

QUARTERLY REPORT AS AT 31 March 2017

HYPO LANDESBANK VORARLBERG



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KEY FIGURES OF HYPO LANDESBANK VORARLBERG

Group reporting per IFRS:

in '000 EUR	(Notes)	31.03.2017	31.12.2016	Change in '000 EUR	Change in %
Total assets		13,792,645	13,324,387	468,258	3.5
Loans and advances to customers (L&R)		9,218,887	9,049,998	168,889	1.9
Amounts owed to customers (LAC)		5,367,128	5,282,097	85,031	1.6
Liabilities evidenced by certificates (LAC)	(12)	2,696,609	2,682,267	14,342	0.5
Own funds according to CRR	(20)	1,156,915	1,246,529	-89,614	-7.2
thereof Tier 1 capital	(20)	927,253	1,005,715	-78,462	-7.8
Total capital ratio according to CRR	(20)	15.36%	16.52%	-1.16%	-7.0

in '000 EUR	(Notes)	01.01.– 31.03.2017	01.01.– 31.03.2016	Change in '000 EUR	Change in %
Net interest income after loan loss provisions		43,693	47,030	-3,337	-7.1
Net fee and commission income	(3)	9,015	8,562	453	5.3
Net trading result (not including change in own credit risk)	(5)	2,240	-452	2,692	-
Administrative expenses	(6)	-25,687	-25,111	-576	2.3
Operating result before change in own credit risk		-2,825	23,558	-26,383	-
Earnings before taxes		-3,347	17,027	-20,374	-

Key figures	(Notes)	01.01.– 31.03.2017	01.01.– 31.03.2016	Change absolute	Change in %
Cost-Income-Ratio (CIR)		64.80%	64.49%	0.31%	0.5
Return on Equity (ROE)		-1.09%	10.03%	-11.12%	-
Employees	(17)	722	721	1	0.1

The shareholders of Vorarlberger Landes- und Hypothekbank Aktiengesellschaft (Hypo Landesbank Vorarlberg) as at 31 March 2017 are:

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

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

* In October 2015, Standard & Poor's (S&P) announced a new rating for Hypo Landesbank Vorarlberg: "A-" for non-current liabilities and "A-2" for current liabilities, with a stable outlook. This makes us one of the best-rated banks in Austria. The Bank is currently rated "Baa1" by Moody's and this rating will remain in place for the time being.

GROUP MANAGEMENT REPORT IN ACCORDANCE WITH IFRS AS AT 31 MARCH 2017

BANKING ENVIRONMENT

Global economy and euro zone

After an impressive finish in the previous year, many investors continued to focus their attention on the USA after the New Year. On taking office, US President Trump made the first proposals for implementing his election promises, trying to use the momentum of the first 100 days. Sentiment indicators have since improved markedly. Surveys of purchasing managers in industrialised countries suggest an optimism on the economy the like of which has not been seen for years. According to Janet Yellen, the Chairwoman of the US Federal Reserve (Fed), the Fed's Open Market Committee also expects a continuing upturn at a moderate tempo, which is why it increased key interest rates. In Japan, the economy grew despite declining momentum in the first quarter of 2017.

The Executive Board of the European Central Bank (ECB) was confronted with a sharp rise in inflation around the New Year. However, the ECB waited to see how Trump's inauguration and the Brexit negotiations would affect the market. In the subsequent weeks, other political events also made an impact on stock market development: A swing to the right failed to materialise in the Dutch elections. The European Union thus jumped clear of its first hurdle in the 2017 political year. However, the outcome of the French election was a graver concern.

Austria

According to the latest flash estimate by the Austrian Institute of Economic Research (WIFO), the Austrian economy grew by 0.6% quarter on quarter in the first quarter of 2017 (compared with 0.5% in the fourth quarter of 2016). In addition to persistently robust consumption and investment demand, GDP growth was also supported by net exports this time. Industrial activity continued to pick up momentum, and value creation also rose in the construction sector. Average inflation in Austria was 1.99% for the year in March 2017.

Stock and bond markets

The upward movement on the stock markets continued in the first three months of 2017. The key benchmark indices on New York's Wall Street even hit new highs. The stock markets developed positively not only in the US but also in other regions – especially investments in emerging markets. Taking exchange rate developments into account, the price gains in Europe were slightly higher than overseas.

