Passionate. Sound. Advice.

HYPO LANDESBANK VORARLBERG

THROUGH QUALITY AND COMMITMENT

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2013

KEY FIGURES 2013

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

in '000 EUR		31.12.2013	31.12.2012**	Change	
				in '000 EUR	in %
Total assets		14,145,177	14,492,336	–347,159	–2.4
Loans and advances to customers (L&R)	(18)	8,485,284	8,585,573	–100,289	–1.2
Amounts owed to customers (LAC)	(33)	4,815,650	4,743,920	71,730	1.5
Liabilities evidenced by certificates (LAC)	(34)	1,894,590	1,389,115	505,475	36.4
Capital resources pursuant to the Austrian Banking Act	(67)	1,199,302	1,198,165	1,137	0.1
thereof core capital Tier 1		804,590	743,236	61,354	8.3

in '000 EUR		2013	2012**	Change	
				in '000 EUR	in %
Net interest income after loan loss provisions		130,092	142,285	–12,193	–8.6
Net fee and commission income	(8)	36,956	37,588	–632	–1.7
Net trading result*	(10)	22,943	91,510	–68,567	–74.9
Administrative expenses	(12)	–91,172	–88,228	–2,944	3.3
Earnings before taxes*		96,134	173,700	–77,566	–44.7

Key figures		2013	2012**	Change	
				Absolute	in %
Cost-income ratio (CIR)		49.20%	45.85%	3.35%	7.3
Solvency ratio (banking book)	(67)	16.29%	15.80%	0.49%	3.1
Return on equity (ROE)*		12.41%	29.72%	–17.31%	–58.2
Employees	(55)	724	728	–4	–0.5

* Includes non-recurring effects from 2012 from the premature repurchase of hybrid loans (Tier 1 capital) of EUR 39.8 million

** The IFRS measurement method was adjusted in 2013 and the previous year's figures were amended retrospectively in order to ensure better comparability. Adjustment of previous year's figures relates to the remeasurement of loans and credits voluntarily designated at fair value. The previous year's figures were also adjusted due to application of the amended IAS 19.

The shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft
(Hypo Landesbank Vorarlberg) as at 31 December 2013 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	Aa2
	for liabilities without state deficiency guarantee (as of 2 April 2007)	A1
Short-term		P-1

* On 1 March 2014, the ratings agency Moody's confirmed Austria's top credit rating of Aaa and raised its outlook from negative to stable. Moody's subsequently raised the rating outlook for a number of banks, including Hypo Landesbank Vorarlberg, from negative to stable on 6 March 2014.

Passionate. Sound. Advice.

THROUGH QUALITY AND COMMITMENT

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2013

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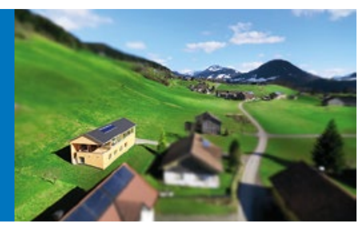

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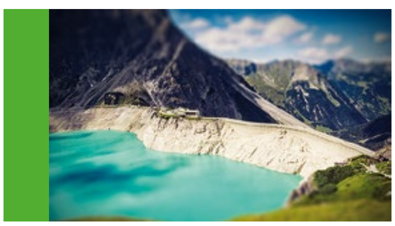

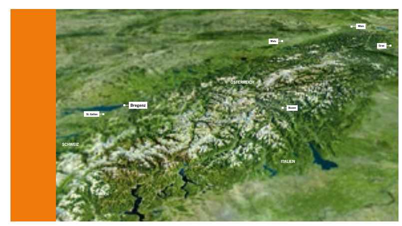

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HYPO LANDESBANK VORARLBERG
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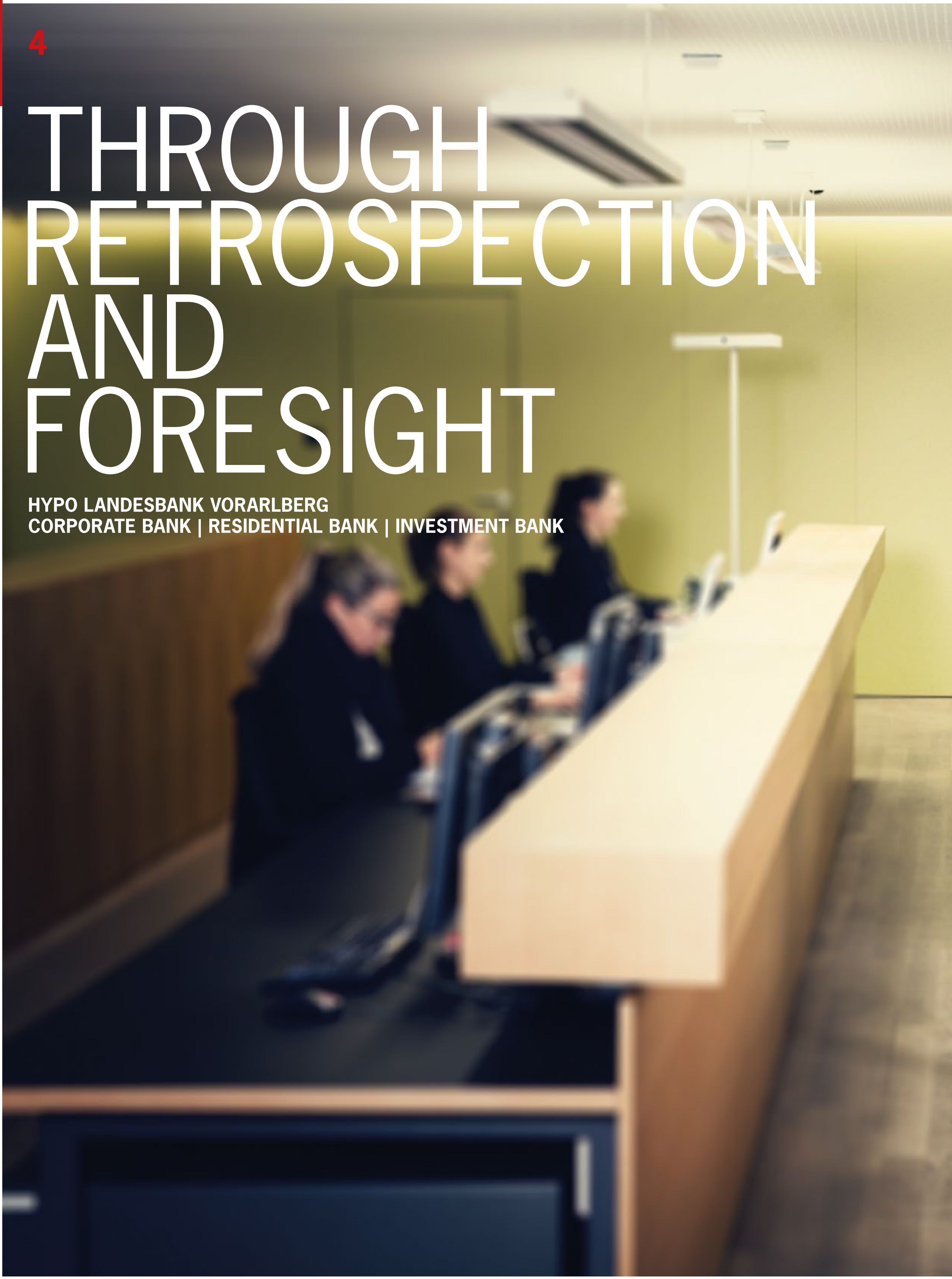


Johannes Hefel
Member of the Managing Board

Michael Grahammer
Chairman of the Managing Board

Michel Haller
Member of the Managing Board

THROUGH STRATEGY AND PLANNING

HYPO LANDESBANK VORARLBERG FOREWORD – MANAGING BOARD

Dear reader

The past year was again marked by economic and political challenges, not only for the financial industry. Global financial markets were strongly influenced by (monetary) political factors in the USA and the resulting uncertainty in regard to future fiscal policy in America. However, previous months were also influenced by the improving economic and sentiment data. Even with sluggish third quarter economic performance in Europe, recession, which reached a peak in late 2012 and early 2013, was officially over. Nevertheless, the reputation of the entire banking industry has suffered, due to problems befalling only some large institutions. The reaction to the ongoing banking crisis since 2008 has been a wave of regulations, whose provisions were designed to be gradually implemented but which have already been applied to daily business. In addition, new measures to combat the euro crisis (ESM) have been established and progress in implementing the European Banking Union was made.

Second best result in the company's history
We are therefore all the more pleased to report another successful year for Hypo Landesbank Vorarlberg. With earnings before taxes of EUR 96.1 million, we once again posted an excellent performance and achieved in 2013 the second best result in our 117-year history. Despite low interest rates and increasing costs associated with new regulatory requirements, we were able to achieve the excellent result due to our solid customer and interest business, our healthy, well-balanced lending portfolio and our consistent cost management. Although the overall market has suffered significant declines in recent years, Hypo Landesbank Vorarlberg has maintained its earnings level.

Healthy businesses in our market area
Despite difficult conditions, 2013 was a good year for the Austrian real economy, especially in our core market areas. Businesses are predominantly optimistic about the future and have a positive order situation, although restraint in willingness to invest remains. In addition, new liquidity and funding regulations have required a rethinking of long-term financing. Due to these changes, capital markets are becoming increasingly important as a complement to traditional loan financing. As a reliable financing partner for corporations, Hypo Landesbank Vorarlberg is establishing a new division which will in future offer corporate customers tailor-made concepts to allow them to best utilise market opportunities, especially for large financial funding.

Proven excellent business model
Hypo Landesbank Vorarlberg has always earned its customer business. Personal, direct contact between people is the foundation of our success and customer business is inseparably bound to the personal commitment of our staff. That we are on the right track with our conservative, risk-conscious and sustainable growth policy has been confirmed in several ways. The rating agency Moody's has given us an A1 rating, thus rating us the best Austrian universal bank. The trust in the high security and stability of our Bank has also been confirmed by the leading financial magazine "The Banker", part of the Financial Times group, which named us the "Bank of the Year 2013 in Austria". For the first time a regional bank, not a large Austrian bank, was given this award. The theme of this year's annual report is fittingly "Through quality and commitment".

First and foremost we are a bank. But we are also a business that is committed to our environment. We are aware that success requires more than commitment and know-how, success also requires the right conditions. We have therefore decided to establish an endowment fund, using a part of the Bank's generated profits. The fund will primarily be used for social initiatives as well as projects in the fields of science, education and culture.

Thank you for your trust and your support
The entire Board would like to thank everyone who contributed to the success of the Bank last year. We thank our customers, business partners and shareholder representatives for the trust they have given us. Our employees have applied themselves every day for Hypo Landesbank Vorarlberg and provided security for customers in a challenging environment. They were once again a deciding factor in the success of our Bank. Only through the committed work of all these individuals were we able to achieve success in 2013. With this strong foundation, we are well equipped for the future and confidently approach the coming year.

The Managing Board
Michael Grahammer
Johannes Hefel
Michel Haller

THROUGH INNOVATION AND PERFORMANCE

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHAEL GRAHAMMER

How would you describe the development of the local economy in 2013?
Austria and the entire eurozone experienced economic stabilisation in the second half of 2013. Businesses in Vorarlberg were especially well-positioned and could cope with the financial crisis of the past years. After a relatively stable 2013, the majority are optimistic for the near future. The willingness of local businesses to invest was somewhat restrained, reflected in the decrease of 1.5 % in corporate lending compared to last year, but is expected to increase in 2014. We have gained new customers primarily in the branches in Vienna, Graz and Wels. Due to the healthy condition of our corporate customers, risk costs are at a below-average level.

How do you assess the situation for the banking industry?
As a result of the financial crisis, numerous new rules and regulations have been imposed which have unjustly punished exactly those banks that followed a traditional business model and offered stability during those turbulent times. We anticipate a sharp increase in costs in 2014 for Hypo Landesbank Vorarlberg due to the implementation of Basel III, the deposit guarantee fund and the massive increase in the stability fee for regional banks. After paying EUR 7.5 million in bank excise tax in 2013, we will be expected to pay a solidarity contribution of EUR 13.6 million from 2014. In my opinion, in addition to reducing senseless bureaucracy, at both the European and Austrian level, authorities should make fiscal demands in proportion to the size of the institution. The heavier cost burden will inevitably lead to higher banking service charges, especially in lending business.

What alternatives to traditional loan financing does Hypo Landesbank Vorarlberg offer its corporate customers?
With extensive service know-how as well as providing alternative forms of financing, we have established ourselves in our core market as the market leader in corporate finance. Diverse effects such as asset encumbrance or the new liquidity and refinancing requirements mean that financing is increasingly shifting from the bank's balance sheet and the capital market is becoming more important as a complement to traditional loan financing for corporate customers. In 2014, we began a partnership alliance with Brüll Kallmus Bank, a subsidiary of Capitalbank in Graz, Austria, and have set up a team of specialists for the new business area "Debt Capital Markets" (DCM). Thus we are prepared to offer our corporate customers tailor-made concepts that make it possible to exploit market opportunities, especially for large loans.

What were the significant events for you in 2013?
Our corporate policy of measured, risk-conscious and sustainable growth was positively confirmed by many different sources. The rating agency Moody's has given us an A1 rating as the

Curriculum Vitae of Michael Grahammer
Michael Grahammer (49) 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.

best universal bank in Austria. Confidence in the great trust and stability of our Bank was also shown by our being named the Austrian "Bank of the Year 2013" by the Financial Times' leading international magazine "The Banker". This was the first time a regional bank, not a large Austrian bank was given this award.

As well as many positive events, we have also had to deal with the public debate over the future of the Hypo Alpe Adria International. Understandably, many customers were insecure and worried that a possible bankruptcy could also affect Hypo Landesbank Vorarlberg. I would like to reiterate that our Bank is thoroughly sound and well positioned. In the unlikely scenario of a bankruptcy, we would be able to bear the resulting losses without outside assistance. With the political decision now taken to solve the problem with public funds, we will no longer be affected by future actions and do not expect any losses.

What is your outlook for the 2014 financial year?
Although we expect a slight improvement in economic conditions in the coming years, the outlook for the current business year is cautious. Austria has a robust, balanced economy and the outlook for the eurozone has also improved slightly in recent months. Despite numerous uncertainty factors, the first months of 2014 have been in general satisfactory. Interest levels are expected to remain at a relatively low level and we need to adapt to the changing conditions. Above-average commitment and entrepreneurial spirit have strongly characterized the success of Hypo Landesbank Vorarlberg but also pleasure and passion for work are prerequisites for long-term success. Our motto includes the word "passionate" for good reason. Passion and quality in advisory services is what our customers value and this motto will remain true in the coming years also.

You have announced that the Bank's success will also benefit future social initiatives…
As a regional bank, we have always acknowledged our social and corporate responsibility and have for many years supported cultural and athletic events. Together with our owners, we have decided to establish an endowment fund using 0.65% of the bank's annual profits. The fund will primarily be used for social initiatives as well as projects in the fields of science, education and culture. The majority of the fund will support individuals and institutions in our core market Vorarlberg, but also in Vienna, Graz and Wels.

THROUGH IDEAS AND PERSPECTIVES

HYPO LANDESBANK VORARLBERG INTERVIEW WITH JOHANNES HEFEL

How was the private banking segment at Hypo Landesbank Vorarlberg in 2013?
The dominante topic continued to be low interest rates which made private customers even more willing to invest. In 2012, we experienced the highest demand for loans in the private customer segment since the Bank was founded. Long-term financing remained very popular in 2013, especially in the areas of residential construction and refurbishment, and we were able to further expand our position as leading residential construction bank in Vorarlberg. In spite of the massive increase in early repayment of loans, lending volume increased compared to the previous year. Loan loss provisions were also quite positive and in 2013 valuation allowances were reduced in the private customer segment.

Lower interest rates are welcome by borrowers but also affect the investment business. How do you assess the situation?
The desire of our customers for security, paired with low interest rates has led to a strong demand for short-term forms of investment, for strategies with capital preservation as well as for tangible assets, primarily real estate. With attractive product offerings, for example with guaranteed minimum return, our own issues were in strong demand last year. With the high security of Hypo Landesbank Vorarlberg, we were able to reach a volume of new issues of EUR 70 million. The continued strong competition among banks in the deposit business as well as low interest rates has put pressure on both conditions and margins. Fortunately, net fee and commission income in the private customers segment increased in 2013 compared to the previous year and was significantly higher than planned, in great part due to our successful asset management strategies.

What distinguishes Hypo Landesbank Vorarlberg from other banks?
Our core competence in private banking lies in the development of in-house asset management strategies and our long-term, professional and concerned partnership with our customers. Our advisors listen closely to our customers, understand what they want and are able to offer individual investment solutions. We have come to realise that the combination of a sound, regional, universal bank and a professional, competitive and demonstrably successful “private bank” is more and more sought after. Innovative products such as Hypo IQ Maximum Return, Hypo Value-Momentum Aktien Strategie and Hypo Weltdepot Dynamik Aktien mit Wertsicherung 90 were in high demand in 2013. The portfolio fund Kapitalgewinn, an investment strategy for the small investor, was also popular. Our asset management has developed an optimizer, that makes it possible to increase the opportunity orientation of an investment portfolio based on customer needs and market expectations. This offers optimal portfolio combinations with a prescribed yield and lowest possible risk.

Curriculum Vitae of Johannes Hefel
Johannes Hefel (56) 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 are your plans for expanding private banking proceeding?
In both private banking and asset management, Hypo Landesbank Vorarlberg has earned an outstanding reputation in recent years and has established itself throughout Austria. The jury for the Elite Report has, for the third year in a row, awarded us the highest rating "summa cum laude". Building on this solid foundation, we want to further expand the top range of the investment business by focussing on very wealthy private customers (Wealth Management) and businesses. In order to create the appropriate conditions for this and to continue to expand our market share in Vienna, we will move our Viennese office to the Zacherlhaus in Vienna. This move will allow us to enlarge the private banking team, expand the office and consulting space and secure space requirements for many years. 2014 is going to be another exciting year in this regard.

Hypo Landesbank Vorarlberg also offers internet services. How successful is hypodirekt.at?
Our online savings platform has developed very satisfactorily since its inception two years ago. By the end of February 2014, over 6,600 accounts had been opened. The focus of hypodirekt.at is a solid, security-oriented investment policy, competitive conditions and complete transparency in setting interest rates. At the same time, customers appreciate the time savings and convenience of the online process in a secure environment. Expansion of the product range is planned for 2014. Soon customers in Germany, Liechtenstein and Switzerland will be able to open a daily maturing savings account. In the second half of the year both a current account and a payroll account will become available.

What measures is the bank taking to keep the trust of its customers in the future?
In 2013 there was great discussion concerning banking secrecy, data exchange and various tax affairs. This affects us as well. With the quality of our services, our high security through our excellent rating and our good reputation, we have been able to reassure our customers. Our 200 customer advisors live and prove our motto "Passionate. Sound. Advice." daily. Periodic customer satisfaction surveys show that we are on the right track. The most recent survey, carried out at the end of 2013, gave Hypo Landesbank Vorarlberg very good marks and confirmed that our strong customer orientation and the maintenance of close, sometimes decades-long customer relationships are very important, especially in uncertain times.

THROUGH RELIABILITY AND CONSISTENCY

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHEL HALLER

How were developments for Hypo Landesbank Vorarlberg in risk management in 2013?
The Board continues to put great value on a risk-conscious lending and business policy. This has proven itself to be an important factor in the success of the bank, especially in times of increasing uncertainty. Sufficient provisions have been made for all recognisable risks. Following Basel II guidelines, only 1.53 per cent of the total loans of Hypo Landesbank Vorarlberg were non-performing. This is an excellent value in comparison to other Austrian banks. A prerequisite for the very high quality of our loan portfolio is the professional risk analysis and, above all, the ongoing monitoring of collateral to guarantee value. In addition, we only enter into risks that we can manage on our own and concentrate on business areas whose mechanisms and rules we understand.

How is the implementation of the Basel III regulations?
Although the various Basel III standards are not compulsory until 2018, Hypo Landesbank Vorarlberg already meets all known requirements. The key numbers for debt/equity ratio, leverage ratio, liquidity coverage ratio (LCR) as well as the structural liquidity ratio (NSFR) are considerably over the statutory minimum requirements. Our debt/equity ratio (banking book) following Basel II guidelines is 16.29 % as at 31 December 2013 (2012 : 15.80 %) and the core capital ratio (banking book) rose from 9.80 % to 10.93 % in the last year. By increasing our capital base and issuing a subordinated bond in 2012, we have prepared for the more stringent regulatory demands with this solid foundation. Following Basel III guidelines, we calculate a core capital ratio of 9.60 % based on current conditions.

Which challenges will the bank face in light of new regulatory requirements?
In addition to a tightening of capital adequacy requirements, Basel III also introduces a leverage ratio which should protect the banking sector from excessive debt and supplement equity requirements. For the time being, the Basel committee has set a guideline of a minimum 3 % for the leverage ratio. According to estimates, we will achieve a value of 5.10 %. The liquidity coverage ratio (LCR) refers to the short-term liquidity of a bank. A minimum value of 100 % is required and Hypo Landesbank Vorarlberg far exceeds that with a value of 142 % as at 1 January 2014. In addition to the LCR, the NSFR standard was also established, which refers to a longer time frame. In my estimation, our bank will have a good valuation between 1.2 and 1.4.

What steps is Hypo Landesbank Vorarlberg taking to meet these challenges?
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. Both the interest and commission in-

Curriculum Vitae of Michel Haller
Michel Haller (42) 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.

come declined last year, while at the same time costs increased due to the implementation of numerous new regulatory measures. To counter this trend and to find new potential cost-saving measures, we plan to introduce a new efficiency enhancement programme in 2014. Unfortunately, rising costs are also forcing corresponding increases in lending conditions. Absorbing the costs incurred by the new regulations through lending business would require an increase of 80 basis points (0.80%), which is unrealistic.

Is the increase in the stability fee justified?
If the proposal by the federal government is implemented, regional banks in particular will contribute significantly more to the stability fund in future. Adopting these proposals also means that payment contributions would be calculated based on the risks contained in the financial institution's balance sheets. Currently, it is the exact opposite, with the derivatives volume exempted from taxation. Although we, like many other regional banks, have paid more than twice as much in taxes in relation to our size as have the large banks, we will again be over-proportionally burdened with an increase in the bank levy which is completely contrary to the original objective. In addition to reducing the outsized bureaucracy, the goal of European and Austrian authorities should be to match fiscal demands to the size of the institution.

Sustainability is of more importance than ever in all respects. How does Hypo Landesbank Vorarlberg put this into practice?
We are aware that only a sustainable financial policy can ensure the long-term success of our bank. The highest priority of the Managing Board is the profitability of the Bank and with that our long-term corporate success. In addition to more social aspects, economical sustainability continues to gain importance. CO_2 emissions in banking operations are mainly generated by energy consumption and business travel, by paper and water consumption as well as waste generation. Highest priority has been given to eliminating and reducing CO_2 emissions through more energy efficient measures and better use of resources. We also try to meet our ecological responsibilities with the products that we offer, for instance with Hypo-Klima-Kredit which promotes energy saving investment in residential construction. In addition, since 2008, the Bank has sponsored the VN Klimaschutzpreis, which recognises special innovative and energy saving projects.

THROUGH TRADITION AND PROGRESS

HYPO LANDESBANK VORARLBERG
THE CORPORATE BANK

The strength of local business is also our strength: we know where we come from and what we can do best. But that is no reason to stand still. Rather the foundation from which we can together develop and help prepare Vorarlberg for the future.

ORGANISATIONAL CHART

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Managing Board

Corporate Customers Div
Michael Grahammer, CEO

Corporate Customers Sales
Karl-Heinz Rossmann
- Branch Office for Corporate Customers
- International Services
- Syndication | Structured Finance

Corporate Customers Vienna
Roswitha Klein

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

Human Resources
Egon Helbok

Accounting
Martin Baldauf
- Bookkeeping, Accounting, Controlling
- Data and Document Management

Participation Administration
Emmerich Schneider

Hypo Vorarlberg Leasing, Italy
Michael Meyer
- Sales

Hypo Immobilien & Leasing GmbH
Wolfgang Bösch
Peter Scholz

Hypo Versicherungsmakler GmbH
Manfred Bösch
Christoph Brunner

Communication
Sabine Nigsch

St. Gallen Branch Office
Dieter Wildauer, RM
Thomas Reich

Private Customers | Private Banking Div
Johannes Hefel

Private Customers Sales | Private Banking
Herbert Nitz
- Branch Office for Private Customers
- Private Banking

Private Customers | Private Banking Vienna
Roswitha Klein

Asset Management
Roland Rupprechter
- Asset Management
- Fund Management
- Financial | Research

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

Marketing
Roswitha Nenning
- Marketing Management
- Product Management
- Advertising
- Marketing Controlling

Risk Management Div
Michel Haller

Credit Management – Corporate Customers
Stefan Germann
- Credit Management – Corporate Customers
- Credit Management Banks and Leasing
- Financial Aids Department
- Credit Management St. Gallen

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

Group Risk Controlling
Markus Seeger

Legal Department
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 (Risk Management)

Alexander Ploner
- Real estate

Funds Service
Florian Gorbach

Securities Settlement
Martin Baldauf

Compliance
Reinhard Kaindl

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

Vienna Branch Office
Roswitha Klein, RM
Kerstin Forgacs, HPC
Sabine Mach, HPB
Tatyana Blaschek, CEE
Mobile Sales Unit
Lothar Mayer

Graz Branch Office
Horst Lang, RM
Andreas Draxler, 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

Private Banking Plus Branch Office
Stefan Schmitt

Financial Intermediaries International | CEE
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
Heinrich Denninger, HCS

Schruns Branch Office
Hannes Bodenlenz, BM

Lech Branch Office
Reinhard Zangerl, BOH
Egon Smodic, BM

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 Centre Germany
Markus Schmid

Messepark
Stephan Spies, BM

LKH Rankweil
Ringo Schieder, BM

Gaschurn
Paul Roschitz, BM

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

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

Alfred Geismayr
Chairman
Auditor, Dornbirn (since 18.04.2013)

Kurt Rupp
Chairman, Chairman of the Management Board (retired), Bregenz (until 18.04.2013)

Jodok Simma
Deputy Chairman, Chairman of the Management Board (retired), Bregenz (since 18.04.2013)

Norbert Metzler
Deputy Chairman, Management consultant, Alberschwende (until 18.04.2013)

Friedrich Amann
Entrepreneur, Fraxern (since 18.04.2013)

Christian Brand
Chairman of the Managing Board
Landeskreditbank Baden-Württemberg
Förderbank, Ettlingen

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau (since 18.04.2013)

Elmar Geiger
Managing Director (retired), Frastanz (until 18.04.2013)

Michael Horn
Deputy Chairman of the Management Board Landesbank Baden-Württemberg, Weingarten

Andrea Kaufmann
Member of the Vorarlberg government, Dornbirn (until 18.04.2013)

Christian Konzett
Lawyer, Bludenz

Klaus Martin
Provincial Official (retired), Feldkirch (until 18.04.2013)

Karlheinz Rüdisser
Deputy State Governor, Lauterach (since 18.04.2013)

Nicolas Stieger
Lawyer, Bregenz

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 committee
Alfred Geismayr, Chairman (since 18.04.2013)
Klaus Martin, Chairman (until 18.04.2013)
Jodok Simma, Deputy Chairman (since 18.04.2013)
Kurt Rupp, Deputy Chairman (until 18.04.2013)
Friedrich Amann (since 18.04.2013)
Karl Fenkart (since 18.04.2013)
Elmar Geiger (until 18.04.2013)
Norbert Metzler (until 18.04.2013)
Veronika Moosbrugger
Elmar Köck

Loan committee
Jodok Simma, Chairman (since 18.04.2013)
Kurt Rupp, Chairman (until 18.04.2013)
Alfred Geismayr, Deputy Chairman (since 18.04.2013)
Elmar Geiger, Deputy Chairman (until 18.04.2013)
Friedrich Amann (since 18.04.2013)
Karl Fenkart (since 18.04.2013)
Michael Horn
Norbert Metzler (until 18.04.2013)
Veronika Moosbrugger
Bernhard Egger

Personnel and remuneration committee
Alfred Geismayr, Chairman (since 18.04.2013)
Kurt Rupp, Chairman (until 18.04.2013)
Jodok Simma, Deputy Chairman (since 18.04.2013)
Norbert Metzler, Deputy Chairman (until 18.04.2013)
Christian Brand
Karl Fenkart (since 18.04.2013)
Nicolas Stieger
Klaus Martin (until 18.04.2013)
Veronika Moosbrugger
Bernhard Egger

STATE COMMISSIONER

Gabriele Petschinger

Josef Nickerl
Deputy

ESCROW AGENTS

Heinz Bildstein
President of the State Court, Feldkirch

Hubert Scheiber
Deputy, Head of the Tax and Revenue Office, Landeck
(until 28.02.2014)

ADVISORY BOARD

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Markus Wallner
Chairman, Governor of the State of Vorarlberg, Frastanz

Hans Dietmar Sauer
Deputy Chairman, Chairman of the
Managing Board LBBW (retired), Ravensburg

Werner Abbrederis
Managing Director, GIKO Verpackungen GmbH, Weiler

Gerhart Bachmann
President, Vorarlberg Dental Chamber, Feldkirch

Hubert Bertsch
President, Vorarlberg Industrial Association
Managing Director, Bertsch Holding GmbH, Bludenz

Astrid Bischof
Managing Director, Bischof Transport GmbH, Göfis

Ernst Bitsche
Entrepreneur, Thüringen

Herbert Blum
Managing Director, Julius Blum GmbH, Höchst

Birgitt Breinbauer
President, Bar Association of Vorarlberg,
Lawyer, Dornbirn

Manfred Brunner
Chairman Vorarlberger Gebietskrankenkasse, Höchst

Guntram Drexel
Managing Director, ASPIAG Management AG, Lustenau

Dieter Egger
Chairman, FPÖ political party, Hohenems

Kurt Fischer
Mayor, Lustenau

Stefan Fitz-Rankl
Managing Director, University of Applied Sciences Vorarlberg,
Lustenau

Gerald Fleisch
Managing Director, Vorarlberger Krankenhaus-
Betriebsgesellschaft.m.b.h., Dornbirn

Jutta Frick
Managing Director, Bad Reuthe Frick GmbH, Reuthe

Georg Früh
CFO, Alpla Werke Alwin Lehner GmbH & Co KG, Hard

Roland Frühstück
Chairman, ÖVP political party, Bregenz

Christof Germann
Member of the Managing Board, Illwerke/VKW Group, Bregenz

Heinz Hämmerle
Entrepreneur, Lustenau

Hubert Hämmerle
President, Chamber of Labour, Lustenau

Andreas Haid
Mayor, Riezlern

Anton Haller
Hotelier, Mittelberg

Dietmar Hefel
Managing Director, Hefel Textil GmbH, Schwarzach

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

Josef Huber
Managing Director, Huber Invest GmbH, Götzis

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

Michael Jonas
President, Chamber of Physicians, Dornbirn

Harald Köhlmeier
Mayor, Hard

Urs-Peter Koller
Entrepreneur, Gossau

Oswin Längle
Managing Director, Längle Glas GmbH, Götzis

Markus Linhart
Mayor, Bregenz

Hans-Peter Lorenz
Managing Director, VOGEWOSI (Vorarlberger gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H.), Dornbirn

Sepp Manhart
Laywer, Bregenz

Egon Mohr
State Official, Wolfurt

Josef Moosbrugger
President, Chamber of Agriculture, Dornbirn

Gabriele Nußbaumer
President, Vorarlberg Parliament, Bregenz

Johannes Rauch
Chairman, Die Grünen political party, Rankweil

Manfred Rein
President, Chamber of Commerce, Dornbirn

Jürgen Reiner
President, Chamber of Public Accountants in Vorarlberg, Dornbirn

Hubert Rhomberg
Managing Director, Rhomberg Bau GmbH, Bregenz

Michael Ritsch
Chairman, SPÖ political party, Bregenz

Günter Schertler
Managing Director, i+R Gruppe GmbH, Lauterach

Hannelore Schneider
Hotelier, Lech

Thomas Sohm
Managing Director, Etiketten Carini GmbH, Lustenau

Karl Stadler
President of the Board of Directors, POLYGENA Group, Altstätten

Eduard Tschofen
Public Accountant, Feldkirch

Anselm van der Linde, O.Cist.
Abbot, Wettingen-Mehrerau, Bregenz

Hans-Jörg Vetter
Chairman of the Managing Board Landesbank Baden-Württemberg, Königstein

Stefanie Walser
Chairperson, Junge Wirtschaft Vorarlberg
Managing Director, Walser Fashion & Lifestyle GmbH, Dornbirn

THROUGH SUSTAINABILITY AND RESPECT

HYPO LANDESBANK VORARLBERG COMPLIANCE AND RISK MANAGEMENT

COMPLIANCE

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.

