUR 2014	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	713	12,670	2,893	524	1,714	18,514
Currency translation	0	0	0	0	19	19
Allocation	36,792	3,616	201	75	8,471	49,155
Use	0	–6,518	–90	–64	–1,701	–8,373
Reversal	–274	–2,912	–181	0	–6,850	–10,217
Reclassification	0	–569	–1,680	0	2,249	0
Carrying value 31 December	**37,231**	**6,287**	**1,143**	**535**	**3,902**	**49,098**

(38) TAX LIABILITIES

Tax liabilities – breakdown by type

in '000 EUR	31.12.2014	31.12.2013
Tax provision	2,022	7,622
Current tax liability	191	252
Tax liabilities	**2,213**	**7,874**

Change in tax provisions

in '000 EUR	2014	2013
Carrying value 1 January	7,622	15,460
Currency translation	4	–5
Allocation	741	436
Use	–6,117	–428
Reversal	–228	–7,792
Change in scope of consolidation	0	–49
Carrying value 31 December	**2,022**	**7,622**

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

(39) DEFERRED TAX

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

in '000 EUR	31.12.2014	31.12.2013
Temporary differences from the measurement of financial instruments via the income statement	6,838	3,136
Temporary differences from the measurement of financial instruments via the statement of comprehensive income	5,350	4,218
Temporary differences from writing down assets	2,177	1,923
Temporary differences from provisions	2,027	834
Other temporary differences	325	349
Deferred tax liabilities	**16,717**	**10,460**
Set-off of deferred taxes	–8,790	–7,974
Net deferred tax liabilities	**7,927**	**2,486**

(40) OTHER LIABILITIES

in '000 EUR	31.12.2014	31.12.2013
Liabilities in connection with social security	1,430	1,373
Other tax liabilities	8,892	10,197
Trade payments	4,455	6,707
Deferred liabilities	14,656	1,201
Other Liabilities	26,542	21,027
Other Liabilities	**55,975**	**40,505**

(41) SUPPLEMENTARY CAPITAL (LAC)

In the item supplementary capital, the use of hedge accounting led to amortised costs of EUR 98,961,000 (2013: EUR 100,000,000) being adjusted by the hedged fair value of EUR 7,636,000 (2013: EUR – 1,751,000).

Change in subordinated and supplementary capital

in '000 EUR	2014	2013
Balance 1 January	319,098	326,667
Repayments	–1,057	–4,221
Change in deferred interest	–27	–1
Change from valuation of hedge accounting	9,401	–3,347
Balance 31 December	**327,415**	**319,098**

(42) SHAREHOLDERS' EQUITY

Composition of equity – breakdown by type

in '000 EUR	2014	2013
Subscribed capital	165,453	165,453
Capital reserves	48,874	48,874
Retained earnings and other reserves	658,847	621,606
Revaluation reserves	13,629	11,107
of which AFS revaluation reserve	16,050	12,653
of which IAS 19 revaluation reserve	–2,421	–1,546
Reserves from currency translation	–6	–4
Total parent company shareholders	886,797	847,036
Non-controlling interests	59	63
Total equity	**886,856**	**847,099**

The subscribed capital consists of fully paid-in share capital of EUR 156,453,000 (2013: EUR 156,453,000). On 31 December 2014, 305,605 (2013: 305,605) shares with a nominal value of EUR 511.9452 were issued. The subscribed capital also includes the participation certificates issued in 2008 and fully paid-in in the amount of EUR 9,000,000 (2013: EUR 9,000,000). On 31 December 2014, 1,000,000 (2013: 1,000,000) participation certificates with a nominal value of EUR 9.00 were issued. The participation certificates have no maturity and are not repayable. Distribution is based on variable interest but can take place only if there is a sufficient distributable profit.

Retained earnings include the legal reserve. Reversals from the legal reserve in the amount of EUR 13,410,000 (2013: EUR 13,402,000) were in connection with the Austrian Stock Corporation Act (AktG). According to Section 183, reversals from the legal reserve are only permissible after the part of appropriated reserves exceeding 10% of the remaining share capital following the simplified capital reduction and all non-appropriated capital reserves as well as all retained earnings per the articles of association and other retained earnings have been reversed beforehand. Amounts from the reversal may not be used for payments to shareholders either or used for exempting shareholders from their obligation to make contributions.

Liable capital as per Section 57 (5) of the Austrian Banking Act is also reported under retained earnings. Liable capital amounting to EUR 128,476,000 (2013: EUR 126,009,000) may only be reversed in as much as this is necessary to fulfil obligations in accordance with Section 93 of the Austrian Banking Act or to cover other losses to be reported in the annual financial statements. Liable capital must be replenished to the extent of the amount reversed within the following five financial years at the latest.

Dividends of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The amount of dividends distributed by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft may not exceed the net income of EUR 5,000,000 recorded in the (separate) financial statements prepared in accordance with the Austrian Banking Act and the Austrian Corporate Code (2013: EUR 5,000,000).

The net profit posted by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft for financial year 2014 was EUR 32,992,000 (2013: EUR 59,873,000). After the allocation of EUR 28,947,000 to reserves (2013: EUR 55,704,000) and adding net profit of EUR 955,000 carried forward (2013: EUR 832,000), accumulated profits available for appropriation totalled EUR 5,000,000 (2013: EUR 5,000,000). Subject to approval by the shareholders' meeting, a dividend of EUR 10.00 (2013: EUR 10.00) is proposed per entitled share based on the shares and associated share capital of EUR 156,453,000 (2013: EUR 156,453,000). The total dividend distribution was thus EUR 3,056,000 (2013: EUR 3,056,000) on 305,605 shares (2013: 305,605 shares). For the participation certificates issued in 2008, profits are distributed on the basis of a variable interest rate as long as interest payments are covered by previous-year profits.

(43) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2013						
Cash and balances with central banks	576,832	225	16,252	4	109	593,422
Loans and advances to banks	886,712	63,062	91,292	1,082	71,809	1,113,957
Loans and advances to customers	6,432,163	66,073	1,839,910	44,419	102,719	8,485,284
Positive market values of hedges	1,934	0	1,554	0	1,954	5,442
Trading assets and derivatives	332,741	2,233	194,187	36,575	8,401	574,137
Financial assets – at fair value	1,001,283	21,505	48,484	72,946	38,498	1,182,716
Financial assets – available for sale	703,764	37,628	30,650	0	6,881	778,923
Financial assets – held to maturity	1,121,110	23,504	24,804	0	6,130	1,175,548
Shares in companies valued at equity	36,449	0	0	0	0	36,449
Investment property	54,556	0	0	0	0	54,556
Intangible assets	702	0	916	0	0	1,618
Property, plant and equipment	73,264	0	1,420	0	0	74,684
Tax assets	783	0	37	0	0	820
Deferred tax assets	6,615	0	0	0	0	6,615
Non-current assets available for sale	3,953	0	0	0	0	3,953
Other assets	56,255	38	252	0	508	57,053
Total assets	**11,289,116**	**214,268**	**2,249,758**	**155,026**	**237,009**	**14,145,177**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2013						
Amounts owed to banks	667,248	15,763	76	785	4,093	687,965
Amounts owed to customers	4,381,065	248,493	137,512	1,040	47,540	4,815,650
Liabilities evidenced by certificates	1,671,756	105	222,729	0	0	1,894,590
Negative market values of hedges	110,709	3,441	4,484	0	8,109	126,743
Trading liabilities and derivatives	204,797	7,250	7,156	15,818	3,201	238,222
Financial liabilities – at fair value	2,543,280	23,925	2,199,090	351,120	5,922	5,123,337
Provisions	39,719	0	1,889	0	0	41,608
Tax liabilities	7,536	0	250	0	88	7,874
Deferred tax liabilities	2,486	0	0	0	0	2,486
Other liabilities	38,775	5	1,265	0	460	40,505
Supplementary capital	319,098	0	0	0	0	319,098
Shareholders' equity	847,099	0	0	0	0	847,099
Total liabilities and shareholders' equity	**10,833,568**	**298,982**	**2,574,451**	**368,763**	**69,413**	**14,145,177**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2014						
Cash and balances with central banks	460,939	137	9,479	1	143	470,699
Loans and advances to banks	578,264	19,913	153,296	3,093	128,774	883,340
Loans and advances to customers	7,000,232	61,555	1,756,720	30,212	105,693	8,954,412
Positive market values of hedges	71,501	0	3,248	0	1,367	76,116
Trading assets and derivatives	387,431	8,247	151,101	42,914	5,967	595,660
Financial assets – at fair value	960,076	24,648	37,512	77,298	23,858	1,123,392
Financial assets – available for sale	637,994	47,775	26,868	0	8,512	721,149
Financial assets – held to maturity	1,059,891	34,264	4,246	0	15,932	1,114,333
Shares in companies valued at equity	34,593	0	0	0	0	34,593
Investment property	60,326	0	0	0	0	60,326
Intangible assets	669	0	617	0	0	1,286
Property, plant and equipment	72,808	0	1,245	0	0	74,053
Tax assets	3,501	0	82	0	7	3,590
Deferred tax assets	8,688	0	0	0	0	8,688
Non-current assets available for sale	0	0	0	0	0	0
Other assets	63,533	35	54	0	233	63,855
Total assets	**11,400,446**	**196,574**	**2,144,468**	**153,518**	**290,486**	**14,185,492**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2014						
Amounts owed to banks	991,262	17,581	944	5,851	11,290	1,026,928
Amounts owed to customers	4,219,917	218,075	178,596	1,565	44,644	4,662,797
Liabilities evidenced by certificates	2,204,290	0	109,488	0	0	2,313,778
Negative market values of hedges	117,606	3,347	9,714	826	30,982	162,475
Trading liabilities and derivatives	243,083	3,026	6,536	5,596	3,520	261,761
Financial liabilities – at fair value	2,451,811	25,493	1,589,974	329,568	6,340	4,403,186
Provisions	73,662	0	519	0	0	74,181
Tax liabilities	1,637	0	491	0	85	2,213
Deferred tax liabilities	7,927	0	0	0	0	7,927
Other liabilities	54,341	23	1,060	0	551	55,975
Supplementary capital	327,415	0	0	0	0	327,415
Shareholders' equity	886,856	0	0	0	0	886,856
Total liabilities and shareholders' equity	**11,579,807**	**267,545**	**1,897,322**	**343,406**	**97,412**	**14,185,492**

The difference between assets and liabilities in individual currencies does not represent the group's open foreign currency position per Article 352 of CRR. Open foreign currency positions are hedged using derivative financial instruments including currency swaps and cross-currency swaps. These hedges are carried at market value rather than nominal value on the IFRS balance sheet. At 31 December 2014, the total of all open foreign currency positions per Article 352 of CRR was EUR 15,770,000 (2013: EUR 4,185,000).

Foreign-denominated assets and liabilities

in '000 EUR	31.12.2014	31.12.2013
Foreign assets	6,074,922	5,938,017
Foreign liabilities	6,853,169	7,513,338

(44) MATURITIES

in '000 EUR 31.12.2013	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	559,534	0	0	0	0	33,888	593,422
Loans and advances to banks	163,853	359,338	200,381	310,104	80,281	0	1,113,957
Loans and advances to customers	624,540	668,588	558,387	2,353,799	4,222,203	57,767	8,485,284
Positive market values of hedges	0	0	210	3,413	1,819	0	5,442
Trading assets and derivatives	0	11,692	25,047	384,674	151,965	759	574,137
Financial assets – at fair value	0	26,294	87,205	433,415	619,556	16,246	1,182,716
Financial assets – available for sale	1	76,687	54,032	360,974	248,945	38,284	778,923
Financial assets – held to maturity	0	100,998	225,376	404,306	444,868	0	1,175,548
Shares in companies valued at equity	0	0	0	0	0	36,449	36,449
Investment property	0	0	0	0	0	54,556	54,556
Intangible assets	0	0	0	0	0	1,618	1,618
Property, plant and equipment	0	0	0	0	0	74,684	74,684
Tax assets	68	109	314	210	119	0	820
Deferred tax assets	224	1,252	–1,444	–6,792	13,679	–304	6,615
Non-current assets available for sale	0	0	3,953	0	0	0	3,953
Other assets	11,186	2,774	815	656	3,889	37,733	57,053
Total assets	**1,359,406**	**1,247,732**	**1,154,276**	**4,244,759**	**5,787,324**	**351,680**	**14,145,177**

in '000 EUR 31.12.2013	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Amounts owed to banks	422,517	213,402	51,177	0	869	0	687,965
Amounts owed to customers	3,961,100	25,445	370,608	412,131	46,366	0	4,815,650
Liabilities evidenced by certificates	161	21,725	122,865	1,078,213	671,626	0	1,894,590
Negative market values of hedges	0	2,818	3,034	38,473	82,418	0	126,743
Trading liabilities and derivatives	0	16,439	16,950	73,407	131,426	0	238,222
Financial liabilities – at fair value	0	18,831	274,697	3,596,376	1,233,433	0	5,123,337
Provisions	0	168	1,668	8,436	28,024	3,312	41,608
Tax liabilities	74	77	7,557	0	161	5	7,874
Deferred tax liabilities	0	0	0	0	1,907	579	2,486
Other liabilities	19,493	10,334	6,052	2,920	930	776	40,505
Supplementary capital	0	0	0	207,279	111,819	0	319,098
Shareholders' equity	0	0	0	0	0	847,099	847,099
Total liabilities and shareholders' equity	**4,403,345**	**309,239**	**854,608**	**5,417,235**	**2,308,979**	**851,771**	**14,145,177**

in '000 EUR 31.12.2014	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Cash and balances with central banks	441,668	0	0	0	0	29,031	470,699
Loans and advances to banks	138,621	112,778	194,046	294,966	142,929	0	883,340
Loans and advances to customers	645,724	733,582	617,255	2,476,632	4,444,782	36,437	8,954,412
Positive market values of hedges	0	1	1,381	10,981	63,753	0	76,116
Trading assets and derivatives	0	13,533	32,429	315,375	233,637	686	595,660
Financial assets – at fair value	0	17,371	130,932	319,729	638,022	17,338	1,123,392
Financial assets – available for sale	0	21,420	55,786	393,495	209,641	40,807	721,149
Financial assets – held to maturity	0	78,594	159,892	402,440	473,407	0	1,114,333
Shares in companies valued at equity	0	0	0	0	0	34,593	34,593
Investment property	0	0	0	0	0	60,326	60,326
Intangible assets	0	0	0	0	0	1,286	1,286
Property, plant and equipment	0	0	0	0	0	74,053	74,053
Tax assets	53	30	3,221	184	102	0	3,590
Deferred tax assets	0	0	218	30	8,440	0	8,688
Non-current assets available for sale	0	0	0	0	0	0	0
Other assets	7,647	857	1,657	119	770	52,805	63,855
Total assets	**1,233,713**	**978,166**	**1,196,817**	**4,213,951**	**6,215,483**	**347,362**	**14,185,492**

in '000 EUR 31.12.2014	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Amounts owed to banks	352,165	230,110	32,935	404,911	6,807	0	1,026,928
Amounts owed to customers	3,662,350	35,124	235,223	340,064	390,036	0	4,662,797
Liabilities evidenced by certificates	158	40,859	134,462	1,417,605	720,694	0	2,313,778
Negative market values of hedges	0	664	2,203	42,959	116,649	0	162,475
Trading liabilities and derivatives	0	7,360	20,977	67,111	166,313	0	261,761
Financial liabilities – at fair value	0	47,997	403,930	3,044,950	906,309	0	4,403,186
Provisions	5	107	4,621	47,106	21,223	1,119	74,181
Tax liabilities	108	20	1,922	0	163	0	2,213
Deferred tax liabilities	–198	737	–71	3,757	3,322	380	7,927
Other liabilities	32,306	9,527	9,085	3,340	1,244	473	55,975
Supplementary capital	0	6,540	57,347	156,511	107,017	0	327,415
Shareholders' equity	0	0	0	0	0	886,856	886,856
Total liabilities and shareholders' equity	**4,046,894**	**379,045**	**902,634**	**5,528,314**	**2,439,777**	**888,828**	**14,185,492**

D. ADDITIONAL IFRS DISCLOSURES

(45) DISCLOSURES ON THE CASH FLOW STATEMENT

The indirect method is used in preparing the cash flow statement. With this method, net cash flow from operating activities is determined based on consolidated net profit after adding expenses and deducting income not affecting cash flow. Also, all expenses and income not attributable to operating activities that did affect cash flow are factored out. These payments are tracked under cash flow from investing or financing activities.

(46) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities

in '000 EUR	31.12.2014	31.12.2013
Liabilities from financial guarantees	319,331	277,606
Other contingent liabilities	36,763	33,652
Contingent liabilities	**356,094**	**311,258**

Contingent liabilities – breakdown by residual duration

in '000 EUR	31.12.2014	31.12.2013
Repayable on demand	258	13
Up to 3 months	32,617	32,809
Up to 1 year	72,502	55,142
Up to 5 years	132,237	87,888
More than 5 years	39,111	47,841
Unlimited	79,369	87,565
Contingent liabilities – breakdown by residual duration	**356,094**	**311,258**

Contingent liabilities from financial guarantees represent commitments to assume liability to third parties for our customers. If the guarantee holder fails to meet its contractual obligations, the beneficiary may utilise the financial guarantee from the Bank. The Bank in turn has recourse claims against its customers. The amounts shown represent the maximum amount that could lead to a payment in the event of utilisation. Recording contingent liabilities in connection with financial guarantees is very difficult, as utilisation of the guarantee cannot be foreseen nor the amount in question reliably estimated. Other contingent liabilities concern certain fiduciary transactions and documentary letters of credit.