The reporting season on the fourth quarter of the previous year yielded some very gratifying enterprise data. For example, more than one third of Euro Stoxx 50 stocks exceeded analysts' expectations, and in Frankfurt 20 of the 30 DAX companies held out the prospect of a dividend increase. In addition, the election result in the Netherlands was a relief. Sure enough, the stock market rally did not pass by unnoticed in market valuations. The corresponding key figures recently exceeded their historic averages.

The US Fed Committee made the next interest rate move and increased the base rate by one-quarter of a percent and the target range to 0.75 - 1%. The advance communication largely prevented negative effects on the market environment. After the inflation rate in the Euro area climbed to 2% in February, calls for a course correction at the ECB grew louder there. President Draghi has not yet heeded these calls.

However, it was not ruled out that the consensus in the ECB Council could actually shift towards an early tightening of interest rates if the political risks diminish after the French presidential election and protectionist braking action for the economy by the US government is limited.

Commodities and currencies

Commodities prices reflected the geopolitical crises and political tensions in the first quarter of 2017, which affected not only price-sensitive precious metals and crude oil but also base metals. The strong US dollar put pressure on the commodities demanded by industry. In contrast, the gold price benefited from its character as a crisis currency and safe haven.

The Euro appreciated by nearly 1.50% against the US dollar over the course of the first quarter. The Euro lost around 0.30% against the Swiss franc and as much as 3% against the Japanese yen.

BUSINESS DEVELOPMENT

Income statement

As at 31 March 2017, Vorarlberger Landes- und Hypothekbank Aktiengesellschaft (hereinafter also referred to as Hypo Landesbank Vorarlberg) generated earnings before taxes of TEUR -3,347 (31 March 2016: TEUR 17,027). The reason for the big change on year is the development at HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG), in which Hypo Landesbank Vorarlberg has a share of nearly 43.3%. Due to changed exit opportunities, HUBAG remeasured one of its investments.

The operating result before changes in the Bank's own credit risk was TEUR -2,825 in the first quarter of 2017, considerably below the result in the same period the previous year (31 March 2016: TEUR 23,558).

While the high inflow of liquidity reflects full confidence among customers, the ECB's policy of negative interest rates had a clear impact on net interest income. In the first quarter of 2017, Hypo Landesbank Vorarlberg generated net interest income of TEUR 40,685 (31 March 2016: TEUR 41,981).

While loan loss provisions amounted to TEUR 5,049 in the previous year, provisions and write-downs were reversed in the first quarter of 2017, which resulted in risk costs of TEUR 3,008 as at 31 March 2017. Net interest income after loan loss provisions decreased from TEUR 47,030 in the previous year to TEUR 43,693. The Bank recognised sufficient provisions for all identifiable risks.

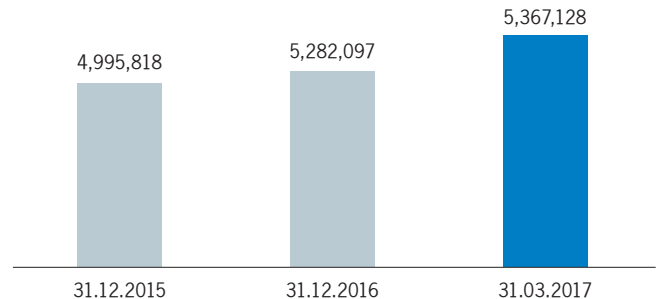
Hypo Landesbank Vorarlberg's net fee and commission income was relatively stable in the first three months of 2017. Net fee and commission income amounted to TEUR 9,015 as at 31 March 2017 (31 March 2016: TEUR 8,562).

The net trading result climbed from TEUR -452 in the previous year to TEUR 2,240, which is primarily attributable to measurement effects.