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

The Bank's key risk ratios developed positively in 2013. The core capital ratio improved from 9.80% to 10.93% as a result of strong earnings. Despite the difficult environment, Hypo Landesbank Vorarlberg's non-performing loans also decreased. As at 31 December 2013, they amounted to EUR 249,087,000 (2012: EUR 249,920,000), equivalent to 1.53% (2012: 1.51%) of the maximum default risk. Rating class 4 (the worst rating class for exposures not in default) increased year-on-year from EUR 416,768,000 to EUR 460,099,000.

The year under review was characterised by low volatility on the money and capital markets. Value at risk (99%/10 days) consequently fell from EUR 5,744,000 in the previous year to EUR 4,488,000. 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 850,000,000 per year.

Concerning risk management objectives and methods as well as disclosures on existing default and market risks, please refer to the disclosures on financial risks and risk management in the consolidated financial statements, and particularly to the disclosures per Section 26 of the Austrian Banking Act posted on the Bank's website, 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 launched at the end of 2009. In 2010, ICS-relevant documentation was created and implemented regarding the core processes of accounting and reporting, various processes of the Bank's overall risk management and of the treasury, compliance, money laundering and the management of loans for corporate customers. In 2011, they were followed by the core processes involved in the lending process for private customers, custodian bank services, product and business introduction, payment transactions and e-banking, documentary business, market and sales process.

In 2012, the core processes in-house and external product sales, savings deposits, hypodirekt.at, lending process St. Gallen, central loan monitoring, contract law, securities trading, securities settlement and liquid assets were added to the ICS project which was completed as planned at the end of January 2013. The asset management process and the HIL credit leasing process including sales were incorporated into the documented ICS as part of the "living ICS" project in the year under review.

Further and new processes are included in the documented ICS in accordance with an assessment of materiality and the level of risk for Hypo Landesbank Vorarlberg.

Control environment
Hypo Landesbank Vorarlberg's accounting, 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 REGULATION FOR REMUNERATION POLICY IN 2013

In 2011, the principles of remuneration policy of Hypo Landesbank Vorarlberg 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 11 December 2013.

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 six members:

- Alfred Geismayr (remuneration expert)
- Jodok Simma
- Christian Brand
- 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 (up to closing on 31 December 2012) 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 2014 for their dedication and loyalty in financial year 2013.

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.

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 (2012: EUR 156.5 million) that, like the participation capital, is fully paid in.

As at 31 December 2013, 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.

THROUGH HEART AND MIND

**HYPO LANDESBANK VORARLBERG
THE RESIDENTIAL BANK**

The desire for your own home is an affair of the heart. We help to fulfil this wish. With a clear view for the feasible, comprehensive advice and a realistic solution that addresses all individual possibilities. This is more than a job for us. It is a vocation.

THROUGH HONESTY AND EXPERTISE

HYPO LANDESBANK VORARLBERG ECONOMIC ENVIRONMENT

Global economy and eurozone
In 2013, global financial markets were not only influenced by monetary and political factors in the USA, but were also affected by the improving economic and sentiment data. The euro strengthened, the eurozone emerged from recession and the peripheral eurozone countries began a slow recovery. Investments from emerging countries however developed disappointedly. The ailing bank system in Cypress led to government insolvency which required emergency rescue measures from the euro bailout fund.

International news threatened the generally positive mood at the beginning of the year. Italy appeared to be ungovernable after the election due to the incompatibility of the three largest parties and in the USA a stalemate over the extension of the debt ceiling prevailed between the Democrats and the Republicans. The budget dispute came to a head at the end of the third quarter and parts of the public sector were temporarily closed due to no public funding. The world's largest economy moved closer to complete default. Near the end of the year, the two political camps reached a compromise solution.

Central banks continued to influence market developments. In 2012, market activity was affected by an extremely loose monetary policy. However, the focus changed when the Federal Reserve Bank announced its withdrawal from the ultra-expansive monetary policy in the second half of 2013 due to the acceleration of GDP growth, easing of the labour market and other improvements in US economic data. The US federal reserve tied the reduction of the bond purchase programme (tapering) to an unemployment rate of 6.5%, which led to extremely sensitive interpretation of labour market data.

The eurozone experienced growth in economic output in the second quarter, the first increase in six quarters. The German economy was once more the growth engine in the eurozone. While Spain and Italy took the first steps toward reform in the second half of the year, France disappointed by exhibiting only minimal willingness to institute reforms.

Japan increased its economic performance and introduced further stimulus programmes despite the tense debt situation, although momentum slowed in the third quarter. Globally, the economic mood lightened in both the private and corporate sectors. Growth in the emerging markets remained under close scrutiny, especially China remained under close scrutiny. Chinese macro data significantly underscored the government's forced qualitative growth policy which was agreed at the "Third Plenary Session of the 18th CPC Central Committee" in November 2013.

Austria
As in many European countries, 2013 was a difficult year for Austrian economic development. GDP showed little change in the first quarter because both private consumption and business spending were too weak to initiate a turnaround. After stagnated economic output in the first half of the year, the economy gradually rebounded in the second half. Export growth followed the same pattern, weak in the first half of the year, improvement in the second. However, annual real GDP growth of 0.3% was the weakest since the crisis began in 2008/09.

The moderate rate of inflation slowed during the year and fell to 2.0% from 2.4% in the previous year. In comparison to other EU countries, Austria, Estonia and the UK had the highest inflation rate and, as in 2012, the main drivers were housing, water and energy. Despite the rather disappointing economic development, factors such as income and production were at an exceptionally high level when compared internationally. According to surveys conducted by WIFO (Austrian Institute for Economic Development), businesses anticipate improvement in several areas next year which should lead to economic growth in Austria of 1.7% in 2014 and 2015. Both recovery of the global economy and an increase in domestic demand will contribute to this growth.

The net saving rate of Austrian households declined compared to last year. According to the Austrian Central Bank, the savings rate was only 6.5% of household disposable income compared to the long-term average of 10%. Reasons for this are lower real disposable income, continued investment in construction, real estate or articles of value as well as increased consumer spending.

The Austrian national budget was also affected by the debt crisis. Public debt greatly increased from July to September 2013 and reached 77.1% of GDP, the highest quarterly value ever measured by Statistik Austria (Austrian Statistical Office). According to WKO (Austrian Economic Chambers) public debt fell to 74.6% of GDP at the end of the year, well under the European average of 95.5%.

Vorarlberg

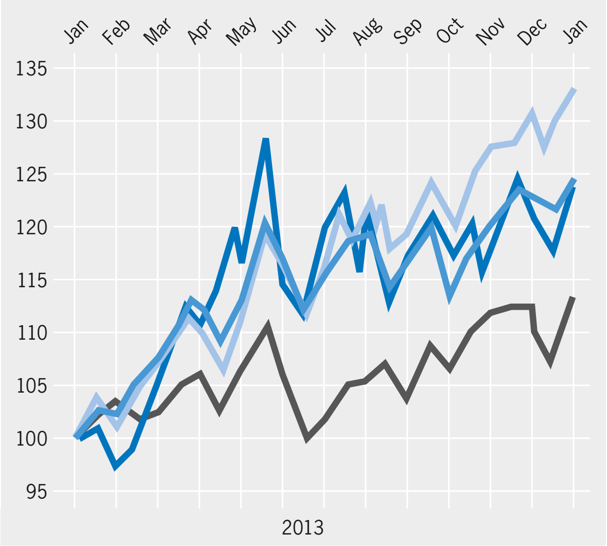
Growth in Vorarlberg business was due to a continuing strong export situation and an increase in productivity. After a relatively stable 2013, most companies are optimistic for the near future.

The business climate index of Vorarlberg industry – an average of the current business situation and expectations for six months – improved in the fourth quarter of 2013 to 34.1 percentage points, the highest value since mid–2011. Current business conditions were rated as good by 57% of the companies surveyed, only 1% expected conditions to worsen. Business conditions are generally expected to be stable in six months: 83% expected conditions to remain constant while 14% expect improvement.

Exports remain a top driver of the local economy. Although there is increasing strong price pressure – a third of companies anticipate a lower selling price in three months – the current earnings situation was rated as good. 44% of the companies surveyed reported a good rating, 46% gave an average rating and 10% reported a worsening earnings situation. Looking ahead to the next six months, 82% expected earnings to remain constant. Expectations for the three month employment level were also positive: 66% planned to maintain employment levels, 30% expected an increase.

40 firms, with a total of 17,652 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 stock market performance in the early months of 2013 was something like a roller coaster ride. The 2013 stock market improved satisfactorily, not least due to high liquidity levels and lack of investment alternatives with attractive rates of return. The DAX 30, Dow Jones Industrial and S&P 500 were among the most successful exchanges and recorded double-digit gains to reach all-time highs. With over 20% gain in euro terms, the Japanese Nikkei index had a very successful trading year, although markets in emerging countries were on balance weaker. Market developments in China were clearly weaker when compared to previous years, but remained positive (in euro terms) when compared to other benchmark indices such as Latin America, India and Eastern Europe.

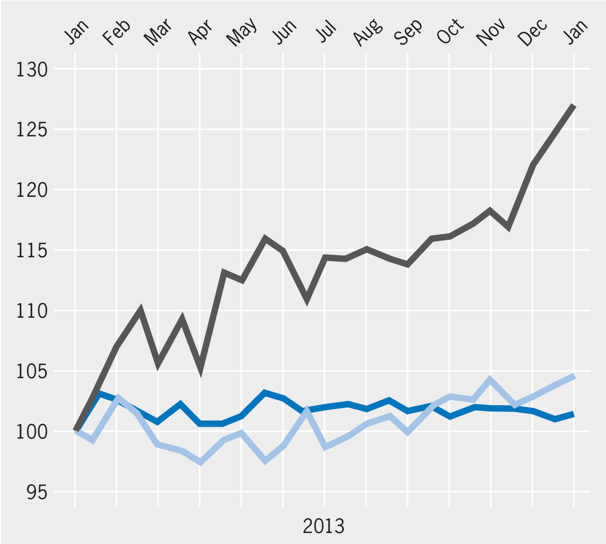


Development of selected stock indices in 2012 (in euro)

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

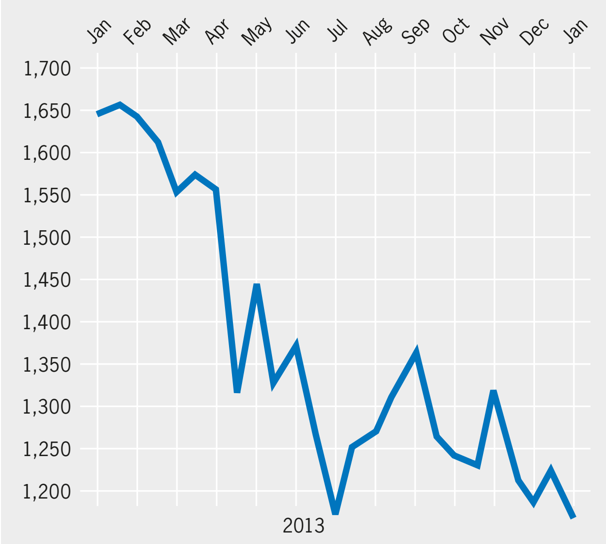
Interest markets
The bond market was subject to fluctuations based on news reports. 10-year government bonds in industrialised nations rose sharply after the announcement by the Federal Reserve Bank of "tapering", while postponement of liquidity restrictions led to decreases. Signs of recovery were apparent in government securities in Spain, Ireland, Italy and Portugal. In March, Ireland issued a 10-year bond for the first time in three years and exited the European Financial Stabilisation Mechanism in November to regain financial independence.

Currencies and raw materials
Developments in the commodity markets were disappointing throughout the year. Only energy commodities remained above water, although geopolitical factors stemming from the crisis in Syria especially affected this sector. Despite positive economic data, industrial metals did not manage to maintain a broad-based recovery. Precious metals, at times in free fall, offered no bright spots. The price of gold recorded the first negative calendar year in a long time. In currencies, the euro strengthened against the US dollar, Swiss franc and the Japanese yen (which was fortified by renewed trust), among others. Some emerging market currencies, however, suffered substantial devaluations.



Euro in comparison to USD, CHF and JPY 2013

USD, CHF, JPY



Development of gold price in 2013

(per ounce)

THE AUSTRIAN BANKING SECTOR IN 2013

As of the end of the third quarter of 2013, the unconsolidated total assets of Austrian banks amounted to EUR 932.2 billion, which represents a decline of just under EUR 50 billion (–6.5%) compared to the third quarter of the previous year. During this period, Austria's banks generated a consolidated quarterly result of EUR 2.4 billion, down EUR 2.3 billion on the high quarterly result achieved in the third quarter of 2012. This decline is mainly due to the lack of non-recurring effects from the buyback of Tier 1 and Tier 2 capital in the previous year. Banks bought back hybrid capital and reduced the volume of long-term subordinated capital in view of the capital composition required under Basel III.

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. The weak development of the quarterly result is attributable to an ongoing decline in net interest income combined with high operating costs, while costs arising from risk provisioning have remained at a relatively high level and impacted the profitability of Austrian banks.

Net interest income fell by 3.5% in the third quarter of 2013 to EUR 14.1 billion as a result of low interest rates, whereas the second most important earnings component – net fee and commission income – rose year-on-year. Net fee and commission income increased by EUR 318.4 million to EUR 5.7 billion, its highest level in six years. The cost-income ratio of Austrian banks rose from 60.1% to 65.7% in the third quarter of 2013 due to declining income and increasing costs.

Low interest rates had a significant effect on the growth in deposits made by Austrian non-banks at Austrian banks. Total deposits made by Austrian non-banks remained around the same as the first quarter of 2013, at EUR 295.6 billion. The trend towards overnight deposits continued unabated, whereas fixed-term deposits became much less attractive. Overnight deposits totalled EUR 142.8 billion as at the end of September 2013.

A comparison of the development of loans to companies in Austria with the euro area average reveals the relatively favourable situation of the local economy. There was a slight upward trend in the growth of loans to private households from mid-2013. Foreign currency loans to private households and non-financial companies in Austria have fallen continually since autumn 2008. They represented a share of around 13.0% in August 2013.

Aggregate own resources of Austrian banks has risen continually since 2008 as a result of private and government measures to boost capital and reduced RWAs. As at 31 September 2013, the solvency ratio stood at 15.0% and the core capital ratio 11.6%. Despite the improvement in the debt/equity situation, Austrian banks remain undercapitalised when compared on an international level. However, it should be noted that Austrian banks have a lower debt-to-equity ratio than comparable peer groups and the share of customer advances in total assets points towards a more traditional business model.

Results of operations of banks operating in Austria:
(Source: OeNB)

EUR billion	1.–4. quarter 2013*	Change in %	1.–4. quarter 2012	1.–4. quarter 2011
Net interest income	8.81	–	8.81	9.62
Operating profit	6.08	–11.7%	6.89	7.43
Expected earnings from ordinary activities	–0.46	–	4.37	1.70

* Expected values for financial year 2013

THROUGH FIGURES AND FACTS

STABLE BUSINESS PERFORMANCE IN 2013

The Group posted very good results of operations for the financial year 2013. Earnings before taxes totalled EUR 96.1 million (2012: EUR 173.7 million), and consolidated net income EUR 74.4 million. This high year-on-year change is primarily attributable to the lack of non-recurring effects which arose from the buyback of Tier 1 capital in 2012 with income of EUR 39.8 million (hybrid non-recurring effect), as well as altered measurement results. The IFRS measurement method was adjusted in 2013 and the previous year's figures were amended retrospectively.

Despite a decline in net interest income and net fee and commission income and rising costs due to new regulatory measures, pre-tax income rose compared to 2011. As a result, 2013 was the second best year in the Bank's history. The result was driven by ongoing and stable customer business, a healthy credit portfolio and the Bank's cost management which it has pursued consistently for years.

On 19 July 2013, the ratings agency Moody's updated the credit rating of Hypo Landesbank Vorarlberg and left it at A1. Based on its stable business development and very good earnings and efficiency indicators, Hypo Landesbank Vorarlberg is currently the only universal bank in Austria with an A1 rating. As Moody's raised the negative rating outlook of the Republic of Austria to stable at the start of March 2014, the Bank's rating outlook also improved to stable on 6 March 2014.

Hypo Landesbank Vorarlberg has always pursued conservative accounting policies. 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 Bank's long-term success.

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

in '000 EUR	2013	Change in %	2012*	2011
Net interest income	172,138	–2.9%	177,245	174,907
Net interest income after loan loss provisions	130,092	–8.6%	14,285	149,333
Net fee and commission income	36,956	–1.7%	37,588	39,907
Administrative expenses	–91,172	3.3%	–88,228	–79,670
Operating result before change in own credit risk**	94,908	–46.2%	176,301	81,620
Earnings before taxes**	**96,134**	**–44.7%**	**173,700**	**81,620**
Consolidated net income**	74,492	–43.6%	132,114	62,042

* Adjustment of previous year's figures relates to the remeasurement of loans and credits voluntarily designated at fair value.
** 2012 including hybrid non-recurring effect.

CLEAR RESULTS

Earnings structure in 2013
in EUR thousand

Consolidated net income
74,492

Earnings before taxes
96,134

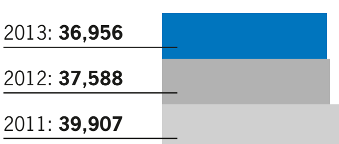
Net fee and commission income
36,956

Net interest income
172,138

Net interest income
At EUR 172.1 million, net interest income in the financial year 2013 was slightly down on the previous year's high level, but still made a significant contribution to the Bank's sound annual earnings in 2013. As a result of a slight decline in loans and advances to customers (–1.2% to EUR 8,485.3 million) and low interest rates, net interest income was down 2.9% on the good level achieved in the previous year (EUR 177.2 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. Loan loss provisions rose from EUR 35.0 million in the previous year to EUR 42.0 million. Risk costs are at a good level when compared with the Bank's competitors. Sufficient provisions were made for all recognisable risks.

Net fee and commission income in EUR thousand



Net fee and commission income amounted to just under EUR 37.0 million, down 1.7% year-on-year (2012: EUR 37.6 million), which was due in part to a decline in the lending and leasing business and in the securities business. Alongside securities commission, this item also includes fee and commission income from payment transactions, trading in currencies and precious metals, and from lending business. Giro and payment transactions developed positively, where commission rose by 11.6% to EUR 13.4 million in the past year (2012: EUR 12.0 million).

Net trading result
Hypo Landesbank Vorarlberg maintains a small trading portfolio per Section 22q of the Austrian Banking Act 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 22.9 million in the financial year 2013 (previous year: EUR 91.5 million). The large change compared to 2012 is primarily due to the lack of the hybrid non-recurring effect.

Result from other financial instruments
The result from other financial instruments rose to EUR 3.9 million in financial year 2013 (2012: EUR 2.1 million). Other operating income increased by 43.3% year-on-year to EUR 16.6 million (2012: EUR 11.6 million).

Administrative expenses in EUR thousand

Total administrative expenses at Hypo Landesbank Vorarlberg increased by 3.3% in the year under review compared to 2012 to EUR 91.2 million (2012: EUR 88.2 million). Alongside a decline in net interest income and net fee and commission income, costs rose due to the implementation of several new regulatory measures. In order to counteract this trend and identify cost-saving potential, rationalisation projects such as functional analyses are carried out on a regular basis, as will also be the case over the course of 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 1.8% in 2013, from EUR 53.6 million to EUR 54.5 million. Wages and salaries moved up only slightly (+1.7%) to EUR 40.2 million compared to the previous year (EUR 39.6 million), while the average headcount fell from 728 to 724 employees in 2013 (weighted by employees' activity rate). Material expenses rose by 4.8% year-on-year, from EUR 30.5 million to EUR 32.0 million, and are mainly attributable to higher IT costs (including the St. Gallen branch), higher legal and advisory expenses and higher costs for the implementation of new regulations.

Proposed distribution of profits
The net profit posted by Hypo Landesbank Vorarlberg for financial year 2013 was EUR 59.9 million (2012: EUR 99.3 million). After the allocation to reserves, accumulated profits available for appropriation totalled EUR 5.0 million (2012: EUR 4.5 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 (2012: EUR 2.7 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

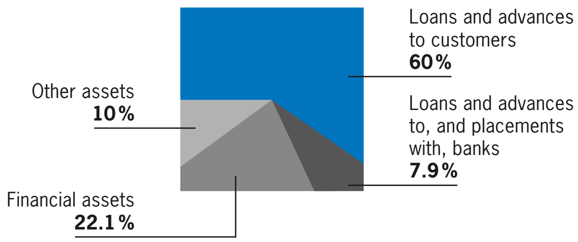
	2013	Change in %	2012	2011
Return on Equity (ROE)	12.41 %	–58.2 %	29.72 %	14.23 %
Cost-Income-Ratio (CIR)	49.20 %	7.3 %	45.85 %	39.68 %
Solvency ratio (banking book)	16.29 %	3.1 %	15.80 %	13.26 %
Core capital ratio (banking book)	10.93 %	11.5 %	9.80 %	9.10 %

At 12.41 %, return on equity (ROE) before taxes fell significantly compared with the previous year (2012: 29.72 %). This decline is mainly due to the lack of the hybrid non-recurring effect that was posted in the previous year. The Bank's cost/income ratio was 49.20 % as at 31 December 2013 (2012: 45.85 %), once again emphasising Hypo Landesbank Vorarlberg's high efficiency and productivity. The debt/equity ratio (banking book) increased from 15.80 % to 16.29 % in 2013, and the core capital ratio rose significantly from 9.80 % to 10.93 %.

CHANGES IN THE GROUP'S NET ASSETS AND FINANCIAL POSITION

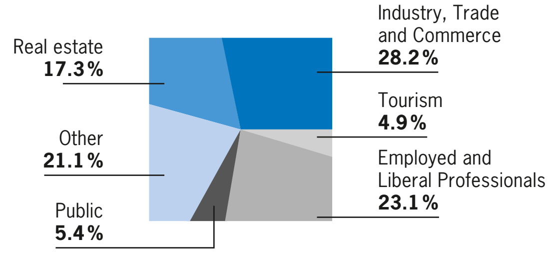
As at 31 December 2013, Hypo Landesbank Vorarlberg's total consolidated assets fell by 2.4 % from EUR 14,492.3 million to EUR 14,145.2 million as compared with last year's reporting date. On the liabilities side, customer business increased slightly by 1.5 %, whereas the lending business on the assets side declined slightly. The following presents key items broken down into balance sheet assets and liabilities.

Balance sheet assets



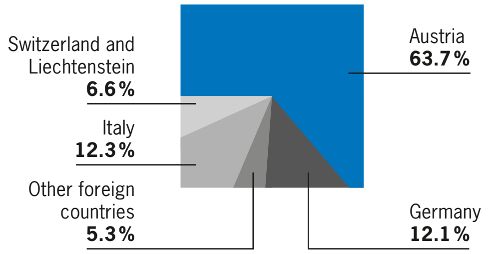
In 2013, loans and advances to banks rose by 19.1 % to EUR 1,114.0 million, compared to EUR 935.5 million in the previous year. By contrast, loans and advances to customers fell from EUR 8,585.6 million to EUR 8,485.3 million, which is equivalent to a decline of 1.2 %. Financial assets in the form of securities declined by 7.6 % to EUR 3,137.2 million compared to 2012.

Loans and advances to customers – breakdown by industry

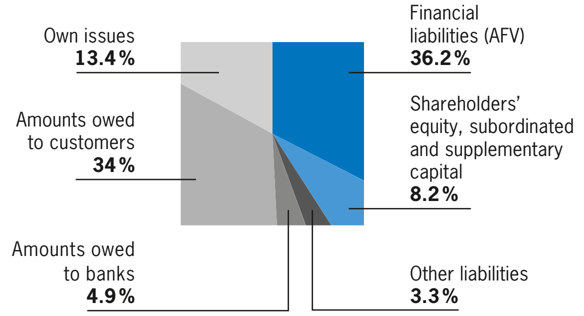


A significant decline (– 11.2 %) was posted in loans and advances to customers in the manufacturing, trade and commerce sectors, whereas strong residential construction activity in this sector's core markets led to a 14.1 % increase in loans and advances.

Loans and advances to customers – breakdown by region



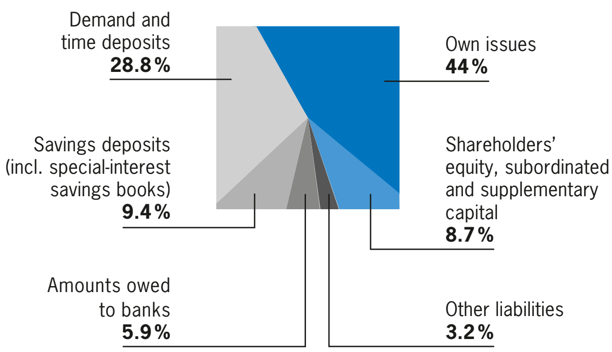
Balance sheet liabilities



Liabilities to banks recorded growth of 4.9 % to EUR 688.0 million (2012: EUR 655.7 million). Total liabilities to customers increased by 1.5 % to EUR 4,815.7 million (2012: EUR 4,743.9 million).

Due to the elevated security needs of customers, there was once again strong demand for traditional, short-term savings vehicles in 2013, meaning that savings deposits rose from EUR 689.9 million to EUR 698.8 million. Liabilities evidenced by certificates increased from EUR 1,389.1 million to EUR 1,894.6 million. Equity increased by 10.1 % year-on-year to EUR 847.1 million (2012: EUR 769.2 million).

Funding structure



Statement of changes in equity

in '000 EUR	2013	Change in %	2012	2011
Core capital (Tier 1)	**804,590**	**8.3%**	**743,236**	**721,725**
Paid-in capital	165,453	0.0%	165,453	159,000
Disclosed reserves	616,675	10.1 %	560,309	443,558
Minority interests per Section 24 (2) no. 1 Austrian Banking Act	63	−6.0%	67	109,859
Consolidation per Section 24 (2) no. 2 Austrian Banking Act	23,835	23.4%	19,316	10,952
Intangible assets	−1,436	−24.8%	−1,909	−1,644
Supplementary capital resources (Tier 2)	**398,160**	**−13.1%**	**458,408**	**333,560**
Supplementary capital	90,586	−4.8%	95,124	105,236
Remeasurement reserve	79,574	−24.4%	105,284	40,324
Subordinated capital (attributable)	228,000	−11.6%	258,000	188,000
Deductions	−3,448	−0.9%	−3,479	−3,506
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	**1,199,302**	**0.1%**	**1,198,165**	**1,051,779**
Assessment basis (banking book)	7,363,339	−2.9%	7,582,549	7,932,346
Assessment basis	7,779,039	−2.5%	7,977,219	8,273,850
Required capital resources	**622,323**	**−2.5%**	**638,178**	**661,908**
Core capital ratio (banking book)	10.93%	11.5%	9.80%	9.10%
Core capital ratio	10.34%	11.0%	9.32%	8.72%
Debt/equity ratio (banking book)	16.29%	3.1%	15.80%	13.26%
Debt/equity ratio	15.42%	2.6%	15.02%	12.71%

Following the capital increase in 2012, the share capital and participation capital of Hypo Landesbank Vorarlberg amounts to EUR 165.5 million (2012: EUR 165.5 million). After planned distributions, it will be possible to increase core capital (Tier 1) by EUR 56.4 million. Supplementary capital resources (Tier 2) amounted to EUR 398.2 million as at 31 December 2013. This EUR 60.2 million decline (–13.1 %) is due to the scheduled repayment of subordinated bonds.

Capital resources under Sections 23 and 24 of the Austrian Banking Act (BWG) as at 31 December 2013 came to EUR 1,199.3 million compared with EUR 1,198.2 million on the previous year's reporting date and are consequently well in excess of the minimum required by law. At the end of 2013, the debt/equity ratio (banking book) was 16.29 % (previous year: 15.80 %), while the core capital ratio (banking book) rose from 9.80 % to 10.93 %.