In addition to the contingent liabilities described above, there are the following other contingent liabilities:

- **Obligation from the membership required under Section 93 of the Austrian Banking Act of deposit insurance company "Hypo-Haftungs-Gesellschaft m.b.H."**
  If this deposit insurance is utilised, the contribution for the individual bank in line with Section 93a (1) Austrian Banking Act in the financial year is a maximum of 1.5% (2013: 1.5%) of the assessment basis in line with Article 92 (3) lit. a Regulation (EU) No. 575/2013 (CRR), plus 12.5 times the own funds requirement for the position risk as of the last reporting date, when the own funds requirements for market risk are determined according to Part 3 Title IV of Regulation (EU) No. 575/2013, and thus amounts to EUR 115,990,000 for the Bank (2013: EUR 109,680,000).
- **Liability for the liabilities of "Pfandbriefstelle der österreichischen Landes-Hypothekenbanken"**
  All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for these liabilities of EUR 5,538,652,000 (2013: EUR 6,169,969,000). In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability
  - unlimited for liabilities incurred up to 2 April 2003
  - limited for liabilities incurred after 2 April 2003 and up to 1 April 2007 if maturity does not exceed 30 September 2017

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

Liabilities to Pfandbriefstelle

in '000 EUR	31.12.2014	31.12.2013
Liabilities evidenced by certificates	450,561	476,437
Financial liabilities – at fair value	259,314	398,181
Liabilities to Pfandbriefstelle	**709,875**	**874,618**

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

in '000 EUR	31.12.2014	31.12.2013
Credit commitments and unutilised credit lines	1,829,672	1,610,378
Credit risks	**1,829,672**	**1,610,378**

These credit risks include credit extended but not yet disbursed to customers, both loan commitments and unused credit lines. Credit risks are carried at nominal value.

(47) INTEREST-FREE LOANS AND ADVANCES

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to banks	53,804	73,787
Loans and advances to customers	83,382	68,768
Interest-free loans and advances	**137,186**	**142,555**

Interest-free loans and advances to banks mainly represent credit balances at clearing houses and unsettled transactions on which interest is not credited. Loans and advances to customers are classified as interest-free when interest is no longer deemed collectible in future periods. Sufficient valuation allowances have already been recognised for these loans and advances.

(48) COLLATERAL

Assets provided as collateral

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to banks	498,038	335,430
Loans and advances to customers	3,486,938	2,984,748
Financial assets – at fair value	419,629	482,509
Financial assets – available for sale	541,269	608,468
Financial assets – held to maturity	999,185	798,161
Assets provided as collateral	**5,945,059**	**5,209,316**
of which covered pool for mortgage bonds	2,371,307	2,071,306
of which covered pool for public-sector mortgage bonds	1,307,768	1,386,219

The collateral holder is not entitled to sell or repledge the collateral listed. Accordingly, there were no balance sheet reclassifications for the collateral provided. Loans and advances to banks include collateral deposits from other banks provided for derivatives. The covered pool for issued mortgage bonds and public sector covered bonds is shown under loans and advances to customers. Assets at fair value and assets held to maturity provided as collateral relate to a securities account at Österreichische Kontrollbank required for eligibility for central bank funding from Oesterreichische Nationalbank.

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

Assignment of collateral

in '000 EUR	31.12.2014	31.12.2013
Backing for refinancing with central banks	1,522,127	764,840
Covered pool for mortgage bonds	2,358,026	2,071,306
Covered pool for public-sector mortgage bonds	1,333,938	1,427,462
Surplus cover for mortgage bonds and municipal bonds	38,147	45,866
Covered pool for trust savings deposits	29,305	25,442
Cover for pension provisions	2,212	2,188
Genuine repurchase agreements – repos	467,838	692,258
Deposits, collateral, margins	193,466	179,954
Collateral – breakdown by assignment	**5,945,059**	**5,209,316**

Use of collateral

in '000 EUR	31.12.2014	31.12.2013
Backing for refinancing with central banks	495,712	16,568
Covered pool for mortgage bonds	620,055	620,056
Covered pool for public-sector mortgage bonds	645,485	765,911
Surplus cover for mortgage bonds and municipal bonds	38,147	45,866
Covered pool for trust savings deposits	22,484	23,187
Cover for pension provisions	2,212	2,188
Genuine repurchase agreements – repos	0	200,000
Deposits, collateral, margins	193,466	179,954
Collateral – breakdown by use	**2,017,561**	**1,853,730**

(49) SUBORDINATED ASSETS

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to banks	26,693	26,395
Loans and advances to customers	5,880	12,373
Trading assets	0	193
Financial assets – at fair value	22,998	40,558
Financial assets – available for sale	23,334	24,385
Financial assets – held to maturity	10,432	13,673
Subordinated assets	**89,337**	**117,577**

(50) FIDUCIARY TRANSACTIONS ADVANCES

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to customers	54,572	50,344
Fiduciary assets	**54,572**	**50,344**
Amounts owed to banks	43,849	35,905
Amounts owed to customers	11,311	14,474
Fiduciary liabilities	**55,160**	**50,379**

(51) GENUINE REPURCHASE AGREEMENTS

in '000 EUR	31.12.2014	31.12.2013
Amounts owed to banks	0	200,000
Total deposits (repos)	**0**	**200,000**
Debt securities sold – L&R	0	9,956
Debt securities sold – AFV	0	5,073
Debt securities sold – AFS	0	75,748
Debt securities sold – HTM	0	108,947
Total collateral pledged (repos)	**0**	**199,724**

(52) RELATED PARTY DISCLOSURES

Related parties include:

- The owners Vorarlberger Landesbank-Holding and Austria Beteiligungsgesellschaft mbH,
- The Managing and Supervisory Board members of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and their immediate family members,
- Managing directors of consolidated subsidiaries and their immediate family members,
- Management personnel of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft per Section 80 AktG and their immediate family members,
- Statutory representatives and supervisory board members of significant shareholders,
- Subsidiaries and other companies in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft holds an equity stake.

Advances, credit and assumed liabilities

At the end of the year, Managing Board members and managing directors as well as their immediate family members had advances, credit and assumed liabilities from the Bank outstanding in the amount of EUR 4,247,000 (2013: EUR 4,641,000), granted at the customary terms and conditions for Bank employees. At the end of the year Supervisory Board members as well as their immediate family members and companies for which they are personally liable had advances, credit and assumed liabilities from the Bank outstanding in the amount of EUR 2,393,000 (2013: EUR 7,482,000), granted at the customary terms and conditions for Bank employees.

Remuneration

The remuneration packages of Managing Board members consist of a fixed salary and a variable bonus. In some cases, managing directors and managerial personnel receive bonuses on terms individually determined by the Managing Board. No share-based pay arrangements are in place.

The amounts paid by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft in 2014 for the four active Managing Board members are shown below.

in '000 EUR	2014	2013
Jodok Simma	0	18
Michael Grahammer	308	302
Johannes Hefel	238	237
Michel Haller	231	220
Managing Board remuneration	**777**	**777**

Remuneration paid to related parties

in '000 EUR	2014	2013
Managing Board members and managing directors	1,550	1,540
Retired Managing Board members and survivors	62	60
Managerial personnel	4,250	3,847
Supervisory Board members	187	181
Remuneration paid to related parties	**6,049**	**5,628**

Severance and pensions

A breakdown of expenses for severance and pensions paid to related parties is provided below.

in '000 EUR	2014	2013
Managing Board members and managing directors	177	161
Pensioners	52	87
Managerial personnel	695	450
Other active employees	2,426	1,524
Expenses for severance and pensions for related parties	**3,350**	**2,222**

There are no other amounts due in connection with termination of the employment relationship except for the severance claims discussed in Note (37).

The Group purchased services totalling EUR 171,000 (2013: EUR 33,000) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to customers	3,779	4,131
Loans and advances	**3,779**	**4,131**
Amounts owed to customers	1,255	1,082
Liabilities	**1,255**	**1,082**

Transactions with affiliated companies include firstly loans and credit and business current accounts for our subsidiaries. Receivables generally have an interest rate of 0.375 % (2013: 0.5 %). One current account with a carrying amount of EUR 797,000 bears interest at a rate of 0.5 %. One current account with a carrying amount of EUR 814,000 (2013: EUR 1,012,000) does not bear interest. Liabilities generally have an interest rate of 0.05 % (2013: 0.125 %). As at the reporting date, no warranties were assumed for associated companies, as in the previous year.

Income and expenses from affiliated companies

in '000 EUR	2014	2013
Interest income	15	16
Interest expenses	–1	–2
Fee and commission income	2	2
Total income/expenses from affiliated companies	**16**	**16**

Business relationships with associated companies

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to customers	45,626	50,982
Trading assets and derivatives	1,163	698
Financial assets	266	0
Loans and advances	**47,055**	**51,680**
Amounts owed to banks	1,071	549
Amounts owed to customers	3,144	2,975
Trading liabilities and derivates	3	0
Liabilities	**4,218**	**3,524**

Transactions with associated companies include loans, cash advances, credit, business current accounts, savings deposits and time deposits. These transactions are concluded at standard market conditions. As at the reporting date, no warranties were assumed for associated companies, as in the previous year. We also transacted derivatives in the form of interest rate options with a nominal value of EUR 15,000,000 (2013: EUR 12,000,000) with associated companies, which serve as an interest rate cap combined with long-term financing for these companies. The Group has in turn hedged these written options with purchased options of other counterparties.

Income and expenses from significant shareholders

in '000 EUR	2014	2013
Interest income	1,115	1,010
Interest expenses	–2	–2
Fee and commission income	5	3
Total income/expenses from affiliated companies	**1,118**	**1,011**

Business relationships with shareholders

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to banks	13,811	3,761
Loans and advances to customers	38,371	46,179
Trading assets and derivatives	90,549	58,214
Financial assets	80,960	77,886
Loans and advances	**223,691**	**186,040**
Amounts owed to banks	16,926	14,358
Amounts owed to customers	53,749	48,592
Trading liabilities and derivatives	78,666	60,788
Liabilities	**149,341**	**123,738**

Transactions with shareholders with significant influence primarily include loans, cash advances, credit, business current accounts, savings deposits and time deposits. We also transacted derivatives with a nominal value of EUR 2,220,415,000 (2013: EUR 2,265,150,000) with Landesbank Baden-Württemberg to hedge against market price risks. The positive market values from derivatives are hedged as part of the cash collateral. For the remaining loans and advances, there is generally no collateral. All transactions were concluded at standard market conditions.

Income and expenses from significant shareholders

in '000 EUR	2014	2013
Interest income	20,366	21,251
Interest expenses	–12,636	–12,828
Fee and commission income	1,542	1,747
Fee and commission expenses	–7	0
Other expenses	–1,453	–1,453
Total income/expenses from significant shareholders	**7,812**	**8,717**

Shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft at 31 December 2013

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

Shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft at 31 December 2014

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

Because of its competence as a housing bank, Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft has been appointed by the state of Vorarlberg to administer the state housing construction fund. The Bank pays the state a liability fee of EUR 1,453,000 for the financial backing of the state of Vorarlberg (2013: EUR 1,453,000). The Group is not in a lasting business relationship with Austria Beteiligungsgesellschaft mbH. Numerous transactions typical of a banking relationship have been conducted with Landesbank Baden-Württemberg.

Business relationship with state-related companies

in '000 EUR	31.12.2014	31.12.2013
Loans and advances to customers	68,076	59,302
Financial assets	0	3,751
Loans and advances	**68,076**	**63,053**
Amounts owed to customers	38,963	77,191
Liabilities	**38,963**	**77,191**

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

Income and expenses from state-related companies

in '000 EUR	2014	2013
Interest income	269	192
Interest expenses	–309	–301
Fee and commission income	171	269
Total income/expenses from state-related companies	**131**	**160**

Doubtful debts due from related parties did not exist in financial year 2014 or in the comparative period. As a result, no provisions or expenses were necessary for impairment or write-downs on debts due from related parties.

(53) SHARE-BASED PAY ARRANGEMENTS

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

(54) HUMAN RESOURCES

	2014	2013
Full-time salaried staff	637	643
Part-time salaried staff	75	69
Apprentices	8	9
Full-time other employees	3	3
Average number of employees	**723**	**724**

(55) EVENTS AFTER THE REPORTING DATE

Lifting of the minimum euro/Swiss franc rate and interest rate development

On 15 January 2015, the Swiss National Bank (SNB) unexpectedly lifted the minimum rate of 1.20 francs per euro. The SNB justified this move primarily by pointing to the differences in the monetary policies of the major currency areas, which, it was claimed, had markedly intensified in recent times. It is as yet unclear what the future price level will be. However, it can be assumed that the initial overvaluation of the Swiss franc will again weaken somewhat in the longer term.

Lifting the EUR/CHF minimum rate immediately increased the exposure of CHF borrowers by around 20 %. Due to the continuing low interest rates in CHF, however, Hypo Landesbank Vorarlberg expects no major problems in servicing these loans. If necessary, the Bank will accommodate customers with extensions or suspensions of redemption payments in order to reduce the burden.

Hypo Landesbank Vorarlberg already began strictly limiting the issue of loans in Swiss francs at the start of 2009. The proportion of CHF financing in the Private Customers segment is 39.88 %; the proportion of foreign currency financing in CHF in the Corporate Customers segment is approximately 18.70 % of receivables from customers.

As a percentage of all customer loans, Hypo Landesbank Vorarlberg's volume of lending in CHF was 19.62 % as of 31 December 2014, or just 15.04 % without the St. Gallen branch office. The CHF loans of the St. Gallen branch are to be subtracted from the calculation of CHF risk, as the customers are Swiss with incomes and securities in CHF and are not affected by changes in the exchange rate.

With regard to interest rate development in CHF, market development resulted in negative interest rates in mathematical terms only. The Group does not expect this to make any major impact on its interest rate risk.

Debt moratorium at HETA

All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for all liabilities of "Pfandbriefbank (Österreich) AG", universal successor of "Pfandbriefstelle der österreichischen Landes-Hypothekenbanken", amounting to EUR 5,538,652,000 (previous year: EUR 6,169,969,000). In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability

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

Hypo Landesbank Vorarlberg holds (included in liabilities of Pfandbriefbank above) bonds totalling EUR 450,561,000 (previous year: EUR 476,437,000) under "Liabilities evidenced by certificates" and promissory note loans and bonds totalling EUR 259,314,000 (previous year: EUR 398,181,000) under "Financial liabilities – at fair value", so a total of EUR 709,875,000 (previous year: EUR 874,618,000), which were issued by Pfandbriefbank. By resolution of the Austrian National Council on 8 July 2014, Hypo Alpe-Adria-Bank International AG was transformed into a privately organised wind-down unit without general state liability (Heta Asset Resolution AG). On March 1, 2015, the financial market authority ordered the wind-down of HETA on the basis of the Federal Act on the Restructuring and Wind-Down 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 of EUR 1,238,167,000 and a bond of EUR 30,000,000 granted to HETA by Hypo Landesbank Vorarlberg.

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 not permitted to service its debts until further notice. In the event of insolvency on the part of Pfandbriefbank, the Pfandbriefstelle Act means that the other Hypo Banks 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. It is noted here that there is no direct connection between Hypo Landesbank Vorarlberg and HETA under company law.

The Managing Board is convinced that the liable parties will be able to provide Pfandbriefbank with liquidity in due time. Thanks to its good business situation, Hypo Landesbank Vorarlberg is equipped for this eventuality and able to raise the amounts currently required itself. The Bank has high liquidity reserves.

For existing receivables from HETA – including the liquidity expected to be made available for Pfandbriefbank – corresponding provisions were already made 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 12,000,000 was recognised on the promissory note loan at HETA. A provision of EUR 36,000,000 was recognised for the provision of liquidity to Pfandbriefbank. The probability and amount of an expected outflow of funds and the collectability of potential claims against HETA and the state of Carinthia are uncertain.

Effects on the rating of Hypo Landesbank Vorarlberg

On 6 March 2015, the Moody's rating agency placed Hypo Landesbank Vorarlberg "under review" and threatened to lower the rating. This is due firstly to Moody's changed rating methodology and secondly to its concern that the wind-down of HETA and the resulting liability issues could have negative effects on the Bank's capital adequacy.

Change in financial reporting

Due to the addition of the FINREP report to supervisory reporting as prescribed by the EU and EBA in connection with CRR, the Group will adjust the core elements of its financial reporting (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and notes) to the reporting of the OeNB and FMA in future.