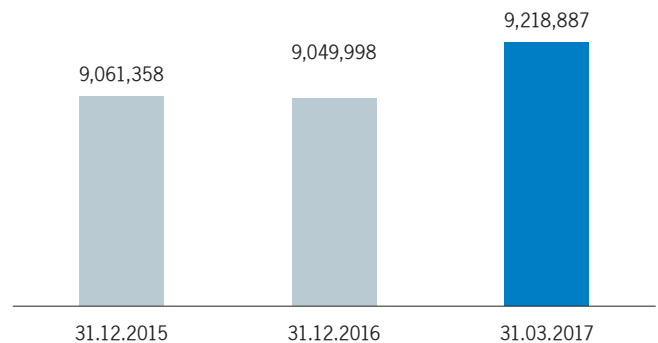
The headcount of 722 employees (full-time equivalents) was up 0.1% compared with the previous year. Staff costs increased only slightly from TEUR 15,322 to TEUR 15,412. At TEUR 8,658, material expenses were likewise up on the first quarter of the 2016 financial year (TEUR 8,281). Total administrative expenses in the first quarter of 2017 amounted to TEUR 25,687 and were therefore 2.3% higher than in the same period of the previous year (31 March 2016: TEUR 25,111).

The result from equity consolidation was TEUR -23,165 in the first quarter of 2017 and is attributable to the recent developments at HUBAG.

Development of liabilities to customers (in '000 EUR)



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



Adjusted for taxes, Hypo Landesbank Vorarlberg reported consolidated net income of TEUR -5,070 as at 31 March 2017 (31 March 2016: TEUR 13,786). The CIR of 64.80% and the overall total capital ratio of 15.36% serve to underline the fact that Hypo Landesbank Vorarlberg is a healthy, successful and efficient bank.

Balance sheet development

Total consolidated assets increased by 3.5% to TEUR 13,792,645 in the first quarter of 2017 (31 December 2016: TEUR 13,324,387). TEUR 9,218,887 of this is attributable to loans and advances to customers, up 1.9% on the previous year. There was also a slight rise in liabilities to customers of 1.6% to TEUR 5,367,128. Financial liabilities designated at fair value declined by 13.6% to TEUR 2,442,204 as at 31 March 2017 (31 December 2016: TEUR 2,826,384).

Own funds

The paid-in capital of Hypo Landesbank Vorarlberg amounted to TEUR 165,453. Own funds amounted to TEUR 1,156,915 as at 31 March 2017 (31 December 2016: TEUR 1,246,529). In the first quarter of 2017, the overall total capital ratio was 15.36% (31 December 2016: 16.52%).

With a Tier 1 capital (T1) ratio of 12.31% (31 December 2016: 13.33%) and a Common Equity Tier 1 (CET 1) ratio of 12.18% (31 December 2016: 13.21%), Hypo Landesbank Vorarlberg already fulfils the highest level of the Basel III standards applicable since 1 January 2014. These figures are comfortable in light of the risk profile.

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

Panama Papers

Following the publication of "Panama Papers" in early April 2016, with which Hypo Landesbank Vorarlberg was also linked, the Bank's offshore business was examined as part of a special investigation by the FMA. The Managing Board is confident that the Bank conducted its business within the legal framework at all times.

The Chairman of the Managing Board, Michael Grahammer, announced his resignation in April 2016 in response to the media's prejudgement of the Bank and of himself. At the request of the Supervisory Board, he remained available to the Bank until the end of 2016. The previous Chief Risk Officer, Michel Haller, was appointed as the designated Chairman of the Managing Board by the Supervisory Board on 10 August 2016 and assumed this role as of 1 January 2017. Wilfried Amann, who was previously a member of the board of another regional bank in Vorarlberg, was appointed as a new member of the Bank's Managing Board.

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

At the end of April 2016, the Vorarlberg SPÖ political party called for an inquiry board to investigate the Bank's offshore activities, which the Managing Board and Supervisory Board of the Bank felt to be an inappropriate means of addressing this issue. In autumn 2016, the inquiry board was cut short owing to a lack of results, and its last session was scheduled for 2 December 2016. In early 2017, the inquiry board issued its final report, which was supplemented by minority reports from the individual parties. The final report does not specify any measures for Hypo Landesbank Vorarlberg, and the minority reports only contain recommendations.

Rating of Hypo Landesbank Vorarlberg

In October 2015, Standard & Poor's (S&P) announced their rating for Hypo Landesbank Vorarlberg: "A-" for non-current liabilities and "A-2" for current liabilities, with a stable outlook. This makes us one of the best-rated banks in Austria. The Bank is currently rated "Baa1" by Moody's and this rating will remain in place for the time being.