Events of material importance after the reporting date

There was widespread media discussion of the possible insolvency of Hypo Alpe Adria Bank International AG in the first quarter of 2014. The following should be noted with regard to the consequences of this: there is no capital link between Hypo Landesbank Vorarlberg and Hypo Alpe Adria Bank International AG. A cross-guarantee scheme does not exist between Austrian mortgage banks – unlike many Austrian banking sectors. A joint guarantee on the part of the member banks and the Austrian states exists only for the Pfandbriefstelle – as a joint issuing institution of the Austrian provincial mortgage banks – with regard to outstanding issues which are scheduled to be repaid almost in full by 2017.

In the event of insolvency of Hypo Alpe Adria Bank International AG, this would not affect Hypo Landesbank Vorarlberg, provided that the state of Carinthia fulfils its obligations as guarantor. For this reason, our investments in state-guaranteed securities and receivables of Hypo Alpe Adria Bank International AG totalling EUR 56.4 million as at 28 February 2014 were not impaired, as the insolvency scenario had to be assessed, but was ultimately deemed unlikely. There is no reason from the perspective of Hypo Landesbank Vorarlberg to doubt the continued existence and recoverability of the guarantee of the state of Carinthia, especially because the rating agency Moody's once again assigned the state of Carinthia to the Investment Grade category with an A2 rating on 14 February 2014. Furthermore, procedural rules do not exist for the implementation of insolvency proceedings relating to the assets of a state. In addition, the consequences of a mere declaration of insolvency would be incalculable, not only for the Austrian financial sector, but also for the Republic of Austria as a whole.

On 18 February 2014, Moody's lowered the rating of Austrian issues covered by the state guarantee from Aaa to Aa2. Moody's justified this change with reference to the ongoing discussion surrounding the possible insolvency of Hypo Alpe Adria Bank International AG. This security has lost two notches as a result, but is still within the "excellent credit rating" category. This will not affect Hypo Landesbank Vorarlberg's future business activities, as bonds covered by the state guarantee have not been issued since 2007. Moody's has expressly stated that the bank rating is unaffected and will remain at A1.

On 14 March 2014, a decision was made regarding the future of Hypo Alpe Adria Bank International AG and the insolvency option included in the evaluation process was rejected. Political leaders, in particular the Minister of Finance as the representative of the Austrian government as the owner, decided to wind up the bank via a form of company organised under private law. Hypo Landesbank Vorarlberg will not be directly affected by future measures with regard to the winding-up of Hypo Alpe Adria Bank International AG.

OUTLOOK FOR 2014

Slightly improved economic situation

After restrained economic growth of 0.3% in 2013, mainly due to lower public spending, WIFO (Austrian Institute of Economic research) leading indicators point to a speedy recovery of the Austrian economy. GDP growth of 1.7% is projected for 2014 and 2015. According to WIFO, the inflation rate will fall slightly in the next two years, although the unemployment level will continue to rise in 2014. Austria has a strong, balanced economy, although challenges remain, which is why structural reforms and a continuation of the consolidation path are of utmost importance to maintain the high Austrian credit rating.

Both Austria and the eurozone showed slight economic improvement in recent months. Due to a restrictive fiscal policy and low inflation, reduction of both private and corporate debt remains difficult and influences private consumption, investment and lending. The ECB should continue to keep interest rates at a low level to help further stimulate the economy.

Focus areas for 2014

The Managing Board reconfirmed in the "Strategy Project 2018" that Hypo Landesbank Vorarlberg will continue to be characterized by a high degree of continuity. At the same time, economic and regulatory conditions are changing for the entire banking sector. New regulations require increased equity as well as a secure, cost-effective liquidity supply. To ensure the profitability of Hypo Landesbank Vorarlberg in the long-term, growth markets outside our home market of Vorarlberg are to be expanded.

As the leading corporate bank in Vorarlberg, Hypo Landesbank Vorarlberg will continue to supply customers with financing in existing markets. Growth in corporate customer business will remain organic. As in the previous year, the Managing Board anticipates weaker demand for loans in 2014, although slight growth is planned in Vienna, Graz and Wels. The healthy condition of the businesses in our market area also means that lower than average risk costs can be expected. Growth in services related to payment transactions, documentary business and investment is anticipated.

Due to its excellent credit-worthiness, Hypo Landesbank Vorarlberg enjoys a high level of confidence in the Private Customers sector also. Liquidity and refinancing policies will continue to focus on obtaining new deposits. The bank meets the needs of its customers for safe and flexible forms of investment with attractive conditions for deposits. Creating living space is expected to remain a high priority in 2014 and a willingness to invest is expected in the area of private financing although at a slightly lower level than in the previous year. Direct contact and personal consultation is greatly appreciated by many customers and the bank's branches remain an important sales pillar.

For more flexibility, the Bank has offered various payment transactions and securities transactions (e-brokerage) online for several years. After the successful launch of hypodirekt.at, an expansion of the product range is planned in order to become one of the top direct banks in Austria.

In both private banking and asset management, Hypo Landesbank Vorarlberg has earned an excellent reputation in recent years and has established itself throughout Austria. Our "assets" include an innovative product range and professional, individual consultation and support. A planned increase in the top range of investment business with particularly high net worth individuals (Wealth Management) and companies will build on this foundation. In order to expand our presence in Vienna we are moving to a new location there and the teams in Vienna and Vorarlberg will be expanded.

With a debt/equity ratio of 16.29% (banking book) and a core capital ratio of 10.93% (banking book), Hypo Landesbank Vorarlberg has a solid foundation. In order to secure a good rating and subsequently favourable funding in future we are paying special attention to further building up capital resources, even after the successful capital increase in 2012.

In 2013, in addition to corporate income tax of EUR 20 million, Hypo Landesbank Vorarlberg paid approximately EUR 7.5 million in bank excise. In the wake of the announced further increases to the solidarity contribution in 2014, the Bank's contribution would increase to EUR 13.6 million.

Expected earnings development in 2014

Despite numerous political and economic uncertainties, the first months of 2014 have been satisfactory. Interest business continues to be a stable pillar for earnings development. Hypo Landesbank Vorarlberg will continue to follow a careful risk and accounting policy and keep sufficient sums for loan loss provisions. Special attention has always been paid to long-term liquidity and the Bank has sufficient liquidity reserves to allow further expansion of lending and expects a stabilization of net interest income.

The Board expects a slight decline in net fee and commission income partly due to the shifting of fund accounting to Masterinvest. Operating expenses will rise moderately compared to last year and personnel costs are expected to increase slightly although IT costs should be less than in the previous year.

In general, the Managing Board must assume a sharp increase in additional costs for the Bank in 2014 due to the implementation of Basel III requirements, the deposit guarantee fund and the massive increase in the stability fund for regional banks. This will inevitably lead to an increase in the price of banking services, especially in lending. Overall, the Board expects satisfactory results for 2014, although under the 2013 result due to lower yields and a higher cost burden.

DEVELOPMENT BY SEGMENT

Corporate Customers

With particular expertise in investment and project financing, sponsorship and foreign services and as a provider of alternative forms of financing in addition to traditional loan financing, Hypo Landesbank Vorarlberg is an established part of the corporate customer business in Austria, Southern Germany and Eastern Switzerland and is the market leader in Vorarlberg. The Bank offers leasing, insurance, equity and property services via its subsidiaries.

Developments in corporate customer business underline the robust state of the Austrian economy. There was a sound order situation overall in 2013, but companies' willingness to invest remained restrained as in the previous year. Hypo Landesbank Vorarlberg continued to prove its value as a reliable financing partner for companies and the public sector in 2013. Of the total lending volume, EUR 4,985.2 million was attributable to corporate customers, around 1.1% less than in the previous year (2012: EUR 5,042.5 million). Growth in new customer numbers was primarily achieved in the branches in Vienna, Graz and Wels, whereas there was tough competition on conditions in Southern Germany and Switzerland in which Hypo Landesbank Vorarlberg participated only to a limited extent. Risk costs are below average due to the positive situation among corporate customers in the Bank's core markets.

Corporate customers attach great importance to Hypo Landesbank Vorarlberg's very good credit rating. Thanks to the great confidence shown in the security of the Bank, demand deposits grew by an average of 10.2%. Earnings before taxes of EUR 20.1 million were achieved in the Corporate Customers segment in 2013. While net fee and commission income remained at the same level as the previous year, net interest income increased. As a result, the Bank is pleased to report that comprehensive income for 2013 in the Corporate Customers segment is in excess of its target.

As part of its successful tradition in the Corporate Customers segment, Hypo Landesbank Vorarlberg has repeatedly set new priorities in recent years, for example with the Hypo Academy for entrepreneurs and the Hypo breakfast for entrepreneurs which takes place twice a year. Through these events, Hypo Landesbank Vorarlberg offers decision-makers in business a popular communication platform with growing visitor numbers.

Private Customers

According to the motto "Passionate. Sound. Advice.", around 200 employees in the Private Customers segment practice these values in their day-to-day activities. Regular customer and satisfaction surveys carried out in collaboration with the market research institute show whether the Bank is on the right track. Hypo Landesbank Vorarlberg received good marks for its most recent survey at the end of 2013, thereby confirming that a strong customer focus and maintaining close relationships, some of which have lasted decades, are especially important factors in uncertain times.

As a universal bank, Hypo Landesbank Vorarlberg offers its customers a comprehensive product range focusing on residential construction financing and investment advisory services. The Bank generates earnings of EUR 8.3 million from these activities in the Private Customers segment, even though the environment is still challenging due to low interest rates and pressure on margins. The Bank further expanded its position as the leading housing bank in Vorarlberg in the past year. Having posted the highest level of demand for credit in the Private Customers segment in 2012 since the Bank was founded, Hypo Landesbank Vorarlberg also recorded high demand for long-term financing in 2013, especially for living space creation and renovations. Despite repayments amounting to EUR 132.2 million (including unscheduled repayments of EUR 66.7 million), the volume of loans increased slightly in 2013 as against the previous year. Loan loss provision figures are very positive: valuation allowances were in fact reversed in the Private Customers segment in 2013.

While borrowers welcomed low interest rates, customers' need for security led to increased demand for short-term forms of investment, strategies involving value protection and non-cash assets – mainly property. There was strong demand for the Bank's own issues thanks to attractive products with minimum rates of return. Around EUR 70 million in new issues was sold here.

The online savings platform hypodirekt.at launched in 2012 is already used by over 6,500 customers from across Austria. In addition to attractive conditions offered by the overnight savings account, Hypo Landesbank Vorarlberg focuses on absolute transparency and clear parameters in determining interest rates. With hypodirekt.at having performed very successfully since the start, there are plans to expand the product range and achieve further growth in 2014. The continued intense competition between banks in deposits business, together with the falling interest rates, result in considerable pressure on conditions and margins. Nevertheless, fee and commission income in the Private Customers segment as at 31 December 2013 was up on the previous year's result and was also much higher than calculated in the budget.

Private Banking and Asset Management

Asset Management

2013 was characterised by discussions surrounding banking secrecy, the exchange of data and various tax affairs. Nevertheless, the Bank acquired many new customers thanks to the quality of its services, high security and its good reputation. Despite strong demand for asset management products and above-average performance of share-holding strategies, assets under management declined by EUR 37.48 million to EUR 686.52 million. The number of mandates was down 137 year-on-year at 2,549 as a result of 329 mandate dissolutions on the part of foreign customers, which was partly offset by good demand for newly launched investment strategies. There was very high demand for product innovations such as Hypo IQ Maximum Return and the Hypo Value-Momentum Aktien strategy, but also for the strategy Hypo Weltdepot Dynamik Aktien mit Wertsicherung 90. Between its launch at the end of 2011 and 31 December 2013, Hypo IQ generated an annual net return of 11.49%. A total of 260 new mandates were concluded for Hypo IQ alone in the year under review, driven by the positive sentiment on the stock exchanges.

In line with the desire for non-cash investments, Asset Management also designed a single share strategy with the character of a real asset strategy, which invests in the 20 most fundamentally stable companies worldwide and the ten highest-growth shares from a group of sound companies in Europe and the USA. The Hypo Weltportfolio equity umbrella fund, which is used in most equity-based investment strategies, achieved a return of 20.83% in the past year and came second in the 2013 Dachfonds-Awards run by Geld Magazin. This makes the equity fund designed exclusively for asset management one of the best internationally-oriented equity umbrella funds in Austria.

Asset Management prepared over 100 individual asset allocation optimisation proposals for customers in the past year. The aim was to align their investment portfolios more towards opportunities on the basis of customer requirements and market expectations. When requested, Asset Management will ensure that the investment mix is always flexibly adapted to current market opportunities.

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

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 strict internationally-recognised standards. As in the previous years, the Bank's asset management was successfully reviewed and audited by the auditing company PricewaterhouseCoopers Zürich as at 31 December 2012 with regard to its compliance with the asset management standards "GIPS".

Treasury | Financial Markets

The share and credit markets achieved significant gains, driven by improving global economic growth, improvements on the labour market and low inflation. Central banks' expansionary monetary policy created very low money market interest rates in the main currencies and the European Central Bank cut its key interest rate twice in the past year to its current level of 0.25%. The ECB's style of communication is also new, which will provide a clear outlook on the trajectory of the key interest rate in the future.

Capital market interest rates were impacted by discussion surrounding the US Fed's "tapering" decision and rose over the course of the year. Overall, 2013 was a very positive year for the equity, money and capital markets, despite some fluctuations triggered by political uncertainty. The Treasury/Financial Markets segment benefited from the positive development of the markets, with the maturity transformation contribution, net income from securities and risk costs proving more positive than planned. As at 31 December 2013, the earnings contribution of the Financial Markets/Treasury business segment amounts to EUR 44.6 million. The large decline compared to the earnings contribution from the previous year (2012: EUR 110.7 million) is primarily due to the lack of the hybrid buy-back effect. The economic environment in the current year is a decisive factor in further development. Factors such as the acceleration in growth, low inflation and low money and capital market interest rates are likely to provide a further boost to the markets in the medium term.

Asset Liability Management
In 2013, a net volume of approximately EUR 597 million was invested in bonds by the ALM/Investment unit. The weighted remaining term of these new investments is 4.2 years, while their asset-swap spread amounts to 0.57 %. The average rating of new purchases is A+.

A maturity transformation contribution of approximately EUR 5.7 million was achieved in 2013, which is well above target. This was partly due to the fact that the maturity transformation in terms of EUR interest rates was slightly expanded in the second half of 2013.

Renewed confidence in peripheral and semi-peripheral countries meant that the prices of bonds from issuers in these countries increased and risk premiums traded for these types of securities fell. Hypo Landesbank Vorarlberg's net income from securities also benefited from this to a certain extent, despite low exposure.

Asset Liability Management – funding
Following intensive preliminary work, Hypo Landesbank Vorarlberg was given the top rating of Aaa by the rating agency Moody's in April 2013 for its mortgage covered pool. This was used as an opportunity to issue a publicly placed covered bond backed by mortgages with a duration of seven years. The Bank's conservative risk profile, the outstanding quality of its covered pool and its good rating was viewed positively by investors and led to the order book being more than three times oversubscribed. Due to strong demand, the originally planned issue volume was increased by EUR 100 million to EUR 600 million.

In the next few years, Hypo Landesbank Vorarlberg will increasingly re-establish its presence as an international issuer on the capital market. All in all, there were 36 new issues with a total volume of around EUR 992.4 million in the past year. This involved 25 private placements with a total volume of EUR 202.6 million, a EUR benchmark issue, a CHF benchmark issue with a total volume of CHF 125 million and nine retail issues. Buybacks of the Bank's own issues were also carried out in the amount of approximately EUR 87 million.

Money, Foreign Exchange and Interest Derivatives Trading
Refinancing facilities were utilised for a few weeks at the start of the year – mainly via the repo market. As the year went on, readily accessible short-term liquidity climbed to around EUR 650 million by the end of the year, with substantial fluctuations. As a result of high levels of liquidity in overnight customer accounts (including Hypo-Plus account), available cash holdings from money trading were invested with matching maturities and therefore on a very short-term basis. The most significant cash transaction was the issuance of the mortgage bond in April 2013. In EUR, a total increase in liquidity of around EUR 500 million was posted, whereas outflows were recorded for the CHF and USD. Money trading cultivated the money market with around 2,000 transactions and a total volume of just under EUR 55 billion.

In the "Corporate Treasury Desk" area, revenues and therefore income from foreign exchange transactions and interest rate derivatives declined year-on-year, primarily due to new regulatory requirements (EMIR) and the persistently low interest rate level. Over 8,500 transactions with a total volume of over EUR 12 billion were carried out in foreign exchange trading.

Fonds Service
The Fund Service unit was administering 63 mandates as at 31 December 2013. These reflect a managed volume of EUR 6.3 billion. This 8.74 % year-on-year decline is mainly due to redemptions and distributions to customers.

The unit managed nine customers in the past year in its role as paying agent for foreign investment funds. This is based on over 345 tranches and classes of fund, for which Hypo Landesbank Vorarlberg serves as a tax representative and paying agent. In its role as a tax representative responsible for calculating and reporting dividend-equivalent income and capital gains, in 2013 the unit administered 306 mandates in total.

In addition, customer accounts are administered for external brokers. A number of bonds were repaid in the period under review. The number of customer accounts administered for external brokers declined due to account closures. Around 2,000 customer accounts are still managed at present, with a further decline of around 300 customer accounts anticipated in the current year.

Securities trading (non-proprietary)
The branches' annual securities trading volume was around EUR 1.23 billion in 2013. Trading in stock orders on behalf of customers increased again compared to the previous year.

Swap unit
As at 31 December 2013, the Swap unit administered a portfolio of 1,220 swaps, interest rate and currency options. The total number of derivatives remained virtually the same as the prior period. The nominal volume fell slightly from around EUR 10.3 billion to EUR 10.1 billion, as some large-volume issues with swaps expired.

The volatile market situation led to collateral exchanges with partner banks on an almost daily basis. The portfolio of cash and securities collateral fell from approximately EUR 259 million to EUR 166 million due to the increased level of interest rates.

In the past year, the Swap unit worked intensively on the implementation of the European Market Infrastructure Regulation (EMIR). New requirements – such as portfolio reconciliation and derivatives reporting – meant that the existing system landscape had to be expanded and redeveloped. New agreements also had to be signed with all professional counterparties and corporate customers as part of EMIR. An EMIR reporting service will be offered for corporate customers from February 2014.

Corporate Center

In addition to these business segments, the "Corporate Center" item includes investment refinancing. As at 31 December 2013, the earnings contribution of the Corporate Center amounts to EUR 23.1 million (previous year: EUR 31.3 million).

AWARDS

Best Austrian Bank
At the end of November 2013, "The Banker", the renowned financial magazine of the London Financial Times, named Hypo Landesbank Vorarlberg as "Bank of the year 2013 in Austria". The jury sought banks which have successfully mastered political and economic challenges. In addition to the Bank's excellent earnings and efficiency ratios and the measures taken to strengthen the capital base, other considerations were product innovation, the development of hypodirekt.at and our excellent rating. For the first time a regional bank, Hypo Landesbank Vorarlberg, received the award, rather than a large Austrian bank.

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. This is underscored by awards from the FUCHS-Briefe, where Hypo Landesbank Vorarlberg was well-positioned in the top third among all banks tested and is clearly in the same league as focused private banks, and from the Elite Report. The Elite Report, the largest and most comprehensive test of this sector, has for several years named Hypo Landesbank Vorarlberg as one of the best private banks in Austria and again assessed the Bank as "summa cum laude" for the third year in a row, thus including it in the highest category of banks receiving awards in the Elite pyramid.

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, 2013 was Hypo Immobilien & Leasing GmbH's second financial year. Hypo Landesbank Vorarlberg's entire Austrian leasing and real estate business is combined in one company in the shape of Hypo Immobilien & Leasing GmbH, which allows the Bank to exploit synergies in the area of administration and especially those relating to real estate leasing. Its range of services extends from real estate brokerage through property appraisal, construction management, property management and facility management to optimal financing solutions involving vehicle, movables and real estate leasing. Its main headquarters are the Hypo Office in Dornbirn.

While real estate brokerage services are offered at the offices in Bregenz, Bludenz and Feldkirch, leasing customers are supported by specialists in Dornbirn and Vienna. Marketing activities in the Austrian leasing market are performed 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 2013, Hypo Immobilien & Leasing GmbH had 48 employees throughout Austria.

The collaboration with Hypo Landesbank Vorarlberg was stepped up in the past year. Thanks to a new software package, consultants can now calculate leasing offers for their customers directly at branches. Vehicle leasing for private customers was also added to the product range. 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 for customers and other interested readers 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 on to their iPhone, iPad or Android smartphone.

Hypo Immobilien & Leasing GmbH posted excellent earnings from ordinary activities in 2013 of EUR 1.3 million (2012: EUR 1.1 million), which is way ahead of target. 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 5.9 million as at 31 December 2013 (2012: EUR 7.2 million). The volume of new business in the movables and vehicle leasing sector remained stable in comparison to the previous financial year, amounting to EUR 54.1 million. In real estate leasing, new business amounted to EUR 30.4 million.

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

The Italian leasing market once again recorded a fall in 2013 due to the persistently low level of willingness to invest and difficult economic and political conditions. The real estate (–18%) and energy (–56%) sectors were the hardest hit by these developments. These general conditions combined with strict lending criteria led to a situation where Hypo Vorarlberg Leasing AG posted a new volume of EUR 40 million in 2013, down significantly year-on-year. In terms of the company, 2013 was still characterised by cautious business management and a planned sideways trend in total assets. In addition to the real estate sector, a number of interesting projects were also handled in the energy sector, with strong emphasis placed on top-quality lessees and guarantors and valuable lease assets combined with increased advance payments and attractive lending conditions.

There were barely any positive signs on the real estate market. The number of transactions concluded and sales prices (particularly for commercial properties) both remained low. This meant that increased risk provisions were again recognised to safeguard existing unsecured commitments. Hypo Vorarlberg Leasing AG therefore posted a loss before taxes of EUR 1.5 million for 2013, although a record level of net interest income of EUR 10.8 million was generated, as in the previous year.

The aim for 2014 is to achieve a new volume of approximately EUR 70 million under continued selectivity and strict risk acquisition parameters. The focus will be on real estate leasing in the South Tyrol/Trentino region, but interesting projects will also be carried out in movables leasing and the energy sector.

Hypo Vorarlberg Immo Italia GmbH has worked with the Italian leasing association ASSILEA to develop a program which can be used to verify appraisals by means of statistical methods. This new application has been in operation since the end of 2013 and is expected to reduce the amount of time and expense involved in annual appraisal reviews. Hypo Vorarlberg Immo Italia GmbH is the first company in Italy to use the new tool. The crisis in the Italian real estate market continued in 2013, meaning that average commercial property prices fell once again and the number of properties available for sale continued to rise. Despite these unfavourable conditions, a range of properties were sold in 2013 and some properties were successfully let. The tenant turnover rate for existing rental agreements increased, but rent arrears were still kept within reasonable limits and more serious defaults were avoided. Hypo Vorarlberg Immo Italia GmbH posted negative earnings from ordinary activities of EUR –41,904 in 2013, which was primarily due to valuation allowances on own properties.

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG)

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG) is a holding company for venture capital and private equity activities. Its core business activities focus 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 2012/13 ended well for HUBAG, with consolidated net income after taxes of EUR 5.5 million. Although this result was down on the previous reporting year, the company was very much within the mid-range of its multi-annual average. Total assets increased from EUR 113 million to EUR 122 million in the past financial year.

The company again provided consistent support to assist the development of portfolio companies and was once again regarded as a stable and reliable shareholder in a restrictive financing environment. A structured exit process was introduced in the second half of the financial year. Despite its best efforts, the company could not prevent the insolvency of one portfolio company. After the hoped-for collaboration with a strategic partner broke up, which would have been essential to ensure the successful continued existence of the investee, insolvency proceedings had to be initiated for this portfolio company around the middle of the year.

Following the entry into force of the Alternative Investment Fund Manager Directive (AIFMD) on 22 July 2013, HUBAG studied these requirements in detail during the past financial year, which are to be implemented by mid-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. 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

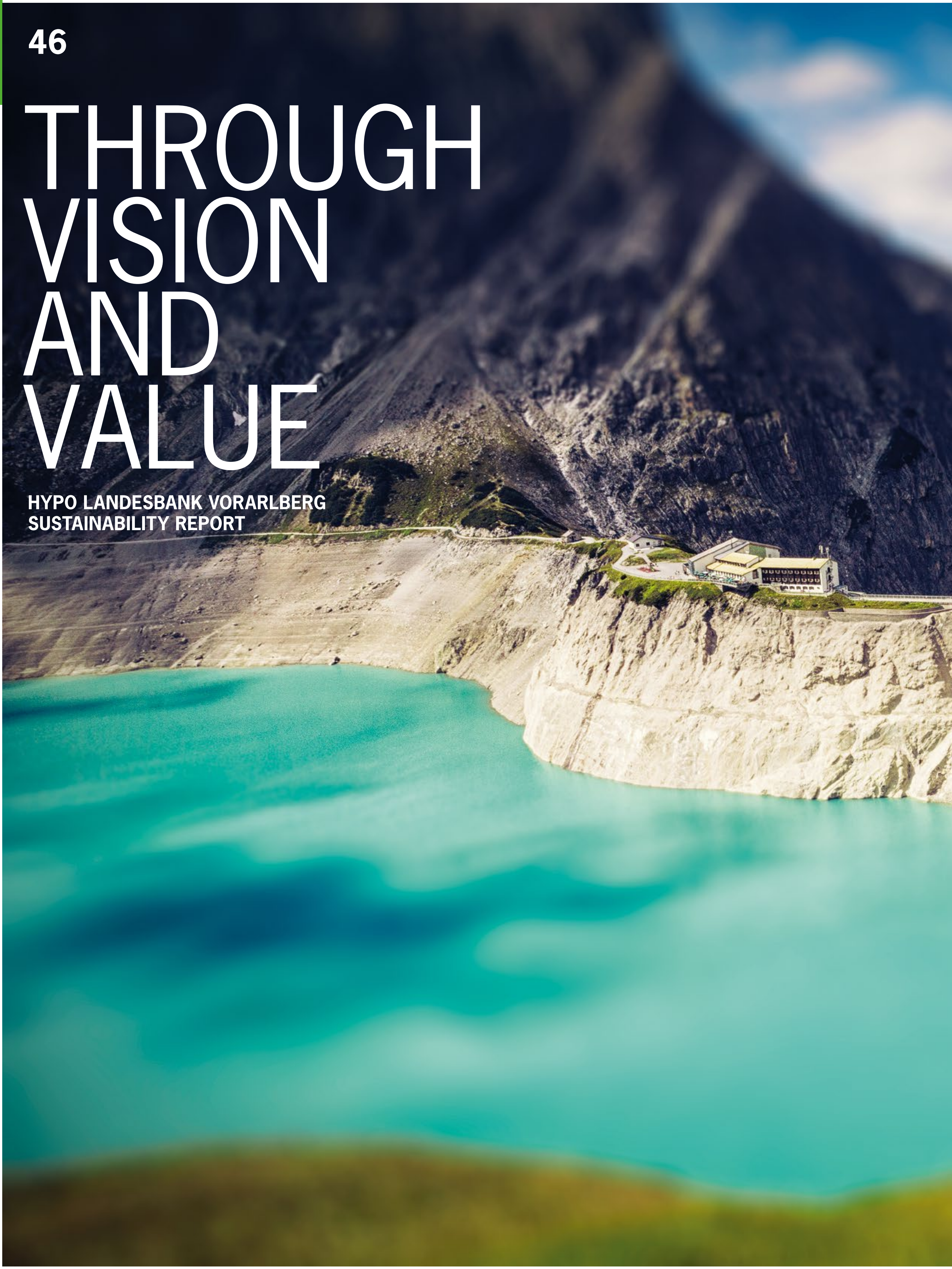
Hypo Versicherungsmakler's consistent efforts to bolster the confidence of customers by means of a high degree of specialist knowledge and expertise were once again apparent in financial year 2013 with a sound business result. Earnings before taxes grew by 9.7% year-on-year to EUR 248,000 (2012: EUR 226,000). While the headcount remained the same (2013: 12 employees), sales revenues increased by 3.6% to EUR 1.3 million. The company now manages and administers contracts with an annual premium of over EUR 10 million on behalf of customers. The company's good result has become an increasingly important factor in view of the difficult economic environment in the insurance sector.

A new tool for insurance consulting is due to be created in 2014. Simple products with comprehensive coverage allow financing consultants to insure financing products agreed with customers against material or person-related risks. Selected products from recognised insurers are also made available to the Bank's consultants in accordance with Hypo Versicherungsmakler's best advice commitment.

Ongoing changes to and reductions in existing options to deduct as well as agreed premium subsidies led to a gradual loss of confidence in long-term investments in recent years and therefore to a continual decline in new business in the life insurance sector. All too often, employers pay little attention to financial provisions for pension commitments, which are usually insufficient. Ongoing adjustment of annuity tables to the increased life expectancy of the Austrian population is leading to a large additional provisioning requirement in companies' balance sheets. Hypo Landesbank Vorarlberg's corporate customer advisors and Hypo Versicherungsmakler's consultants offer attractive solutions here for building up financial reinsurance.

THROUGH VISION AND VALUE

HYPO LANDESBANK VORARLBERG
SUSTAINABILITY REPORT



Long-term thinking is one of our core values. This is important in banking, but even more when it comes to shaping our world. We must all accept responsibility for this. And we must all remember that the future begins in the present.

The greatest challenge for a company to ensure sustainable value is to accept responsibility for their own business actions. To meet all three dimensions of sustainability – economic, ecological and social – is an especially difficult challenge for businesses and requires appropriate measures. The Managing Board is constantly faced with the challenge of weighing economic success, environmental compatibility as well as societal aspects and finding the proper balance. It is of great concern for the Managing Board that the concept of sustainability be firmly anchored in the company culture and practiced by all employees. Specifically, this means that the Bank operates soundly and with integrity, remaining attentive to both employees and resources, while also being committed to the social environment.

ECONOMIC SUSTAINABILITY

In the banking sector, principles such as reliability, stability and security have proven to be the values that should be treated with care, because the trust from customers, business partners, employees and other social groups is of utmost importance. A solid business policy is therefore the core virtue of a bank. This is the goal of Hypo Landesbank Vorarlberg's sustainable business model. The highest priority of the Managing Board is to secure the profitability of the bank and thus long-term corporate success. To this end, strategy, corporate policy, goal planning and the remuneration system are coordinated. Sustainability is also the highest priority in customer business; the security of customer investments is more important than speculation and profit taking.

In addition, many customers put great value 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 and through that strengthens the social and economic cohesion of the region.