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2014	80,136	31,293	28,113	37,872	177,414
	2013	74,563	30,723	30,024	36,828	172,138
Loan loss provisions	2014	–15,992	336	–11,837	–54,202	–81,695
	2013	–35,354	704	421	–7,817	–42,046
Net fee and commission income	2014	12,170	17,717	3,184	2,553	35,624
	2013	12,092	17,446	4,117	3,301	36,956
Result from hedge relationships	2014	0	0	646	0	646
	2013	0	0	338	0	338
Net trading result	2014	1,991	1,388	27,317	–52	30,644
	2013	2,194	1,425	19,550	–226	22,943
Result from other financial instruments	2014	875	0	162	24	1,061
	2013	0	0	3,691	251	3,942
Administrative expense	2014	–30,448	–41,291	–9,651	–10,711	–92,101
	2013	–29,487	–40,653	–10,411	–10,621	–91,172
Other income	2014	1,222	451	12	14,919	16,604
	2013	1,682	351	9	14,575	16,617
Other expenses	2014	–5,965	–3,783	–6,891	–16,952	–33,591
	2013	–5,636	–1,658	–4,370	–15,725	–27,389
Result from equity consolidation	2014	0	0	0	–328	–328
	2013	0	0	0	2,581	2,581
Operating result before change in own credit risk	**2014**	**43,989**	**6,111**	**31,055**	**–26,877**	**54,278**
	2013	**20,054**	**8,338**	**43,369**	**23,147**	**94,908**
Result from change in own credit risk	2014	0	0	–299	0	–299
	2013	0	0	1,226	0	1,226
Earnings before taxes	**2014**	**43,989**	**6,111**	**30,756**	**–26,877**	**53,979**
	2013	**20,054**	**8,338**	**44,595**	**23,147**	**96,134**
Assets	2014	5,567,835	1,847,883	5,039,457	1,730,317	14,185,492
	2013	5,332,714	1,741,012	5,383,898	1,687,553	14,145,177
Liabilities and shareholders' equity	2014	2,262,352	2,876,163	8,381,049	665,928	14,185,492
	2013	2,267,416	2,943,197	8,241,091	693,473	14,145,177
Liabilities (incl. own issues)	2014	1,863,592	2,782,240	8,168,590	484,214	13,298,636
	2013	1,869,057	2,852,017	8,070,588	506,416	13,298,078

For business management purposes, the Group is organised in business units based on customer groups and product groups and comprises the four reportable business segments described below. No business segments were combined to form these reportable business segments. The earnings before taxes of the business units are monitored separately by the management in order to make decisions on the allocation of resources and to determine the profitability of the units. The development of the segments is assessed based on earnings before taxes and is measured in accordance with earnings before taxes in the consolidated financial statements.

Internal reporting is based on these segments and on both the Austrian Corporate Code and IFRS, meaning that a separate reconciliation statement is not required. Liabilities shown in the segments include both liabilities, provisions and social capital and also subordinated and supplementary capital. A breakdown of sales by product and service or by groups of related products and services is not provided due to the excessive implementation cost necessary for computation of this data.

Net interest income by segment is computed using the internationally accepted Schierenbeck market interest rate method. In this method, the effective interest rate is benchmarked against a reference interest rate, for both receivables and payables. The calculated amount is credited to the individual segments. The structural contribution determined from the maturity transformation is assigned to the Financial Markets segment. For this reason it is not possible to show interest income and expenses separately. Because income and expenses per segment are calculated directly, there are no transactions or offsetting between the segments. An amount of EUR 34,593,000 (2013: EUR 36,449,000) was included in total assets for the Corporate Centre segment from consolidation using the equity method.

Corporate Customers
This business segment is comprised of customers active in commerce, manufacturing and trade. Large, midsized and smaller corporations are included in this segment. Additionally, income and expenses resulting from business relationships with public sector entities (federal, state and local governments) are included in this segment. Customers of the St. Gallen branch are also allocated to this segment irrespective of the type of customer and sector. Not included are independent contractors who are the only employee of their own business. In terms of product groups, this segment includes loans, credit, cash advances, current accounts, demand deposits, term deposits and savings deposits provided to the customer groups described above. Net commission income also includes the income from custodian business with these customer groups.

Private Customers
Included in this segment are all employees (private households) and some self-employed individuals (independent contractors). This segment does not reflect private households or independent contractors who are customers of the St. Gallen branch, as these are all recognised in the Corporate Services segment. Income contributions from insurance companies and pension funds are also included under this segment. Not included in this segment are private individuals closely associated with a company (corporate customer) as owner or shareholder. In terms of product groups, this segment includes loans, credit, cash advances, current accounts, demand deposits, term deposits and savings deposits provided to the customer groups described above. Net commission income also includes the income from custodian business with these customer groups.

Financial Markets
Financial and trading assets, derivative financial instruments, the issuance business and profit/loss from interbank relationships are shown in this business segment. Custodian banking profit/loss is also categorised under this segment. In terms of product groups, this segment primarily includes financial assets in the form of securities and in a few cases promissory notes. Funds raised from ussues of securities and a few large-volume term deposits are also allocated to the Financial Market segment. Net commission income also includes the income from custodian business in connection with the custodian bank function.

Corporate Center
All banking transactions with our subsidiaries and associated companies are reported under this segment. The products and income of our online branch hypodirekt.at are also reported in this segment. In addition, income from business not representing banking transactions is allocated to this segment, such as leasing business, insurance brokerage, leasing and utilisation of real estate properties, real estate brokerage, facility management services, other services and income from subsidiaries and holdings.

Impairments and impairment reversals

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Recognition of impairments	2014	–75,307	–2,602	–14,442	–22,356	–114,707
	2013	–59,198	–2,225	–5,353	–7,696	–74,472
Reversals of impairments	2014	22,568	2,528	2,894	3,339	31,329
	2013	19,139	2,965	8,141	3,049	33,294

Reporting by region

in '000 EUR		Austria	Other countries	Total
Net interest income	2014	148,968	28,446	177,414
	2013	144,013	28,125	172,138
Loan loss provisions	2014	–60,941	–20,754	–81,695
	2013	–36,733	–5,313	–42,046
Net fee and commission income	2014	34,900	724	35,624
	2013	36,460	496	36,956
Result from hedge relationships	2014	646	0	646
	2013	338	0	338
Net trading result	2014	30,171	473	30,644
	2013	22,712	231	22,943
Result from other financial instruments	2014	4,261	–3,200	1,061
	2013	6,572	–2,630	3,942
Administrative expenses	2014	–82,743	–9,358	–92,101
	2013	–81,567	–9,605	–91,172
Other income	2014	7,762	8,842	16,604
	2013	7,913	8,704	16,617
Other expenses	2014	–22,593	–10,998	–33,591
	2013	–16,266	–11,123	–27,389
Result from equity consolidation	2014	–328	0	–328
	2013	2,582	–1	2,581
Operating result before change in own credit risk	**2014**	**60,103**	**–5,825**	**54,278**
	2013	**86,024**	**8,884**	**94,908**
Result from change in own credit risk	2014	–299	0	–299
	2013	1,226	0	1,226
Earnings before taxes	**2014**	**59,804**	**–5,825**	**53,979**
	2013	**87,250**	**8,884**	**96,134**
Assets	2014	12,678,515	1,506,977	14,185,492
	2013	12,627,631	1,517,546	14,145,177
Liabilities and shareholders' equity	2014	14,045,938	139,554	14,185,492
	2013	13,975,311	169,866	14,145,177
Liabilities (incl. own issues)	2014	13,195,663	102,973	13,298,636
	2013	13,179,934	118,144	13,298,078

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(56) EARNINGS BY MEASUREMENT CLASSIFICATION

Earnings by category L&R

in '000 EUR	2014	2013
Interest and similar income	200,519	174,324
Net interest income	**200,519**	**174,324**
Write-downs and impairment	–73,258	–63,042
Write-ups and reversed impairments	26,810	25,432
Realised losses	–1,642	–2,923
Realised gains	4,433	3,839
Net result from hedging	–1,552	547
Total	**155,310**	**138,177**

Earnings by category HFT

in '000 EUR	2014	2013
Interest and similar income	26,027	17,316
Net interest income	**26,027**	**17,316**
Write-downs and impairment	–28	–58
Write-ups and reversed impairments	93	63
Realised losses	–2	0
Realised gains	13	69
Net result from Trading	–1,552	–823
Measurement result – derivatives	26,739	–221,948
Total	**51,290**	**–205,381**

Earnings by category AFV

in '000 EUR	2014	2013
Interest and similar income	11,183	29,083
Net interest income	**11,183**	**29,083**
Write-downs and impairment	–8,160	–20,018
Write-ups and reversed impairments	56,704	1,330
Realised losses	–10,251	–579
Realised gains	940	6,277
Total	**50,416**	**16,093**

Earnings by category AFS

in '000 EUR	2014	2013
Interest and similar income	25,142	29,865
Net interest income	**25,142**	**29,865**
Write-downs and impairments	–285	–1,791
Write-ups and reversed impairments	629	2,224
Realised losses	–268	–1,874
Realised gains	165	874
Net result from hedging	–836	302
Total	**24,547**	**29,600**
Gains / losses recognised in other comprehensive income	3,565	9,572

Earnings by category HTM

in '000 EUR	2014	2013
Interest and similar income	31,035	33,856
Net interest income	**31,035**	**33,856**
Write-downs and impairment	–256	–760
Write-ups and reversed impairments	703	3,248
Realised losses	–749	0
Realised gains	177	1,131
Total	**30,910**	**37,475**

Earnings by category LAC

in '000 EUR	2014	2013
Interest and similar expenses	–56,258	–52,544
Net interest income	**–56,258**	**–52,544**
Write-downs and impairment	–462	–440
Write-ups and reversed impairments	7	13
Realised losses	–5	0
Realised gains	611	925
Net result from hedging	3,034	–511
Total	**–53,073**	**–52,557**

Earnings by category LHFT

in '000 EUR	2014	2013
Interest and similar expenses	–48,379	–49,778
Net interest income	**–48,379**	**–49,778**
Measurement result – derivatives	–12,079	105,916
Total	**–60,458**	**56,138**

Earnings by category LAFV

in '000 EUR	2014	2013
Interest and similar expenses	–11,855	–9,984
Net interest income	**–11,855**	**–9,984**
Write-downs and impairment	–95,690	–2,929
Write-ups and reversed impairments	64,134	154,098
Realised losses	–413	–11
Realised gains	10,195	1,555
Total	**–33,629**	**142,729**

(57) DISCLOSURE ON FAIR VALUES

in '000 EUR		31.12.2013	
	Notes	Fair Value	Carrying value
Assets			
Cash and balances with central banks	(16)	593,459	593,422
Loans and advances to banks	(17)	1,116,725	1,113,957
Loans and advances to customers	(18)	8,716,394	8,485,284
Positive market values of hedges	(20)	5,442	5,442
Trading assets and derivatives	(21)	574,137	574,137
Financial assets – at fair value	(22)	1,182,716	1,182,716
Financial assets – available for sale	(23)	778,923	778,923
Financial assets – held to maturity	(24)	1,228,787	1,175,548
Liabilities			
Amounts owed to banks	(33)	688,075	687,965
Amounts owed to customers	(34)	4,830,190	4,815,650
Liabilities evidenced by certificates	(35)	1,902,798	1,894,590
Negative market values of hedges	(36)	126,743	126,743
Trading liabilities and derivatives	(37)	238,222	238,222
Financial liabilities – at f air value	(38)	5,123,337	5,123,337
Subordinated and supplementary capital	(44)	313,959	319,098

in '000 EUR		31.12.2014	
	Notes	Fair Value	Carrying value
Assets			
Cash and balances with central banks	(16)	470,733	470,699
Loans and advances to banks	(17)	891,450	883,340
Loans and advances to customers	(18)	9,501,656	8,954,412
Positive market values of hedges	(20)	76,116	76,116
Trading assets and derivatives	(21)	595,660	595,660
Financial assets – at fair value	(22)	1,123,392	1,123,392
Financial assets – available for sale	(23)	721,149	721,149
Financial assets – held to maturity	(24)	1,207,109	1,114,333
Liabilities			
Amounts owed to banks	(33)	1,021,882	1,026,928
Amounts owed to customers	(34)	4,692,022	4,662,797
Liabilities evidenced by certificates	(35)	2,282,454	2,313,778
Negative market values of hedges	(36)	162,475	162,475
Trading liabilities and derivatives	(37)	261,761	261,761
Financial liabilities – at fair value	(38)	4,403,186	4,403,186
Subordinated and supplementary capital	(44)	314,250	327,415

Loans and advances to banks primarily relate to interbank transactions, the current carrying values of which largely correspond to fair value. For fixed-rate transactions with banks, fair value is determined based on expected future cash flows.

For loans and advances to customers, the fair value of fixed-rate transactions is also determined based on expected future cash flows, applying current market interest rates.

For financial assets held to maturity (HTM), fair value is determined based on available market price data and quotes. If the market price of an asset cannot be reliably determined at the reporting date, fair value is determined based on the market prices of similar financial instruments with comparable yields, credit risk and maturity.

Because amounts owed to banks represent exclusively interbank transactions, the carrying value largely corresponds to fair value. The fair value of fixed-rate transactions is calculated based on expected future cash flows, applying current market interest rates.

With amounts owed to customers without a specified maturity at variable rates, the repayment amount recognised largely corresponds to current market value. For fixed-rate positions, fair value is determined based on discounted cash flows.

The fair value of liabilities evidenced by certificates and subordinated and supplementary capital was determined based on available market prices and quotes. If market prices for these assets were unavailable, measurement was performed at fair value based on discounted future cash flows, applying current market interest rates.

To the extent available, fair values recorded in the financial statements were determined exclusively using valuation methods involving comparison with prices of comparable instruments in observable market transactions.

Fair value hierarchy for financial instruments not recognised at fair value

in '000 EUR 31.12.2013	Level 1	Level 2	Level 3	Total
Cash and balances with central banks	33,888	0	559,571	593,459
Loans and advances to banks	317,219	129,745	669,761	1,116,725
Loans and advances to customers	162,757	90,213	8,463,424	8,716,394
Financial assets – held to maturity	1,207,231	229	21,327	1,228,787
Assets measured at amortised cost	**1,721,095**	**220,187**	**9,714,083**	**11,655,365**
Liabilities to banks	0	0	688,075	688,075
Amounts owed to customers	0	0	4,830,190	4,830,190
Liabilities evidenced by certificates	1,642,618	257,654	2,526	1,902,798
Subordinated and supplementary capital	143,060	117,716	53,183	313,959
Liabilities measured at amortised cost	**1,785,678**	**375,370**	**5,573,974**	**7,735,022**

in '000 EUR 31.12.2014	Level 1	Level 2	Level 3	Total
Cash and balances with central banks	470,733	0	0	470,733
Loans and advances to banks	578,662	45,827	266,962	891,451
Loans and advances to customers	329,758	41,081	9,119,968	9,490,807
Financial assets – held to maturity	1,195,614	0	11,495	1,207,109
Assets measured at amortised cost	**2,574,767**	**86,908**	**9,398,425**	**12,060,100**
Liabilities to banks	0	0	1,021,882	1,021,882
Amounts owed to customers	0	0	4,689,693	4,689,693
Liabilities evidenced by certificates	2,078,747	201,554	2,153	2,282,454
Subordinated and supplementary capital	245,036	16,041	53,172	314,249
Liabilities measured at amortised cost	**2,323,783**	**217,595**	**5,766,900**	**8,308,278**

The measurement methods for financial instruments not recognised at fair value are generally no different from those used for financial instruments that are recognised at fair value. The measurement methods used are described in more detail in Note (3d). Changes and additions to measurement methods are also outlined here.

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
Trading assets 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 of assets from level 2 and 3 to level 1	199,570	–174,191	–25,379	0
Reclassification of assets from level 1 and 3 to level 2	–17	227,021	–227,004	0
Derivative hedging instruments	0	126,545	198	126,743
Trading liabilities 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 of liabilities from level 2 and 3 to level 1	2,008,601	–2,008,601	0	0
Reclassification of liabilities from level 1 and 3 to level 2	0	0	0	0

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 level 2 and 3 to level 1	18,360	–10,198	–8,162	0
Reclassification of assets from level 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**
Reclassification of liabilities from level 2 and 3 to level 1	594,525	–594,525	0	0
Reclassification of liabilities from level 1 and 3 to level 2	0	22,966	–22,966	0

In the case of financial assets and liabilities which are recognised in the financial statements on a recurring basis, the Group determines whether transfers have taken place between hierarchy levels by examining their classification – based on the input parameter of the lowest level that is essential for fair value measurement – at the end of each reporting period. The Group uses a decision tree defined in the internal measurement guidelines in this process.

The Group has one valuation committee for financial instruments and one valuation committee for real estate. These committees specify guidelines and procedures for recurring and non-recurring fair value measurements. The Head of Asset and Liability Management, the Head of Group Risk Controlling, the Head of Debt Capital Markets and a financial mathematician belong to the valuation committee for financial instruments. Once a year, the valuation committee examines the performance of financial instruments which need to be remeasured in accordance with the Group's accounting policies. Here, the valuation committee reviews key input factors which were applied during the last measurement by comparing the results of the measurement calculations with external sources in order to assess whether the respective changes and therefore the internal input parameters are plausible.

If necessary, the valuation committee will decide to adjust or expand the internal input factors in order to take account of the goal of ensuring the most objective measurement of financial instruments possible. A managing director from Hypo Immobilien & Leasing GmbH, a managing director from Hypo Vorarlberg Immo Italia srl, Hypo Landesbank Vorarlberg's Head of Accounting and an employee from the property appraisal department belong to the valuation committee for real estate. External appraisers are brought in to measure important properties. The valuation committee decides annually whether external appraisers are to be consulted. Following meetings with external appraisers, the valuation committee for real estate decides which measurement methods and input factors are to be used in each individual case.

Reclassifications of assets from Level 2 to Level 1 comprise one (2013: 14) AFV category financial instruments with a carrying value of EUR 10,198,000 (2013: EUR 174,191,000). Instead of a derived market valuation, available OTC secondary market price sources from Bloomberg are now used to measure these instruments.