DEVELOPMENT BY SEGMENT

Corporate Customers/Public Sector

As the leading corporate bank in Vorarlberg, Hypo Landesbank Vorarlberg offers its corporate customers a broad mix of financing and investment solutions. It can also offer corresponding expertise in alternative financing via the capital markets. The financing portfolio is rounded off by international services and expert consulting on funding programmes. Through its subsidiaries, Hypo Landesbank Vorarlberg supports its customers with leasing, insurance and real estate services.

The Corporate Customer business developed more or less stably in the first quarter of 2017. The low risk costs in particular point to the excellent condition of the companies in the Bank's market areas. This is a remarkable development, as the Managing Board continues to apply conservative measurement in lending business. Although companies are still very cautious with regard to new investments, the lending volume has been kept stable on the various markets.

Net interest income was increased from TEUR 22,017 to TEUR 22,556 in the first quarter of 2017. Net fee and commission income also increased slightly from TEUR 3,066 to TEUR 3,180. The development of the securities exchanges had a positive effect on net fee and commission income, while the further decline in foreign currency financing had a negative effect. The development in Corporate Customers was relatively balanced across all markets, with earnings and volume development in Vienna standing out in particular.

Especially due to low risk costs, the Corporate Customers segment generated total earnings before taxes of TEUR 18,664 as at 31 March 2017 (2016: TEUR 19,204).

Private Customers

In its Private Customer business, Hypo Landesbank Vorarlberg is synonymous with advisory services of the highest quality. Personal relationships and consulting continue to be the focus – especially in residential construction financing and demanding investments, although the Bank is steadily expanding its offering of digital services through the advancement of digitalisation.

Despite substantial challenges – low and negative interest rates, extensive regulations and strong competition – Hypo Landesbank Vorarlberg generated sound net interest income and net fee and commission income in the Private Customers segment in the first quarter of 2017. However, administrative and other expenses increased significantly, due to the high project and investment costs. These include investments in digital development and payments to the Deposit Guarantee Fund and the Single Resolution Fund. The low interest level is also having an effect, as the Bank currently pays 0.4% negative interest on its investments with the ECB. Overall, the Private Customers segment generated earnings before taxes of TEUR 545 in this period (2016: TEUR 2,251).

Long-term financing for the creation of housing is in high demand in the Private Customers segment. Both the number of financing arrangements concluded and the average financing amounts are rising continuously. At the same time, customer requirements are becoming increasingly individual: Hypo Landesbank Vorarlberg is responding with innovative solutions such as the Hypo-Lebenswert-Kredit and the Hypo-Lebenszeit-Kredit. Energy-saving investments are supported with Hypo-Klimakredit, as there is no processing fee and customers benefit from a reduced premium in the first years. Due to low interest rates, the demand for long-term interest rate fixing is still rising. The Bank gives its borrowers the opportunity to fix interest rates for up to 15 years. In the area of financing, the level of unscheduled repayments remains high.

While borrowers are benefiting from low interest rates, investors are being driven to reconsider the usual forms of investment and to find alternatives. To achieve a return above the rate of inflation, investors with a medium and long-term horizon also have to consider more risky investment forms. Hypo Landesbank Vorarlberg is meeting customer demand for returns and security with its own innovative asset management products.

One of Hypo Landesbank Vorarlberg's aims is to connect existing branches with the digital world in a way that enables customers to benefit from optimum interaction between technology and people. The customers decide how they want to communicate with us, and this may well be a mix of different channels.

Private Banking and Asset Management

For Hypo Landesbank Vorarlberg, Private Banking and Wealth Management means joining customers, when these customers have plans and trust the Bank with their financial affairs, on a consistent, long-term journey. As sparring partners for the customers, the advisors gain trust and understanding by listening carefully and taking time. This forms the basis for long-term and robust investment concepts. Excellent service, high-quality advice and attentiveness when handling the wealth entrusted to us

result in valuable recommendations by customers.

Customer demand for Hypo Landesbank Vorarlberg's own asset management strategies and investment products is growing because of the economically and politically challenging environment. The regular adjustment of the portfolio via the specially designed "Hypo asset optimisation process" gives customers – both private and corporate investors – the security of always investing in accordance with the market environment. The use of a large number of asset classes allows for flexible investing and for target returns to be achieved on a risk-optimised basis.