With our down-to-earth strategy and in spite of numerous challenges, Hypo Landesbank Vorarlberg has achieved the second best result in the history of the Bank. In order to secure the long-term success of the Bank, Strategy 2018 was developed. Only when economic, ecological and social objectives are in accord is it possible for the Managing Board to meet the diverse challenges and ensure sustainable success.

With a capital increase and a subordinated bond issue in 2012, the Bank strengthened its capital base and has a solid foundation. With this, Hypo Landesbank Vorarlberg wants to secure an excellent rating and a strong refinance situation in order to remain a reliable partner for its customers.

The core capital ratio is an important figure when assessing the stability and strength of a bank. With a core capital ratio of 10.93% (banking book) as at 31 December 2013, Hypo Landesbank Vorarlberg significantly surpasses the legal requirements and remains a secure haven, even in challenging times.

ECOLOGICAL SUSTAINABILITY

Only a sustainable business policy can ensure long-term success. However, the issue of ecology is becoming increasingly important – for future generations, customers, employees and Hypo Landesbank Vorarlberg. For many years the Bank has used various measures to reduce the environmental impact of its operations. CO_2 emissions in banking operations are mainly generated by energy consumption and business travel, by paper and water consumption as well as waste generation. Highest priority has been given to eliminating and reducing CO_2 emissions through more energy efficient measures and better use of resources.

Energy-efficient buildings are the most important factor for sustainable banking operations. Through building and renovation measures (the renovation of the headquarters, construction of Hypo Office Dornbirn) Hypo Landesbank Vorarlberg applied energy and resource efficiency, material ecology and health aspects, which are both environmentally friendly and long-term cost reduction measures. 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.

Hypo Landesbank Vorarlberg also tries to meet its environmental responsibilities through its products. Hypo-Klima-Kredit, for instance, 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 consideration of the next generations, Hypo Landesbank Vorarlberg has participated for many years in numerous projects to protect the environment. Since 2008, the Bank has sponsored the VN Klimaschutzpreis, which recognises special innovative and energy saving projects in Vorarlberg.

In spring 2013, the first Hypo-Umwelt-Förderpreis, an environmental prize whose funds come from contributions by customers and the Bank, was awarded. The more customers used the Umwelt-Sparbuch, the greater the support for selected environmental projects and sustainable development in the region. Funds have been distributed to establishing or continue the winning projects which have been chosen by an independent jury.

Through conscious mobility management Hypo Landesbank Vorarlberg can raise awareness with relatively little cost. By switching to public transportation for their commute, employees drive their cars less. All employees receive a travel expense reduction when using public transportation for their commute to and from work.

SOCIAL SUSTAINABILITY

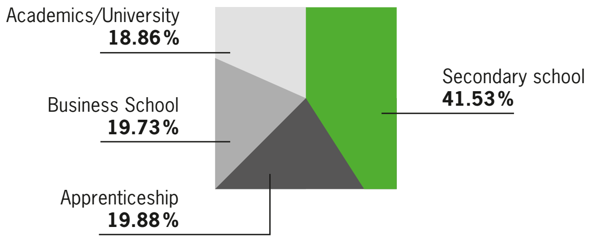
Hypo Landesbank Vorarlberg owes its long-term business success to the expertise, commitment and motivation of its employees. With a workforce of over 700, the equal treatment in hiring, remuneration and internal development opportunities for our employees is of major concern. Hypo Landesbank Vorarlberg considers its employees its most valuable capital. Therefore it is even more important that every individual identifies with and embodies the philosophy and goals of the company.

Training and further education

The consultation and support given customers of Hypo Landesbank Vorarlberg is at the highest level. Sustainable personnel development includes a solid education for career starters as well as targeted continuing development of professional skills and social competencies for existing employees. We can only remain an attractive employer when we support our employees in finding their own potential.

Whenever possible, management positions at Hypo Landesbank Vorarlberg are filled by talented employees from its own ranks. Young managers in particular receive support through specialised training to meet the demands of their responsible and challenging positions.

Training profile 2013



In 2013, Hypo Landesbank Vorarlberg invested EUR 546,493 (2012: EUR 619,406) in training and further education. This correlates to EUR 906 (2012: 1,029) per employee.

On average our employees spent 4.3 days in courses in 2013. In total, 71 employees passed the banking examinations (Hypo training level 1 and 2), and 12 employees successfully completed professional career and technical training courses. In addition, seminars in specialised business-related fields and personal development were held. In total, 316 different educational activities were offered in 2013.

Expenditure on training and further education

	2013	Change in %	2012	2011
Expenditure for education and training in EUR *	**546,493**	–11.8%	619,406	591,923
Expenditure per employee in EUR	**906**	–12.0%	1,029	998
Average training days per employee per year	**4.3**	2.4%	4.2	3.7

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

Future executives

An integral part of future management development at Hypo Landesbank Vorarlberg is the apprentice and trainee programme. Due to the practical training and the extensive knowledge gained, both apprentices and trainees are sought-after employees in different areas within the company.

Since it began in 1999, Hypo Landesbank Vorarlberg has trained over 129 individuals thus providing a sound foundation for their future. As a company that has won awards for its apprenticeship programmes, we have for years provided solid training for bankers. Since 2001, 40 young people have chosen this path. In addition, the Group also trains apprentices as IT experts and estate agents.

The Hypo Career Forum has established itself as an annual platform for interested candidates to go behind the scenes at the Bank. It is an opportunity for both bank employees and participants to meet and offers the students and graduates a chance to learn about the different departments of the Bank.

We also support training and further education topics at a variety of educational institutions such as the Finanzführerschein (programme for basic financial education), FiRi (financial and risk management at business schools and other commercial schools) as well as "Business Forum" for prospective teachers. Participation at professional and educational trade fairs is also important to Hypo Landesbank Vorarlberg and helps us obtain talented employees. As in recent years, the Bank was again represented at the job fair at the Vorarlberg University of Applied Science and at the CAREER & Competence Innsbruck.

Employee and executive feedback
The annual goal-setting discussion with employees is firmly anchored in the company culture of Hypo Landesbank Vorarlberg. This open exchange promotes dialogue between employee and executive and offers the opportunity to analyse the past year and set new goals. In exchange, every two years employees 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 and provides the basis for future executive training.

Knowledge management
An important part of the sustainable development of a company is organized knowledge management. Hypo Landesbank Vorarlberg has a company culture that encourages employees to share their knowledge. The knowledge platform Hypopedia was created in 2011 and allows the flow of information to be brought together in a logical structure. An index and a special search engine allows employees to search for work procedures and information, while an updating service on the home page provides a quick overview of all changes and new information in the database.

Operational processes
Hypo Landesbank Vorarlberg has concluded employment agreements which afford 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
Working with experts, Hypo Landesbank Vorarlberg promotes health awareness with our employees. Each year, a topic is chosen that contributes to their personal well-being and performance. In 2013, the workplace health promotion at Hypo Landesbank Vorarlberg was "Information overload". After a presentation on coping with the daily flood of information, specific actions were further explored in a workshop. The active unit in 2013 dealt with a healthy spine and resonated with employees at the branches as well as headquarters.

The province-wide bicycle competition took place again in 2013. Many employees at Hypo Landesbank Vorarlberg participated as a team in this fun competition that emphasises the pleasure of physical activity.

Beginning in 2013, Vorarlberg businesses which actively promote the health of their employees are honoured with the "salvus" award. The efforts of Hypo Landesbank Vorarlberg were acknowledged and the Bank was awarded the "salvus SILVER" for 2013 and 2014, confirming that we have firmly anchored health promotion in our company culture.

Family-friendly company culture
For many of our employees the reconciliation of career and family is an important element of the quality of work and quality of life. Hypo Landesbank Vorarlberg supports a family-friendly corporate culture and thus benefits from the increased motivation and contentment of their employees. That the topic family-friendly company is of great concern to us was confirmed by our recent endorsement by the State of Vorarlberg as "Excellent family-friendly business 2014 – 2015".

At the same time, this award is seen as a push 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

	2013	Change in %	2012	2011
Annual average number of employees (headcount excl. employees on maternity leave)	**649**	1.2%	641	629
thereof apprentices	**7**	16.4%	6	7
thereof part time	**105**	19.2%	88	82
Number of women (incl. apprentices)	**60.4%**	1.2%	59.7%	60.4%
Number of men (incl. apprentices)	**39.6%**	–2.5%	40.3%	39.6%
Average length of employment in years	**10.3**	7.3%	9.6	9.6
Average age in years	**37.4**	2.2%	36.6	36.4

Key employee figures – Group

	2013	Change in %	2012	2011
Annual average number of employees (weighted according to the level of employement)	**724**	–0.5%	728	724
Number of employees at year-end (headcount)	**775**	–0.6%	780	775
Total employee training days	**2,907**	5.3%	2,760	2,532
Training hours per employee	**30.96**	6.1%	29.19	26.93
Total expenditure (in '000 EUR) for staff development	**616**	–40.3%	1,031	1,165
Cost for staff development per employee in EUR	**851**	–39.9%	1,416	1,609
Average length of employment in years	**9.76**	3.8%	9.40	9.37
Average age in years	**37.84**	1.9%	37.12	36.85

Sponsoring and regional engagements

The Managing Board considers involvement in societal and social issues important criteria in the sustainability of the Bank and 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 characterised by long-term commitment with strong regional links.

At the end of 2013, Hypo Landesbank Vorarlberg began an initiative to support charitable projects in its core market Vorarlberg as well as in Vienna, Graz and Wels. Starting in July 2014, a portion of the generated profits of the bank will be earmarked as donations to be used primarily for social initiatives, but also for projects in the fields of science, education and culture. The current plan calls for an endowment of 0.65% of the Bank's annual profit. A panel comprised of representatives of various social institutions and companies will autonomously decide on the distribution of the fund following established guidelines.

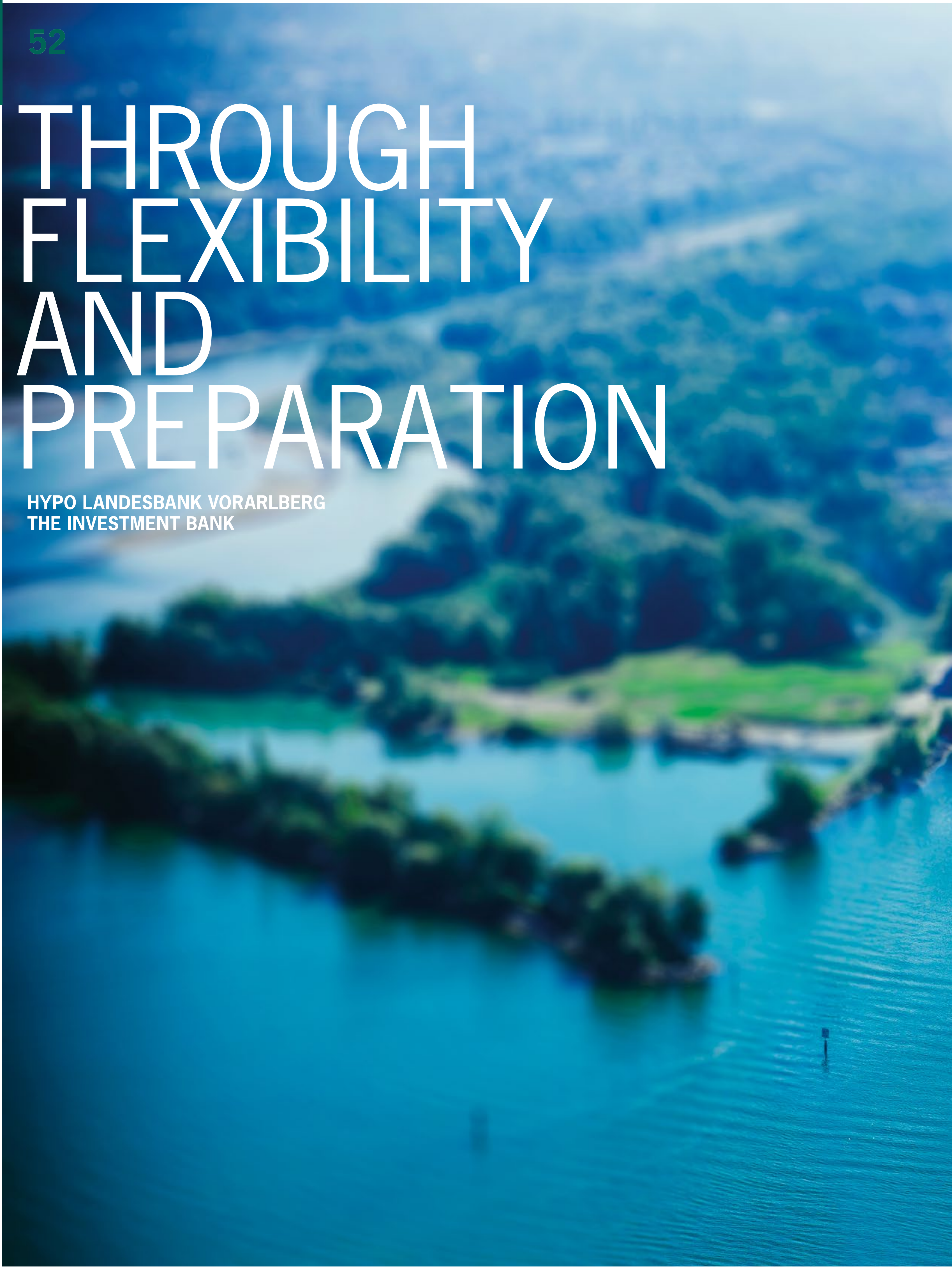
RESEARCH AND DEVELOPMENT

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 Josef-Ressel Centre to determine, among other issues, optimisation of the cover pool and optimal allocation of collateral.

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

THROUGH FLEXIBILITY AND PREPARATION

**HYPO LANDESBANK VORARLBERG
THE INVESTMENT BANK**



Our investment strategy: Targeted asset growth, careful asset management and forward-looking, wise investments. With customised, flexible investment models, with emphasis on security. We owe this to our customers. And we take this obligation very seriously.

THROUGH CARE AND CLARITY

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS DATED 31 DECEMBER 2013

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2013

Income statement

in '000 EUR	(Notes)	2013	2012	Change	
			Adjusted[1]	in '000 EUR	in %
Interest and similar income		284,444	318,415	−33,971	−10.7
Interest and similar expenses		−112,306	−141,170	28,864	−20.4
Net interest income	(6)	**172,138**	**177,245**	**−5,107**	**−2.9**
Loan loss provisions	(7)	−42,046	−34,960	−7,086	20.3
Net interest income after loan loss provisions		**130,092**	**142,285**	**−12,193**	**−8.6**
Fee and commission income		41,451	42,557	−1,106	−2.6
Fee and commission expenses		−4,495	−4,969	474	−9.5
Net fee and commission income	(8)	**36,956**	**37,588**	**−632**	**−1.7**
Net result on hedge accounting	(9)	338	−2,853	3,191	–
Net trading result	(10)	22,943	91,510	−68,567	−74.9
Net result from other financial instruments	(11)	3,942	2,120	1,822	85.9
Administrative expenses	(12)	−91,172	−88,228	−2,944	3.3
Other income	(13)	16,617	11,599	5,018	43.3
Other expenses	(14)	−27,389	−21,758	−5,631	25.9
Result from equity consolidation		2,581	4,038	−1,457	−36.1
Operating result before change in own credit risk		**94,908**	**176,301**	**−81,393**	**−46.2**
Result from change in own credit risk		1,226	−2,601	3,827	–
Earnings before taxes		**96,134**	**173,700**	**−77,566**	**−44.7**
Taxes on income	(15)	−21,642	−41,586	19,944	−48.0
Consolidated net income		**74,492**	**132,114**	**−57,622**	**−43.6**
Of which attributable to:					
Parent company shareholders		74,472	132,098	−57,626	−43.6
Non-controlling interests		20	16	4	25.0

Statement of comprehensive income

in '000 EUR	2013	2012	Change	
		Adjusted[1]	in '000 EUR	in %
Consolidated net income	**74,492**	**132,114**	**−57,622**	**−43.6**
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	−48	11	−59	–
Changes to AFS revaluation reserve	6,688	17,569	−10,881	−61.9
of which changes in measurement	10,014	22,848	−12,834	−56.2
of which changes in holdings	−1,096	577	−1,673	–
of which income tax effects	−2,230	−5,856	3,626	−61.9
Total items which can be reclassified to consolidated net income	**6,640**	**17,580**	**−10,940**	**−62.2**
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	491	−2,077	2,568	–
of which changes in measurement	641	−2,772	3,413	–
of which income tax effects	−150	695	−845	–
Total items which cannot be reclassified to consolidated net income	**491**	**−2,077**	**2,568**	**–**
Other income after taxes	**7,131**	**15,503**	**−8,372**	**−54.0**
Total comprehensive income	**81,623**	**147,617**	**−65,994**	**−44.7**
Of which attributable to:				
Parent company shareholders	81,603	147,601	−65,998	−44.7
Non-controlling interests	20	16	4	25.0

[1] Adjustment of previous year's figures relates to the remeasurement of loans and credits voluntarily designated at fair value. Further relevant disclosures are given under Note (5). The previous year's figures were also adjusted due to application of the amended IAS 19. Further relevant disclosures are also given under Note (5).

II. BALANCE SHEET DATED 31 DECEMBER 2013

Assets

in '000 EUR	(Notes)	31.12.2013	31.12.2012 Adjusted[1]	01.01.2012 Adjusted[1]	Change in '000 EUR	Change in %
Cash and balances with central banks	(16)	593,422	532,010	137,821	61,412	11.5
Loans and advances to banks	(17)	1,113,957	935,466	1,087,052	178,491	19.1
Loans and advances to customers	(18)	8,485,284	8,585,573	8,520,537	–100,289	–1.2
Positive market values of hedges	(19)	5,442	4,188	2,173	1,254	29.9
Trading assets and derivatives	(20)	574,137	809,165	806,682	–235,028	–29.0
Financial assets – at fair value	(21)	1,182,716	1,467,545	1,530,798	–284,829	–19.4
Financial assets – available for sale	(22)	778,923	910,103	791,054	–131,180	–14.4
Financial assets – held to maturity	(23)	1,175,548	1,019,250	1,079,789	156,298	15.3
Shares in companies valued at equity	(24)	36,449	34,778	34,617	1,671	4.8
Investment property	(25, 31)	54,556	58,548	37,788	–3,992	–6.8
Intangible assets	(26, 31)	1,618	2,121	1,673	–503	–23.7
Property, plant and equipment	(27, 31)	74,684	68,624	70,552	6,060	8.8
Tax assets		820	764	1,248	56	7.3
Deferred tax assets	(28)	6,615	8,707	24,047	–2,092	–24.0
Non-current assets available for sale	(29)	3,953	5,185	4,750	–1,232	–23.8
Other assets	(30)	57,053	50,309	51,589	6,744	13.4
Total Assets		**14,145,177**	**14,492,336**	**14,182,170**	**–347,159**	**–2.4**

Liabilities and shareholders' equity

in '000 EUR	(Notes)	31.12.2013	31.12.2012 Adjusted[1]	01.01.2012 Adjusted[1]	Change in '000 EUR	Change in %
Amounts owed to banks	(32)	687,965	655,680	632,490	32,285	4.9
Amounts owed to customers	(33)	4,815,650	4,743,920	4,230,744	71,730	1.5
Liabilities evidenced by certificates	(34)	1,894,590	1,389,115	1,489,110	505,475	36.4
Negative market values of hedges	(19, 35)	126,743	148,400	84,436	–21,657	–14.6
Trading liabilities and derivatives	(20, 36)	238,222	319,016	327,225	–80,794	–25.3
Financial liabilities – at fair value	(37)	5,123,337	6,039,128	6,505,017	–915,791	–15.2
Provisions	(38)	41,608	37,703	32,479	3,905	10.4
Tax liabilities	(39)	7,874	15,774	5,146	–7,900	–50.1
Deferred tax liabilities	(40)	2,486	2,883	1,752	–397	–13.8
Other liabilities	(41)	40,505	44,883	38,771	–4,378	–9.8
Subordinated and supplementary capital	(42)	319,098	326,667	237,352	–7,569	–2.3
Shareholders' equity	(43)	847,099	769,167	597,648	77,932	10.1
Of which attributable to:						
Parent company shareholders		847,036	769,100	597,570	77,936	10.1
Non-controlling interests		63	67	78	–4	–6.0
Total Liabilities and shareholder's equity		**14,145,177**	**14,492,336**	**14,182,170**	**–347,159**	**–2.4**

[1] Adjustment of previous year's figures relates to the remeasurement of loans and credits voluntarily designated at fair value. Further relevant disclosures are given under Note (5).

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve (available for sale)	Reserves from currency translation	Total parent company shareholders	Non-controlling interests	Total shareholders'
Balance 31 December 2011	**159,000**	**27,579**	**453,763**	**−11,604**	**25**	**628,763**	**78**	**628,841**
Adjustment of previous years [1]	0	0	−31,174	0	−20	−31,194	0	−31,194
Balance 1 January 2012	**159,000**	**27,579**	**422,589**	**−11,604**	**5**	**597,569**	**78**	**597,647**
Consolidated net income	0	0	132,098	0	0	132,098	16	132,114
Other income	0	0	7	15,492	4	15,503	0	15,503
Comprehensive income 2012	**0**	**0**	**132,105**	**15,492**	**4**	**147,601**	**16**	**147,617**
Access to consolidation	0	0	3	0	0	3	−3	0
Capital increase	6,453	21,295	0	0	0	27,748	0	27,748
Reclassifications	0	0	−41	40	0	−1	1	0
Dividends	0	0	−3,820	0	0	−3,820	0	−3,820
Distributions to third parties	0	0	0	0	0	0	−25	−25
Balance 31 December 2012	**165,453**	**48,874**	**550,836**	**3,928**	**9**	**769,100**	**67**	**769,167**
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**

Further details on equity and the composition of capital components – in particular the revaluation reserves – are given in Note (43).

[1] Adjustment of previous year's figures relates to the remeasurement of loans and credits voluntarily designated at fair value. Further relevant disclosures are given under Note (5). The previous year's figures were also adjusted due to application of the amended IAS 19. Further relevant disclosures are also given under Note (5).

IV. CASH FLOW STATEMENT

Cashflows from operating activities

in '000 EUR	2013	2012
Consolidated net income	74,492	132,114
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	22,983	–65,544
Allocations/reversals to/from reserves and loan loss provisions	12,172	26,183
Change in other non-cash items	–41,510	50,570
Reclassification of income from the sale of financial instruments and property, plant and equipment	–5,851	49
Adjustments for interest, dividends and taxes	–132,833	–155,224
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks	–193,555	158,324
Loans and advances to customers	–4,167	–98,125
Trading assets and derivatives	–221	2,112
Other assets	–10,047	–1,072
Amounts owed to banks	36,285	24,632
Amounts owed to customers	99,914	530,038
Liabilities evidenced by certificates	521,093	–100,026
Trading liabilities, derivatives	0	1
Financial liabilities – at fair value	–627,616	–477,139
Other liabilities	–11,789	18,400
Interest received	205,399	219,323
Interest paid	–133,562	–151,284
Income tax paid	–30,209	–19,892
Cash flows from operating activities	**–219,022**	**93,440**

Cashflows from investing activities

in '000 EUR	2013	2012
Cash inflows from the sale of/ repayment on		
Financial instruments	603,074	696,037
Property, plant and equipment and intangible assets	1,420	2,593
Subsidiaries	250	0
Cash outflows for investments in		
Financial instruments	–396,980	–611,530
Property, plant and equipment and intangible assets	–10,382	–4,950
Interest received	92,646	106,338
Dividends and profit distributions received	4,697	3,140
Cash flows from investing activities	**294,725**	**191,628**

Cashflows from financing activities

in '000 EUR	2013	2012
Proceeds from capital increases	0	27,748
Non-cash changes in subordinated and supplementary capital	–4,222	87,480
Dividend payments	–3,644	–3,820
Interest paid	–6,138	–2,401
Cash flows from financing activities	**–14,004**	**109,007**

Reconciliation with cash and balances with central banks

in '000 EUR	2013	2012
Cash and balances with central banks at end of previous period	**532,010**	**137,821**
Cash flows from operating activities	–219,022	93,440
Cash flows from investing activities	294,725	191,628
Cash flows from financing activities	–14,004	109,007
Effects of changes in exchange rate	–287	114
Cash and balances with central banks at end of period	**593,422**	**532,010**

Further disclosures on the cash flow statement are shown under Note (46).

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 (53). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

The consolidated financial statements for the 2013 financial year and the comparative figures for 2012 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 28 March 2014, 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

The consolidated financial statements comprise the financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and its subsidiaries as at 31 December 2013. 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, 36 subsidiaries are included in the consolidated financial statements (2012: 37), in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft directly or indirectly holds more than 50 % of voting rights or which it otherwise controls. 29 of these companies are domiciled domestically (2012: 29) and seven internationally (2012: 8).

In addition, in financial year 2012 one special fund was also included in the consolidated financial statements in line with IAS 27 and SIC 12. The special fund was wound up as at 30 September 2012.

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.

The Group's share in the profit of an associated company is presented in the income statement. Here, it is a question of the profit attributable to the shareholders of the associated company and consequently the profit after taxes and non-controlling shares in the subsidiaries of 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 (2012: 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 39,128,000 (2012: EUR 40,254,000) for the past financial year. The aggregate shareholder's equity of these holdings amounted to EUR 13,712,000 (2012: EUR 11,968,000), and a result after taxes totalling EUR 46,000 was achieved (2012: EUR 214,000).

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 2012 would have a valuation effect of EUR +2,184,000 on the items "Shares in companies valued at equity" and "Equity". Inclusion in the income statement would also have an effect of EUR +30,000 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 2013.

In 2013, the stake held in Inprox BP XX – Hypo SüdLeasing Kft. based in Budapest was relinquished including profit shares for the current financial year with retroactive effect to 1 January 2013. The company therefore left the scope of consolidation in 2013. The effects from deconsolidation in the amount of EUR +248,000 were recognised in the income statement in the item "Net result from other financial instruments".

(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 result 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	31.12.2013	31.12.2012
CHF	1.2276	1.2072
JPY	144.7200	113.6100
USD	1.3791	1.3194
PLN	4.1543	4.0740
CZK	27.4270	25.1510
GBP	0.8337	0.8161

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 result
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.

  Leased assets attributable to the lessee (finance leases) are shown at net investment in the lease (present value) under loans and advances to customers. Interest income is recognised evenly over time as periodic interest calculated based on remaining net investment in the lease. Finance lease income is shown as interest income. In the Group, receivables from finance leases under which the leased asset is attributable to the lessee primarily relate to real estate properties.

- **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.

  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 between knowledgeable, willing parties in an arm's length transaction.

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 two rating levels is assigned for subordinated bonds. 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 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 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. Additionally, two convertible bonds, the conversion options of which represent derivatives required to be separated, were allocated to this category. 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 result 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 under trading result, affecting the income statement. 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 grants customers a rate cap at 6 %. 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 result 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 result. 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 efficiency of the hedging instrument. In addition, at the beginning of the hedge relationship the hedge is expected to be highly efficient 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.

- **Cash flow hedges**
  Cash flow hedges are used to stabilise net interest income and eliminate the uncertainty of future cash flows. For designated and qualified cash flow hedges, the portion of the gain or loss from a hedging instrument identified as an effective hedge is recognised under other result and reported in the cash flow hedge reserve item. The ineffective portion of the gain or loss from the hedging instrument is recognised through profit and loss in the income statements. If a hedged cash flow is recognised through profit and loss, the gain or loss from the hedging instrument recognised in equity is reclassified to the corresponding income or expense item in the income statement.

  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 cumulative gain or loss from the hedging instrument that was recognised under other result remains in equity and is reported separately there until the transaction takes place.

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. In the case of finance leases, a receivable from the lessee is reported in the amount of the present value of the contractually agreed payments taking into account any residual values (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). 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 2013, 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. The key parameters in preparing the valuations were:

Key parameters for real estate appraisal	2013	2012
Return in %	4–8%	4–7%
Inflation rate in %	2.5%	2.5%
Rental loss risk in %	1.5–8%	2–5%

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 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. Impairment of goodwill is determined by calculating the recoverable amount of the cash generating unit, to which the goodwill was allocated. If the recoverable amount of the cash generating unit falls below the carrying amount of this unit, an impairment loss is recognised. An impairment loss recognised for goodwill will no longer be reversed in subsequent reporting periods. The identification of cash generating units and the parameters used to calculate the impairment requirement in connection with goodwill was described in Note (26).

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 inother result. In this case, the deferred taxes are recognised/reversed in other result.

  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.

Selling costs for available-for-sale assets are immaterial in amount, as the buyer pays transaction and also realisation costs. If not sold within one year or if the asset no longer meets the criteria per IFRS 5, these assets are reclassified as investment property if they are let, or as property, plant and equipment or other assets if owner-occupied.

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. As the Group does not provide any plan assets, 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 (2012: 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. 21 (2012: 23 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 incom**
  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 inefficiencies 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 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 1,589,000 (2012: EUR 1,507,000) at the existing exposure level. A 1% decrease in the impairment ratio would have lowered loan loss provisions by the amount of EUR 1,589,000 (2012: EUR 1,507,000) 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 126,000 (2012: EUR 100,000). Overall, a 1% increase in the default probabilities would change the expected loss from non-impaired loans and advances by EUR 304,000 (2011: EUR 299,000). The LIP was carried at 150 days. If the LIP factor is increased by 30 days, this would lead to an increase in the portfolio valuation allowance of EUR 2,535,000 (2012: EUR 2,496,000). The development of credit risk provisions is presented under Note (18). The effects on the income statement are presented under Note (7). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 9,599,241,000 (2012: EUR 9,521,039,000).

- **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 1,874,000 (2012: 6,906,000) and the net result from other financial instruments by EUR 1.874,000 (2012: 6,906,000). 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 (11). 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 778,923,000 (2012: EUR 910,103,000).

- **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 2,172,000 (2012: 1,741,000). The carrying amounts on which these assumptions and judgements are based are presented under Note (23). Effects on the income statement are presented under Note (11). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 1,175,548,000 (2012: EUR 1,019,250,000).

- **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 (58) regarding valuation model sensitivity. With regard to the income statement, these assumptions and estimates impact the net trading result in Note (10).