The reclassification of assets from Level 3 to Level 1 comprise one (2013: three) AFV category financial instruments with a carrying value of EUR 8,162,000 (2013: 25,379,000). Instead of an internal measurement model, available OTC secondary market price sources from Bloomberg are now used to measure these instruments. The carrying value at the end of the previous year was EUR 8,163,000 (2013: EUR 27,655,000). The measurement effects recognised under the net trading result totalled EUR –1,000 in 2014 (2013: – 2,276,000).

The reclassification of assets from Level 1 to Level 2 comprises two financial instruments in 2013. This involved one AFS category financial instrument totalling EUR 17,000 and one HFT category financial instrument totalling EUR 0. They were reclassified because the last available price information was older than 30 days.

The reclassification of assets from Level 3 to Level 2 comprises nine (2013: 68) AFV category financial instruments with a carrying value of EUR 243,157,000 (2013: EUR 227,004,000) and nine (2013: 0) HFT category derivatives with a carrying value of EUR 19,640,000 (2013: EUR 0). The AFV financial instruments were reclassified because the credit spread was no longer determined based on the weighted credit spread matrix, but on the basis of the external ratings and the securities structure of comparable financial instruments. The carrying value at the end of the previous year was EUR 220,537,000 (2013: EUR 244,564,000). The measurement effects recognised under the net trading result totalled EUR 22,620,000 in 2014 (2013: – 17,560,000). The HFT derivatives were reclassified because of the use of available OTC secondary market price sources from Bloomberg. The carrying value at the end of the previous year was EUR 11,028,000 (2013: EUR 0). The measurement effects recognised under the net trading result totalled EUR 8,612,000 in 2014 (2013: EUR 0).

The reclassification of assets from Level 1 to Level 3 comprises one (2013: one) AFS category financial instrument with a carrying value of EUR 1,434,000 (2013: EUR 8,163,000). The market price used in the previous year was replaced with an internal measurement model, as no market data were available for the financial instrument and derivation on the basis of the composition of the fund is not suitable.

The reclassification of assets from Level 2 to Level 3 in 2013 comprised 219 AFV category loans and credits with a carrying value of EUR 466,679,000. As these financial instruments are original receivables without an active market, the credit spread effect was derived from observable and comparable CDS spreads of reference bonds. In the case of these derivatives, the customers do not have an external rating, and so credit spread effects are derived from internal ratings. For this reason, these loans and credits are assigned to Level 3. The reclassification of assets from Level 2 to Level 3 also comprises 141 derivatives with a carrying value of EUR 56,159,000. These derivatives were reclassified due to a change in assumptions and estimates within the context of the measurement of CVAs and DVAs. In the case of these derivatives, the customers do not have an external rating, and so credit spread effects are derived from internal ratings. Even though the measurement effect arising from CVAs and DVAs is immaterial in relation to fair value, the Group decided to assign these financial instruments to Level 3.

The reclassification of liabilities from Level 2 to Level 1 comprises one (2013: seven) LAFV category financial instruments with a carrying value of EUR 594,525,000 (2013: EUR 2,008,601,000). Instead of the internal DCF method, directly available OTC secondary market price sources from Bloomberg were used to measure these large-volume issues.

The reclassification of liabilities from Level 3 to Level 2 comprises three (2013: none) LAFV category financial instruments with a carrying value of EUR 22,965,000 (2013: EUR 0) and one (2013: none) HFT category derivatives amounting to EUR 1,000 (2013: EUR 0) For these issues, the internal DCF method on the basis of derived input factors observable on the market was used instead of the internal measurement model. The carrying value at the end of the previous year was EUR 22,440,000 for the financial instruments of this category (2013: EUR 0) and EUR 28,000 for the derivative. The measurement effects recognised under the net trading result totalled EUR -526,000 in 2014 (2013: EUR 0) and EUR +27,000 (2013: EUR 0).

The reclassification of liabilities from Level 2 to Level 3 comprises one (2013: 179) LAFV category financial instrument with a carrying value of EUR 25,493,000 (2013: EUR 2,002,994,000). The reclassification was necessary because no input factors observable on the market were available, and the measurement was therefore made on the basis of an internal measurement model. The carrying value at the end of the previous year was EUR 23,925,000 (2013: EUR 2,200,017,000). The measurement effects recognised under the net trading result totalled EUR -1,568,000 in 2014 (2013: EUR 197,023,000). In the previous year, these instruments were assigned to Level 3 based on the measurement of own credit risk. These issues and promissory notes are private placements. In order to take account of the difference between the issue levels of public placements and private placements, the Group makes assumptions and estimates here in the form of premiums/discounts on the public placements. These adjustments are immaterial at present in relation to the aggregate market value, but the Group has still decided to assign these financial instruments to Level 3 due to these adjustments and estimates. In addition, 107 derivatives – including two derivatives in an effective hedge relationship – with a carrying value of EUR 2,753,000 were reclassified from Level 2 to Level 3 in 2013. These derivatives were reclassified due to a change in assumptions and estimates within the context of the measurement of CVAs and DVAs, and the customers did not have an external rating, so credit spread effects were derived from internal ratings. Even though the measurement effect arising from CVAs and DVAs is immaterial in relation to fair value, the Group decided to assign these financial instruments to Level 3.

Fair value hierarchy for financial assets – breakdown by class

in '000 EUR 31.12.2013	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	3,488	0	3,488
Cross currency swaps	0	1,954	0	1,954
Positive market values of hedges	**0**	**5,442**	**0**	**5,442**
Interest rate swaps	0	388,815	63,436	452,251
Cross currency swaps	0	99,929	831	100,760
Interest rate options	0	649	2,860	3,509
Foreign exchange forwards	0	9,287	7,377	16,664
Bonds	193	0	0	193
Investment funds	760	0	0	760
Trading assets and derivatives	**953**	**498,680**	**74,504**	**574,137**
Bonds	234,843	351,966	58,653	645,462
Other	0	0	5,655	5,655
Loans and credits	0	55,380	476,219	531,599
Financial assets – at fair value	**234,843**	**407,346**	**540,527**	**1,182,716**
Bonds	714,429	18	18,046	732,493
Investment funds	16,201	0	0	16,201
Shares	0	0	109	109
Other	0	0	30,120	30,120
Financial assets – available for sale	**730,630**	**18**	**48,275**	**778,923**

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
Fiancial Assets – available vor sale	**685,579**	**0**	**35,570**	**721,149**

Fair value hierarchy for financial liabilities – breakdown by class

in '000 EUR 31.12.2013	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	117,992	198	118,190
Cross currency swaps	0	8,553	0	8,553
Negative market values of hedges	**0**	**126,545**	**198**	**126,743**
Interest rate swaps	0	172,226	5,275	177,501
Cross currency swaps	0	36,987	0	36,987
Interest rate options	0	1,311	1,229	2,540
Foreign exchange forwards	0	12,088	9,106	21,194
Trading liabilities and derivatives	**0**	**222,612**	**15,610**	**238,222**
Deposits	0	0	737,675	737,675
Bonds	2,008,601	991,011	1,324,491	4,324,103
Supplementary capital	0	8,404	53,155	61,559
Financial liabilities – at fair value	**2,008,601**	**999,415**	**2,115,321**	**5,123,337**

in '000 EUR 31.12.2014	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	128,499	218	128,717
Cross currency swaps	0	24,697	9,061	33,758
Derivative hedging instruments	**0**	**153,196**	**9,279**	**162,475**
Interest rate swaps	0	195,806	1,188	196,994
Cross currency swaps	0	51,544	0	51,544
Interest rate options	0	2,133	561	2,694
Currency options	0	0	55	55
Foreign exchange forwards	0	8,616	1,614	10,230
Other derivatives	0	0	244	244
Trading liabilities and derivatives	**0**	**258,099**	**3,662**	**261,761**
Deposits	0	0	744,065	744,065
Bonds	2,005,159	339,728	1,253,497	3,598,384
Supplementary capital	0	22,150	38,587	60,737
Financial liabilities – at fair value	**2,005,159**	**361,878**	**2,036,149**	**4,403,186**

Changes in Level 3 financial instruments

in '000 EUR 2013	Opening balance	Purchases/ Issues	Sales/ Repayments	Additions from Level 1 and Level 2	Reclassi-fication to Level 1 and Level 2	Changes in fair value	Closing balance
Trading assets and 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 instruments	0	0	0	198	0	0	198
Trading liabilities and 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/ Repayments	Additions 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**

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.

The changes in fair value shown in the following table constitute gains and losses from financial instruments which were assigned to Level 3 as at year-end. The changes in the fair value of trading assets and derivatives of EUR 36,719,000 (2013: EUR 18,345,000) were recognised in the income statement under the net trading result. The change in the fair value of financial assets – at fair value of EUR 3,724,000 (2013: EUR – 3,047,000) was recognised in the income statement under the net trading result. The change in the fair value of financial assets – available for sale of EUR 1,738,000 (2013: EUR 2,627,000) was recognised as expense of EUR 910,000 (2013: EUR – 1,865,000) in the income statement in the item "Net result from other financial instruments" and of EUR 828,000 (2013: EUR 4,492,000) in the statement of comprehensive income.

The changes in the fair value of derivative hedging instruments, which were recognised on the liabilities side, amounting to EUR 9,081,000 (2013: EUR 0) were recognised in the result from hedge relationships. The changes in the fair value of trading liabilities and derivatives of EUR -11,920,000 (2013: EUR 13,055,000) were recognised under the net trading result. The changes in the fair value of financial liabilities – at fair value of EUR 70,201,000 (2013: EUR -4,673,000) were also recognised under the net trading result.

Disclosures regarding sensitivity of internal input factors

in '000 EUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Derivatives	799	377	–1,129	–361
Financial assets – at fair value	2,174	3,428	–3,225	–5,135
of which securities	24	81	–74	-120
of which loans and credits	2,150	3,347	–3,151	–5,015
Financial assets – available for sale	385	440	–405	–473
Financial liabilities – at fair value	–8,813	–10,815	8,813	10,815
of which issues	–5,842	–7,305	5,842	7,305
of which time deposits	–2,971	–3,510	2,971	3,510
Total	**–5,455**	**–6,570**	**4,054**	**4,846**

The internal input factor that is relevant to financial assets is derived by calculating the credit risk, expressed as credit spread. If CDS spreads are available for a counterparty, the credit risk is measured based on these available input factors. However, if a CDS spread is not observable, the credit risk is measured using the internally calculated default probability combined with the internal rating. In the case of the above sensitivity, the internal ratings were each shifted by one level in parallel. The internal input factor that is relevant to financial liabilities is derived by determining the current issue level of private placements compared to public placements. In the case of the above sensitivity, the recognised credit spreads were each shifted in parallel by 10 basis points.

(58) DISCLOSURES ON OFFSETTING FINANCIAL INSTRUMENTS

2013 in '000 EUR	Financial assets (gross)	Recognised amounts set off (gross)	Financial assets (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	548,810	0	548,810	–239,469	–272,906	36,435
Total assets	**548,810**	**0**	**548,810**	**–239,469**	**–272,906**	**36,435**
Negative market values of derivative financial instruments	364,425	0	364,425	–239,469	–107,430	17,526
Total liabilities	**364,425**	**0**	**364,425**	**–239,469**	**–107,430**	**17,526**

2014 in '000 EUR	Financial assets (gross)	Recognised amounts set off (gross)	Financial assets (net)	Effect of offsetting master agreement	Collateral	Net amount
Positive market values of derivative financial instruments	657,642	0	657,642	–277,731	–311,454	68,457
Total assets	**657,642**	**0**	**657,642**	**–277,731**	**–311,454**	**68,457**
Negative market values of derivative financial instruments	424,236	0	424,236	–277,731	–131,160	15,345
Total liabilities	**424,236**	**0**	**424,236**	**–277,731**	**–131,160**	**15,345**

(59) IMPAIRMENTS AND IMPAIRMENT REVERSALS

Recognition of impairments

in '000 EUR	2014	2013
Loans and advances to customers	–73,258	–63,042
Financial assets – available for sale	–285	–1,791
Financial assets – held to maturity	–256	–760
Total	**–73,799**	**–65,593**

Reversals of impairment

in '000 EUR	2014	2013
Loans and advances to customers	26,810	25,432
Financial assets – available for sale	629	2,224
Financial assets – held to maturity	703	3,248
Total	**28,142**	**30,904**

(60) RECATEGORISED ASSETS

Disclosures regarding recategorised securities in the period from 2008 to 2009

There was no recategorisation of financial assets in 2014. In 2008 65 securities with a market value of EUR 368,632,000 on the date of recategorisation and 2009 12 securities with a market value on the date of recategorisation of EUR 360,000,000 respectively were reclassified from the category AFS to the category L&R. The carrying values and market values of all previously reclassified financial instruments as at 31 December 2014 are shown below.

in '000 EUR 31.12.2013	Carrying value	Market value
Loans and advances to banks	14,959	14,915
Loans and advances to customers	48,778	48,971
Total	**63,737**	**63,886**

in '000 EUR 31.12.2013	Amortised cost	Revaluation reserve*
Loans and advances to banks	14,959	–29
Loans and advances to customers	48,778	–392
Total	**63,737**	**–421**

in '000 EUR 31.12.2014	Carrying value	Market value
Loans and advances to banks	9,978	10,000
Loans and advances to customers	37,928	38,692
Total	**47,906**	**48,692**

in '000 EUR 31.12.2014	Amortised cost	Revaluation reserve*
Loans and advances to banks	9,978	–15
Loans and advances to customers	37,928	–224
Total	**47,906**	**–239**

* adjusted for deferred tax effects

The actual gains, losses, income and expenses from reclassified financial instruments recorded on the consolidated financial statements are shown below.

in '000 EUR	2014	2013
Net interest income	305	595
Net result from financial instruments	–75	615
Taxes on income	–58	–302
Recording in AFS reserve directly in equity*	318	118
Gain / loss after reclassification	**490**	**1,026**

* adjusted for deferred tax effects

In 2014, impairment in the amount of EUR 333,000 (2013: EUR 0) was recognised for securities recategorised in 2008. In 2014, impairment created in previous years amounting to EUR 344,000 (2013: EUR 864,000) was reversed following a recovery in the market and repayments at nominal value. The effect of reversals from the revaluation reserve as a result of maturity and the expiration of recategorised securities held is offset by the discounting at the recategorisation date of the remeasured amortised cost of the reclassified securities recorded in the result from other financial instruments.

If the assets had not been reclassified, the resulting gains and losses from continued measurement at fair value are shown below.

Simulation without reclassification of the years 2008 and 2009

in '000 EUR	2014	2013
Net interest income	305	595
Net result from financial instruments	–75	615
Taxes on income	–58	–302
Recording in AFS reserve directly in equity*	242	137
Gain/loss – after reclassification	**414**	**1,045**

* adjusted for deferred tax effects

If the assets had not been reclassified, the main impact would have been on the adjustment of the revaluation reserve directly in equity. This effect does not result from the reclassification of securities in 2009, but rather the ABS products reclassified in 2008.

(61) FINANCIAL INSTRUMENTS – BY CATEGORY

Financial instruments per measurement category are presented by category in the item in the Notes corresponding to the balance sheet item since we already distinguish the measurement categories pursuant to IAS 39 in the balance sheet items.

G. FINANCIAL RISKS AND RISK MANAGEMENT

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

(62) OVERALL RISK MANAGEMENT

The Bank's operations involve the following risks:

- Credit risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods.
- 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, creditspread, 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 and risks from the Austrian Sanctions Act 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 credit, market, liquidity and operational risks on a group level. The independent assessment and approval of credit applications is carried out by the Credit Management departments for corporate and private customers. The Bank's risk situation and the Capital Adequacy Process are addressed by the Asset & Liability Management Committee (ALM). In this committee, the Managing Board decides on market risk measurement procedures, defines interfaces between Sales and Treasury with regard to the market interest rate method, and the level of market risk and liquidity limits. In addition to the Managing Board as a whole and Corporate and Private Customers Sales, Group Risk Controlling, Controlling, and Treasury departments are also present at committee meetings.

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

(63) MARKET RISK

The purpose of the Bank's Asset & Liability Management is the optimal management of market risks. The strict separation of trading units and risk control ensures the objective assessment of risks incurred and the early identification of unfavourable developments. Group Risk Controlling analyses risks daily, reporting its results to the units responsible.

The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service.

The Bank employs a uniform reference interest rate system for the market interest rate method as part of Asset & Liability Management. The reference interest rate applied determines the distribution of interest income and expenses among branch offices and Treasury. Reference rates are thus determined by the Managing Board annually as a central controlling instrument. The fixed rate periods selected are regularly reviewed and adjusted as necessary, particularly for products without a contractual maturity (savings and current accounts).

Three methods are employed as part of market risk measurement conducted centrally by the Bank:

- Value at risk (VaR)
- Change in the present value of Bank equity in stress tests
- Simulations of structural contribution (earnings perspective)

Value at risk indicates the maximum loss at a given probability and holding period. The Bank measures value at risk using SAP software. The Bank conducts simulation using the following historical parameters:

Historical simulation parameters	
Historical period	250 trading days
Holding period	10 trading days
Confidence level	99%

The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis within the ICAAP process framework. In addition, limits are defined for various yield curves, currency pairs and equity position risks, among other things.

The Bank conducts stress testing to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain an absolute worst case scenario. Stress test limits are derived from the Bank's Capital Adequacy Process calculation.