On these strong foundations, the Bank will continue expanding the top segment in its investment business, Wealth Management. The assets managed by Asset Management amounted to TEUR 883,743 in total as at 31 March 2017. The number of mandates managed was 2,936.

International performance standards in Asset Management

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

Financial Markets/Treasury

In the first quarter of 2017, the capital market showed itself at its best and developed very positively, even though there were major political uncertainties in Europe (elections), the USA (Trump) and the Far East (North Korea). Many state-guaranteed issues matured in the first quarter of 2017, which was covered by liquidity already refinanced.

A net volume of approximately TEUR 160,600 was invested in bonds by ALM/Investment in the first quarter of 2017. The weighted remaining term of these new investments is 6.4 years. The total volume of nostro bonds as at 31 March 2017 amounted to TEUR 2,655,000.

In the first quarter of 2017, eleven new issues were carried out with a total volume of around TEUR 554,000. This related to two promissory note loans totalling TEUR 12,500, five private placements in EUR, USD and RON with a nominal volume totalling TEUR 25,000, three retail issues with a total volume of TEUR 16,300 and one retained covered bond of TEUR 500,000 that was issued as security for the central bank refinancing. In addition, provision was already made in the first quarter for the high volume of maturities which will be due in autumn, partly by drawing TLTRO funding.

Readily accessible short-term liquidity increased by around TEUR 550,000 in the first quarter of 2017 to around TEUR 765,000 at the end of the quarter. This is desirable in light of the significant maturities over the course of the year, but the prevailing negative interest rates unfortunately mean that it involves substantial costs. There was a muted start to the year in the area of foreign exchange and interest rate derivatives trading, with income in the quarter down on the previous quarters.

Securities sales in the branches amounted to around TEUR 336,400 in the first quarter of 2017. The sales were thus increased by nearly TEUR 130,000 of around 60% compared to the same period of the previous year and were only slightly lower than in the first quarter of 2015. Bond investments continue to be of limited interest on account of the sustained low level of yields. Investment interest is focusing more on shares, certificates and warrants.

The volume under management in Fund Service declined slightly in the first quarter of 2017. One new public fund was launched, while additional special fund mandates, which we will take on at the end of the second quarter, were acquired from an existing customer by way of a tendering process.

The comparatively high volume of corporate bond issues and the increasing significance of the high-yield segments highlight the investment crisis and the risk appetite of many investors. Hypo Landesbank Vorarlberg participated in the issue of a retail bond of an Austrian issuer as co-manager. In addition, the issue of private placements and buybacks of own issues were supervised in the context of investor support.

As at 31 March 2017, the swap group managed 1,045 swaps, interest rate options and currency options with a nominal volume of around TEUR 9,500,000. The level of cash collateral changed from TEUR -20,600 to TEUR -30,500 due to market value changes.

The Financial Markets segment generated earnings before taxes of TEUR -4,424 as at 31 March 2017 (2016: TEUR -5,427). These earnings are attributable primarily to remeasurement effects. The further development of the business area in 2017 will largely depend on events on the financial markets.

Leasing and Real Estate

In addition to the Bank's core business segments, the "Corporate Centre" item includes the property and leasing business, insurance services and strategic investments.

Hypo Landesbank Vorarlberg's entire Austrian and Swiss leasing and real estate business is bundled in Hypo Immobilien & Leasing GmbH. The range of real estate services extends from real estate brokerage through property appraisal, construction

management and property management to facility management. It offers optimal financing solutions involving vehicle, movables and real estate leasing for private customers and SMEs. In the area of leasing, sales activities via bank employees in Eastern Austria were supplemented by the launch of direct sales throughout Austria.

Hypo Immobilien & Leasing GmbH has its headquarters at the Hypo Office in Dornbirn and additional locations in Bregenz, Bludenz, Feldkirch and Vienna. The area of property appraisal is currently being expanded further, particularly in Vienna. Since the end of 2015, the Vienna team of Hypo Immobilien & Leasing GmbH has been based in the Zacherlhaus building together with the Bank. The team in Vienna is now supported by a dedicated real estate broker.