  In 2013, assumptions and estimates with regard to the measurement of OTC derivatives were changed to the effect that credit risk in the form of a credit value adjustment (CVA) or a debt value adjustment (DVA) is also taken into account when calculating fair value. 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 change was recorded under the net trading result in 2013 in the amount of EUR –3,389,000. The change in estimates and assumptions was not applied in the interim periods of 2013. The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 663,306,000 (2012: EUR 614,827,000) and that of liabilities to EUR 2,131,129,000 (2012: EUR 0).

- **Income tax**
  The Group has dealings with several different tax authorities. Material estimates are made in measuring tax provisions under Note (39). 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 (28) and (40). The effects on the income statement are presented under Note (15). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 10,854,000 (2012: EUR 9,471,000) that of liabilities to EUR 10,360,000 (2012: EUR 18,657,000).

- **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 (38). The effects on the income statement are reported in the loan loss provisions item under Note (7) for warranties and lending risks and in administrative expenses under Note (12) in other cases. The carrying amount of provisions – excluding social capital – subject to judgements, assumptions and estimates amounts to EUR 18,513,000 (2012: EUR 14,928,000).

- **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.
  – Interest rate/domestic 3.0 % (2012: 3.0 %)
  – Annual indexing, collective bargaining and performance-based salary increases 2.5 % (2012: 2.5 %) for provisions for severance, service anniversary bonuses and disability/incapacity risk
  – Fluctuation rate of 2.0 % (2012: 2.0 %) for severance provisions and 8.0 % (2012: 8.2 %) for other provisions
  – Individual career trend 2.5 % (2012: 2.5 %)
  – Annual indexing 3.5 % (2012: 3.5 %) for provisions for pensions
  – 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 gains and losses resulting from the adjustment of actuarial parameters were recorded under other result in the amount of EUR 641,000 (2012: EUR –2,772,000). Deferred taxes resulting from recognition were also recorded directly under other result in the amount of EUR –150,000 (2012: EUR 695,000). For 2014, pension benefits to be paid are projected at EUR 341,000 (2013: EUR 337,000), severance payments at EUR 335,000 (2013: EUR 1,022,000) and service anniversary bonuses at EUR 49,000 (2013: EUR 85,000).

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 1,573,000 (2012: EUR 1,632,000); increasing the discount factor by 0.5 % would result in a decrease in staff costs in the amount of EUR 1,419,000 (2012: EUR 1,476,000). Lowering the salary trend/pension trend by 0.5 % would result in a decrease in staff costs in the amount of 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 1,531,000. Lowering the fluctuation rate by 0.5 % would result in an increase in staff costs in the amount of EUR 84,000; increasing the fluctuation rate by 0.5 % would result in a decrease in staff costs in the amount of EUR 84,000. The carrying amounts of the social capital are shown under Note (38). Effects on the income statement are presented under Note (12). The carrying amount of social capital subject to judgements, assumptions and estimates amounts to EUR 23,094,000 (2012: EUR 22,775,000).

- **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 1,333,128,000 (2012: EUR 1,400,903,000).

(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 und 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 2013. These rules must also be observed in the EU and concern the following areas:

- **Annual Improvement Project 2009 – 2011 cycle**
  In May 2012, the IASB published revisions to existing IFRS rules as part of its Annual Improvement Project. The proposed amendments have not yet been endorsed by the EU. These revisions chiefly relate to clarifications with regard to IFRS 1 First-time Adoption of IFRS, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting.

- **Amendments to IAS 1 – Presentation of Financial Statements**
  The amendments published in June 2011 provide for items in other result being grouped according to whether these items can be reclassified in the income statement again in future or not. It also confirmed that it will be continue to be permissible to present the components of other result in one single statement or in two separate statements.

- **Amendments to IAS 19 – Employee Benefits**
  The amendments to the standard published in June 2011 now exclude the previously permissible deferment of all changes in the present value of the pension obligation and the fair value of the plan assets (including the corridor approach, which is not used by the Group). In addition, IAS 19 demands a net interest rate, which replaces the anticipated income from plan assets, and extends the disclosure requirements for defined benefit plans. As the Group has not set aside any plan assets for the fulfilment of employee benefits, application of the standard will not have any material impact on the Group. Remeasurements were recognised in other result for financial year 2013 and on a retroactive basis in the 2012 prior-year period. The changes in financial year 2012 are explained in more detail in Note (5).

- **Amendments to IAS 12 – Income Taxes**
  In December 2010, the IASB published the amendment to the standard and offered a solution for the problem of the definition of the question whether the carrying amount of an asset is realised through use or sale through the introduction of a rebuttable presumption that the carrying amount will usually be realised through sale. As a consequence of the amendment, SIC 21 no longer applies for investment property measured at fair value. The other guidelines were integrated in IAS 12 and SIC 21 was withdrawn accordingly. As expected, application of the amended standard did not have a material impact on the Group.

- **Amendments to IFRS 1 – First-time Adoption of IFRS**
  In December 2010, the IASB published two small amendments to IFRS 1. The first amendment replaced the references to the fixed transition date “1 January 2004” with “date of transition to IFRS”. The second amendment gives guidance on how to proceed with the presentation of IFRS compliant financial statements if the company did not comply with IFRS provisions for some time because its functional currency was subject to severe hyperinflation. As expected, this revision did not have any effect on the consolidated financial statements.

- **Amendments to IFRS 1 – Government Loans**
  In March 2012, the IASB published an amendment to IFRS 1. The amendment stipulates that first-time adopters must apply the provisions of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans in place as at the date of transition to IFRS. However, companies have the option of applying the provisions of IFRS 9 (or IAS 39) and IAS 20 retrospectively to government loans if the information required for this was available at the date of initial recognition of these loans. This exception allows first-time adopters to dispense with retrospective valuation of government loans with an interest rate lower than the market rate. These amendments did not have any impact on the consolidated financial statements.

- **Amendments to IFRS 7 – Offsetting of Financial Assets and Financial Liabilities**
  According to this amendment, companies must disclose information on offsetting rights and related agreements (e.g. collateral agreements). In this way, users of financial statements would receive information which they could use to assess the impact of the offsetting agreements on companies’ financial position. The new disclosures are required for all recognised financial instruments that have been offset under IAS 32. The disclosures also apply to recognised financial instruments that are subject to legally enforceable master netting arrangements or similar agreements, irrespective of whether they are offset in accordance with IAS 32. This amendment had no impact on the Group’s assets and liabilities, financial condition, and results of operations.

- **Publication of IFRS 13 – Fair Value Measurement**
  The standard published in May 2011 brings together the provisions for establishing fair value within IFRS. IFRS 13 amends the definition of fair value and gives pointers as to how to measure at fair value if another IFRS prescribes or permits measurement at fair value. The disclosure also

demands more comprehensive information on measurement at fair value. IFRS 13 will come into force for financial years beginning on or after 1 January 2013. Early application is permissible. IFRS 13 has been adopted by the IASB and was endorsed in European law by the EU on 11 December 2012. The application of IFRS 13 had effects in terms of the measurement of financial instruments and in the more extensive reporting given in the Notes. Individual measurement processes within the Group were also adjusted in order to achieve conformity with IFRS 13. The fair value hierarchy is presented under Note (58).

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 2013 financial year.

- **Amendment 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. Early application together with early application of the new and revised provisions of IFRS 10, IFRS 11, IFRS 12 and IAS 28 is permissible. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 11 December 2012. The Group is currently examining the possible impact of implementing the amendments on the consolidated financial statements.

- **Amendment to 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. Early application together with early application of the new and revised provisions of IFRS 10, IFRS 11, IFRS 12 and IAS 27 is permissible. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 11 December 2012. The Group is currently examining the possible impact of implementing the amendments on the consolidated financial statements. 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, we do not expect any 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 is currently examining the possible impact of implementing the amendments on the consolidated financial statements.

- **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. The Group welcomes this clarification and does not expect the amendment to have any material impact.

- **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 welcomes this amendment as we are expecting adjustments and changes to counterparties as defined by the amended standard as a result of the CRR.

- **Publication of IFRS 9 – Classification and Measurement**
  In November 2009 the IASB published IFRS 9, which reflects the first phase of the IASB project to replace IAS 39 and deals with the classification and measurement of financial assets and financial liabilities in accordance with IAS 39. The standard was intended to be applied for the first time to financial years beginning on or after 1 January 2013. With the amendment to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, published in December 2013, the date of mandatory first-time adoption was postponed until 1 January 2018. In further project phases, the IASB will deal with hedge accounting and impairment of financial assets. The standard has not yet been endorsed by the EU. The application of the changes from the first phase of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the impact combined with the other phases when the final standard including all phases has been published.

- **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 and is expected to be effective for financial years beginning on or after 1 January 2014. The Group examined its investment portfolio thoroughly and does not expect any changes to the scope of consolidation as regards subsidiaries which the Group controls. The possibility of the scope of consolidation

expanding to include other companies based on control as defined by IFRS 10 can also be ruled out on the basis of the current constellation.

- **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 and is expected to be effective for financial years beginning on or after 1 January 2014. The Group plans to apply the amendment when it becomes effective and does not expect any material impact. 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, we do not expect any changes in the Group's 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 and is expected to be effective for financial years beginning on or after 1 January 2014. The Group plans to apply the standard when it becomes effective and is expecting to have to provide more comprehensive information and disclosures.

(5) RESTATEMENT OF PREVIOUS-YEAR FIGURES

The adjustment of the previous year's figures comprises the remeasurement of loans and credits voluntarily designated at fair value, which have therefore been assigned to the AFV category. These assets constitute long-term financing with fixed-interest agreements. Interest rate swaps and some cross-currency swaps were concluded for these financing transactions in order to hedge interest rate risk. The fair value option was applied due to the accounting mismatch and to eliminate measurement differences. These receivables are particularly set apart by the fact that there is no active market for them. The receivables were not purchased by third parties, but were instead originally granted and paid out as part of a customer relationship. In the absence of external ratings for the customers in question, the problem also arose of how to determine the measurement effects in terms of credit spreads. By expanding our technology and implementing extended measurement processes, credit spread effects are now measured using input factors observable on the market or, if necessary, using derived input factors. We use Reuters' spread index for bonds with the same duration and credit rating in this process. If the borrower does not have an external rating, internal ratings are mapped to the external rating. Unless all durations and credit ratings are observable on the market, market data is interpolated on a linear basis. The change in balance sheet and income statement items due to the change in measurement is explained in the detailed tables given below. The change has no effect on the cash flow statement as this involves measurements and does not result in any changes to cash flows.

The remeasurement was calculated retroactively as at 1 January 2012. The valuation effect was EUR –41,592,000 as at 1 January 2012. Less deferred tax assets of EUR 10,398,000, this means an effect on equity of EUR –31,194,000. The valuation effect was EUR –17,006,000 as at 31 December 2012. Deferred tax assets totalled EUR 4,252,000, meaning that the net trading result increased by EUR 24,586,000 in 2012, whereas the effect on equity as at 31 December 2012 was recorded at EUR –12,755,000. As at 31 December 2013, the effect from the credit spread for loans and credits was EUR –7,053,000. An amount of EUR +9,953,000 was recorded under the net trading result in 2013. The adjustment effect on equity was EUR –5,290,000, taking into account deferred taxes. This involves an error correction in accordance with IAS 8p41.

Adjustment of assets

in '000 EUR – 31.12.2012	Reported	Adjusted	Change
Loans and advances to customers	8,585,799	8,585,573	–226
Financial assets – at fair value	1,484,325	1,467,545	–16,780
Deferred tax assets	4,539	8,707	4,168
Total assets	**14,505,175**	**14,492,336**	**–12,839**

Adjustment of liabilities and shareholder's equity

in '000 EUR – 31.12.2012	Reported	Adjusted	Change
Deferred tax liabilities	2,967	2,883	–84
Shareholders' equity	781,922	769,167	–12,755
Total liabilities and shareholder's equity	**14,505,175**	**14,492,336**	**–12,839**

The Group also decided not to recognise valuation effects due to own credit risk under the net trading result anymore, but to report them in a separate item in the income statement. The Group is anticipating the IASB's intention here, which proposes under IFRS 9 that these types of valuation effects are no longer to be recorded in the income statement in future, but under other result. We share the IASB's opinion, as the current method of reporting in the income statement can lead to considerable distortions in terms of the economic performance of an enterprise recognised in accounting. However, adjustment of the previous year's figures only involves a reclassification, not a remeasurement.

The amendment to IAS 19, which is to be applied to financial years beginning on or after 1 January 2013, was applied retroactively in accordance with the transitional provisions by withdrawing actuarial gains and losses in the amount of EUR −2,772,000 resulting from the measurement of employee benefits from the income statement and recording these directly in equity under other result, less deferred tax effects, in the amount of EUR −2,077,000. Adjustment of the accounting method did not result in any change to the provision amount with regard to previous periods. The change did not have any effect on the cash flow statement. For future periods, the Group expects a similar effect in terms of the income statement, as changes to the provision amount due to altered actuarial parameters will not affect the income statement in the future.

Adjustment of the income statement

in '000 EUR – 2012	Reported	Adjusted	Change
Net trading result	64,324	91,510	27,186
thereof reclassification of own credit spread	0	2,601	2,601
thereof remeasurement of credit spread of loans and credits – AFV	0	24,585	24,585
Administrative expenses	−91,000	−88,228	2,772
Operating result before change in own credit risk	**146,343**	**176,301**	**29,958**
Result from change in own credit risk	0	−2,601	−2,601
Earnings before taxes	**146,343**	**173,700**	**27,357**
Taxes on income	−34,744	−41,586	−6,842
Consolidated net income	**111,599**	**132,114**	**20,515**

Adjustment to the statement of comprehensive income

in '000 EUR – 2012	Reported	Adjusted	Change
Consolidated net income	**111,599**	**132,114**	**20,515**
Items which can be reclassified to consolidated net income			
Changes to foreign currency translation reserve	11	11	0
Changes to AFS revaluation reserve	17,569	17,569	0
of which changes in measurement	22,848	22,848	0
of which changes in holdings	577	577	0
of which income tax effects	−5,856	−5,856	0
Changes arising from equity consolidation	−1	0	1
Total items which can be reclassified to consolidated net income	**17,579**	**17,580**	**1**
Items which cannot be reclassified to consolidated net income			
Changes to IAS 19 revaluation reserve	0	−2,077	−2,077
of which changes in measurement	0	−2,772	−2,772
of which income tax effects	0	695	695
Total items which cannot be reclassified to consolidated net income	**0**	**−2,077**	**−2,077**
Other income after taxes	**17,579**	**15,503**	**−2,076**
Total comprehensive income	**129,178**	**147,617**	**18,439**
Of which attributable to:			
Parent company shareholders	129,162	147,601	18,439
Non-controlling interests	16	16	0

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

in '000 EUR	2013	2012
Income from cash and balances with central banks	282	537
Income from loans and advances to banks	3,125	5,981
Income from loans and advances to customers	144,640	165,644
Income from leasing business	26,277	30,053
Income from hedging instruments	6,274	850
Income from derivatives, other	11,030	8,139
Income from debt securities	88,118	104,070
Income from shares	2,362	1,368
Income from investments in affiliated companies	50	345
Income from equity investments, other	2,286	1,428
Interest and similar income	**284,444**	**318,415**
Expenses from amounts owed to banks	–2,285	–4,990
Expenses from amounts owed to customers	–28,235	–46,786
Expenses from liabilities evidenced by certificates	–15,887	–15,229
Expenses from hedging instruments	–37,237	–27,967
Expenses from derivatives, other	–12,541	–9,250
Expenses from liabilities designated AFV	–9,984	–34,308
Expenses from subordinated and supplementary capital	–6,137	–2,640
Interest and similar expenses	**–112,306**	**–141,170**
Net interest income	**172,138**	**177,245**

An amount of EUR 271,000 from unwinding was recorded under interest income from loans and advances to customers (2012: EUR 879,000). Interest income from loans and advances measured at amortised cost amounts to EUR 208,180,000 (2012: EUR 239,159,000). Interest expense on loans and advances measured at amortised cost amounts to EUR –52,544,000 (2012: EUR –69,645,000).

Of which income from debt securities

in '000 EUR	2013	2012
Income from debt securities – HFT	5	0
Income from debt securities – AFV	28,852	39,758
Income from debt securities – AFS	25,867	27,831
Income from debt securities – HTM	33,394	36,481
Income from debt securities	**88,118**	**104,070**

Of which income from shares

in '000 EUR	2013	2012
Income from shares – HFT	7	6
Income from shares – AFV	231	452
Income from shares – AFS	1,662	447
Income from shares – HTM	462	463
Income from shares	**2,362**	**1,368**

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

(7) LOAN LOSS PROVISIONS

in '000 EUR	2013	2012
Additions to valuation allowances	–60,205	–53,535
Reversals of valuation allowances	22,762	17,466
Direct write-downs of loans and advances	–2,877	–432
Income from amounts received on loans and advances already written down	3,233	2,206
Additions to provisions	–7,349	–2,692
Reversals of provisions	2,390	2,027
Loan loss provisions	**–42,046**	**–34,960**

In 2013, the loss from the direct write-down of loans and advances and consumption of loan loss provisions created amounted to EUR 30,510,000 (2012: EUR 14,264,000). There were no indications of a need to recognise additional impairment as of the preparation date of the consolidated financial statements.

(8) NET FEE AND COMMISSION INCOME

in '000 EUR	2013	2012
Lending and leasing business	4,254	4,796
Securities business	19,067	20,257
Giro and payment transactions	13,395	12,006
Other service business	4,735	5,498
Fee and commission income	**41,451**	**42,557**

in '000 EUR	2013	2012
Lending and leasing business	–949	–1,381
Securities business	–1,447	–1,694
Giro and payment transactions	–1,863	–1,838
Other service business	–236	–56
Fee and commission expenses	**–4,495**	**–4,969**

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 9,316,000 (2012: EUR 8,003,000). 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 –425,000 (2012: EUR –692,000). Fee and commission income from fiduciary activities amounts to EUR 1,313,000 (2012: EUR 1,300,000).

(9) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	2013	2012
Adjustment to loans and advances to banks	–5,837	8,726
Adjustment to loans and advances to customers	–12,562	17,454
Adjustment to financial instruments available for sale	–21,672	26,247
Adjustment to liabilities to customers	879	0
Adjustment to securitised liabilities	18,014	–637
Adjustment to subordinated and supplementary capital	3,346	–1,596
Net result from adjustment to underlying transactions from hedging	**–17,832**	**50,194**
Measurement of hedging instruments for loans and advances to banks	6,209	–9,115
Measurement of hedging instruments for loans and advances to customers	12,737	–18,368
Measurement of hedging instruments for available for sale financial instruments	21,974	–27,467
Measurement of hedging instruments for liabilities to customers	–1,045	0
Measurement of hedging instruments for securitised liabilities	–17,776	613
Measurement of hedging instruments for subordinated and supplementary capital	–3,929	1,290
Net result of the measurement of hedging instruments	**18,170**	**–53,047**
Net result from hedging	**338**	**–2,853**

(10) NET TRADING RESULT

in '000 EUR	2013	2012
Trading result	–823	–5,025
Result from the valuation of financial instruments – HFT	75	148
Result from the valuation of derivatives	–116,032	22,455
Result from the valuation of financial instruments – AFV	139,723	73,932
Net trading result	**22,943**	**91,510**

Of which trading result

in '000 EUR	2013	2012
Currency-based transactions	–88	144
Interest-based transactions	–734	–506
Credit risk-related transactions	0	–4,701
Result from consolidation of liabilities	–1	38
Trading result	**–823**	**–5,025**

Currency-related transactions include translation differences from assets and liabilities in foreign currencies. In 2013, the translation differences totalled EUR 4,394,000 (2012: EUR 5,515,000).

Of which result from the valuation of financial instruments HFT

in '000 EUR	2013	2012
HFT – realised gains	70	63
HFT – appreciation in value	63	103
HFT – depreciation/amortisation	–58	–18
Net result from the valuation fo financial instruments – HFT	**75**	**148**

Of which result from the valuation of derivatives

in '000 EUR	2013	2012
Interest rate swaps	–97,521	28,572
Cross-currency swaps	–24,176	–17,202
Interest rate options	1,155	136
Credit default swaps	0	6,334
Foreign exchange forwards	–474	–381
Currency swaps	4,984	4,996
Result from the valuation of derivatives	**–116,032**	**22,455**

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	2013	2012
Realised gains on assets AFV	6,277	17,762
Realised gains on liabilities LAFV	1,555	59,348
Realised losses on assets AFV	–579	–16,715
Realised losses on liabilities LAFV	–11	–12,040
Impairment reversals on assets AFV	1,330	87,774
Impairment reversals on liabilities LAFV	154,098	58,810
Impairments on assets AFV	–20,018	–15,735
Impairments on liabilities LAFV	–2,929	–105,272
Result from the valuation of financial instruments – AFV	**139,723**	**73,932**

The result from the valuation of derivative financial instruments in the amount of EUR –116,032,000 (2012: EUR +22,455,000) should be considered in connection with the valuation result from use of the fair value option in the amount of EUR 139,723,000 (2012: EUR 73,932,000), as hedge accounting in accordance with IAS 39 has only been used since the 2010 reporting year and these derivatives were primarily used to hedge against interest rate, currency and market price risks. In the 2013 reporting year, as in the previous year, credit risk was not hedged using credit derivatives or similar instruments. The valuation result from credit default swaps originates from lending substitution business, which the Bank carried in its banking book. The credit default swaps expired in 2012 or were terminated early. The result from the valuation of derivatives relates almost entirely to hedges against market risks for banking transactions subject to the fair value option.

(11) NET RESULT FROM OTHER FINANCIAL INSTRUMENTS

in '000 EUR	2013	2012
Realised gains on sales of financial instruments	3,536	7,226
Realised losses on sales of financial instruments	–1,920	–2,744
Impairment reversals on financial instruments	8,154	7,397
Impairments on financial instruments	–5,828	–9,759
Net result from other financial instruments	**3,942**	**2,120**

In the year under review, an amount of EUR –1,096,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2012: EUR +577,000). 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	2013	2012
AFS – realised gains	874	1,762
AFS – realised losses	–1,874	–1,034
AFS – impairment reversals	2,223	3,937
AFS – impairments	–1,791	–1,696
Result from financial assets AFS	**–568**	**2,969**
HTM – realised gains	1,131	121
HTM – realised losses	0	–1,237
HTM – impairment reversals	3,248	417
HTM – impairments	–760	–1,884
Result from financial assets HTM	**3,619**	**–2,583**
L&R – realised gains	606	4,863
L&R – realised losses	–46	–469
L&R – impairment reversals	2,670	3,000
L&R – impairments	–2,837	–4,999
Result from financial assets L&R	**393**	**2,395**
LAC – realised gains	925	480
LAC – realised losses	0	–4
LAC – impairment reversals	13	43
LAC – impairments	–440	–1,180
Result from liabilities LAC	**498**	**–661**
Net result from other financial instruments	**3,942**	**2,120**

(12) ADMINISTRATIVE EXPENSES

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

in '000 EUR	2013	2012
Staff costs	–54,523	–53,574
Materials expenses	–31,966	–30,498
Depreciation/amortisation of property, plant and equipment and intangible assets	–4,683	–4,156
Administrative expenses	**–91,172**	**–88,228**

Of which staff costs

in '000 EUR	2013	2012
Wages and salaries	–40,231	–39,560
Statutory social security contributions	–10,454	–10,150
Voluntary social benefits	–858	–812
Expenses for retirement benefits	–1,121	–1,070
Social capital	–1,859	–1,982
Staff costs	**–54,523**	**–53,574**

Expenses for retirement and other benefits include contributions to defined contribution plans as an employee retirement benefit and pension fund contributions of EUR 1,043,000 (2012: EUR 993,000).

Of which material expenses

in '000 EUR	2013	2012
Building expenses	–4,660	–4,433
IT expenses	–12,045	–11,530
Advertising and PR expenses	–4,539	–3,885
Legal and advisory expenses	–1,710	–1,787
Communications expenses	–1,324	–1,294
Organisational form-related expenses	–2,608	–2,439
Staff development expenses	–1,091	–1,031
Other materials expenses	–3,989	–4,099
Materials expenses	**–31,966**	**–30,498**

Building expenses include payments for rented and leased assets. For 2014, minimum lease expenses of EUR 1,363,000 are projected (2013: EUR 1,604,000); the projected amount for the next five years is EUR 6,237,000 (2013: EUR 7,989,000).

Minimum lease payments from non-terminable operating leases

in '000 EUR	2013	2012
Up to 1 year	–1,216	–764
More than 1 year to 5 years	–3,232	–1,473
More than 5 years	–6,011	–876
Minimum lease payments from non-terminable operating leases (lessee)	**–10,459**	**–3,113**

The increase in minimum lease payments from non-terminable operating leases is due to the long duration of the property leased for our Vienna branch's new site.

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

in '000 EUR	2013	2012
Depreciation of property, plant and equipment	–3,706	–3,646
Impairment of property, plant and equipment	–321	0
Depreciation/amortisation of intangible assets	–656	–510
Depreciation/amortisation of property, plant and equipment and intangible assets	**–4,683**	**–4,156**

Impairment of property, plant and equipment is attributable to the shortened remaining useful life of the capitalised cost of renovation measures in the leased premises of our Vienna branch, as the Vienna branch is set to move to a new location in 2014.

(13) OTHER INCOME

in '000 EUR	2013	2012
Income from operating leases	4,046	3,734
Income from the disposal of assets	3,998	2,241
Other revenue from leasing business	1,958	1,886
Operating cost income	1,938	1,051
Merchandise revenues	1,389	590
Revenues from consultancy and other services	432	761
Miscellaneous other income	2,856	1,336
Other income	**16,617**	**11,599**

Income from operating leases constitutes rental income from properties that have been let. The minimum lease payments 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	2013	2012
Up to 1 year	3,113	3,158
More than 1 year to 5 years	8,634	9,371
More than 5 years	173	534
Minimum lease payments from non-terminable operating leases (lessor)	**11,920**	**13,063**

(14) OTHER PAYMENTS

in '000 EUR	2013	2012
Depreciation/amortisation investment properties	–1,691	–1,375
Impairment investment properties	–700	0
Depreciation/amortisation other assets	–2,173	–1,706
Impairment other assets	–550	–200
Disposals of remaining carrying amounts	–3	–101
Losses on the disposal of assets	–1,965	–1,164
Other expenses from leasing business	–2,627	–2,115
Operating cost expenses	–2,550	–1,337
Cost of merchandise	–1,377	–547
Other tax expenses	–7,880	–8,412
Expenses resulting from losses	–314	–70
Miscellaneous other expenses	–5,559	–4,731
Other expenses	**–27,389**	**–21,758**

Other tax expenses include the stability tax in the amount of EUR 7,504,000 (2012: EUR 7,504,000).

(15) TAXES ON INCOME

in '000 EUR	2013	2012
Current income taxes	–22,190	–29,929
Deferred income taxes	732	–11,309
Income taxes from previous periods	–184	–348
Taxes on income	**–21,642**	**–41,586**

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

in '000 EUR	2013	2012
Earnings before taxes	96,134	173,700
Applicable tax rate %	25%	25%
Income tax computed	**–24,034**	**–43,425**
Tax effects		
from tax-exempt investment income	1,035	2,923
from other tax-exempt income	850	22
from previous years and tax rate changes	213	23
from differing international tax rates	51	82
from other non-deductible expenses	–243	–71
from other differences	486	–1,140
Taxes on income	**–21,642**	**–41,586**

Deferred taxes from the measurement of financial instruments designated as available-for-sale in equity are recognised directly under other result and thus also in equity. As at 31 December 2013, these deferred taxes totalled EUR 4,218,000 (tax liabilities) (2012: tax liabilities of EUR 1,988,000).

C. NOTES TO THE BALANCE SHEET

(16) CASH AND BALANCES WITH CENTRAL BANKS

in '000 EUR	31.12.2013	31.12.2012
Cash on hand	33,888	32,680
Balances with central banks	559,526	499,310
Deferred interest	8	20
Cash and balances with central banks	**593,422**	**532,010**

Balances with central banks of EUR 50,233,000 comprise the minimum reserve per ECB regulations (2012: EUR 46,375,000). 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.

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

Loans and advances to banks – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Interbank accounts	148,161	131,010
Money market investments	357,197	152,309
Loans to banks	101,937	145,156
Bonds	500,711	503,043
Other loans and advances	5,951	3,948
Loans and advances to banks	**1,113,957**	**935,466**

In loans and advances to banks, the use of hedge accounting led to amortised cost of EUR 169,025,000 (2012: EUR 186,672,000) being adjusted by the hedged fair value of EUR 6,600,000 (2012: EUR 12,857,000).

Loans and advances to banks – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	728,538	511,889
Germany	107,135	166,961
Switzerland and Liechtenstein	72,413	46,304
Italy	724	2,978
Other foreign countries	205,147	207,334
Loans and advances to banks	**1,113,957**	**935,466**

Valuation allowances included – by type

in '000 EUR	31.12.2013	31.12.2012
Portfolio valuation allowances	–141	–99
Loan loss provisions for loans and advances to banks	**–141**	**–99**

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

Loans and advances to customers – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Cash advances	356,287	392,968
Overdraft lines	717,325	727,076
Acceptance credits	11,862	9,972
Municipal cover loans	720,149	852,423
Mortgage bond cover	2,066,906	1,843,713
Lombard loans	110,289	170,623
Other loans	2,899,896	2,944,493
Lease receivables (net investment in a lease)	1,333,128	1,400,903
Bonds	269,310	243,274
Other loans and advances	132	128
Loans and advances to customers	**8,485,284**	**8,585,573**

In loans and advances to customers, the use of hedge accounting led to amortised costs of EUR 423,390,000 (2012: EUR 435,439,000) being adjusted by the hedged fair value of EUR 29,860,000 (2012: EUR 42,006,000).

Loans and advances to customers – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	5,404,352	5,413,915
Germany	1,027,094	1,025,604
Switzerland and Liechtenstein	561,971	593,716
Italy	1,041,570	1,068,283
Other foreign countries	450,297	484,055
Loans and advances to customers	**8,485,284**	**8,585,573**

Loans and advances to customers – breakdown by segment

in '000 EUR	31.12.2013	31.12.2012
Corporate Customers	4,985,214	5,042,538
Private Customers	1,673,542	1,659,242
Financial Markets	451,975	439,676
Corporate Center	1,374,553	1,444,117
Loans and advances to customers	**8,485,284**	**8,585,573**

Loans and advances to customers – breakdown by industry

in '000 EUR	31.12.2013	31.12.2012
Public sector	458,888	449,684
Commerce	1,013,770	1,074,341
Industry	778,550	997,692
Trading	605,333	628,097
Tourism	417,296	407,591
Real estate	1,464,515	1,283,647
Other industries	1,724,455	1,696,811
Liberal professionals	177,453	171,240
Private households	1,781,024	1,813,839
Other	64,000	62,631
Loans and advances to customers	**8,485,284**	**8,585,573**

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	31.12.2013	31.12.2012
Minimum lease payments	1,630,242	1,718,727
Non-guaranteed residual values	0	0
Gross total investment	**1,630,242**	**1,718,727**
Unrealised financial income	–297,114	–317,824
Net investment	**1,333,128**	**1,400,903**
Present value of non-guaranteed residual values	0	0
Present value of minimum lease payments	**1,333,128**	**1,400,903**

Total valuation allowances on finance leases amounted to EUR 22,118,000 (2012: EUR 24,785,000). The lease payments recognised as income in the reporting period are shown in net interest income in Note (6).