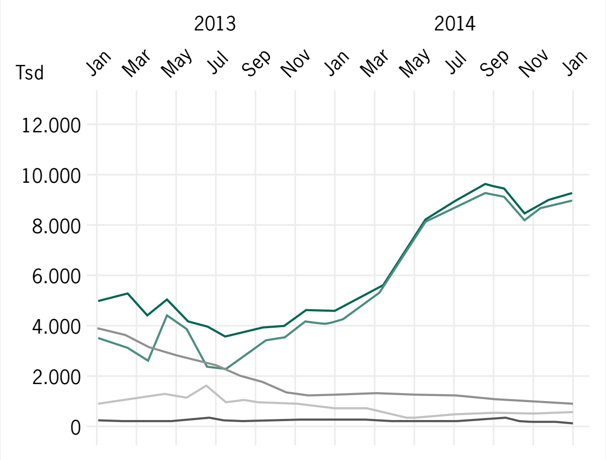
The Bank applies risk-adjusted yield curves to calculate present value figures. In addition to present value figures, the Bank conducts gap analyses on a weekly or monthly basis to manage fixed rate periods with reference to the money and capital markets.

Foreign currency risk is relatively small, as the Bank always hedges open positions. The Bank is subject to very little equity risk. Otherwise the Bank only holds equities as part of benchmark portfolios used in asset management. The volume is minimal.

Interest rates in the euro zone are very low; negative interest rates cannot be ruled out. Negative interest rates have no significant effect on the Group's interest rate risk.

The VaR for individual risk types over the past two years is shown below.

Development of mean value of VaR



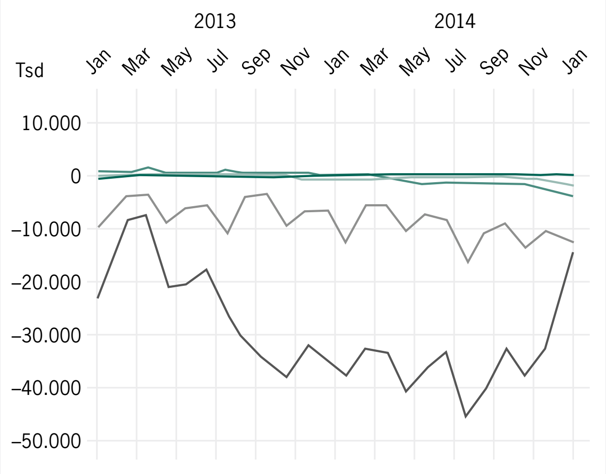
Mean value of VaR-total
Mean value of VaR-interest
Mean value of VaR-equity
Mean value of VaR-Credit spreads
Mean value of VaR-forex

in '000 EUR 2013	Mean value of VaR-total	Mean value of VaR-interest	Mean value of VaR-FX	Mean value of VaR-equity	Mean value of VaR-credit spreads
Jan	5,072	3,414	940	214	3,788
Feb	5,263	3,128	1,058	216	3,587
Mar	4,389	2,687	1,190	222	3,162
Apr	4,999	4,476	1,291	202	3,014
May	4,181	3,767	1,156	227	2,669
Jun	3,992	2,359	1,636	265	2,534
Jul	3,527	2,267	978	208	2,227
Aug	3,670	2,853	1,058	223	1,879
Sep	3,971	3,394	968	218	1,699
Oct	4,008	3,559	910	228	1,366
Nov	4,557	4,174	893	232	1,249
Dec	4,488	4,087	770	221	1,300

in '000 EUR 2014	Mean value of VaR-total	Mean value of VaR-interest	Mean value of VaR-FX	Mean value of VaR-equity	Mean value of VaR-credit spreads
Jan	4,664	4,297	688	239	1,239
Feb	5,157	4,883	692	228	1,368
Mar	5,649	5,489	602	192	1,295
Apr	7,021	6,888	434	200	1,244
May	8,143	8,027	386	188	1,247
Jun	8,712	8,443	405	186	1,228
Jul	9,052	8,773	536	213	1,244
Aug	9,620	9,288	520	215	1,147
Sep	9,435	9,101	537	228	1,036
Oct	8,479	8,206	544	188	1,053
Nov	8,944	8,693	513	121	997
Dec	9,150	8,868	548	102	936

The VaR for individual risk types and the change in present value as a consequence of 200 basis point shift in yield curves over the past two years is shown below.

Change in loss in present value resulting from a 200 basis point shift



Mean value of EUR
Mean value of CHF
Mean value of JPY
Mean value of USD
Mean value of SOFW

(64) CREDIT RISK

The Bank's medium-term credit risk objectives and policies are set forth in a written risk strategy. They represent the result of an analysis factoring in the overall bank strategy, business policy requirements, risk adequacy and lending risks. Based upon these, specific medium-term objectives are established concerning portfolio structure as well as clear limits for all relevant risks (large positions, foreign currency components etc.).

The lending risk principles are:

- Each borrower's credit standing must be checked and a rating assigned to each corporate customer of the bank and each business partner in the treasury.
- All credit decisions are subject to the dual control principle. The second opinion on the decision must be given by Risk Management, with few exceptions.
- The Bank must avoid cluster risks within the portfolio.
- The Bank changes rates on loans, which reflect the credit quality of the customers.
- The Bank should attempt to obtain higher collateral for low rating classes.
- For loans in foreign currency, exchange rate risk must be minimised by obtaining higher collateral, particularly with low credit ratings.
- The Bank manages the credit portfolio on overall bank level by diversifying and avoiding cluster risks and implementing measures to prevent the occurrence of major losses.

The Bank calculates the expected loss (EL) for the overall credit portfolio. The Bank employs a proprietary computer model based on the Capital Requirements Directive or Basel III IRB approach to calculate economic capital (unexpected losses, UL).

The Bank limits business in countries where systematic or transfer risk cannot be eliminated. To this end the Managing Board issues annual country limits, which are continuously monitored. Banks are assigned separate limits. Banks are key business partners for money market and derivative trading, for example, to whom large volumes of extremely short-term are issued. These limits are also continuously monitored. High limits and limit utilisation are reported annually to the Supervisory Board.

An array of rating modules specifically configured for the different customer segments are employed in the corporate customer business for measuring factors related to the credit standing. These systems meet Basel III requirements for internal rating systems and the Minimum Standards for the Credit Business applying to risk classification methods (FMA-MSK). Borrowers are thus rated on a 25-level scale (1a to 5e), the last five ratings (5a to 5e) being default levels. The individual ratings reflect estimated one-year default probabilities. Ratings 1a to 2e denote excellent to very good credit ratings, ratings 3a to 3e stand for medium credit ratings, and ratings 4a to 4e indicate increased default risk. The treasury generally has access to external ratings. If no external ratings are available for a business partner, then Risk Management produces an internal rating. The external ratings were allocated to the internal rating scale. Rating class 1 is only envisaged for business partners with a very good external rating from a rating agency.

Credit decisions are subject to the dual control principle. Policies are in place for each area to govern rating and volume authorisations for Front Office and Risk Management. In most cases approval from Risk Management is required.

The Bank employs the IRB default definition per Basel III for identifying default events. All rating tools feature functionalities for recording default events. When a default event occurs, the customer in question is assigned a default rating (rating class 5). The Bank has an early warning event recovery system to clearly identify payments which are 90 days past due. The system triggers a standardised workflow requiring Front Office and Risk Management to address late payment cases. Cases that have not been resolved within 90 days are forwarded to Central Credit Management (restructuring).

The Bank fully addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and prudent recognition of specific valuation allowances. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria. Loan loss provisions are recognised in the estimated amount of credit and interest losses. A loan is to be recognised as impaired when it is likely based on objective factors that not all interest and repayment obligations will be met in accordance with the contract. The impairment amount is the difference between the carrying value of the loan and the present value of expected future cash flows, factoring in the present value of collateral. The total amount of loan loss provisions for loans and advances on the balance sheet is charged against loans and advances to banks and customers. Loan loss provisions for off-balance sheet items (guaranteed credit, endorsement guarantee liabilities, credit commitments) are shown as credit risk provisions. Irrecoverable loans are written off directly. Recoveries on loans previously written off are recognised in the income statement.

The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide. The total exposure includes balance sheet loans and advances but also contingent liabilities such as loan commitments or liabilities.

Segments broken down by rating (maximum default risk)

in '000 EUR 31.12.2013		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Exposure	Corporate Customers	913,599	2,000,303	3,692,397	292,454	215,186	127,354	7,241,293
	Private Customers	1,399	371,599	985,100	23,182	47,547	433,337	1,862,164
	Financial Markets	4,044,936	956,222	182,091	20,605	2,928	89,451	5,296,233
	Corporate Center	22,325	426,917	733,770	123,858	133,702	410,675	1,851,247
Total exposure		**4,982,259**	**3,755,041**	**5,593,358**	**460,099**	**399,363**	**1,060,817**	**16,250,937**

in '000 EUR 31.12.2014		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Exposure	Corporate Customers	964,289	2,239,018	4,009,944	276,755	180,692	78,815	7,749,513
	Private Customers	103,115	721,931	1,129,523	45,893	41,603	38,703	2,080,768
	Financial Markets	3,739,050	1,025,229	106,089	33,527	30,263	107,501	5,041,659
	Corporate Center	41,228	378,749	768,198	102,519	171,110	241,935	1,703,739
Total exposure		**4,847,682**	**4,364,927**	**6,013,754**	**458,694**	**423,668**	**466,954**	**16,575,679**

Regions broken down by rating (maximum default risk)

in '000 EUR 31.12.2013	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	2,977,449	1,999,392	3,812,812	216,004	177,643	835,550	10,018,850
Italy	16,728	277,079	625,307	101,468	131,370	43,128	1,195,080
Germany	339,623	736,549	632,088	31,383	65,800	54,318	1,859,761
Switzerland and Liechtenstein	134,057	164,499	358,970	42,151	23,438	110,780	833,895
Other foreign countries	1,514,402	577,522	164,181	69,093	1,112	17,041	2,343,351
Total exposure	**4,982,259**	**3,755,041**	**5,593,358**	**460,099**	**399,363**	**1,060,817**	**16,250,937**

in '000 EUR 31.12.2014	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	2,606,052	2,639,123	4,001,787	244,436	212,609	338,067	10,042,074
Italy	9,906	226,436	624,484	109,991	135,188	35,651	1,141,656
Germany	396,728	669,832	835,215	31,878	32,212	17,577	1,983,442
Switzerland and Liechtenstein	56,723	251,221	378,496	41,505	11,335	65,710	804,990
Other foreign countries	1,778,273	578,315	173,772	30,884	32,324	9,949	2,603,517
Total exposure	**4,847,682**	**4,364,927**	**6,013,754**	**458,694**	**423,668**	**466,954**	**16,575,679**

The Group reports a concentration risk in Italy. In recent years, the property market in Italy has been characterised by falling prices. The Group conducts leasing business only in Northern Italy, where the situation, in relative terms, is better than in the rest of the country. Besides Italy, the Group reports significant exposure in no other PIIGS state (Portugal, Ireland, Iceland, Greece, Spain) in relation to the "other foreign countries" region.

Industries (maximum default risk)

in '000 EUR	31.12.2014	31.12.2013
Financial intermediaries	3,925,726	4,373,277
Consumers/private customers	2,120,542	1,909,150
Public sector	2,189,312	1,870,998
Real estate	2,114,936	1,891,705
Services	1,505,255	1,462,867
Trading	1,090,500	1,044,321
Metals/machinery	409,420	411,280
Construction	438,302	397,339
Transport/communications	370,305	465,037
Tourism	528,189	508,999
Water and energy utilities	349,914	350,525
Other goods	75,446	169,410
Vehicle construction	149,719	168,345
Petroleum, plastics	108,524	156,299
Other industries	1,199,589	1,071,385
Total	**16,575,679**	**16,250,937**

Exposure in rating class 5

in '000 EUR		31.12.2014	31.12.2013
Corporate Customers	Exposure	180,692	215,186
	Value adjustments	65,710	83,748
Private Customers	Exposure	41,603	47,547
	Value adjustments	15,900	17,857
Financial Markets	Exposure	30,263	2,928
	Value adjustments	12,015	0
Corporate Center	Exposure	171,110	133,702
	Value adjustments	33,898	18,571
Total Exposure		**423,668**	**399,363**
Total Value adjustments		**127,523**	**120,176**

Non-performing-loans
The Group designates loans in the regulatory asset class of loans in arrears as non-performing loans. At the end of 2014, no bonds were included therein. These amounted to EUR 427,054,000 as at 31 December 2014 (2013: EUR 439,885,000), accounting for 2.58 % (2013: 2.71 %) of the maximum default risk.

The definition of non-performing loans was changed at the beginning of the year as part of the introduction of Basel III. Non-performing loans correspond to the regulatory asset class of loans in arrears (up until the end of 2013, non-interest-bearing receivables in default were also included). This asset class previously comprised individual accounts that were 90 days in arrears. By contrast, Basel III focuses on the customer as a whole (including in the credit risk standardised approach). The comparative figure for 2013 indicated here meets the new definition.

Collateral
Traceable and uniform collateral valuation policies are in place governing the measurement and acceptance of collateral. Collateral is monitored on a periodic basis to ensure that it retains value. The measurement of collateral is generally a back-office function, but large loans are handled by an instance uninvolved in the lending process.

The main type of collateral obtained is real estate. Valuations are regularly reviewed. Operational processes ensure that collateral can be used for capital calculation. For loans larger EUR 3,000,000 collateral is reassessed within three years by independent specialists. The Hypo Immobilien & Leasing Group operates as a service provider in this business to ensure uniform, independent valuation.

Collateral tied to a specific individual is only counted when the guarantor or liable party – in most cases public sector organisations and banks – has an excellent credit standing. Discounts are applied to the current market value of financial collateral as a buffer against unexpected volatility. Furthermore, such collateral must be sufficiently liquid so it can be disposed.

Other collateral is only accepted if it is assured of retaining value and enforceability is in place. Hypo Immobilien & Leasing Group handles the realisation of defaulted loans and advances backed by mortgages. During the period under review, Hypo Immobilien & Leasing Group acquired no (2013: one at a cost of EUR 650,000) real estate property.

Depending on the market situation, it may not be easy to convert the property acquired into cash. Following acquisition, Hypo Immobilien & Leasing Group prepares an analysis which investigates whether a sale or a long-term let is more advantageous. In the event of a sale strategy, the company will attempt to sell the property as quickly as possible taking account of the revenues generated. In the event of a letting strategy, the property is permanently classified as investment property within the Group.

As a result of restructuring measures, an exposure of EUR 7,315,000 was rated as healthy in 2014 (2013: EUR 4,119,000). This allowed the reversal of EUR 1,839,000 in loan loss provisions in 2014 (2013: EUR 586,000).

Past due but non-impaired receivables

Length of time overdue	31.12.2014 Exposure in '000 EUR	31.12.2013 Exposure in '000 EUR
Less than 1 day	15,974,683	15,736,539
1 to 60 days	165,647	101,888
61 to 90 days	10,545	10,196
More than 90 days	1,136	2,951
Total	**16,152,011**	**15,851,574**

Problem customers are managed by departments specialising in problem loan processing. Customers are immediately transferred to these areas following defined early warning indicators such as the dunning level, default of 90 days, rating, insolvency, collection measures enforced by third parties or out-of-court settlements. This ensures that problem loans are managed promptly by specialists using defined, standardised processes.

Various strategies and suitable restructuring measures are applied to exposures in problem loan processing. Close monitoring ensures that the restructuring or realisation strategies resolved are complied with. The aim is to restore financial health to the customer and return it to the front-office area.

The following are examples of financial measures taken as part of customer restructuring/reorganisation:

- Instalment agreements: Credit instalment arrears or overdrafts are restructured in separate repayment agreements.
- Restructuring of existing credits/loans: Financing without matching maturities or liquidity squeezes that arise are remedied by restructuring the financing, provided this is economically feasible and makes good business sense.
- Acceptance of temporary overdrafts, provided that the reason for the overdraft and the manner and date of settlement are reasonable/foreseeable.
- Restructuring/granting of new credit: If there is a positive forecast for continued existence, financial monitoring may also be provided for the restructuring process of a company in crisis, with the aim of restoring it to financial health on a sustainable basis.
- Capital waiver, change in collateral positions or awarding of restructuring interest at standard market conditions are further restructuring options.

Additionally, the customer is supported with performance-related measures wherever possible in order to remedy the crisis situation. The following table shows the agreements made with the customer regarding concessions made on the basis of the customer's financial difficulties in order to restructure or rehabilitate the customer.

Concessions to customers in financial difficulties

in '000 EUR	31.12.2014
Non-financial companies	9,634
Private households	1,192
Total concessions on performing loans	**10,826**
Financial intermediaries	4,538
Non-financial companies	268,945
Private households	16,312
Total concessions on non-performing loans	**289,795**
Total concessions	**300,621**

(65) LIQUIDITY RISK

Liquidity risk management is conducted to ensure the Bank's ability to pay its obligations at all times (operating liquidity) and simultaneously minimise costs associated with holding cash. The Bank monitors its liquidity buffer on an ongoing basis. This includes instruments and markets available for refinancing and disposable assets (tactical liquidity management). Strategic liquidity management involves management of the maturities of the Bank's assets and liabilities and implementation of a corresponding issuance strategy. Monitoring involves gap analyses and forecasting necessary issue volume for the calendar year. The Bank conducts stress testing to identify potential sources of risk. Contingency plans are in place to ensure the Bank's continued solvency in the event of a liquidity crunch.

The Bank employs the following control instruments to identify and contain liquidity risks:

Operational
- Limiting weekly liquidity gaps on the money market
- Ratio of amounts payable and receivable within three months

Strategic
- Limiting cumulative annual liquidity gaps in the capital market
- Forecasting necessary issue volume for the calendar year
- Liquidity value at risk

Stress testing
- Liquidity needs versus buffer in crisis situation

Being aware of the key significance of the capital markets for funding, the Bank actively manages the maturities of its loans with respect to the discontinuation of the state guarantee. Road shows are regularly conducted to cultivate and establish relationships with investors. The Bank strives for diversification of instruments and investors as part of its issuance policy.

The Bank's liquidity buffer is large enough at all times to accommodate the utilisation of credit commitments (utilisation risk), and ensure that expected payments not received (retrieval risk) do not compromise solvency. In addition, the Bank currently hardly utilises the OeNB's or ECB's marginal lending facility, the SNB repo system and the money market. The Bank participated in the ECB's long-term tenders. Liquidity is thus sufficient at all times to avoid bottlenecks in the event of a crisis.

Hypo Landesbank Vorarlberg complied in full with the liquidity regulations outlined in the Austrian Banking Act. The Bank has no other cash flow risks other than those specified above.

The disclosures in the tables showing the money and capital market maturity profiles relate to financial instruments. The composition of the forecast cash flows is as follows. The disclosures in the derivatives column relate to Notes (18 to 19) and (34 to 35). The disclosures in the assets column relate to notes (15 – 17) and (20 – 22). The disclosures in the equity and liabilities column relate to notes (31 – 33) and (36 and 41). The money market table includes all maturities falling due within 12 months. The capital market table includes all maturities falling due after 12 months.

Maturity profile money market

per 31.12.2013 in '000 EUR	Assets		Liabilities		
	Assets	Derivates	Liabilities	Derivates	Total
January 2014	1,632,405	779,614	–1,042,343	–787,403	582,273
February 2014	158,266	195,329	–207,586	–187,437	–41,428
March 2014	284,301	363,544	–199,750	–347,259	100,836
April 2014	116,073	84,342	–153,936	–79,834	–33,355
May 2014	259,719	154,975	–464,505	–150,843	–200,654
June 2014	252,228	24,829	–212,645	–30,854	33,558
July 2014	82,211	23,158	–181,866	–13,748	–90,245
August 2014	122,828	36,583	–192,906	–20,463	–53,958
September 2014	288,015	55,814	–175,638	–45,367	122,824
October 2014	215,061	36,914	–191,963	–36,536	23,476
November 2014	161,322	23,821	–257,366	–17,184	–89,407
December 2014	107,945	36,310	–171,135	–23,289	–50,169

Maturity profile money market

per 31.12.2014 in '000 EUR	Assets		Liabilities		
	Assets	Derivates	Liabilities	Derivates	Total
January 2015	1,094,174	625,886	–722,615	–626,827	370,618
February 2015	163,870	34,796	–172,090	–26,862	–286
March 2015	330,765	363,499	–183,728	–347,068	163,468
April 2015	162,321	30,582	–151,864	–25,199	15,840
May 2015	118,050	39,071	–205,455	–32,189	–80,523
June 2015	243,613	90,649	–320,243	–95,439	–81,420
July 2015	200,052	24,924	–200,441	–16,542	7,993
August 2015	95,301	132,750	–171,774	–119,980	–63,703
September 2015	211,944	37,614	–157,659	–26,658	65,241
October 2015	144,437	13,222	–164,006	–14,224	–20,571
November 2015	125,436	36,946	–440,232	–26,356	–304,206
December 2015	284,090	19,334	–172,435	–22,776	108,213

Maturity profile capital market

per 31.12.2013 in '000 EUR	Assets		Liabilities		
	Assets	Derivates	Liabilities	Derivates	Total
2014	3,791,072	1,822,714	–3,501,903	–1,751,077	360,806
2015	1,542,646	397,179	–2,083,825	–324,505	–468,505
2016	1,372,267	441,196	–1,293,491	–342,725	177,247
2017	1,313,536	370,957	–3,372,941	–323,282	–2,011,730
2018	926,823	112,038	–582,714	–114,597	341,550
2019	811,400	188,640	–645,359	–211,795	142,886
2020	862,387	128,239	–775,625	–134,019	80,982
2021	701,470	58,573	–191,074	–64,455	504,514
2022	715,552	58,548	–237,424	–66,580	470,096
2023	619,869	39,884	–87,146	–47,429	525,178
2024	418,466	58,869	–50,121	–72,375	354,839
2025	388,618	31,229	–13,709	–38,692	367,446

Maturity profile capital market

per 31.12.2014 in '000 EUR	Assets		Liabilities		
	Assets	Derivates	Liabilities	Derivates	Total
2015	3,174,055	1,449,272	–3,089,176	–1,380,119	154,031
2016	1,531,298	462,260	–2,021,667	–345,944	–374,053
2017	1,392,274	361,026	–3,083,246	–294,051	–1,623,997
2018	993,711	111,895	–1,060,660	–96,380	–51,434
2019	993,504	283,891	–1,243,288	–288,047	–253,940
2020	925,782	320,700	–921,720	–319,194	5,568
2021	774,302	53,591	–219,539	–53,263	555,092
2022	757,477	56,844	–242,884	–57,201	514,236
2023	660,057	49,506	–94,090	–51,553	563,921
2024	642,786	130,934	–138,897	–137,640	497,183
2025	410,159	32,178	–17,983	–31,848	392,505
2026	388,541	35,481	–83,955	–34,724	305,343

(66) OPERATIONAL RISK (OR)

Operational risks are minimised in the Bank in all divisions through clear distribution of responsibilities and written procedural instructions. The Bank has written emergency plans in place and a crisis management manual is made available to all employees. Employees regularly receive training to ensure preparedness for crisis events. The Bank has critically studied all internal workflows several times within the framework of functional reviews.

Operational losses are tracked in a database. Operational losses are categorised in this database. Quality assurance is performed by Operational Risk Managers who review each loss. The recognition of losses is ensured, for example, through the fact that it is required for a necessary entry. The database content is analysed for the quarterly OR reports.

Data protection and security measures are a high priority for the Bank, which is why a range of controls and monitoring processes are in place ensuring that entrusted data remains confidential. Internal Audit conducts both regular and unannounced audits to ensure adherence with procedures.

Significant transactions and decisions are without exception subject to control review. Well-trained and conscientious employees are of great importance to the Bank. The internal Legal Department carefully determines contract design in consultation with specialised external counsel and university professors to minimise legal risks.

(67) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

Capital management
The Group's capital management objectives and requirements include:

- Compliance with the regulatory capital requirements of CRR
- Maintaining a going concern
- Managing shareholder distributions
- Maintaining a solid capital base for expansion

Capital adequacy is continuously monitored in accordance with CRR. These data are calculated every month and reported individually and at the level of Vorarlberger Landesbank-Holding to Oesterreichische Nationalbank on a quarterly basis. In 2014, CRR requires institutions to comply with a Common Equity Tier 1 capital ratio of 4.00%, a Tier 1 capital ratio of 5.50% and a debt/equity ratio of 8.00%. The Bank met the regulatory capital requirements both in the year under review (pursuant to CRR) and the previous year (pursuant to BWG).

The amount of regulatory capital held by the Bank Group is determined by Central Accounting and consists of three tiers.

Common Equity Tier 1 capital – CET1
This includes the eligible and paid-in capital instruments, share premium accounts related to these instruments, retained earnings, eligible profit/loss for the year, accumulated other comprehensive income, and other reserves. CRR provides appropriate transitional regulations for the period from 2014 to 2021. In addition, CRR provides for deductions, such as intangible assets, deferred tax assets, measurement effects due to the institution's own credit risk, and Common Equity Tier 1 instruments of financial sector entities that exceed certain thresholds.

Additional Tier 1 capital – AT 1
This includes the eligible and paid-in capital instruments and share premium accounts related to these instruments. CRR also provides appropriate transitional regulations for the period from 2014 to 2021 for these instruments. In addition, deductions are also included in CRR for these items. Tier 1 capital is the total of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 2 capital – T2
This includes the eligible Tier 2 bonds and subordinated loans and share premium accounts related to these instruments. There are transitional regulations for the period from 2014 to 2021 for subordinated and Tier 2 capital already issued that does not meet the requires of Article 63 CRR. Tier 2 instruments in the last five years of their terms are only eligible to a certain extent. Tier 2 instruments of financial sector entities that exceed certain thresholds are also deductible here.

The sum of Tier 1 and Tier 2 capital gives the eligible capital. The tables below show the capital requirements for Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft pursuant to Section 22 of the Austrian Banking Act at the 2013 reporting date and pursuant to CRR for 2014 and the breakdown of the Bank Group's capital as at 31 December 2014 and 31 December 2013.

Pillar 2 of Basel III requires banks additionally to demonstrate their capital adequacy on the basis of internal models. This is to ensure in particular that risks are considered which receive no capital requirements under Pillar 1. Such risks include interest rate risk in the banking book. The Bank employs the Internal Capital Adequacy Assessment Process (ICAAP) to identify, quantify, aggregate and monitor all major risks. The Bank calculates economic capital requirements for each of these risks. The Bank allocates a capital buffer if economic capital requirements cannot be calculated. The available risk coverage potential is distributed across organisational units and risk types in annual planning.
By using the Capital Adequacy Process, the Bank ensures that risk limits are complied with and that risks taken are covered by existing coverage potential. The Bank applies a confidence level of 99.95% and a holding period of one year in the Capital Adequacy Process. Correlations between individual risk types are not taken into consideration. The Capital Adequacy Process calculation is performed monthly.

The Bank's credit risk calculation of economic capital is based on the Basel III IRB approach. With this approach, the consumption of economic capital depends on the volume, collateral and rating of the debtor. Value at risk is employed in the ICAAP for the management of market risk. The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis.

In addition, limits are defined for various yield curves, currency pairs or equity position risks.

The Bank calculates economic capital for operational risk using the Pillar 1 basic indicator approach. This value is further increased for ICAAP to reflect the stricter requirements than those imposed by regulatory provisions. To quantify structural liquidity risk, Hypo Landesbank Vorarlberg calculates liquidity VaR based on the ICAAP guidelines of the Austria Financial Market Authority/ Austrian National Bank. In-house methods are used for shareholder risk, real estate risk and foreign currency risk. A capital buffer is recognised for other risks.

Due to the changed legal requirements (previously regulation by BWG and Solvency Regulation; now regulation by CRR and CRD IV), consolidated capital and the consolidated capital requirement are no longer comparable. Therefore, the figures as of 31 December 2013 and 31 December 2014 are presented sequentially in the following tables.

Regulatory requirements for 2013 pursuant to BWG

Capital requirements per Section 22 Austrian Banking Act

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**

Consolidated capital per Section 23 in conjunction with Section 24 Austrian Banking Act

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 – 1,909	–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%

Regulatory requirements for 2014 pursuant to CRR

Total risk exposure amount according to CRR

in '000 EUR	31.12.2014
Risk weighted exposure amounts for credit, counter-party credit and dilution risks and free deliveries	7,734,032
Total risk exposure amount for settlement/delivery	0
Total risk exposure amount for position, foreign exchange and commodities risks	447
Total risk exposure amount for operational risk	423,834
Total risk exposure amount for credit valuation adjustment	67,946
Total risk exposure amount	**8,226,259**

Common Equity Tier 1 capital (CET1) according to CRR

in '000 EUR	31.12.2014
Capital instruments eligible as CET1 Capital	184,327
Retained earnings	513,915
Accumulated other comprehensive income	13,623
Other reserves	129,050
Transitional adjustments due to grandfathered CET1 Capital instruments	24,000
Minority interest given recognition in CET1 capital	14
Transitional adjustments due to additional minority interests	35
Adjustments to CET1 due to prudential filters	–4,289
Intangible assets	–1,235
Excess of deduction from AT1 items over AT1 Capital	–2,092
CET1 instruments of financial sector entites where the institution does not have a significant investment	–639
Other transitional adjustments to CET1 Capital	–48,896
Common Equity Tier 1 capital (CET1)	**807,813**

Additional Tier 1 capital (AT 1) according to CRR

in '000 EUR	31.12.2014
Capital instruments eligible as AT1 capital	0
Instruments issued by subsidiaries that are given recognition in AT1 capital	5
Transitional adjustments due to additional recognition in AT1 capital of instruments issued by subsidiaries	–4
AT1 instruments of financial sector entities where the institution does not have a significant investment	–84
Other transitional adjustments to AT1 capital	–2,009
Excess of deduction from AT1 items over AT1 capital (deducted in CET1)	2,092
Additional Tier 1 capital (AT1)	**0**

Tier 2 capital (T2)

in '000 EUR	31.12.2014
Capital instruments and subordinated loans eligible as T2 capital	285,194
Instruments issued by subsidiaries that are given recognition in T2 capital	9
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	–8
T2 instruments of financial sector entities where the institution does not have a significant investment	–2,238
Other transitional adjustments to T2 capital	703
Tier 2 capital (T2)	**283,660**

Composition of capital resources in accordance with CRR and capital ratios

in '000 EUR	31.12.2014
Common Equity Tier 1 capital (CET1)	807,813
Additional Tier 1 capital (AT1)	0
Tier 1 capital	**807,813**
Tier 2 capital (T2)	283,660
Own funds	**1,091,473**
CET1 Capital ratio (CET1)	9.82%
Surplus of CET1 capital	478,762
T1 Capital ratio (T1)	9.82%
Surplus of T1 capital	355,369
Total capital ratio	13.27%
Surplus of total capital	433,372

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(68) AUSTRIAN LAW

In line with Section 59a Austrian Banking Act in conjunction with Section 245a (1) Austrian Corporate Code (UGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards applicable in the EU. In line with Section 59a Austrian Banking Act, the disclosures per Section 64 (1) no. 1 – 19 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the Notes to the consolidated financial statements.

(69) ADDITIONAL DISCLOSURES IN LINE WITH THE AUSTRIAN BANKING ACT

The disclosure pursuant to Section 64 (1) No. 1 BWG on participation in the leasing business can be read in Note (17). The disclosure pursuant to Section 64 (1) No. 2 BWG on total assets and liabilities in foreign currencies can be read in Note (43). The disclosure pursuant to Section 64 (1) No. 3 BWG on forward transactions not yet settled on the reporting date can be read in Notes (19 and 35).

The disclosure pursuant to Section 64 (1) No. 4 BWG on residual terms of loans and advances to banks and customers of liabilities to banks and customers can be read in Note (44).

The balance sheet items “Financial liabilities – at fair value” and “Supplementary capital (LAC)” include subordinated liabilities. The following table provides details in accordance with Section 64 (1) No. 5 to 6 BWG.

in '000 EUR	31.12.2014		31.12.2013	
	Total number	Carrying value	Total number	Carrying value
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAFV	9	60,737	7	61,559
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	14	327,415	11	319,098
	Average interest	Average remaining term	Average interest	Average remaining term
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAFV	3.624	10.1	3.529	11.1
Tier 2 capital according to Part Two Title I Chapter 4 (EU Reg. 575/2013) – LAC	1.824	4.6	1.942	5.5

The following subordinated liabilities exceed 10% of the total amount of subordinated liabilities presented above. The following provides details of the conditions of these issues in accordance with section 64 no. 5 BWG.

- Subordinated bond ISIN XS0267498912, EUR 100,000,000, interest 3M Euribor +10 bp, currently 0.182%, duration 2006 to 2017, no call facility or conversion option, repaid at end of duration at 100 rate;
- Subordinated bond ISIN AT0000A0XB21, EUR 100,000,000, interest 5% fixed, duration 2012 to 2022, no call facility or conversion option, repaid at end of duration at nominal value.

In 2015, bonds and other fixed-income securities in accordance with Section 64 (1) No. 7 BWG totalling EUR 711,618,000 (2014: EUR 756,291,000) and issued bonds totalling EUR 574,812,000 (2014: EUR 425,279,000) will fall due for repayment.

The disclosure pursuant to Section 64 (1) No. 8 BWG on assets provided as collateral can be read in Note (48). The disclosure pursuant to Section 64 (1) No. 9 BWG is not made in terms of geographical markets, as these do not differ materially from the location of the Bank’s organisation.

The disclosure pursuant to Section 64 (1) No. 12 BWG is already made in the individual Notes of the consolidated financial statements where the amounts are significant.

The interest expense for subordinated liabilities according to Section 64 (1) No. 13 BWG was EUR 8,262,000 in 2014 (2013: EUR 8,158,000).

The disclosure pursuant to Section 64 (1) No. 15 BWG can be read in Note (71). The Bank maintains a small trading portfolio per Article 94 CRR with a focus on customer service. As of 31 December 2014, the trading portfolio includes investment funds of EUR 686,000 (2013: EUR 759,000). In the previous year, it also contained a bond of EUR 190,000.

The disclosure pursuant to Section 64 (1) No. 16 and No. 17 BWG on the breakdown of core capital, supplementary capital and consolidated capital can be read in Notes (42 and 67).