Leases – breakdown by maturity

in '000 EUR	31.12.2013	31.12.2012
Gross total investment	**1,630,242**	**1,718,727**
of which up to 1 year	231,114	248,975
of which 1 to 5 years	507,337	529,542
of which more than 5 years	891,791	940,210
Present value of minimum lease payments	**1,333,128**	**1,400,903**
of which up to 1 year	192,189	208,150
of which 1 to 5 years	379,476	394,768
of which more than 5 years	761,463	797,985

Loan loss provisions – breakdown by type

in '000 EUR	31.12.2013	31.12.2012
Individual valuation allowances	–144,060	–138,734
Portfolio valuation allowances	–13,762	–10,760
Other valuation allowances	–971	–1,076
Loan loss provisions for loans and advances to customers	**–158,793**	**–150,570**

Loan loss provisions – breakdown by segment

in '000 EUR	31.12.2013	31.12.2012
Corporate Customers	–115,399	–104,687
Private Customers	–19,120	–21,443
Financial Markets	–439	–475
Corporate Center	–23,835	–23,965
Loan loss provisions for loans and advances to customers	**–158,793**	**–150,570**

Changes in the individual valuation allowances included

in '000 EUR	2013	2012
Balance 1 January	–138,734	–118,325
Currency differences	939	936
Reclassification	606	341
Utilisation	27,616	13,830
Reversal	22,201	15,816
Additions	–56,688	–51,332
Balance 31 December	**–144,060**	**–138,734**

Changes in the portfolio valuation allowances included

in '000 EUR	2013	2012
Balance 1 January	–10,760	–10,076
Utilisation	16	2
Reversal	415	647
Additions	–3,433	–1,333
Balance 31 December	**–13,762**	**–10,760**

Changes in the other valuation allowances included

in '000 EUR	2013	2012
Balance 1 January	–1,076	–1,229
Utilisation	1	–1
Reversal	147	1,004
Additions	–43	–850
Balance 31 December	**–971**	**–1,076**

Total changes of valuation allowances

in '000 EUR	2013	2012
Balance 1 January	–150,570	–129,630
Currency differences	939	936
Reclassification	606	341
Utilisation	27,633	13,831
Reversal	22,763	17,467
Additions	–60,164	–53,515
Balance 31 December	**–158,793**	**–150,570**

(19) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2013	31.12.2012
Positive market value of fair value hedges	5,052	3,509
Deferred interest on derivative hedges	390	679
Positive market values of hedges	**5,442**	**4,188**

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

in '000 EUR	31.12.2013	31.12.2012
Interest rate swaps	2,054,590	1,386,897
Cross currency swaps	66,937	43,064
Interest rate derivatives	**2,121,527**	**1,429,961**
Derivatives	**2,121,527**	**1,429,961**

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

in '000 EUR	31.12.2013	31.12.2012
Interest rate swaps	2,777	3,509
Cross currency swaps	2,275	0
Interest rate derivatives	**5,052**	**3,509**
Derivatives	**5,052**	**3,509**

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

in '000 EUR	31.12.2013	31.12.2012
Interest rate swaps	104,079	115,894
Cross currency swaps	7,635	11,699
Interest rate derivatives	**111,714**	**127,593**
Derivatives	**111,714**	**127,593**

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

(20) TRADING ASSETS AND DERIVATIVES

Trading assets and derivatives – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Debt securities of other issuers	190	0
Investment certificates	759	729
Positive market values of derivative financial instruments	513,056	735,004
Deferred interest	60,132	73,432
Trading assets and derivatives	**574,137**	**809,165**

Trading assets and derivatives – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	39,929	54,561
Germany	213,318	285,173
Switzerland and Liechtenstein	3,031	7,554
Other foreign countries	317,859	461,877
Trading assets and derivatives	**574,137**	**809,165**

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

in '000 EUR	31.12.2013	31.12.2012
Interest rate swaps	6,518,537	7,070,483
Cross currency swaps	792,449	1,246,022
Interest rate options	600,452	598,494
Interest rate derivatives	**7,911,438**	**8,914,999**
FX forward transactions	1,074,858	2,032,582
FX swaps	608,638	900,314
FX options	5,785	20,945
Currency derivatives	**1,689,281**	**2,953,841**
Derivatives	**9,600,719**	**11,868,840**

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

in '000 EUR	31.12.2013	31.12.2012
Interest rate swaps	397,662	550,191
Cross currency swaps	95,261	165,379
Interest rate options	3,470	4,225
Interest rate derivatives	**496,393**	**719,795**
FX forward transactions	15,862	14,297
FX swaps	529	641
FX options	272	271
Currency derivatives	**16,663**	**15,209**
Derivatives	**513,056**	**735,004**

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

in '000 EUR	31.12.2013	31.12.2012
Interest rate swaps	171,724	226,286
Cross currency swaps	36,632	56,855
Interest rate options	2,481	4,391
Interest rate derivatives	**210,837**	**287,532**
FX forward transactions	15,408	13,916
FX swaps	5,513	5,638
FX options	273	271
Currency derivatives	**21,194**	**19,825**
Derivatives	**232,031**	**307,357**

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

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

in '000 EUR	31.12.2013	31.12.2012
Debt securities of public issuers	294,102	322,756
Debt securities of other issuers	346,127	468,355
Other equity interests	5,431	4,724
Loans and advances to customers	527,541	658,989
Deferred interest	9,515	12,721
Financial assets – at fair value	**1,182,716**	**1,467,545**

Notes on credit risk

in '000 EUR	2013	2012
Credit exposure	**1,182,716**	**1,467,545**
Collateral	431,181	480,264
Total change in market value	**116,169**	**132,978**
thereof due to market risk	120,045	149,543
thereof due to credit risk	–3,876	–16,565
Change in market value during the reporting period	**–16,811**	**73,826**
thereof due to market risk	–29,500	36,630
thereof due to credit risk	12,689	37,196

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 5,272,000 (2012: EUR –556,000). This loss is offset by a realised gain of EUR –6,044,000 (2012: EUR –705,000) from the disposal of derivatives. These derivatives are primarily for hedging risks in connection with interest rate changes, currency movements and market price changes. As in the previous year, in the year under review no credit derivatives were held to hedge credit risk from financial assets voluntarily designated at fair value.

Financial assets designated at fair value – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	618,608	708,628
Germany	150,416	244,279
Switzerland and Liechtenstein	43,716	75,610
Italy	15,432	23,708
Other foreign countries	354,544	415,320
Financial assets – at fair value	**1,182,716**	**1,467,545**

(22) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Debt securities of public issuers	231,053	260,511
Debt securities of other issuers	486,118	580,422
Shares	110	110
Investment certificates	16,200	13,887
Other equity interests	18,594	16,647
Deferred interest	15,325	16,413
Other equity investments	11,429	22,019
Other investments in affiliated companies	94	94
Financial assets – available for sale	**778,923**	**910,103**

Financial assets available for sale – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	404,414	452,684
Germany	36,089	48,288
Switzerland and Liechtenstein	10,302	10,673
Italy	27,230	23,962
Other foreign countries	300,888	374,496
Financial assets – at fair value	**778,923**	**910,103**

The financial assets available for sale item represents other holdings and shares in affiliated companies with a carrying value of EUR 11,523,000 (2012: EUR 10,813,000). 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 2013, none of the investments, which were not measured at fair value, were sold.

Changes in the available-for-sale revaluation reserve were recorded directly in equity under other result. As at 31 December 2013, this amount was EUR 39,048,000 (2012: EUR 49,065,000). In measuring available-for-sale assets, deferred taxes were directly deducted from the other result item. In the year under review, an amount of EUR –1,096,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2012: EUR +577,000). Impairment charges for these assets were recognised in the income statement in the item net result from other financial instruments under Note (11) and amounted to EUR 1,791,000 in 2013 (2012: EUR 1,696,000).

As a result of using hedge accounting, the changes in market value recorded under other result were reduced by the effective hedged fair value change of EUR –25,717,000 (2012: EUR –41,972,000) and recognised in the income statement under the result from hedge relationships.

(23) FINANCIAL ASSETS HELD TO MATURITY (HTM)

Financial assets held to maturity – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Debt securities of public sectors	301,816	226,158
Debt securities of other issuers	841,885	761,014
Supplementary capital of other issuers	9,979	9,968
Deferred interest	21,868	22,110
Financial assets – held to maturity	**1,175,548**	**1,019,250**

In 2013, an impairment of EUR 760,000 (2012: EUR 1,389,000) was recognised and reported in the result from other financial instruments. Assets were cut by EUR 408,000 (2012: 492,000) in the 2013 financial year as a result of the portfolio valuation allowance.

Financial assets held to maturity – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	277,364	310,857
Germany	108,003	90,677
Switzerland and Liechtenstein	0	10,227
Italy	38,933	38,987
Other foreign countries	751,248	568,502
Financial assets – held to maturity	**1,175,548**	**1,019,250**

(24) SHARES IN COMPANIES VALUED AT EQUITY

Change in shares in companies measured at equity

in '000 EUR	2013	2012
Carrying value of holding 1 January	34,778	34,617
Attributable profit/loss	2,582	4,038
Dividends	–911	–3,877
Carrying value of holding 31 December	**36,449**	**34,778**

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 14,707,000 (2012: EUR 13,036,000). 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 2013, these gains and losses amounted to EUR 2,582,000 (2012: EUR 4,038,000). Further information on companies valued at equity is given under item VII.

(25) INVESTMENT PROPERTY

in '000 EUR	31.12.2013	31.12.2012
Land portion	9,835	10,212
Buildings portion	44,721	48,336
Investment property	**54,556**	**58,548**

In 2013, the real estate portfolio comprised 63 properties in Austria, Switzerland, Germany and Italy (2012: 60). The portfolio contains both residential properties with a carrying amount of EUR 6,816,000 (2012: EUR 7,990,000) and commercial properties with a carrying amount of EUR 47,739,000 (2012: EUR 50,558,000). The current market value of our property portfolio is EUR 61,500,000 (2012: EUR 65,427,000). Property valuations are performed in due consideration of the key parameters given in Note (3l) and are based on internal appraisals. They therefore represent Level 3 in the fair value hierarchy.

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 (31). Lease payments recognised for investment property are shown in Note (13).

(26) INTANGIBLE ASSETS

Intangible assets – breakdown by type

in '000 EUR	31.12.2013	31.12.2012
Software acquired	1,616	2,119
Other intangible assets	2	2
Intangible assets	**1,618**	**2,121**

The development of intangible assets is shown in Note (31).

(27) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

in '000 EUR	31.12.2013	31.12.2012
Land without buildings	1,313	1,328
Land with buildings	10,167	7,805
Buildings	57,587	53,734
Operational and office equipment	4,676	5,325
Leased movables	393	403
Construction in progress	548	29
Property, plant and equipment	**74,684**	**68,624**

The gross carrying amount of any fully depreciated property, plant and equipment that is still in use is EUR 9,991,000 (2012: EUR 7,962,000). The development of property, plant and equipment is shown in Note (31).

(28) 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 respec tive tax entity.

in '000 EUR	31.12.2013	31.12.2012
Temporary differences from the measurement of financial instruments via the income statement	0	1,223
Temporary differences from writing-down assets	1,756	1,099
Temporary differences from provisions	157	287
Temporary differences from social capital	4,286	4,889
Temporary differences from impairments	6,959	4,650
Other temporary differences	938	864
From tax loss carryforwards	493	675
Deferred tax assets	**14,589**	**13,687**
Set-off of deferred taxes	–7,974	–4,980
Net deferred tax assets	**6,615**	**8,707**

Group companies hold unused tax loss carry-forwards in the amount of EUR 1,707,000 recognised as assets (2012: EUR 1,337,000). In addition, there are tax loss carry-forwards of EUR 414,000 (2012: EUR 350,000) not recognised as assets in the Group. Non-capitalised loss carryfowards in the Group may be carried forward without restrictions. The break-down by maturity is shown in Note (45).

(29) NON-CURRENT ASSETS AVAILABLE FOR SALE

in '000 EUR	31.12.2013	31.12.2012
Available for sale real estate	3,953	5,185
Non-current assets available for sale	**3,953**	**5,185**

Non-current assets held for sale comprise properties, which are determined for sale from leases that have been cancelled or that have expired. Specific sales discussions regarding these properties have already been held with interested parties. The management assumes that the contract will be concluded and the transfer will take place by the end of 2014. A profit of EUR 1,052,000 (2012: EUR 0) was achieved from the sale in 2013. This is shown in the income statement in the item other income under Note (13). Non-current assets held for sale and the income and expenses resulting therefrom are recognised in the Corporate Center segment.

Carrying amounts of EUR 1,660,000 are equivalent to fair value less costs to sell. The calculation is performed on the basis of internal estimates and is therefore equivalent to Level 3.

(30) OTHER ASSETS

in '000 EUR	31.12.2013	31.12.2012
Other real estate	36,948	31,246
Trade receivables	608	751
Other tax claims	6,667	4,709
Deferred loans and advances	591	679
Other assets	12,239	12,924
Other assets	**57,053**	**50,309**

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 (45). Impairment on the other real estate properties was recorded under other expenses (Note 14), which in 2013 came to EUR 550,000 (2012: EUR 200,000).

(31) STATEMENT OF CHANGES IN ASSETS

in '000 EUR 2012	Acquisition cost 01.01.	Currency trans-lation	Acquisitions	Additions	Disposals	Reclassi-fications	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	6,733	10	0	969	−186	0	7,526	2,119
Other intangible assets	128	0	0	0	0	0	128	2
Intangible assets	**6,861**	**10**	**0**	**969**	**−186**	**0**	**7,654**	**2,121**
Owner-occupied land and buildings	85,755	15	0	329	0	−502	85,597	61,539
Operational and office equipment	11,661	5	1,043	1,822	−1,309	0	13,222	5,325
Other property, plant and equipment	2,430	0	0	43	−416	−4	2,053	1,760
Property, plant and equipment	**99,846**	**20**	**1,043**	**2,194**	**−1,725**	**−506**	**100,872**	**68,624**
Investment property	46,862	−1	28,535	4,198	−104	506	79,996	58,548
Total	**153,569**	**29**	**29,578**	**7,361**	**−2,015**	**0**	**188,522**	**129,293**

in '000 EUR 2012	Cumulative deprecia-tion/amor-tisation 01.01.	Currency trans-lation	Acquisitions	Regular amorti-sation	Less cumulative deprecia-tion/amor-tisation	Reclassifi-cations	Impair-ments	Cumulative deprecia-tion/amor-tisation 31.12.
Software acquired	−5,061	−2	0	−510	166	0	0	−5,407
Other intangible assets	−126	0	0	0	0	0	0	−126
Intangible assets	**−5,187**	**−2**	**0**	**−510**	**166**	**0**	**0**	**−5,533**
Owner-occupied land and buildings	−22,225	−2	0	−1,878	0	47	0	−24,058
Operational and office equipment	−6,730	−3	−526	−1,749	1,111	0	0	−7,897
Other property, plant and equipment	−341	0	0	−20	68	0	0	−293
Property, plant and equipment	**−29,296**	**−5**	**−526**	**−3,647**	**1,179**	**47**	**0**	**−32,248**
Investment property	−9,073	0	−11,002	−1,374	49	−48	0	−21,448
Total	**−43,556**	**−7**	**−11,528**	**−5,531**	**1,394**	**−1**	**0**	**−59,229**

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	Less cumulative depreciation/amortisation	Reclassifications	Impairments	Cumulative depreciation/amortisation
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**

(32) AMOUNTS OWED TO BANKS (LAC)

Amounts owed to banks – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Interbank accounts	384,992	408,076
Money market borrowing	50,463	60,013
Loans from banks	200,873	187,496
Other liabilities	51,637	95
Amounts owed to banks	**687,965**	**655,680**

Amounts owed to banks – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	124,702	168,838
Germany	308,779	155,057
Switzerland and Liechtenstein	85,170	91,670
Other foreign countries	169,314	240,115
Amounts owed to customers	**687,965**	**655,680**

(33) AMOUNTS OWED TO CUSTOMERS (LAC)

In liabilities to customers, the use of hedge accounting led to amortised costs of EUR 23,000,000 (2012: EUR 0) being adjusted by the hedged fair value of EUR –879,000 (2012: EUR 0).

Amounts owed to customers – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Demand deposits	3,212,551	2,745,442
Time deposits	277,421	535,629
Savings deposits	698,758	689,892
Special-interest savings books	626,920	772,957
Amounts owed to customers	**4,815,650**	**4,743,920**

Amounts owed to customers – breakdown by region

in '000 EUR	31.12.2013	31.12.2012
Austria	3,693,334	3,288,734
Germany	494,811	574,351
Switzerland and Liechtenstein	251,837	290,606
Italy	4,011	5,318
Other foreign countries	371,657	584,911
Amounts owed to customers	**4,815,650**	**4,743,920**

Amounts owed to customers – breakdown by segment

in '000 EUR	31.12.2013	31.12.2012
Corporate Customers	1,771,282	1,953,051
Private Customers	2,317,461	2,170,179
Financial Markets	488,489	382,754
Corporate Center	238,418	237,936
Amounts owed to customers	**4,815,650**	**4,743,920**

Amounts owed to customers – breakdown by industry

in '000 EUR	31.12.2013	31.12.2012
Public sector	460,255	268,100
Commerce	505,633	479,101
Industry	370,924	349,829
Trading	222,761	187,343
Tourism	38,822	34,630
Real estate	111,163	107,520
Other industries	590,586	791,977
Liberal professionals	101,184	101,850
Private households	1,842,376	1,949,078
Other	571,946	474,492
Amounts owed to customers	**4,815,650**	**4,743,920**

(34) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

Liabilities evidenced by certificates – breakdown by type of business

in '000 EUR	31.12.2013	31.12.2012
Mortgage bonds	579,674	56
Municipal bonds	152,237	312,065
Medium-term fixed-rate notes	2,302	1,540
Bonds	579,526	422,136
Housing construction bonds	94,234	110,264
Bonds issued by Pfandbriefstellen	476,360	538,739
Deferred interest	10,257	4,315
Liabilities evidenced by certificates	**1,894,590**	**1,389,115**

The repurchase by the Group of outstanding bonds valued at EUR 42,561,000 was directly charged to liabilities evidenced by certificates (2012: EUR 29,840,000). In liabilities evidenced by certificates, the use of hedge accounting led to amortised cost of EUR 793,161,000 (2012: EUR 54,945,000) being adjusted by the hedged fair value of EUR –15,759,000 (2012: EUR +2,256,000).

(35) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in ’000 EUR	31.12.2013	31.12.2012
Negative market values of fair value hedges	111,714	127,593
Deferred interest on derivative hedging instruments	15,029	20,807
Negative market values of hedges	**126,743**	**148,400**

The nominal values and negative market values of the hedging instruments are shown in Note (19). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(36) TRADING LIABILITIES AND DERIVATIVES

Trading liabilities and derivatives – breakdown by type of business

in ’000 EUR	31.12.2013	31.12.2012
Negative market values of derivative financial instruments	232,031	307,357
Deferred interest	6,191	11,659
Trading liabilities and derivatives	**238,222**	**319,016**

The nominal values and negative market values of the derivative financial instruments are shown in Note (20).

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

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

in ’000 EUR	31.12.2013	31.12.2012
Amounts owed to banks at fair value	151,956	142,771
Amounts owed to customers at fair value	578,729	533,416
Mortgage bonds at fair value	24,248	26,046
Municipal bonds at fair value	700,737	1,016,622
Bonds at fair value	3,087,055	3,503,171
Housing construction bonds at fair value	143,198	146,462
Bonds issued by Pfandbriefstellen at fair value	313,099	527,155
Subordinated capital at fair value	39,674	45,190
Supplementary capital at fair value	21,404	22,361
Deferred interest	63,237	75,934
Financial liabilities at fair value	**5,123,337**	**6,039,128**

The repurchase by the Group of outstanding bonds valued at EUR 166,133,000 was directly charged to financial liabilities designated at fair value (2012: EUR 108,633,000).

Financial liabilities are designated at fair value primarily in private placements. Only a small portion of these liabilities are quoted on an exchange.

Notes on own credit risk

in ’000 EUR	2013	2012
Carrying value	**5,123,337**	**6,039,128**
Repayment amount	4,776,330	5,528,795
Difference between carrying and repayment amount	347,007	510,333
Total change in market value	**348,059**	**500,965**
thereof due to market risk	353,983	505,663
thereof due to credit risk	–5,924	–4,698
Change in market value during the reporting period	**–152,906**	**41,841**
thereof due to market risk	–151,680	39,240
thereof due to credit risk	–1,226	2,601

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.

(38) PROVISIONS

Provisions by type

in '000 EUR	31.12.2013	31.12.2012
Severance provisions	15,517	15,144
Pension provisions	5,868	6,001
Service anniversary provisions	1,709	1,630
Social capital	**23,094**	**22,775**
Provisions for guarantees/ assumed liability	713	1,462
Provisions for credit risks	12,670	8,813
Provisions for ongoing litigation	2,893	1,913
Association obligation provisions	524	521
Other provisions	1,714	2,219
Other provisions	**18,514**	**14,928**
Provisions	**41,608**	**37,703**

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.

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. The time at which provisions are utilised depends on the time required for litigation.

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. 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 2013	5,868	–4.9%
For 2012	6,001	14.9%
For 2011	5,243	–21.1%
For 2010	6,576	8.0%
For 2009	6,271	9.3%

The breakdown by maturity and the expected timing of any resulting outflows is shown in Note (45).

Actuarial gains and losses arising from severance and pension provisions in the amount of EUR –641,000 recorded under other result are attributable to changes in financial parameters.

Change in social capital

in '000 EUR 2012	Severance provisions	Pension provisions	Service anniversary provisions	Total
Present value 1 January	13,174	5,243	1,254	19,671
Years of service expense	712	0	114	826
Interest expense	555	202	55	812
Payments	–1,176	–337	–85	–1,598
Actuarial gains/losses	1,879	893	292	3,064
Present value 31 December	**15,144**	**6,001**	**1,630**	**22,775**

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**

Changes in other provisions

in '000 EUR 2012	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	1,215	8,458	2,363	537	234	12,807
Currency translation	0	0	0	0	–2	–2
Allocation	555	1,897	196	0	2,212	4,860
Use	0	–199	–359	–16	–97	–671
Reversal	–308	–1,343	–287	0	–134	–2,072
Change in scope of consolidation	0	0	0	0	6	6
Carrying value 31 December	**1,462**	**8,813**	**1,913**	**521**	**2,219**	**14,928**

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
Currancy Transaction	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**

(39) TAX LIABILITIES

Tax liabilities – breakdown by type

in '000 EUR	31.12.2013	31.12.2012
Tax provision	7,622	15,460
Current tax liability	252	314
Tax liabilities	**7,874**	**15,774**

Change in tax provisions

in '000 EUR	2013	2012
Carrying value 1 January	15,460	5,076
Currency translation	–5	4
Allocation	436	10,795
Use	–428	–115
Reversal	–7,792	0
Change in scope of consolidation	–49	–300
Carrying value 31 December	**7,622**	**15,460**

The breakdown by maturity is shown in Note (45).

(40) 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 (45).

in '000 EUR	31.12.2013	31.12.2012
Temporary differences from the measurement of financial instruments via the income statement	3,136	1,030
Temporary differences from the measurement of financial instruments via other result	4,218	1,988
Temporary differences from writing down assets	1,923	1,836
Temporary differences from provisions	834	2,619
Other temporary differences	349	390
Deferred tax liabilities	**10,460**	**7,863**
Set-off of deferred taxes	–7,974	–4,980
Net deferred tax liabilities	**2,486**	**2,883**

(41) OTHER LIABILITIES

in ’000 EUR	31.12.2013	31.12.2012
Liabilities in connection with social security	1,373	1,317
Other tax liabilities	10,197	15,439
Trade payments	6,707	4,365
Deferred liabilities	1,201	1,008
Commercial code provisions	3,907	5,545
Consolidation difference	0	5
Other liabilities	17,120	17,204
Other liabilities	**40,505**	**44,883**

(42) SUBORDINATED AND SUPPLEMENTARY CAPITAL (LAC)

In the item subordinated and supplementary capital, the use of hedge accounting led to amortised costs of EUR 100,000,000 (2012: EUR 100,009,000) being adjusted by the hedged fair value of EUR –1,751,000 (2012: EUR +1,596,000).

Subordinated and supplementary capital – breakdown by type of business

in ’000 EUR	31.12.2013	31.12.2012
Subordinated capital per Section 23 (8) BWG	248,140	251,465
Supplementary capital per Section 23 (7) BWG	70,460	74,703
Deferred interest	498	499
Subordinated and supplementary capital	**319,098**	**326,667**

Change in subordinated and supplementary capital

in ’000 EUR	2013	2012
Balance 1 January	326,667	237,220
Additions	0	100,000
Repayments	–4,221	–12,396
Change in deferred interest	–1	198
Change from valuation of hedge accounting	–3,347	1,645
Balance 31 December	**319,098**	**326,667**

(43) SHAREHOLDERS’ EQUITY

Composition of equity – breakdown by type

in ’000 EUR	31.12.2013	31.12.2012
Subscribed capital	165,453	165,453
Capital reserves	48,874	48,874
Retained earnings and other reserves	621,606	550,836
Revaluation reserves	11,107	3,928
of which AFS revaluation reserve	12,653	5,965
of which IAS 19 revaluation reserve	–1,546	–2,037
Reserves from currency translation	–4	9
Total parent company shareholders	847,036	769,100
Non-controlling interests	63	67
Total equity	**847,099**	**769,167**

The subscribed capital consists of fully paid-in share capital of EUR 156,453,000 (2012: EUR 156,453,000). On 31 December 2013, 305,605 (2012: 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 (2012: EUR 9,000,000). On 31 December 2013, 1,000,000 (2012: 1,000,000) participation certificates with a nominal value of EUR 9.00 were issued. The participation certificates have no term 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 13,402,000 (2012: EUR 13,393,000) 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 23 (6) of the Austrian Banking Act is also reported under retained earnings. Reversals from liable capital in the amount of EUR 126,009,000 (2012: EUR 126,009,000) are subject to Section 23 (6) of the Austrian Banking Act. Accordingly, liable capital may only be reversed in as much as this is necessary to fulfil obligations in accordance with Section 93 or to cover losses that would otherwise have 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 (2012: EUR 4,500,000).

The net profit posted by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft for financial year 2013 was EUR 59,873,000 (2012: EUR 99,290,000). After the allocation of EUR 55,704,000 to reserves (2012: EUR 95,439,000) and adding net profit of EUR 832,000 carried forward (2012: EUR 680,000), accumulated profits available for appropriation totalled EUR 5,000,000 (2012: EUR 4,500,000). Subject to approval by the shareholders' meeting, a dividend of EUR 10.00 (2012: EUR 9.00) is proposed per entitled share based on the shares and associated share capital of EUR 156,453,000 (2012: EUR 150,000,000). The total dividend distribution was thus EUR 3,056,000 (2012: EUR 2,695,000) on 305,605 shares (2012: 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.

(44) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 2012						
Cash and balances with central banks	515,025	351	16,535	2	97	532,010
Loans and advances to banks	638,193	59,069	136,364	28,123	73,717	935,466
Loans and advances to customers	6,275,027	83,165	2,031,785	101,457	94,139	8,585,573
Positive market values of hedges	3,767	421	0	0	0	4,188
Trading assets and derivatives	430,746	4,042	277,101	95,018	2,258	809,165
Financial assets – at fair value	1,140,493	25,879	100,966	155,006	45,201	1,467,545
Financial assets – available for sale	828,547	39,729	31,654	0	10,173	910,103
Financial assets – held to maturity	975,558	18,399	25,293	0	0	1,019,250
Shares in companies valued at equity	34,778	0	0	0	0	34,778
Investment property	58,548	0	0	0	0	58,548
Intangible assets	771	0	1,350	0	0	2,121
Property, plant and equipment	67,047	0	1,577	0	0	68,624
Tax assets	763	0	1	0	0	764
Deferred tax assets	8,707	0	0	0	0	8,707
Non-current assets available for sale	5,185	0	0	0	0	5,185
Other assets	43,082	0	504	6,249	474	50,309
Total assets	**11,026,237**	**231,055**	**2,623,130**	**385,855**	**226,059**	**14,492,336**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2012						
Amounts owed to banks	583,805	41,983	4,191	15,524	10,177	655,680
Amounts owed to customers	4,046,900	489,582	150,271	2,918	54,249	4,743,920
Liabilities evidenced by certificates	1,184,911	187	204,017	0	0	1,389,115
Negative market values of hedges	124,852	5,195	7,446	0	10,907	148,400
Trading liabilities and derivatives	259,968	13,850	19,700	18,544	6,954	319,016
Financial liabilities – at fair value	2,679,737	33,963	2,877,360	436,845	11,223	6,039,128
Provisions	36,543	0	1,160	0	0	37,703
Tax liabilities	15,358	0	317	0	99	15,774
Deferred tax liabilities	2,883	0	0	0	0	2,883
Other liabilities	43,519	33	475	0	856	44,883
Subordinated and supplementary capital	326,667	0	0	0	0	326,667
Shareholders' equity	769,167	0	0	0	0	769,167
Total liabilities and shareholders' equity	**10,074,310**	**584,793**	**3,264,937**	**473,831**	**94,465**	**14,492,336**

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	784	0	37	0	0	821
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	56,254	38	252	0	508	57,052
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
Subordinated and 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**

The difference between assets and liabilities in individual currencies does not represent the Group's foreign currency position per Section 26 of the Austrian Banking Act, old version. 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 2013, the total of all open foreign currency positions per Section 26 of the Austrian Banking Act was EUR 4,185,000 (2012: EUR 863,000).

Foreign-denominated assets and liabilities

in '000 EUR	31.12.2013	31.12.2012
Foreign assets	5,938,017	6,355,819
Foreign liabilities	7,513,338	8,618,580

(45) MATURITIES

in '000 EUR 31.12.2012	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	499,330	0	0	0	0	32,680	532,010
Loans and advances to banks	113,709	110,559	61,316	532,269	117,613	0	935,466
Loans and advances to customers	1,715,620	684,793	562,179	2,033,689	3,485,731	103,561	8,585,573
Positive market values of hedges	0	3	60	1,305	2,820	0	4,188
Trading assets and derivatives	0	29,728	8,611	546,189	223,908	729	809,165
Financial assets – at fair value	0	35,117	63,506	523,193	845,729	0	1,467,545
Financial assets – available for sale	1	0	0	399,899	466,386	43,817	910,103
Financial assets – held to maturity	0	0	0	590,743	428,507	0	1,019,250
Shares in companies valued at equity	0	0	0	0	0	34,778	34,778
Investment property	0	0	0	0	0	58,548	58,548
Intangible assets	0	0	0	0	0	2,121	2,121
Property, plant and equipment	0	0	0	0	0	68,624	68,624
Tax assets	0	33	547	184	0	0	764
Deferred tax assets	535	1,330	1,013	–11,396	16,659	566	8,707
Non-current assets available for sale	0	0	5,185	0	0	0	5,185
Other assets	12,761	755	1,616	520	1,454	33,203	50,309
Total assets	**2,341,956**	**862,318**	**704,033**	**4,616,595**	**5,588,807**	**378,627**	**14,492,336**

in '000 EUR 31.12.2012	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	481,612	66,246	95,203	11,710	909	0	655.680
Amounts owed to customers	3,404,658	360,072	551,410	343,298	84,482	0	4,743,920
Liabilities evidenced by certificates	152	81,317	85,545	1,159,393	62,708	0	1,389,115
Negative market values of hedges	0	718	4,490	53,678	89,514	0	148,400
Trading liabilities and derivatives	0	25,148	13,859	99,711	180,298	0	319,016
Financial liabilities – at fair value	0	526,528	167,719	4,132,303	1,212,578	0	6,039,128
Provisions	0	991	2,272	7,197	24,668	2,575	37,703
Tax liabilities	63	105	15,557	49	0	0	15,774
Deferred tax liabilities	0	0	0	117	2,094	672	2,883
Other liabilities	21,945	10,952	8,203	2,816	229	738	44,883
Subordinated and supplementary capital	0	0	0	163,459	163,208	0	326,667
Shareholders' equity	0	0	0	0	0	769,167	769,167
Total liabilities and shareholders' equity	**3,908,430**	**1,072,077**	**944,258**	**5,973,731**	**1,820,688**	**773,152**	**14,492,336**

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
Subordinated and 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**

D. ADDITIONAL IFRS DISCLOSURES

(46) 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.

In 2013, the stake held in Inprox BP XX – Hypo SüdLeasing Kft. based in Budapest was relinquished including profit shares for the current financial year with retroactive effect to 1 January 2013. The company therefore left the scope of consolidation in 2013. The consideration received totalled EUR 250,000 and was paid in full in the form of cash equivalents. The relinquished company had no cash equivalents on the date of transfer. As at 31 December 2012, the relinquished company involved lease receivables of EUR 1,911,000, Group-internal liabilities to consolidated banks of EUR 1,517,000 and other liabilities of EUR 450,000. The liabilities to consolidated banks were covered by the buyer as part of the transfer.

(47) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities Maturities

in '000 EUR	31.12.2013	31.12.2012
Liabilities from financial guarantees	277,606	307,385
Other contingent liabilities	33,652	42,421
Contingent liabilities	**311,258**	**349,806**

Contingent liabilities – breakdown by residual duration

in '000 EUR	31.12.2013	31.12.2012
Repayable on demand	13	0
Up to 3 months	32,809	57,192
Up to 1 year	55,142	106,214
Up to 5 years	87,888	71,564
More than 5 years	47,841	54,806
Unlimited	87,565	60,030
Contingent liabilities – breakdown by residual duration	**311,258**	**349,806**

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 is a maximum of 1.5 % (2012: 1.5 %) of the assessment basis in line with Section 22 (2) BWG at the last balance sheet date, and thus amounts to EUR 109,680,000 for the Bank (2012: EUR 112,228,000).

- **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 6,169,969,000 (2012: EUR 7,623,570,000). 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 bonds totalling EUR 861,391,000 (2012: EUR 1,146,788,000) in trust on behalf of the Pfandbriefstelle (included in the above liabilities).

Credit risks per Section 51 (14) Austrian Banking Act

in '000 EUR	31.12.2013	31.12.2012
Credit commitments and unused credit lines	1,610,378	1,429,467
Credit risks	**1,610,378**	**1,429,467**

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.

(48) INTEREST-FREE LOANS AND ADVANCES

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to banks	73,787	54,692
Loans and advances to customers	68,768	56,335
Interest-free loans and advances	**142,555**	**111,027**

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.

(49) COLLATERAL

Assets provided as collateral

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to banks	335,430	409,283
Loans and advances to customers	2,984,748	2,829,648
Financial assets – at fair value	482,509	600,257
Financial assets – available for sale	608,468	620,882
Financial assets – held to maturity	798,161	746,082
Assets provided as collateral	**5,209,316**	**5,206,152**

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	31.12.2013	31.12.2012
Backing for refinancing with central banks	764,840	474,786
Covered pool for mortgage bonds	2,071,306	1,848,114
Covered pool for public-sector mortgage bonds	1,427,462	2,012,243
Surplus cover for mortgage bonds and municipal bonds	45,866	30,160
Covered pool for trust savings deposits	25,442	22,535
Cover for pension provisions	2,188	2,241
Genuine repurchase agreements – repos	692,258	653,298
Deposits, collateral, margins	179,954	162,775
Collateral – breakdown by assignment	**5,209,316**	**5,206,152**

Use of collateral

in '000 EUR	31.12.2013	31.12.2012
Backing for refinancing with central banks	16,568	100,816
Covered pool for mortgage bonds	620,056	20,056
Covered pool for public-sector mortgage bonds	765,911	1,212,471
Surplus cover for mortgage bonds and municipal bonds	45,866	30,160
Covered pool for trust savings deposits	23,187	23,283
Cover for pension provisions	2,188	2,241
Genuine repurchase agreements – repos	200,000	0
Deposits, collateral, margins	179,954	162,775
Collateral – breakdown by use	**1,853,730**	**1,551,802**

(50) SUBORDINATED ASSETS

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to banks	26,395	32,700
Loans and advances to customers	12,373	12,462
Trading assets	193	0
Financial assets – at fair value	40,558	47,990
Financial assets – available for sale	24,385	18,345
Financial assets – held to maturity	13,673	14,422
Subordinated assets	**117,577**	**125,919**

(51) FIDUCIARY TRANSACTIONS ADVANCES

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to customers	50,344	55,605
Fiduciary assets	**50,344**	**55,605**
Amounts owed to banks	35,905	35,688
Amounts owed to customers	14,474	19,958
Fiduciary liabilities	**50,379**	**55,646**

(52) GENUINE REPURCHASE AGREEMENTS

in '000 EUR	31.12.2013	31.12.2012
Amounts owed to banks	200,000	0
Total deposits (repos)	**200,000**	**0**
Debt securities sold – L&R	9,956	0
Debt securities sold – AFV	5,073	0
Debt securities sold – AFS	75,748	0
Debt securities sold – HTM	108,947	0
Total collateral pledged (repos)	**199,724**	**0**

(53) 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 4,641,000 (2012: EUR 2,752,000), 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 7,482,000 (2012: EUR 3,457,000), 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 2013 for the four active Managing Board members are shown below.

in '000 EUR	2013	2012
Jodok Simma	18	574
Michael Grahammer	302	275
Johannes Hefel	237	235
Michel Haller	220	135
Managing Board remuneration	**777**	**1,219**

Remuneration paid to related parties

in '000 EUR	2013	2012
Managing Board members and managing directors	1,540	1,970
Retired Managing Board members and survivors	60	59
Managerial personnel	3,847	3,794
Supervisory Board members	181	179
Remuneration paid to related parties	**5,628**	**6,002**

Severance and pensions

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

in '000 EUR	2013	2012
Managing Board members and managing directors	161	205
Pensioners	87	969
Managerial personnel	450	677
Other active employees	1,524	3,341
Expenses for severance and pensions for related parties	**2,222**	**5,192**

There are no other amounts due in connection with termination of the employment relationship except for the severance claims discussed in Note (38).

The Group purchased services totalling EUR 33,000 (2012: EUR 61,000) from companies in which parties related to the Group hold a significant interest.

Business relationships with affiliated companies

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to customers	4,131	4,337
Loans and advances	**4,131**	**4,337**
Amounts owed to customers	1,082	1,612
Liabilities	**1,082**	**1,612**

Transactions with affiliated companies include firstly loans and credit and business current accounts for our subsidiaries. Receivables generally have an interest rate of 0.5 %. One current account with a carrying amount of EUR 1,012,000 does not bear interest. Liabilities generally have an interest rate of 0.125 %. One deposit with a carrying amount of EUR 35,000 bears interest at a rate of 0.4 %. As at the reporting date, no warranties were assumed for associated companies, as in the previous year. Interest income totalled EUR 16,000 in 2013, interest expense EUR 2,000 and fee and commission income EUR 2,000.

Business relationships with associated companies

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to customers	50,982	40,527
Trading assets and derivatives	698	1,082
Loans and advances	**51,680**	**41,609**
Amounts owed to banks	549	733
Amounts owed to customers	2,975	2,587
Liabilities	**3,524**	**3,320**

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 12,000,000 (2012: 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. Interest income totalled EUR 1,010,000 in 2013, interest expense EUR 2,000 and fee and commission income EUR 3,000.

Business relationships with shareholders

in '000 EUR	31.12.2013	31.12.2012
Loans and advances to banks	3,761	10,268
Loans and advances to customers	46,179	54,817
Trading assets and derivatives	58,214	69,606
Financial assets	77,886	73,634
Loans and advances	**186,040**	**208,325**
Amounts owed to banks	14,358	25,787
Amounts owed to customers	48,592	45,700
Trading liabilities and derivatives	60,788	62,727
Liabilities	**123,738**	**134,214**

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 2,265,150,000 (2012: EUR 1,784,109,000) 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. Interest income totalled EUR 21,251,000 in 2013, interest expense EUR 12,828,000 and fee and commission income EUR 459,000.

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 2012

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 (2012: 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	31.12.2013	31.12.2012
Loans and advances to customers	59,302	59,613
Financial assets	3,751	4,822
Loans and advances	**63,053**	**64,435**
Amounts owed to customers	77,191	73,056
Liabilities	**77,191**	**73,056**

Transactions with state-related companies include firstly loans and credit as well as business current accounts and time deposits. These transactions were concluded at standard market conditions. Interest income totalled EUR 192,000 in 2013, interest expense EUR 301,000 and fee and commission income EUR 269,000.

Doubtful debts due from related parties did not exist in financial year 2013 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.

(54) SHARE-BASED PAY ARRANGEMENTS

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

(55) HUMAN RESOURCES

	2013	2012
Full-time salaried staff	643	657
Part-time salaried staff	69	59
Apprentices	9	8
Full-time other employees	3	4
Average number of employees	**724**	**728**

(56) EVENTS AFTER THE REPORTING DATE

There was public and media discussion of the possible insolvency of Hypo Alpe Adria Bank International AG in February 2014. There is no capital connection or link between Hypo Landesbank Vorarlberg and Hypo Alpe Adria Bank International AG. Furthermore, a cross-guarantee scheme does not exist between Austrian mortgage banks – unlike many Austrian banking sectors. A joint guarantee – see Note (47) – on the part of all member banks and the relevant Austrian states exists only for the Pfandbriefstelle – as a joint issuing institution of the Austrian provincial mortgage banks – with regard to all outstanding issues. In the event of the insolvency of Hypo Alpe Adria Bank International AG, this would not affect Hypo Landesbank Vorarlberg, provided that the state of Carinthia fulfils its obligations as guarantor. For this reason, our exposure to state-guaranteed securities and receivables of Hypo Alpe Adria Bank International AG totalling EUR 60,136,000 was not impaired separately as the insolvency scenario is deemed unlikely. In our opinion, there is no reason to doubt the continued existence and recoverability of the Carinthia state guarantee, especially because the ratings agency Moody's once again assigned the state of Carinthia to the Investment Grade category with an A2 rating on 14 February 2014.

On 18 February 2014, Moody's lowered the rating of Austrian issues covered by the state guarantee from Aaa to Aa2. Moody's justified this change with reference to the ongoing discussion surrounding the possible insolvency of Hypo Alpe Adria Bank International AG. These securities have lost two notches as a result, but are still within the "excellent credit rating" category. In terms of our consolidated financial statements, this downgrade will not significantly affect Hypo Landesbank Vorarlberg's future business activities, as bonds covered by the state guarantee have not been issued since 2007. Moody's has also expressly stated that our bank rating is unaffected and will remain at A1. On 14 March 2014, a decision was made regarding the future of Hypo Alpe Adria Bank International AG. Although the possibility of insolvency was not ruled out at the beginning, the Austrian government decided to wind up the bank via a corporation solution. Hypo Landesbank Vorarlberg will not be affected by future measures with regard to Hypo Alpe Adria Bank International AG and therefore does not need to anticipate losses subsequently.

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2013	74,563	30,723	30,024	36,828	172,138
	2012	73,505	32,052	34,729	36,959	177,245
Loan loss provisions	2013	−35,354	704	421	−7,817	−42,046
	2012	−27,931	−837	−37	−6,155	−34,960
Net fee and commission income	2013	12,092	17,446	4,117	3,301	36,956
	2012	12,083	16,590	5,585	3,330	37,588
Result from hedge relationships	2013	0	0	338	0	338
	2012	0	0	−2,853	0	−2,853
Net trading result	2013	2,194	1,425	19,550	−226	22,943
	2012	−1,804	1,650	91,880	−216	91,510
Result from other financial instruments	2013	0	0	3,691	251	3,942
	2012	−917	0	−952	3,989	2,120
Administrative expenses	2013	−29,487	−40,653	−10,411	−10,621	−91,172
	2012	−29,018	−40,114	−11,398	−7,698	−88,228
Other income	2013	1,682	351	9	14,575	16,617
	2012	736	367	21	10,475	11,599
Other expenses	2013	−5,636	−1,658	−4,370	−15,725	−27,389
	2012	−3,555	−1,164	−3,655	−13,384	−21,758
Result from equity consolidation	2013	0	0	0	2,581	2,581
	2012	0	0	0	4,038	4,038
Operating result before change in own credit risk	**2013**	**20,054**	**8,338**	**43,369**	**23,147**	**94,908**
	2012	**23,099**	**8,544**	**113,320**	**31,338**	**176,301**
Result from change in own credit risk	2013	0	0	1,226	0	1,226
	2012	0	0	−2,601	0	−2,601
Earnings before taxes	**2013**	**20,054**	**8,338**	**44,595**	**23,147**	**96,134**
	2012	**23,099**	**8,544**	**110,719**	**31,338**	**173,700**
Assets	2013	5,332,714	1,741,012	5,383,898	1,687,553	14,145,177
	2012	5,573,554	1,732,531	5,486,598	1,699,653	14,492,336
Liabilities and shareholders' equity	2013	2,187,469	2,447,023	8,973,071	537,614	14,145,177
	2012	2,562,362	2,802,493	8,842,536	284,945	14,492,336
Liabilities (incl. own issues)	2013	1,786,199	2,355,181	8,801,530	355,168	13,298,078
	2012	2,078,645	2,692,290	8,721,953	230,281	13,723,169

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.

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.

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 36,449,000 was included in total assets for the Corporate Centre segment from consolidation using the equity method (2012: EUR 34,778,000).

The adjustment of the previous year's figures, as explained in Note (5), in relation to the remeasurement of loans and credits voluntarily designated at fair value relates to the Financial Markets segment. The adjustment of the net trading result in the amount of EUR 24,586,000 was therefore recognised in the Financial Markets segment. The adjustment of the previous year's figures due to the reclassification of the valuation effect arising from own credit risk in the amount of EUR –2,600,000 also relates to the Financial Markets segment. The adjustment of the previous year's figures in relation to the retroactive application of the revised IAS 19 is attributable to the Corporate Center segment. The adjustment totalling EUR 3,039,000 was therefore recorded in this segment.

Impairments and impairment reversals

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Recognition of impairments	2013	–59,198	–2,225	–5,352	–7,695	–74,470
	2012	–44,958	–4,544	–8,708	–6,777	–64,987
Reversals of impairments	2013	19,139	2,965	8,142	3,048	33,294
	2012	13,652	3,005	7,354	2,836	26,847

Reporting by region

in '000 EUR		Austria	Other countries	Total
Net interest income	2013	144,013	28,125	172,138
	2012	143,531	33,714	177,245
Loan loss provisions	2013	−36,733	−5,313	−42,046
	2012	−30,958	−4,002	−34,960
Net fee and commission income	2013	36,460	496	36,956
	2012	36,757	831	37,588
Result from hedge relationships	2013	338	0	338
	2012	−2,853	0	−2,853
Net trading result	2013	22,712	231	22,943
	2012	90,918	592	91,510
Result from other financial instruments	2013	6,572	−2,630	3,942
	2012	2,120	0	2,120
Administrative expenses	2013	−81,567	−9,605	−91,172
	2012	−78,284	−9,944	−88,228
Other income	2013	7,913	8,704	16,617
	2012	6,444	5,155	11,599
Other expenses	2013	−16,266	−11,123	−27,389
	2012	−13,521	−8,237	−21,758
Result from equity consolidation	2013	2,582	−1	2,581
	2012	4,038	0	4,038
Operating result before change in own credit risk	**2013**	**86,024**	**8,884**	**94,908**
	2012	**158,192**	**18,109**	**176,301**
Result from change in own credit risk	2013	1,226	0	1,226
	2012	−2,601	0	−2,601
Earnings before taxes	**2013**	**87,250**	**8,884**	**96,134**
	2012	**155,591**	**18,109**	**173,700**
Assets	2013	12,627,631	1,517,546	14,145,177
	2012	12,959,976	1,532,360	14,492,336
Liabilities and shareholders' equity	2013	13,935,876	209,301	14,145,177
	2012	14,305,148	187,188	14,492,336
Liabilities (incl. own issues)	2013	13,179,934	118,144	13,298,078
	2012	13,630,463	92,706	13,723,169

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(57) EARNINGS BY MEASUREMENT CLASSIFICATION

Earnings by category L&R

in '000 EUR	2013	2012
Interest and similar income	174,324	202,215
Net interest income	**174,324**	**202,215**
Write-downs and impairment	−63,042	−58,534
Write-ups and reversed impairments	25,432	20,466
Realised losses	−2,923	−901
Realised gains	3,839	7,069
Net result from hedging	547	−1,303
Total	**138,177**	**169,012**

Earnings by category HFT

in '000 EUR	2013	2012
Interest and similar income	17,316	8,995
Net interest income	**17,316**	**8,995**
Write-downs and impairment	−58	−18
Write-ups and reversed impairments	63	103
Realised gains	69	63
Net result from Trading	−823	−5,025
Measurement result – derivatives	−221,948	6,802
Total	**−205,381**	**10,920**

Earnings by category AFV

in '000 EUR	2013	2012
Interest and similar income	29,083	40,210
Net interest income	**29,083**	**40,210**
Write-downs and impairment	−20,018	−15,735
Write-ups and reversed impairments	1,330	87,774
Realised losses	−579	−16,715
Realised gains	6,277	17,762
Total	**16,093**	**113,296**

Earnings by category AFS

in '000 EUR	2013	2012
Interest and similar income	29,865	30,051
Net interest income	**29,865**	**30,051**
Write-downs and impairment	−1,791	−1,696
Write-ups and reversed impairments	2,224	3,937
Realised losses	−1,874	−1,034
Realised gains	874	1,762
Net result from hedging	302	−1,220
Total	**29,600**	**31,800**
Gains/losses recognised under other result	9,572	20,656

Earnings by category HTM

in '000 EUR	2013	2012
Interest and similar income	33,856	36,944
Net interest income	**33,856**	**36,944**
Write-downs and impairment	−760	−1,884
Write-ups and reversed impairments	3,248	417
Realised losses	0	−1,237
Realised gains	1,131	121
Total	**37,475**	**34,361**

Earnings by category LAC

in '000 EUR	2013	2012
Interest and similar expenses	−52,544	−69,645
Net interest income	**−52,544**	**−69,645**
Write-downs and impairment	−440	−1,180
Write-ups and reversed impairments	13	43
Realised losses	0	−4
Realised gains	925	480
Net result from hedging	−511	−330
Total	**−52,557**	**−70,636**

Earnings by category LHFT

in '000 EUR	2013	2012
Interest and similar expenses	−49,778	−37,217
Net interest income	**−49,778**	**−37,217**
Measurement result – derivatives	105,916	15,653
Total	**56,138**	**−21,564**

Earnings by category LAFV

in '000 EUR	2013	2012
Interest and similar expenses	−9,984	−34,308
Net interest income	**−9,984**	**−34,308**
Write-downs and impairment	−2,929	−105,272
Write-ups and reversed impairments	154,098	58,810
Realised losses	−11	−12,040
Realised gains	1,555	59,348
Total	**142,729**	**−33,462**

(58) DISCLOSURE ON FAIR VALUES

in '000 EUR	31.12.2012		
	Notes	Fair Value	Carrying value
Assets			
Cash and balances with central banks	(16)	531,877	532,010
Loans and advances to banks	(17)	941,053	935,466
Loans and advances to customers	(18)	8,751,905	8,585,573
Positive market values of hedges	(20)	4,188	4,188
Trading assets and derivatives	(21)	809,165	809,165
Financial assets – at fair value	(22)	1,467,545	1,467,545
Financial assets – available for sale	(23)	910,103	910,103
Financial assets – held to maturity	(24)	1,098,271	1,019,250
Liabilities			
Amounts owed to banks	(33)	657,499	655,680
Amounts owed to customers	(34)	4,764,893	4,743,920
Liabilities evidenced by certificates	(35)	1,375,986	1,389,115
Negative market values of hedges	(36)	148,400	148,400
Trading liabilities and derivatives	(37)	319,016	319,016
Financial liabilities – at fair value	(38)	6,039,128	6,039,128
Subordinated and supplementary capital	(44)	313,570	326,667

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 fair value	(38)	5,123,337	5,123,337
Subordinated and supplementary capital	(44)	313,959	319,098

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**

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 31.12.2012	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	4,188	0	4,188
Trading assets, derivatives	729	808,436	0	809,165
Financial assets – at fair value	16,119	885,158	566,268	1,467,545
Financial assets – available for sale	861,544	0	48,559	910,103
Total assets	**878,392**	**1,697,782**	**614,827**	**3,191,001**
Derivative hedging instruments	0	148,400	0	148,400
Trading liabilities, derivatives	0	319,016	0	319,016
Financial liabilities – at fair value	0	6,039,128	0	6,039,128
Total liabilities	**0**	**6,506,544**	**0**	**6,506,544**

in '000 EUR 31.12.2013	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	5,442	0	5,442
Trading assets, 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 assets from level 2 and 3 to level 1	199,570	–174,191	–25,379	0
Reclassification 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, 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 liabilities from level 2 and 3 to level 1	2,008,601	–2,008,601	0	0
Reclassification liabilities from level 1 and 3 to level 2	0	0	0	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 14 AFV category financial instruments with a carrying value of 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 comprises three AFV category financial instruments with a carrying value of EUR 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 27,655,000. The measurement effects recognised under the net trading result totalled EUR –2,276,000 in 2013.

The reclassification of assets from Level 1 to Level 2 comprises two financial instruments. This involved one AFS category financial instrument totalling EUR 18,000 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 68 AFV category financial instruments with a carrying value of EUR 227,004,000. They 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 securities structure of comparable financial instruments. The carrying value at the end of the previous year was EUR 244,564,000. The measurement effects recognised under the net trading result totalled EUR –17,560,000 in 2013.

The reclassification of assets from Level 1 to Level 3 comprises one AFS category financial instrument with a carrying value of EUR 8,163,000. The market price used in the previous year was replaced with an internal measurement model as the Group deviated significantly from the available market value due to the subordination of the security combined with the expected cash flows, meaning that the Group recognised a devaluation of EUR 890,000 through profit or loss under the item "Net result from other financial instruments".

The reclassification of assets from Level 2 to Level 3 comprises 219 AFV category loans and credits with a carrying value of EUR 466,679,000. The credit spread effect was not measured for these loans and credits in accordance with the explanation given in Note (5). As these financial instruments are original receivables without an active market, the credit spread effect is derived from observable and comparable CDS spreads of reference bonds. However, a number of these customers do not have an external rating, meaning that the assumptions and estimates are primarily based on the internal rating of the financing customers. 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 seven LAFV category financial instruments with a carrying value of 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 2 to Level 3 comprises 107 derivatives – including two derivatives in an effective hedge relationship – with a carrying value of EUR 2,753,000. 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. 179 LAFV category financial instruments with a carrying value of EUR 2,002,994,000 were also reclassified from Level 2 to Level 3. These instruments were also 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.

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
Derivative hedging instruments	**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, 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**

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
Derivative hedging instruments	**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, 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
Subordinated and 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**

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 18,345,000 (2012: EUR 0) 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 –3,047,000 (2012: EUR –6,511,000) 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 2,627,000 (2012: EUR –830,000) was recognised as expense of EUR –1,865,000 (2012: EUR –68,000) in the income statement in the item "Net result from other financial instruments" and of EUR 4,492,000 (2012: EUR –762,000) in other result.

Changes in Level 3 financial instruments

in '000 EUR 2012	**Starting balance**	**Purchases/ issues**	**Sales/ repayments**	**Additions from Level 1 and Level 2**	**Reclassification to Level 1 and Level 2**	**Fair value change**	**Final balance**
Financial assets – at fair value	640,496	0	0	8,445	–76,162	–6,511	566,268
Financial assets – available for sale	49,795	662	–1,068	0	0	–830	48,559
Total assets	**690,291**	**662**	**–1,068**	**8,445**	**–76,162**	**–7,341**	**614,827**

in '000 EUR 2013	**Starting balance**	**Purchases/ issues**	**Sales/ repayments**	**Additions from Level 1 and Level 2**	**Reclassification to Level 1 and Level 2**	**Fair value change**	**Final balance**
Trading assets, 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, 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**

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

Disclosures regarding sensitivity of internal input factors
The internal input factor that is relevant to the measurement of derivatives is derived by calculating the credit risk, expressed as a CVA or DVA. 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. If internal ratings improve by one notch, this would have an effect of EUR +377,000 on the net trading result, assuming that the existing hedge relationships were still effective. However, if internal ratings deteriorate by one notch, this would have an effect of EUR –361,000 on the net trading result.

The internal input factor that is relevant to the measurement of financial assets in the AFV category is derived by calculating the credit spread and by adopting indicative price data from counterparties and other institutional pricing providers. Securities make up EUR 64,308,000 of Level 3 financial assets in the AFV category, while loans and credits make up EUR 476,219,000. Of these securities, four securities with a carrying value of EUR 39,617,000 are based on indicative price data from counterparties and other institutional pricing providers. The Group checks these values, but does not employ its own computation model. Sensitivity analysis is thus not relevant for these financial instruments. The credit spread for another four securities with a carrying value of EUR 24,691,000 is calculated using the credit spread matrix described in Note (3d). If the rating level used deteriorates by one notch, this would have an effect of EUR –120,000 on the net trading result. If the rating level used improves by one notch, this would improve the net trading result by EUR +81,000. The loans and credits included in Level 3 constitute primary financing provided to our customers. Most of these customers do not have an external rating. The internal rating is therefore the relevant input factor for measuring the credit spread in the case of these customers. If the rating for these customers deteriorates by one notch, this would have an effect of EUR –5,015,000 on the net trading result, whereas an improvement by one notch would have an effect of EUR +3,347,000 on the net trading result.

The internal input factor that is relevant to the measurement of financial assets in the AFS category is derived by calculating the credit spread. Securities make up EUR 36,753,000 of Level 3 financial assets in the AFS category, while investments in associates and shares in affiliated companies make up EUR 11,523,000. These investments and shares in affiliated companies are recognised based on acquisition cost less any impairment that may be required. If the rating level used improves by one notch, the other result from measurement in equity would improve by EUR 440,000, whereas this would deteriorate by EUR –473,000 if the rating level used deteriorates by one notch.

The internal input factor that is relevant to the measurement of financial liabilities in the LAFV category is derived by determining the current issue level of private placements compared to public placements. If the spread discount used increases by 10 basis points, this would have an effect of EUR +10,815,000 on the result from change in own credit risk. If the spread discount used decreases by 10 basis points, this would have an effect of EUR –10,815,000 on the result from change in own credit risk.

(59) IMPAIRMENTS AND IMPAIRMENT REVERSALS

Recognition of impairments

in '000 EUR	2013	2012
Loans and advances to customers	–63,042	–58,534
Financial assets – available for sale	–1,791	–1,696
Financial assets – held to maturity	–760	–1,884
Total	**–65,593**	**–62,114**

Reversals of impairment

in '000 EUR	2013	2012
Loans and advances to customers	25,432	20,466
Financial assets – available for sale	2,224	3,937
Financial assets – held to maturity	3,248	417
Total	**30,904**	**24,820**

(60) RECATEGORISED ASSETS

Disclosures regarding recategorised securities in the period from 2008 to 2009

There was no recategorisation of financial assets in 2013. In 2008 and 2009, 65 securities with a market value of EUR 368,632,000 on the date of recategorisation and 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 2013 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[1]
Loans and advances to banks	48,778	–29
Loans and advances to customers	14,959	–392
Total	**63,737**	**–421**

[1] 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	2013	2012
Net interest income	595	1,112
Net result from financial instruments	615	3,627
Taxes on income	–302	–1,185
Recording in AFS reserve directly in equity *)	118	3,096
Gain / loss after reclassification	**1,026**	**6,650**

[1] adjusted for deferred tax effects

In 2013, impairment in the amount of EUR 0 (2012: EUR 368,000) was recognised for securities recategorised in 2008. In 2013, impairment created in previous years amounting to EUR 864,000 (2012: EUR 102,000) was reversed following a recovery in the market. 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 recategori sation 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	2013	2012
Net interest income	595	1,112
Net result from financial instruments	615	3,627
Taxes on income	–302	–1,185
Recording in AFS reserve directly in equity *)	137	277
Gain/loss – after reclassification	**1,045**	**3,831**

[1] 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. To the extent no impairment of these securities was identified upon close review, we would have recorded the decline in value directly in equity in the revaluation reserve, adjusted for deferred tax effects.