The financial information and key figures for each country of establishment pursuant to Section 64 (1) No. 18 BWG are disclosed in extract form in the following table:

in '000 EUR	Austria	Switzerland	Italy	Hungary	Czech Republic
Net interest income	161,346	4,174	11,015	616	263
Net fee and commission income	35,238	809	–142	–197	–84
Result from hedge relationships	646	0	0	0	0
Net trading result	30,294	366	–8	–6	–2
Result from other financial instruments	1,061	0	0	0	0
Administrative expenses	–82,508	–4,625	–4,858	–54	–56
Earnings before taxes	70,583	1,662	–5,910	–5,421	–6,935
Taxes on income	–13,628	–292	1,083	133	–23
Number of full-time equivalent employees	667,70	17,60	37,90	0,00	0,00
Public aid received	0	0	0	0	0

Switzerland comprises our branch in St. Gallen. The branch in St. Gallen acts as a universal bank. It focuses on lending, asset management and investment advisory services. It operates in German-speaking Switzerland, especially Eastern Switzerland.

Italy comprises our companies Hypo Vorarlberg Holding (Italien) G.m.b.H, Hypo Vorarlberg Leasing AG and Hypo Vorarlberg Immo Italia srl. All companies are based in Bolzano. Hypo Vorarlberg Leasing AG conducts property leasing business and occasionally movables leasing business. Hypo Vorarlberg Leasing AG has branches in Como and Treviso. It operates in South Tyrol and Northern Italy. Hypo Vorarlberg Immo Italia srl manages and evaluates the Group's properties in Italy and provides property services for Hypo Vorarlberg Leasing AG and the Group. In addition, Hypo Vorarlberg Immo Italia srl manages and commercialises its own properties. Hypo Vorarlberg Holding (Italien) G.m.b.H. holds the stakes in the two other companies.

Hungary comprises our companies Inprox GY – HIL Kft. and HSL Logisztika Hungary Kft., both based in Budapest. Both companies operate in the property leasing business and each company finances a large commercial property in Hungary.

The Czech Republic comprises our companies Inprox Praha Michle – HIL s.r.o. and Inprox Praha Letnany – HIL s.r.o., both based in Prague. Both companies operate in the property leasing business and each company finances a large commercial property in the Czech Republic.

The return on total assets in accordance with Section 64 (1) No. 19 BWG is 0.29% (previous year: 0.53%). Hypo Landesbank Vorarlberg has issued a participation certificate, but did not call back or take shares in pledge in 2013 or 2014.

(70) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE ACT

The table below provides a breakdown of fees paid to Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Strasse 19 – IZD-Tower, 1220 Vienna per Section 266 no. 11 UGB.

in '000 EUR	2014	2013
Expenses for auditing the consolidated financial statements	33	32
Expenses for other auditing services	152	138
Expenses for other services	47	21
Total fees	**232**	**191**

(71) DISCLOSURES ON STOCK-EXCHANGE LISTING

A breakdown of securities per Section 64 (1) No. 10 and No. 11 BWG is provided below.

in '000 EUR	Not listed 31.12.2014	Listed 31.12.2014	Not listed 31.12.2013	Listed 31.12.2013	Total 31.12.2014	Total 31.12.2013
Bonds – HFT	0	0	0	190	0	190
Bonds – AFV	81,468	470,227	100,312	539,917	551,695	640,229
Bonds – AFS	3,256	656,567	4,831	712,340	659,823	717,171
Bonds – HTM	1,769	1,083,416	15,015	1,128,686	1,085,185	1,143,701
Shares – HFT	594	92	679	80	686	759
Shares – AFV	0	11,464	0	5,431	11,464	5,431
Shares – AFS	30,053	8,160	26,744	8,160	38,213	34,904
Shares – HTM	0	9,985	0	9,979	9,985	9,979
Investments	10,727	0	11,429	0	10,727	11,429
Shares in affiliated companies	28	0	94	0	28	94
Total securities	**127,895**	**2,239,911**	**159,104**	**2,404,783**	**2,367,806**	**2,563,887**
of which non-current assets	90,193	2,218,228	103,530	2,404,513	2,308,421	2,508,043
of which current assets	37,108	21,591	54,895	0	58,699	54,895
of which trading assets	594	92	679	270	686	949

In the interest of improved transparency and informational value of the breakdown of securities, loans and advances to banks and customers were excluded from bonds at fair value.

The difference between cost and the lower repayment amount per Section 56 (2) Austrian Banking Act was EUR 54,082,000 (2013: EUR 38,343,000). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was EUR 21,096,000 (2013: EUR 11,741,000). At 31 December 2014, supplementary capital in the portfolio securities totalled EUR 47,000 (2013: EUR 0).

(72) SUBSIDIARIES AND HOLDINGS NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The following subsidiaries were not included in the consolidated financial statements as they are of minor importance to the informational value of the consolidated financial statements, both when considered individually and when taken together.

In most cases, these companies are project companies which do not undertake business operations and are instead responsible for the realisation of individual assets. Hotel Jagdhof Kessler Betriebs GmbH & Co KG based in Riezlern undertakes business operations in the form of a hotel business.

Company name, place in '000 EUR	Percentage of capital	Equity	Net result	Total assets	Date of financial reporting
HV-Finanzdienstleistungs- und Immobilien GmbH, DE-Kempten	100.00%	–9	–7	806	31.12.2014
Hotel Widderstein Besitz & Verwaltungs GmbH, Schröcken	100.00%	61	1	61	31.12.2014
"ATZ" Besitz- und VerwaltungsGmbH, Bregenz	100.00%	–75	–31	1,135	31.12.2014
Hypo Immobilien Hotelverwertungs GmbH, Dornbirn	100.00%	–25	–57	790	31.12.2014
Hotel Jagdhof Kessler Betriebs GmbH & Co KG, Riezlern	100.00%	18	1	19	31.10.2013
Hotel Jagdhof Kessler BetriebsGmbH, Riezlern	100.00%	354	15	2,818	31.10.2013
Total		**324**	**–78**	**5,629**	

The following holdings over which the Group can exert significant influence are not included in the consolidated financial statements, primarily because inclusion would lead to a disproportionately long delay to the consolidated financial statements and also because reconciliation would involve disproportionately high costs, due to IFRS, without significantly increasing the informational value with regard to the Group's net assets and liabilities, financial condition, and results of operations.

Company name, place in '000 EUR	Percentage of capital	Equity	Net result	Total assets	Date of financial reporting
"Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	33.33%	37	0	416	31.12.2014
MERAN 2000 Bergbahnen AG, IT-Meran	23.39%	10,693	37	21,181	31.12.2013
CAMPUS Dornbirn II Investment GmbH, Dornbirn	30.00%	3,282	263	20,380	31.12.2013

Company name, place in '000 EUR	The Group's share in equity	The Group's share in profit/loss
"Wirtschafts-Standort Vorarlberg" Betriebsansiedlungs GmbH, Dornbirn	12	0
MERAN 2000 Bergbahnen AG, IT-Meran	2,501	9
CAMPUS Dornbirn II Investment GmbH, Dornbirn	985	79
Total	**3,498**	**88**

VI. MANAGING BOARD/SUPERVISORY BOARD

MANAGING BOARD

Michael Grahammer
Chairman of the Managing Board, Dornbirn

Johannes Hefel
Member of the Managing Board, Schwarzach

Michel Haller
Member of the Managing Board, Tettnang

SUPERVISORY BOARD

Jodok Simma
Chairman, Chairman of the Managing Board (retired), Bregenz (Chairman since 1 May 2014; Deputy Chairman until 30 April 2014)

Alfred Geismayr
Deputy Chairman, Chartered Accountant, Dornbirn (Deputy Chairman since 1 May 2014; Chairman until 30 April 2014)

Friedrich Amann
Entrepreneur (retired), Fraxern

Christian Brand
Chairman of the Managing Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (retired), Ettlingen (until 20 May 2014)

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau

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

Christian Konzett
Lawyer, Bludenz

Karlheinz Rüdisser
Deputy State Governor, Lauterach

Nicolas Stieger
Lawyer, Bregenz

Ulrich Theileis
Member of the Managing Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Ettlingen (since 21 May 2014)

Bernhard Egger
Works Council delegate

Bernhard Köb
Works Council delegate

Elmar Köck
Works Council delegate

Veronika Moosbrugger
Works Council delegate

Cornelia Vonach
Works Council delegate

VII. SUBSIDIARIES AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statements:

The shareholdings listed in the following table did not change in financial year 2014. In 2014, the shares in HIL ALPHA Mobilienverwaltung GmbH, HIL Beteiligungs GmbH and HIL Real Estate Austria Holding GmbH were merged with HIL EPSILON Mobilienleasing GmbH – see Note (2). The share of voting rights corresponds to the equity interest.

Company name, place	Percentage of capital	Date of financial reporting
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00%	31.12.2014
LD-Leasing GmbH, Dornbirn	100.00%	31.12.2014
Hypo Vorarlberg Leasing AG, IT-Bolzano	100.00%	31.12.2014
Hypo Vorarlberg Holding (Italien) – GmbH, IT-Bolzano	100.00%	31.12.2014
Hypo Vorarlberg Immo Italia srl, IT-Bolzano	100.00%	31.12.2014
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2014
Hypo Immobilien Besitz GmbH, Dornbirn	100.00%	31.12.2014
"Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100.00%	31.12.2014
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00%	31.12.2014
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2014
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00%	31.12.2014
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00%	31.12.2014
Hypo Versicherungsmakler GmbH, Dornbirn	100.00%	31.12.2014
Hypo Immobilien Investment GmbH, Dornbirn	100.00%	31.12.2014
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00%	31.12.2014
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100.00%	31.12.2014
HIL Immobilien GmbH, Dornbirn	100.00%	31.12.2014
HIL BETA Mobilienverwaltung GmbH, Dornbirn	100.00%	31.12.2014
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00%	31.12.2014
HIL Baumarkt Triester Straße Immobilienleasing GmbH, Dornbirn	100.00%	31.12.2014
HIL Real Estate alpha GmbH, Dornbirn	100.00%	31.12.2014
HIL Real Estate International Holding GmbH, Dornbirn	100.00%	31.12.2014
"Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100.00%	31.12.2014
Inprox Praha Michle – HIL s.r.o., CZ-Prague	100.00%	31.12.2014
Inprox Praha Letnany – HIL s.r.o., CZ-Prague	100.00%	31.12.2014
Inprox GY – HIL Kft., HU-Budapest	100.00%	31.12.2014
HSL Logisztika Hungary Kft., HU-Budapest	100.00%	31.12.2014
"HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2014
"POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2014
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00%	31.12.2014
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00%	31.12.2014
D. TSCHERNE Gesellschaft m.b.H., Vienna	100.00%	31.12.2014
"HSL-Lindner" Traktorenleasing GmbH, Dornbirn	76.00%	31.12.2014

b) Companies consolidated in the consolidated financial statements according to the equity method:

The shareholdings listed in the following table did not change in financial year 2014. The share of voting rights corresponds to the equity interest.

Company name, place in '000 EUR	Percentage of capital	Equity	Total assets	Liabilities	Sales revenues
HTV KAPPA Immobilienleasing GmbH, Dornbirn	50.00%	157	28,025	27,868	292
Silvretta-Center Leasing GmbH, Bregenz	50.00%	780	5,239	4,459	491
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz	43.29%	69,772	117,348	47,576	–1,151
MASTERINVEST Kapitalanlage GmbH, Vienna	37.50%	4,318	7,476	3,158	49
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33%	254	546	292	4
VKL II Grundverwertungsgesellschaft m.b.H., Dornbirn	33.33%	853	889	36	7
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33.33%	5,064	5,077	13	40
VKL IV Leasinggesellschaft mbH, Dornbirn	33.33%	47	18,992	18,945	77
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	33.33%	–142	8,511	8,653	126
'Seestadt Bregenz' Besitz- und Verwaltungsgesellschaft mbH, Dornbirn	20.00%	1,380	11,252	9,872	15

With the exception of HYPO EQUITY Unternehmensbeteiligungen AG, all companies included in the consolidated financial statements according to the equity method are based on separate financial statements as at 31 December 2014. The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG were prepared as at 30 September 2014 and included in the consolidated financial statements on this basis, since this company's financial year differs from the calendar year. Preparation of interim financial statements was waived.

The sales revenue shown in the table for 'Seestadt Bregenz' Besitz- und Verwaltungsgesellschaft mbH and Silvretta-Center Leasing GmbH represents rental income, as the purpose of the company is rental and leasing. For the other companies, net interest income is shown under sales revenue.

(73) DISCLOSURE ON NON-CONTROLLING INTERESTS

There are non-controlling interests in “HSL-Lindner” Traktorenleasing GmbH, based in Dornbirn. This company’s financial information is presented in the table below:

in ’000 EUR	31.12.2014	31.12.2013
Assets	4,277	5,220
Financial assets	4,274	5,179
of which current	2,510	2,774
of which non-current	1,764	2,405
Other assets	3	41
Liabilities	4,033	4,957
Financial liabilities	3,852	4,546
of which non-current	3,852	4,546
Other liabilities	181	411
Shareholders’ equity	244	263
of which non-controlling interests	59	63

in ’000 EUR	2014	2013
Net interest income	97	99
Other income	152	23
Other expenses	–136	–1
Earnings before taxes	108	111
Taxes on income	–27	–28
Income after taxes	81	82
of which non-controlling interests	19	20
Dividends/distributions	100	100
of which non-controlling interests	24	24

(74) DISCLOSURES ON JOINT VENTURES

Financial information on joint ventures is presented in the tables below:

HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz

in ’000 EUR	30.09.2014	30.09.2013
Assets	117,348	122,498
Financial assets	115,286	118,356
of which current	23,008	4,387
of which non-current	92,278	113,969
Other assets	2,062	4,142
Liabilities	47,576	48,276
Financial liabilities	41,558	46,771
of which current	10,558	15,771
of which non-current	31,000	31,000
Provisions	0	171
Other liabilities	6,018	1,334
Shareholders’ equity	69,772	74,222

in ’000 EUR	2014	2013
Net interest income	–1,151	180
Other income	9,448	11,593
Other expenses	–9,105	–6,296
Earnings before taxes	–808	5,477
Taxes on income	–654	50
Income after taxes	–1,462	5,527
Dividends/distributionns	2,989	1,533

MASTERINVEST Kapitalanlage GmbH, Vienna

in ’000 EUR	31.12.2014	31.12.2013
Assets	7,476	6,984
Financial assets	5,061	4,925
of which non-current	5,061	4,925
Other assets	2,415	2,059
Liabilities	3,158	2,690
Provisions	122	119
Other liabilities	3,036	2,571
Shareholders’ equity	4,318	4,294

in ’000 EUR	2014	2013
Net interest income	49	48
Other income	379	351
Other expenses	–308	–259
Earnings before taxes	575	567
Taxes on income	–152	–158
Income after taxes	424	409
Dividends/distributions	400	316

‘Seestadt Bregenz‘ Besitz- und Verwaltungsgesellschaft m.b.H., Dornbirn

in ’000 EUR	31.12.2014	31.12.2013
Assets	11,252	9,401
Other assets	11,252	9,401
Liabilities	9,872	7,885
Financial liabilities	9,034	7,865
of which non-current	9,034	7,865
Other liabilities	838	20
Shareholders’ equity	1,380	1,516

in ’000 EUR	2014	2013
Net interest income	–294	–297
Other income	340	319
Earnings before taxes	–134	–16
Taxes on income	–1	–1
Income after taxes	–136	–17
Dividends/distributions	0	0

Silvretta-Center Leasing GmbH, Bregenz

in '000 EUR	31.12.2014	31.12.2013
Assets	5,239	5,085
Other assets	5,239	5,085
Liabilities	4,459	4,458
Financial liabilities	4,400	4,400
of which non-current	4,400	4,400
Other liabilities	59	58
Shareholders' equity	780	627

in '000 EUR	2014	2013
Net interest income	–27	–48
Other income	494	513
Other expenses	–206	–207
Earnings before taxes	187	172
Taxes on income	–34	–221
Income after taxes	153	–49
Dividends/distributions	0	0

HTV KAPPA Immobilienleasing GmbH

in '000 EUR	31.12.2014	31.12.2013
Assets	28,025	28,994
Financial assets	27,463	28,534
of which non-current	27,463	28,534
Other assets	562	460
Liabilities	27,868	28,914
Financial liabilities	27,747	28,241
of which non-current	27,747	28,241
Other liabilities	121	673
Shareholders' equity	157	80

in '000 EUR	2014	2013
Net interest income	292	262
Other income	34	0
Other expenses	–34	0
Earnings before taxes	103	80
Taxes on income	–25	–1
Income after taxes	77	78
Dividends/distributions	0	0

Below, the joint ventures Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H, VKL II Grundverwertungsgesellschaft m.b.H., VKL III Gebäudeleasing-Gesellschaft m.b.H., VKL IV Leasinggesellschaft mbH and VKL V Immobilien Leasinggesellschaft m.b.H. are aggregated in the presentation of financial information, because all these companies pursue the same objective, and the shareholder structure and shareholdings in all these companies are identical.