(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 (per Section 26 Austrian Banking Act and the Disclosure Implementation Regulation – Off-VO) 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 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. 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 Section 22q of the Austrian Banking Act 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.

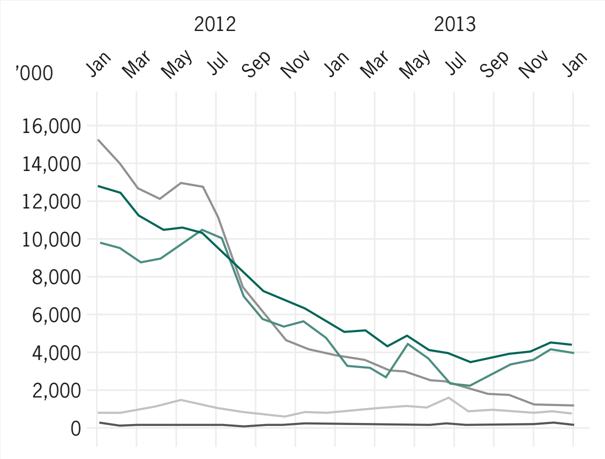
The Bank conducts stress testing to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain 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 position risk. The largest position is held in a fund which has a stop-loss trigger in place. Otherwise the Bank only holds equities as part of benchmark portfolios used in asset management. The volume is minimal.

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

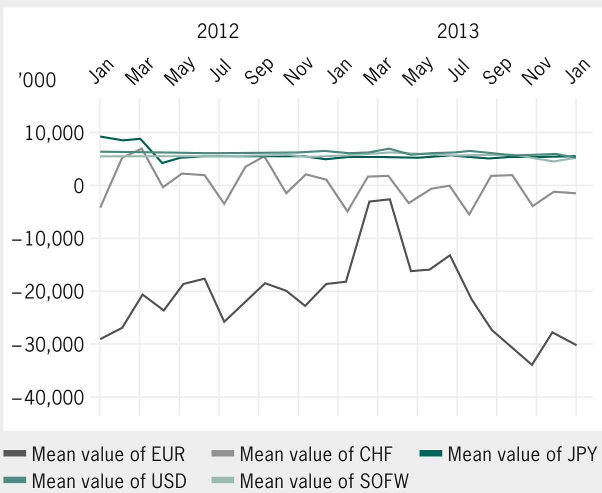
Development of mean value of VaR

in '000 EUR 2012	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
January	12,964	9,885	790	286	15,332
February	12,527	9,597	782	222	14,200
March	11,309	8,794	1,064	214	12,779
April	10,631	9,015	1,315	220	12,317
May	10,811	9,893	1,479	204	13,104
June	10,495	10,682	1,332	227	13,068
July	9,399	10,045	1,067	215	10,742
August	8,207	6,933	963	165	7,474
September	7,305	5,795	749	196	5,935
October	6,986	5,323	643	161	4,675
November	6,400	5,689	923	213	4,301
December	5,744	4,919	911	200	4,076

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
January	5,072	3,414	940	214	3,788
February	5,263	3,128	1,058	216	3,587
March	4,389	2,687	1,190	222	3,162
April	4,999	4,476	1,291	202	3,014
May	4,181	3,767	1,156	227	2,669
June	3,992	2,359	1,636	265	2,534
July	3,527	2,267	978	208	2,227
August	3,670	2,853	1,058	223	1,879
September	3,971	3,394	968	218	1,699
October	4,008	3,559	910	228	1,366
November	4,557	4,174	893	232	1,249
December	4,488	4,087	770	221	1,300

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



(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 II 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 II 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. 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 II 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 31.12.2012		Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Exposure	Corporate Customers	950,570	2,119,730	3,404,340	269,972	195,166	364,324	7,304,102
	Private Customers	1,085	344,849	939,041	20,578	51,060	535,660	1,892,273
	Financial Markets	4,210,760	868,714	215,361	28,341	0	87,263	5,410,439
	Corporate Center	1,850	376,729	869,075	97,877	127,132	428,669	1,901,332
Total exposure		**5,164,265**	**3,710,022**	**5,427,817**	**416,768**	**373,358**	**1,415,916**	**16,508,146**

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**

Regions broken down by rating (maximum default risk)

in '000 EUR 31.12.2012	Rating-class 1	Rating-class 2	Rating-class 3	Rating-class 4	Rating-class 5	Unrated	Total
Austria	2,755,526	2,009,449	3,660,339	204,944	163,593	1,064,940	9,858,791
Italy	17,602	301,817	638,228	95,380	120,973	69,390	1,243,390
Germay	605,575	749,664	526,326	22,984	65,433	96,683	2,066,665
Switzerland and Liechtenstein	162,204	108,166	346,093	53,662	22,306	160,851	853,282
Other foreign countries	1,623,358	540,926	256,831	39,798	1,053	24,052	2,486,018
Total exposure	**5,164,265**	**3,710,022**	**5,427,817**	**416,768**	**373,358**	**1,415,916**	**16,508,146**

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
Germay	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**

Industries (maximum default risk)

in '000 EUR	31.12.2013	31.12.2012
Financial intermediaries	4,373,277	4,289,365
Consumers/private customers	1,909,150	1,990,540
Public sector	1,870,998	2,121,009
Real estate	1,891,705	1,686,283
Services	1,462,867	1,458,708
Trading	1,044,321	984,737
Metals/machinery	411,280	461,182
Construction	397,339	481,194
Transport/communications	465,037	500,197
Tourism	508,999	452,870
Water and energy utilities	350,525	402,410
Other goods	169,410	204,802
Vehicle construction	168,345	221,348
Petroleum, plastics	156,299	207,202
Other industries	1,071,385	1,046,299
Total	**16,250,937**	**16,508,146**

Exposure in rating class 5

in '000 EUR		31.12.2013	31.12.2012
Corporate Customers	Exposure	215,186	195,166
	Value adjustments	83,748	85,447
Private Customers	Exposure	47,547	51,060
	Value adjustments	17,857	18,522
Financial Markets	Exposure	2,928	0
	Value adjustments	0	0
Corporate Center	Exposure	133,702	127,132
	Value adjustments	18,571	19,153
Total	**Exposure**	**399,363**	**373,358**
Total	**Value adjustments**	**120,176**	**123,122**

Non-performing-loans
The Group designates loans 90 days past due and interest-free loans and advances with a default rating as non-performing loans. At the end of 2013, no bonds were included therein. These amounted to EUR 249,087,000 (2012: EUR 249,920,000) as at 31 December 2013, accounting for 1.53% (2012: 1.51%) of the maximum default risk.

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. Hypo Immobilien & Leasing GmbH 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 Besitz GmbH handles the realisation of defaulted loans and advances backed by mortgages. During the period under review, Hypo Immobilien Besitz GmbH acquired one (2012: 5) real estate property at a cost of EUR 650,000 (2012: EUR 4,679,000).

Depending on the market situation, it may not be easy to convert the property acquired into cash. Following acquisition, Hypo Immobilien Besitz GmbH 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 4,119,000 was rated as healthy in 2013 (2012: EUR 3,975,000). This allowed the reversal of EUR 586,000 in loan loss provisions in 2013 (2012: EUR 1,159,000).

Past due but non-impaired receivables

Length of time overdue	31.12.2013 Exposure in '000 EUR	31.12.2012 Exposure in '000 EUR
Less than 1 day	15,736,539	15,988,121
1 to 60 days	101,888	131,104
61 to 90 days	10,196	9,765
More than 90 days	2,951	5,798
Total	**15,851,574**	**16,134,788**

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 existing internal guidelines for debt rescheduling are in the process of being reviewed and updated in order to ensure full compliance with the requirements of the EBA regarding the reporting of deferred and non-performing receivables in accordance with EU regulation no. 575/2003 Art. 9 (4). This analysis has identified the need to expand our IT systems. The necessary improvements are therefore being made at present in order to strengthen our monitoring and reporting processes. In future, all customers and receivables where the Group is open to restructuring measures and in particular to contractual concessions due to the debtor's financial difficulties will be recorded precisely. Taking into account internal definitions of default, a distinction will be made between deferrals of duly serviced (performing) and non-performing items. The relevant regulations will be implemented by the end of the third quarter of 2014.

(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 marginal lending facility, the SNB repo system and the money market. 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 (19, 20) and (35, 36). The disclosures in the assets column relate to notes (16 – 18) and (21 – 23). The disclosures in the equity and liabilities column relate to notes (32 – 34) and (37 and 42). 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 31.12.2012 in '000 EUR	Assets		Liabilities		
	Assets	Derivatives	Liabilities	Derivatives	Total
January 2013	1,127,851	468,383	–1,065,627	–1,112,753	–582,146
February 2013	107,329	103,913	–214,856	–295,118	–298,732
March 2013	226,802	390,066	–250,377	–468,213	–101,722
April 2013	153,435	46,921	–162,601	–93,673	–55,918
May 2013	119,898	7,162	–113,150	–7,159	6,751
June 2013	199,157	30,534	–112,869	–16,786	100,036
July 2013	116,529	11,588	–145,726	–4,163	–21,772
August 2013	98,033	17,052	–147,776	–110,200	–142,891
September 2013	205,261	4,332	–155,533	–4,326	49,734
October 2013	117,611	12,581	–150,776	–2,441	–23,025
November 2013	67,186	1,187	–149,907	–1,129	–82,663
December 2013	191,458	2,928	–214,353	–2,927	–22,894

Maturity profile money market

per 31.12.2013 in '000 EUR	Assets		Liabilities		
	Assets	Derivatives	Liabilities	Derivatives	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 capital market

per 31.12.2012 in '000 EUR	Assets		Liabilities		
	Assets	Derivatives	Liabilities	Derivatives	Total
2014	1,850,843	57,694	–1,796,029	–53,698	58,810
2015	996,462	124,198	–881,918	–126,286	112,456
2016	952,554	246,442	–929,026	–200,286	69,684
2017	901,399	251,103	–3,197,181	–197,012	–2,241,691
2018	515,159	26,216	–257,864	–26,406	257,105
2019	522,798	99,358	–348,415	–119,576	154,165
2020	514,114	43,076	–125,318	–47,259	384,613
2021	462,856	17,296	–173,575	–17,604	288,973
2022	459,143	8,278	–220,788	–8,284	238,349
2023	263,643	19,709	–22,748	–17,604	243,000
2024	290,278	23,000	–35,000	–28,721	249,557

Maturity profile capital market

per 31.12.2013 in '000 EUR	Assets		Liabilities		
	Assets	Derivatives	Liabilities	Derivatives	Total
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

(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 regulatory capital requirements under Basel II
- Maintaining a going concern
- Managing shareholder distributions
- Maintaining a solid capital base for expansion

Capital adequacy is continuously monitored in accordance with Basel II and EU rules adopted by the Republic of Austria. The Group reports this data monthly to the Oesterreichische Nationalbank. The Austrian Banking Act (BWG) requires banks at all times to maintain attributable capital equal to a minimum 8 % of risk-weighted assets, as well as 8 % of the off-balance sheet transactions and derivatives evaluated according to the market valuation approach. The Bank met the regulatory capital requirements both in the year under review and the previous year.

The amount of regulatory capital held by the Group is determined by Central Accounting and consists of two Tiers.

Tier 1 capital
Includes share capital, capital reserves, retained earnings and differences from capital consolidation. Specific types of supplementary capital (hybrid capital) also comprise the Group's Tier 1 capital, as per Section 24 Austrian Banking Act. The carrying values of intangible assets are still deducted from Tier 1 capital.

Tier 2 capital
Consists primarily of upper Tier 2 bonds with a sufficient remaining term to maturity and subordinated securities. Undisclosed reserves not shown on the balance sheet can be included in Tier 2 capital.

Attributable capital is calculated as the sum of Tier 1 and Tier 2 capital less the carrying value of holdings in which a 10 % to 50 % stake is held. The table below shows the capital requirements for Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft pursuant to Section 22 of the Austrian Banking Act at the 2013 and 2012 reporting dates, and the breakdown of the Group's capital as at 31 December 2013 and 31 December 2012.

Pillar 2 of Basel II 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 II 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.

Capital requirements per Section 22 Austrian Banking Act

in '000 EUR	31.12.2013	31.12.2012
Assessment basis per Section 22 Austrian Banking Act	**7,363,339**	**7,582,549**
Capital resource requirement for solvency	589,067	606,604
Capital requirement for settlement risk	0	0
Capital requirement for position risks	0	0
Capital resource requirement for operational risk	33,256	31,574
Total capital resource requirements	**622,323**	**638,178**

Consolidated capital per Section 23 in conjunction with Section 24 Austrian Banking Act

in '000 EUR	31.12.2013	31.12.2012
Core capital (Tier 1)	**804,590**	**743,236**
Paid-in capital	165,453	165,453
Capital reserves	48,874	48,874
Retained earnings	441,796	385,430
Liable capital	126,005	126,005
Minority interests per Section 24 (2) no. 1 Austrian Banking Act	63	67
Consolidation per Section 24 (2) no. 2 Austrian Banking Act	23,835	19,316
Intangible assets	–1,436	–1,909
Supplementary capital resources (Tier 2)	**398,160**	**458,408**
Supplementary capital	90,586	95,124
Remeasurement reserve	79,574	105,284
Subordinated capital	228,000	258,000
Deductions	–3,448	–3,479
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	**1,199,302**	**1,198,165**
Assessment basis (banking book)	**7,363,339**	**7,582,549**
Core capital ratio (banking book)	10.93 %	9.80 %
Solvency ratio (banking book)	16.29 %	15.80 %
Assessment basis (modified)	**7,779,039**	**7,977,219**
Core capital ratio	10.34 %	9.32 %
Solvency ratio	15.42 %	15.02 %

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 – 15 and (2) Austrian Banking Act and Section 245a (1) and (3) UGB are to be incorporated in the Notes to the consolidated financial statements.

(69) ADDITIONAL DISCLOSURES IN LINE WITH THE AUSTRIAN BANKING ACT

The difference between cost and the lower repayment amount per Section 56 (2) Austrian Banking Act was EUR 38,343,000 (2012: EUR 30,451,000). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was EUR 11,741,000 (2012: EUR 9,973,000). In 2014, bonds and other fixed-income securities in accordance with section 64 (1) no. 6 BWG totalling EUR 756,291,000 (2013: EUR 569,754,000) and issued bonds totalling EUR 425,279,000 (2013: EUR 851,978,000) will fall due for repayment. At 31 December 2013, supplementary and subordinated capital in the portfolio securities totalled EUR 0 (2012: EUR 0).

The balance sheet items “Financial liabilities – at fair value” and “Subordinated 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	31.12.2013		31.12.2012	
	Total number	Carrying value	Total number	Carrying value
Tier 2 bonds as defined by section 23 (7) BWG – LAVF	4	21,491	4	22,447
Tier 2 bonds as defined by section 23 (7) BWG – LAC	6	70,510	6	74,760
Subordinated bonds as defined by section 23 (8) BWG – LAFV	3	40,068	3	45,515
Subordinated bonds as defined by section 23 (8) BWG – LAC	5	248,588	5	251,907
	Average interest	Average remaining term	Average interest	Average remaining term
Tier 2 bonds as defined by section 23 (7) BWG	1,412	4.8	1,392	5.8
Subordinated bonds as defined by section 23 (8) BWG	2,430	6.9	2,330	7.9

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 0.390 %, 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;

The return on total assets in accordance with section 64 (1) no. 19 BWG is 0.53 % (previous year: 0.91 %).

(70) AUDITOR’S FEE PER AUSTRIAN CORPORATE CODE AC

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	2013	2012
Expenses for auditing the consolidated financial statements	32	32
Expenses for other auditing services	138	144
Expenses for other services	21	22
Total fees	**191**	**198**

(71) BREAKDOWN OF SECURITIES PER THE AUSTRIAN BANKING ACT

A breakdown of securities per Section 64 (1) nos. 10 and 11 Austrian Banking Act as at 31 December 2013 is provided below.

in '000 EUR	Not listed 31.12.2013	Listed 31.12.2013	Not listed 31.12.2012	Listed 31.12.2012	Total 31.12.2013	Total 31.12.2012
Bonds – HFT	0	190	0	0	190	0
Bonds – AFV	100,312	539,917	203,265	587,846	640,229	791,111
Bonds – AFS	4,831	712,340	7,072	833,861	717,171	840,933
Bonds – HTM	15,015	1,128,686	34,804	952,368	1,143,701	987,172
Shares – HFT	679	80	645	84	759	729
Shares – AFV	0	5,431	0	4,724	5,431	4,724
Shares – AFS	26,744	8,160	21,693	8,951	34,904	30,644
Shares – HTM	0	9,979	0	9,968	9,979	9,968
Investments	11,429	0	22,019	0	11,429	22,019
Shares in affiliated companies	94	0	94	0	94	94
Total securities	**159,104**	**2,404,783**	**289,592**	**2,397,802**	**2,563,887**	**2,687,394**

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.

(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.

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
HV-Finanzdienstleistungs- und Immobilien GmbH, DE-Kempten	100,00%	–2	–6	792	31.12.2013
HYPO-InvestConsult GmbH, Bregenz	100,00%	58	–3	58	31.12.2013
Hotel Widderstein Besitz & Verwaltungs GmbH, Dornbirn	100,00%	60	–1	60	31.12.2013
„ATZ“ Besitz- und VerwaltungsGmbH, Bregenz	100,00%	–44	–47	1,312	31.12.2013
„DS“-Immobilienvermietungsges.m.b.H., Dornbirn	100,00%	158	1	158	31.12.2013
Hypo Immobilien Hotelverwertungs GmbH, Dornbirn	100,00%	32	–188	1,047	31.12.2013
Hotel Jagdhof Kessler Betriebs GmbH & Co KG, Riezlern	100,00%	339	–144	3,138	31.10.2012
Hotel Jagdhof Kessler BetriebsGmbH, Riezlern	100,00%	17	0	18	31.10.2012
„Wirtschafts-Standort Vorarlberg“ Betriebsansiedlungs GmbH, Dornbirn	33,33%	37	0	392	31.12.2013
MERAN 2000 Bergbahnen AG, IT-Meran (formerly Ifinger Seilbahnen AG)	23,39%	10,656	–251	23,095	31.12.2012
CAMPUS Dornbirn II Investment GmbH, Dornbirn	30,00%	3,019	297	15,641	31.12.2012

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

Alfred Geismayr
Chairman
Auditor, Dornbirn (since 18.04.2013)

Kurt Rupp
Chairman, Chairman of the Management Board (retired), Bregenz (until 18.04.2013)

Jodok Simma
Deputy Chairman, Chairman of the Management Board (retired), Bregenz (since 18.04.2013)

Norbert Metzler
Deputy Chairman, Management consultant, Alberschwende (until 18.04.2013)

Friedrich Amann
Entrepreneur, Fraxern (since 18.04.2013)

Christian Brand
Chairman of the Managing Board
Landeskreditbank Baden-Württemberg
Förderbank, Ettlingen

Albert Büchele
Entrepreneur, Hard

Karl Fenkart
State official, Lustenau (since 18.04.2013)

Elmar Geiger
Managing Director (retired), Frastanz (until 18.04.2013)

Michael Horn
Deputy Chairman of the Management Board Landesbank Baden-Württemberg, Weingarten

Andrea Kaufmann
Member of the Vorarlberg government, Dornbirn (until 18.04.2013)

Christian Konzett
Lawyer, Bludenz

Klaus Martin
Provincial Official (retired), Feldkirch (until 18.04.2013)

Karlheinz Rüdisser
Deputy State Governor, Lauterach (since 18.04.2013)

Nicolas Stieger
Lawyer, Bregenz

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 2013. In 2013, the stake held in Inprox BP XX – Hypo SüdLeasing Kft. – see Note (2) – was relinquished with retroactive effect to 1 January 2013.

Company name, place	Percentage of capital	Date of financial reporting
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100,00%	31.12.2013
LD-Leasing GmbH, Dornbirn	100,00%	31.12.2013
Hypo Vorarlberg Leasing AG, IT-Bolzano	100,00%	31.12.2013
Hypo Vorarlberg Holding (Italien) – GmbH, IT-Bolzano	100,00%	31.12.2013
Hypo Vorarlberg Immo Italia srl, IT-Bolzano	100,00%	31.12.2013
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100,00%	31.12.2013
Hypo Immobilien Besitz GmbH, Dornbirn	100,00%	31.12.2013
"Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100,00%	31.12.2013
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100,00%	31.12.2013
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100,00%	31.12.2013
Hypo Informatikgesellschaft m.b.H., Bregenz	100,00%	31.12.2013
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100,00%	31.12.2013
Hypo Versicherungsmakler GmbH, Dornbirn	100,00%	31.12.2013
Hypo Immobilien Investment GmbH, Dornbirn	100,00%	31.12.2013
Hypo Immobilien & Leasing GmbH, Dornbirn	100,00%	31.12.2013
HIL Mobilienleasing GmbH & Co KG, Dornbirn	100,00%	31.12.2013
HIL Beteiligungs GmbH, Dornbirn	100,00%	31.12.2013
HIL Immobilien GmbH, Dornbirn	100,00%	31.12.2013
HIL ALPHA Mobilienverwaltung GmbH, Dornbirn	100,00%	31.12.2013
HIL BETA Mobilienverwaltung GmbH, Dornbirn	100,00%	31.12.2013
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100,00%	31.12.2013
HIL Baumarkt Triester Strasse Immobilienleasing GmbH (formerly: HIL Car Fleet GmbH, Dornbirn)	100,00%	31.12.2013
HIL Real Estate alpha GmbH, Dornbirn	100,00%	31.12.2013
HIL Real Estate Austria Holding GmbH, Dornbirn	100,00%	31.12.2013
HIL Real Estate International Holding GmbH, Dornbirn	100,00%	31.12.2013
"Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100,00%	31.12.2013
Inprox Praha Michle – HIL s.r.o., CZ-Prague (formerly: Inprox Praha Michle – Hypo SüdLeasing s.r.o.)	100,00%	31.12.2013
Inprox Praha Letnany – HIL s.r.o., CZ-Prague (formerly: Inprox Praha Letnany – Hypo SüdLeasing s.r.o.)	100,00%	31.12.2013
Inprox GY – HIL Kft., HU-Budapest (formerly: Inprox GY – Hypo SüdLeasing Kft.)	100,00%	31.12.2013
HSL Logisztika Hungary Kft., HU-Budapest	100,00%	31.12.2013
"HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100,00%	31.12.2013
"POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100,00%	31.12.2013
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100,00%	31.12.2013
Edeltraut Lampe GmbH & Co KG, Dornbirn	100,00%	31.12.2013
D. TSCHERNE Gesellschaft m.b.H., Vienna	100,00%	31.12.2013
HSL-Lindner Traktorenleasing GmbH, Dornbirn	76,00%	31.12.2013

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 2013.

Company name, place in '000 EUR	Percentage of capital	Equity	Total assets	Liabilities	Sales revenues
HTV KAPPA Immobilienleasing GmbH, Dornbirn	50,00%	80	28,994	28,914	262
Silvretta-Center Leasing GmbH, Bregenz	50,00%	627	5,085	4,458	471
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz	43,29%	74,223	122,499	48,276	180
MASTERINVEST Kapitalanlage GmbH, Vienna	37,50%	4,294	6,984	2,690	48
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33,33%	269	841	572	–20
VKL II Grundverwertungsgesellschaft m.b.H., Dornbirn	33,33%	856	1,311	455	7
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33,33%	5,032	5,038	6	50
VKL IV Leasinggesellschaft mbH, Dornbirn	33,33%	159	19,055	18,896	66
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	33,33%	–159	8,420	8,579	23
„Seestadt Bregenz" Besitz- und Verwaltungsgesellschaft mbH, Bregenz	20,00%	1,516	9,401	7,885	305

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 2013. The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG were prepared as at 30 September 2013 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.

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, 28 March 2014

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 six 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 2013, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory and Managing Boards, and adopted the necessary resolutions.

Audit Committee

The Audit Committee of the Supervisory Board held two meetings in 2013 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.

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 2013 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 2013 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 2013.

Bregenz, March 2014

Chairman of the Supervisory Board
Alfred Geismayr

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 2013 to 31 December 2013. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2013, 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 2013, 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 2013 and of its financial performance and its cash flows for the fiscal year from 1 January 2013 to 31 December 2013 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

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 243a 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 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 28 March 2014

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 Customer 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

Private Banking Plus Branch Office
Stefan Schmitt
Head of Private Banking Plus

Financial Intermediaries Branch Office / CEE
Christoph Schwaninger
Head of Financial Intermediaries

Internal Departments

Martin Baldauf
Head of Accounting, Securities Settlement

Johann Berchtold
Head of Information Technology, Organisation, Payment Transactions

Klaus Diem
Head of Legal Department

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

Gerhard Kalb
Head of Payment Transactions

German Kohler
Head of Corporate and Internal Audit

Roswitha Nenning
Head of Marketing

Sabine Nigsch
Head of Communication

Herbert Nitz
Head of Private Customers Sales

Karl-Heinz Rossmann
Head of Corporate Customers Sales

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

Gaschurn
Schulstraße 6b
Paul Roschitz, Branch Office Manager

Götzis
Hauptstraße 4
Wolfgang Fend, Branch Office Manager

Graz
Joanneumring 7
Horst Lang, Regional Manager Styria and Head of Corporate Customers
Andreas Draxler, 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

Rankweil Landeskrankenhaus
Valdunastraße 16
Ringo Schieder, 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

Vienna
Singerstraße 12
Roswitha Klein, Regional Manager Vienna
Kerstin Forgacs, Branch Manager Private Customer Services
Sabine Mach, Head of Private Banking
Lothar Mayer, Head of Financing
Tatyana Blaschek, Head of CEE-Desk

Mobile Sales Unit, Austria
Lothar Mayer

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

REGIONAL HEAD OFFICE

St. Gallen, Switzerland
Bankgasse 1
Dieter Wildauer, Regional Manager Switzerland
Thomas Reich, Head of Back Office

SUBSIDIARIES IN AUSTRIA

Hypo Immobilien & Leasing GmbH
Dornbirn
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Global Investment Performance Standards (GIPS®) on page 41:
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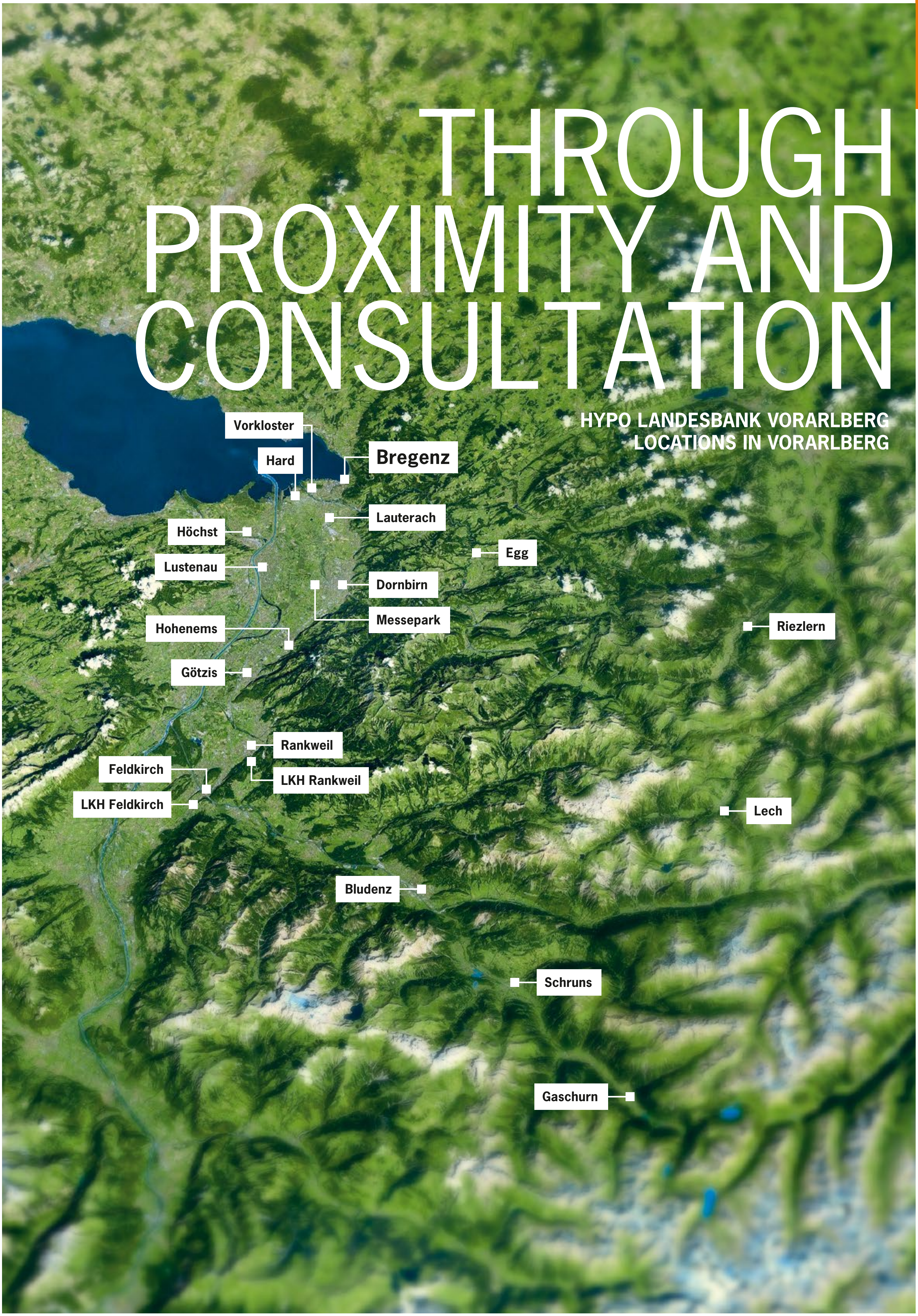
THROUGH PROXIMITY AND CONSULTATION

HYPO LANDESBANK VORARLBERG LOCATIONS IN VORARLBERG



THROUGH DRIVE AND PRESENCE

HYPO LANDESBANK VORARLBERG LOCATIONS IN THE ALPINE REGION

Our roots lie in Vorarlberg – yet at the same time, one of our key objectives is to provide the best possible service to customers in our core markets beyond our borders too. Therefore, like our customers, we have a national and international presence.

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