Vorarlberger Kommunalgebäudeleasing Gesellschaften

in '000 EUR	31.12.2014	31.12.2013
Assets	34,015	34,665
Financial assets	28,657	30,271
of which non-current	28,657	30,271
Other assets	5,358	4,394
Liabilities	27,939	28,508
Financial liabilities	27,861	28,012
of which current	8	67
of which non-current	27,853	27,945
Other liabilities	78	496
Shareholders' equity	6,076	6,157

in '000 EUR	2014	2013
Net interest income	254	126
Other income	169	176
Other expenses	–75	–130
Earnings before taxes	190	91
Taxes on income	–17	–18
Income after taxes	174	74
Dividends/distributions	253	389

(75) DISCLOSURES ON STRUCTURED AND NON-CONSOLIDATED ENTITIES

Hypo Landesbank Vorarlberg is a member of Pfandbriefstelle der österreichischen Landes- und Hypothekenbanken. As joint issuing institution of the Landes- und Hypothekenbank, Pfandbriefstelle – and from 15 January 2015 its legal successor Pfandbriefbank (Österreich) AG – has the primary task of issuing mortgage bonds, public-sector mortgage bonds and non-funded bonds in trust and providing the funds thus procured to its members. Pfandbriefbank also carries out lending activities and transactions that affect the members collectively.

In addition to Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, the following institutions are members of Pfandbriefstelle:

- HYPO-BANK BURGENLAND Aktiengesellschaft
- Austrian Anadi Bank AG
- HETA ASSET RESOLUTION AG
- HYPO NOE Landesbank AG
- HYPO NOE Gruppe Bank AG
- Oberösterreichische Landesbank Aktiengesellschaft
- SALZBURGER LANDES-HYPOTHEKENBANK AKTIENGESELLSCHAFT
- Landes-Hypothekenbank Steiermark Aktiengesellschaft
- HYPO TIROL BANK AG

Pfandbriefstelle is a publicly owned bank. For this reason, there are no shares or ownership structures in Pfandbriefstelle. Each member bank delegates a member of the Board of Directors and therefore has one vote. The simple majority of votes cast is required for a valid decision. If votes are tied, the Chairman's vote decides. Decisions on the charter or any change to the charter, the liquidation of Pfandbriefstelle and the distribution of the proceeds therefrom require a two-thirds majority of the votes cast. With effect from the start of 2015, Pfandbriefstelle's operations were transferred to Pfandbriefbank (Österreich) AG by way of universal succession according to Section 92 BWG. Pfandbriefstelle is the sole shareholder of Pfandbriefbank.

Since 2004, Pfandbriefstelle has been subject to the provisions of the Pfandbriefstelle Act (PfBrStG). According to Section 2 PfBrStG, the members have joint and several liability for the liabilities of Pfandbriefstelle and, in conjunction with Section 92 (6) BWG, for the liabilities of Pfandbriefbank. The members' guarantors have joint and several liability for all liabilities of Pfandbriefstelle/Pfandbriefbank that came into existence before 2 April 2003. For all liabilities incurred after 2 April 2003 and up to 1 April 2007, the guarantors only have joint and several liability if the agreed maturities do not exceed 30 September 2017. The guarantors are no longer liable for liabilities incurred after 1 April 2007. For the liabilities for which guarantors are no longer liable, other liability arrangements can be made between the member banks on a case-by-case basis. However, this only applies if they are disclosed in the issue conditions.

The volume of Pfandbriefstelle/Pfandbriefbank issues for which the members and their guarantors have joint and several liability was EUR 5,538,652,000 as of 31 December 2014 (2013: EUR 6,169,969,000). EUR 709,875,000 of this (previous year: EUR 874,618,000) is attributable to Hypo Landesbank Vorarlberg. Some member banks are liable in the event of default on the basis of state law. This is different from the joint guarantee on the part of the member banks and guarantors for liabilities of Pfandbriefstelle/Pfandbriefbank. If Pfandbriefstelle/Pfandbriefbank does not meet its obligations to bondholders, the creditors of Pfandbriefstelle can claim the amount due directly from the member banks and/or their creditors on the basis of the statutory joint guarantees. Subsequently, the member banks and/or creditors making the payment can make recourse claims against the other member banks, guarantors and/or Pfandbriefstelle/Pfandbriefbank subject to certain conditions. Ultimately, all joint creditors making payments can claim recourse from the member bank whose issue is affected. According to the provisions of state law, this recourse claim can also be made against the relevant state as indemnitor.

Recognised liabilities to Pfandbriefstelle

in '000 EUR	31.12.2014	31.12.2013
Liabilities evidenced by certificates	450,561	476,437
Financial liabilities – at fair value	259,314	398,181
Liabilities to Pfandbriefstelle	709,875	874,618

Interest expenses from liabilities to Pfandbriefstelle

in '000 EUR	31.12.2014	31.12.2013
Interest expenses for liabilities evidenced by certificates	–1,283	–1,405
Interest expenses for liabilities – at fair value	–7,188	–10,755
Interest expenses from liabilities to Pfandbriefstelle	–8,471	–12,160

Despite the moratorium of Heta Asset Resolution AG by the financial market authority (FMA), the bonds and promissory note loans issued for HETA in trust by Pfandbriefstelle/Pfandbriefbank of EUR 1,238,167,000 are maturing on an ongoing basis, and in accordance with the Pfandbriefstelle Act the member banks and their guarantors are liable to the holders of bonds and promissory note loans. As of the date the balance sheet is prepared, we assume that the liquidity will be provided by the member banks (half each for Anadi Bank and the state of Carinthia) that settle recourse claims with their respective guarantors. For our Group, we expect a liquidity requirement of up to EUR 180,000,000. On the basis of an announced haircut, which is expected to be decreed by the financial market authority in 2016, and the questionable recoverability of the state guarantees for HETA liabilities, the Group has recognised a provision of EUR 36,000,000 for these liabilities. The allocation to the provision was recognised in the loan loss provisions item under Note (6).

MANAGEMENT BOARD DECLARATION

We confirm that to the best of our knowledge the consolidated financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report presents business events, business results and the Group's position so as to provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report outlines the principal risks and uncertainties to which the Group is exposed.

We confirm that to the best of our knowledge the parent company's financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the parent company's assets and liabilities, financial condition, and results of operation, and that the management report presents business events, business results and the parent company's position so as to provide a true and fair view of its assets and liabilities, financial condition, and results of operation, and that the management report outlines the principal risks and uncertainties to which the parent company is exposed.

Bregenz, 26 March 2015

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The members of the Managing Board

Michael Grahammer
Chairman of the Managing Board

Johannes Hefel
Managing Board member

Michel Haller
Managing Board member

REPORT OF THE SUPERVISORY BOARD

On an ongoing basis, the Supervisory Board monitors the managerial activities of the Managing Board within the framework established by law, the articles of association and the Supervisory Board rules of procedure. The Supervisory Board convened for seven meetings at which it discussed the Managing Board reports pertaining to important plans, the position and development of the Bank, its subsidiaries and holdings. The Supervisory Board adopted the planning for financial year 2014, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory and Managing Boards, and adopted the necessary resolutions.

Committees
The Audit and Risk Committee of the Supervisory Board held two meetings in 2014 to perform its extended control tasks to monitor the effectiveness of the internal control system, risk management system and Internal Audit. It dealt particularly intensively with financial reporting in the annual and quarterly financial statements.

The Loan Committee of the Supervisory Board met twelve times in the 2014 reporting year. It examined the loans and credits that required its consent.

The Remuneration and Nominating Committee of the Supervisory Board met four times in 2014, dealing with the appropriate implementation of the remuneration requirements stipulated in Section 39b BWG. In its meeting on 23 April 2014, it set the variable remuneration for Managing Board members for 2013.

Corporate Governance Code
The Supervisory Board reviewed and discussed with the Managing Board business events requiring Supervisory Board approval pursuant to laws, the articles of association and/or the rules of procedure, granting approval accordingly. The Supervisory Board employed the Corporate Governance Code as a guideline in its activities.

Audit
The 2014 financial statements and management report were audited by Ernst & Young, Steuerberatungs- und Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, appointed by the annual meeting of shareholders to audit the financial statements and Bank books. As indicated by the unqualified audit opinion given by this company, the financial statements and management report conform to legal requirements. The 2014 consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). They were also audited by Ernst & Young, Steuerberatungs- und Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, and issued with an unqualified audit opinion. The Supervisory Board acknowledged and approved the consolidated financial statements including the Group management report.
The Supervisory Board will formally adopt the relevant resolutions when the written audit reports are presented and have been discussed in detail.

Thanks and recognition
The Supervisory Board would like to express its thanks and recognition towards the members of the Managing Board, the managers and above all the employees for their excellent achievements in the financial year 2014.

Bregenz, March 2015

Chairman of the Supervisory Board
Jodok Simma

AUDITOR'S REPORT (TRANSLATION)

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, Bregenz, for the fiscal year from 1 January 2014 to 31 December 2014. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended 31 December 2014, and the notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System
The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Accounting Standards on Auditing, as well as in accordance with International Standards on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2014 and of its financial performance and its cash flows for the fiscal year from 1 January 2014 to 31 December 2014 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Without qualifying the audit opinion, we refer to the Managing Board's commentary in the Notes regarding developments in connection with Pfandbriefbank (Österreich) AG and Heta Asset Resolution AG.

Comments on the consolidated Management Report
Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243 a (2) UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243 a (2) UGB (Austrian Commercial Code) are appropriate.

Vienna, 26 March 2015

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Ernst Schönhuber mp
Certified Auditor

Wolfgang Tobisch mp
Certified Auditor

BRANCH OFFICES/ SUBSIDIARIES

HEADQUARTERS

Bregenz
Hypo-Passage 1

Bregenz Corporate Customers Branch Office
Stephan Sausgruber
Branch Office Head,
Bregenz Coporate Customers

Rainer Terwart
Key Account Management

Markus Schmid
Head of Corporate Customers
Centre Germany

Bregenz Private Customers Branch Office
Christian Brun
Branch Office Head,
Bregenz Private Customers

Raymond Plankel
Head of Private Customers

Stephan Bohle
Head of Private Banking

Wealth Management Bregenz Branch Office
Stefan Schmitt
Head of Wealth Management Bregenz

Financial Intermediaries Branch Office
Christoph Schwaninger
Head of Financial Intermediaries

Internal Departments

Johann Berchtold
Head of Logistics, Payment Transactions

Nora Frischherz
Head of Accounting,
Securities Settlement

Klaus Diem
Head of Legal Department

Bernhard Egger
Head of Bookkeeping and Registration

Stefan Germann
Head of Credit Management
Corporate Customers

Florian Gorbach
Head of Treasury

Martin Heinzle
Head of Credit Management
Private Customers

Egon Helbok
Head of Human Resources

Peter Holzer
Head of Controlling

Martha Huster
Ombudsperson

Reinhard Kaindl
Head of Compliance

German Kohler
Head of Corporate and Internal Audit

Sabine Nigsch
Head of Communication

Herbert Nitz
Head of Private Customers

Angelika Rimmele/Karoline Walch
Heads of Marketing

Karl-Heinz Rossmann
Head of Corporate Customers

Roland Rupprechter
Head of Asset Management

Emmerich Schneider
Head of Participation Administration

Markus Seeger
Head of Group Risk Controlling

BRANCH OFFICES

Bregenz Vorkloster
Heldendankstraße 33
Udo Seidl, Branch Office Manager

Bludenz
Am Postplatz 2
Christian Vonach, Branch Office Head
and Head of Corporate Customers
Walter Hartmann, Branch Office
Manager Private Customers
Christoph Gebhard,
Head of Private Banking

Dornbirn
Rathausplatz 6
Richard Karlinger, Branch Office Head
and Head of Corporate Customers
Egon Gunz, Branch Office Manager
Private Customers and Head of
Private Banking

Dornbirn Messepark
Messestraße 2
Stephan Spies, Branch Office Manager

Egg
Wälderpark, HNr. 940
Stefan Ritter, Branch Office Manager

Feldkirch
Neustadt 23
Gerold Kaufmann, Branch Office Head
and Head of Corporate Customers
Martin Schieder, Branch Office Manager
Private Customers

Feldkirch Landeskrankenhaus
Carinagasse 47 – 49
Stefan Kreiner, Branch Office Manager

Götzis
Hauptstraße 4
Wolfgang Fend, Branch Office Manager

Graz
Joanneumring 7
Horst Lang, Regional Manager Styria
and Head of Corporate Customers
Dieter Rafler, Branch Office Manager
Private Customers
Gerhard Vollmann,
Head of Private Banking

Hard
Landstraße 9
Manfred Wolff, Branch Office Manager

Höchst
Hauptstraße 25
Erich Fitz, Branch Office Manager

Hohenems
Bahnhofstraße 19
Andreas Fend, Branch Office Head

Lauterach
Hofsteigstraße 2a
Karl-Heinz Ritter, Branch Office Manager

Lech
HNr. 138
Reinhard Zangerl, Branch Office Head
and Head of Corporate Customers
Egon Smodic, Branch Office Manager
Private Customers and Head of
Private Banking

Lustenau
Kaiser-Franz-Josef-Straße 4a
Graham Fitz, Branch Office Head
and Head of Corporate Customers
Helgar Helbok, Branch Office
Manager Private Customers
Jürgen Rehmann,
Head of Private Banking

Rankweil
Ringstraße 11
Günther Abbrederis,
Branch Office Manager

Riezlern
Walserstraße 31
Artur Klauser, Branch Office Head Kleinwalsertal and Head of Private Banking
Heinrich Denninger,
Head of Corporate Customers

Schruns
Jakob-Stemer-Weg 2
Hannes Bodenlenz,
Branch Office Manager

Wels
Kaiser-Josef-Platz 49
Friedrich Hörtenhuber,
Regional Manager Upper Austria and
Head of Corporate Customers
Iris Häuserer, Branch Office
Manager Private Customers and
Head of Private Banking

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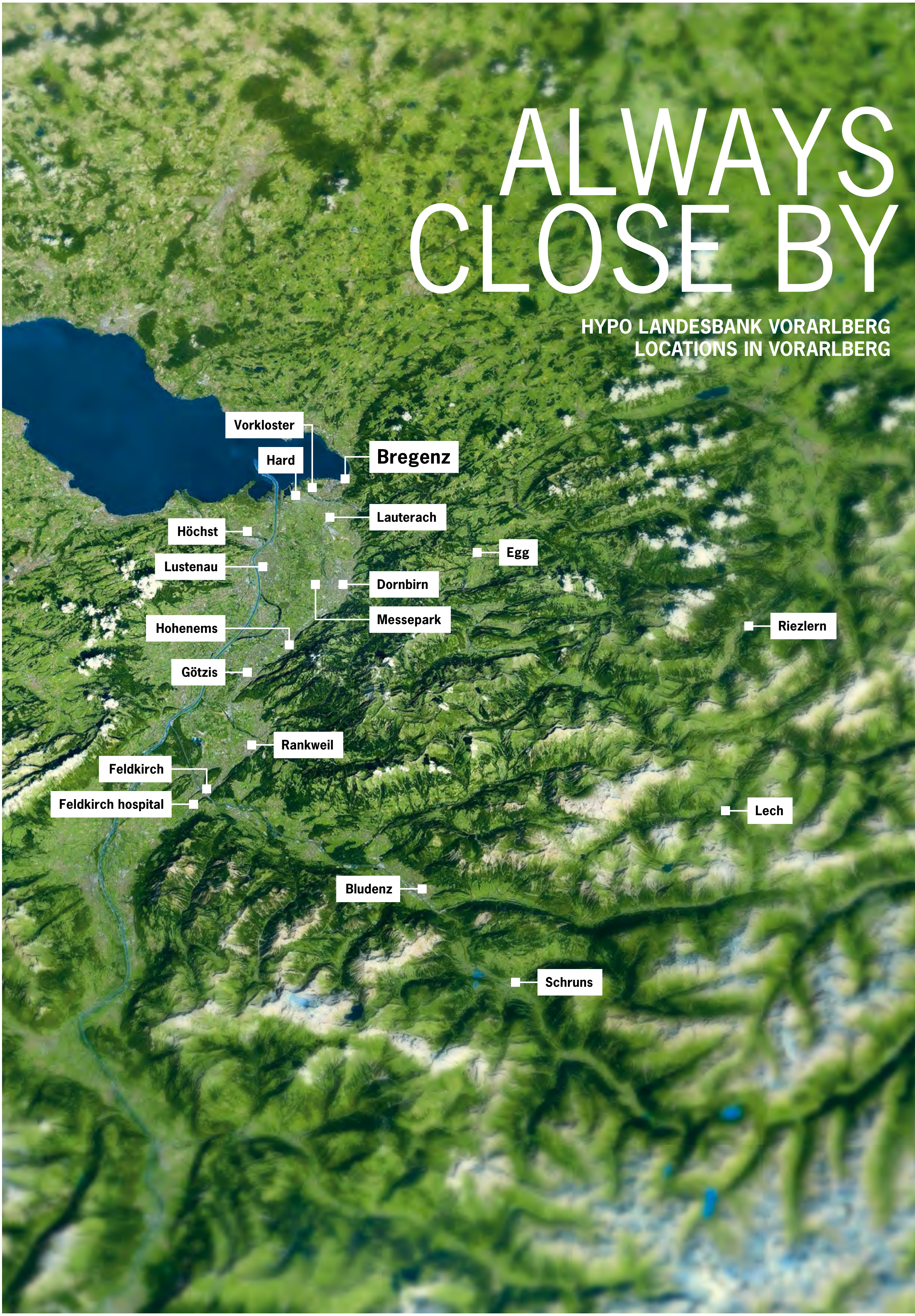

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HYPO LANDESBANK VORARLBERG LOCATIONS IN THE ALPINE REGION

We also support our customers beyond the borders of Vorarlberg. Like them, we also operate regionally and think internationally. That's why wherever our customers need us, we are there.

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With enjoyment, passion and the knowledge of our responsibility.