Hypo Vorarlberg Leasing AG is a subsidiary of Hypo Landesbank Vorarlberg. The company has its head office in Bolzano and has branch offices in Como and Treviso. Hypo Vorarlberg Leasing develops leasing solutions in the real estate, renewable energy and municipality sectors. It offers its products and services on the northern Italian market.

The Corporate Centre generated earnings before taxes of TEUR -18,132 as at 31 March 2017 (2016: TEUR 999). The negative earnings are attributable to the recent developments at HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG), in which Hypo Landesbank Vorarlberg has a share of nearly 43.3%. Due to delays at the start of 2017 during the process of exiting a HUBAG investment in conjunction with the liquidity requirement arising in this investee as a result, in April 2017 the management of HUBAG remeasured this investment as at the 28 February 2017 reporting date on a worst-case scenario basis. A liquidity requirement was also identified at the level of HUBAG. Based on the figures contained in the 2016 consolidated financial statements, if HUBAG were to enter into insolvency this would lead to a write-down of the shares in companies valued at equity of up to TEUR 30,392 in 2017.

OUTLOOK

Economic environment

The Austrian economy developed more positively in 2016 than in the preceding years. GDP grew by over 1 % again for the first time in four years, posting growth of 1.5%. Demand grew substantially in Austria, with private households increasing their spending due to tax cuts and companies in many industries also reporting an improved situation. On the other hand, export demand, including from the US, shrank and it is not yet possible to foresee the nature of further developments under the new president.

The Austrian Economic Chambers expect economic growth of 1.5% for 2017. Although the inflation rate in Austria was below 1% for the second year in a row, it remained above average for the Euro area in 2016. Assuming an increase in the price of crude oil, the Austrian Institute of Economic Research (WIFO) expects inflation to rise to 1.7% in 2017, causing gross income per capita to stagnate in real terms.

Focus areas for 2017

The new Managing Board will continue to pursue Hypo Landesbank Vorarlberg's proven, broad-based business model, although the economic and legal environment is bringing about a change in thinking throughout the entire banking industry. A project was implemented in cooperation with an external consulting agency to strengthen and sharpen the brand's profile. The results of this project will be implemented comprehensively at the Bank and its subsidiaries over the course of 2017.

2017 will bring further major challenges for banks: new regulations require them to build up additional equity and secure a cost-optimal liquidity supply, while costs are rising continuously. Low and negative interest rates and constant new legal as well as technological challenges for banks and their services are also bringing about changes.

To ensure the profitability of Hypo Landesbank Vorarlberg in the long term, growth markets outside our home market of Vorarlberg are to be expanded in particular.

In its corporate customer business, Hypo Landesbank Vorarlberg is a recognised partner for medium-sized and large companies throughout Austria, Southern Germany and Eastern Switzerland. The Bank will continue to supply its business customers with financing and support them with alternative forms of financing via the capital market. However, in 2017 the Managing Board expects to see even weaker demand for credit than in previous years. Persistently low risk costs are anticipated on account of the solid economic situation of companies in the Bank's market areas.

Proximity to the customer and high-quality consulting services will continue to form the basis for all business relationships in

future. At the same time, Hypo Landesbank Vorarlberg is working on new technological innovations and will use pioneering new applications in the Corporate Customers segment in the future. An innovative application is currently being worked on in payment transactions in particular: "Hypo-Office-Banking" (HOB). HOB is based on the EBICS standard and will enable companies to manage all their national and international accounts in one web-based system. The application is expected to come onto the market in spring 2017. Investment business with entrepreneurs will also be expanded.

In the Private Customers segment, Hypo Landesbank Vorarlberg is distinguished primarily by services with intensive consulting requirements. Its customers benefit from individual solutions in residential construction financing and for securities transactions including Asset Management. The Bank is still expecting high demand in the financing sector, especially for the creation of housing.

In its investment business, the Bank's primary objective is to conserve its customers' wealth in real terms. In Private Banking and Asset Management, Hypo Landesbank Vorarlberg has developed an excellent reputation for itself in recent years. Building on this, the Wealth Management division will be advanced further and the product range will be expanded with new asset management strategies adapted to the challenging market conditions.

Digitalisation and changed customer behaviour necessitate new products, but also new business models. For this reason, Hypo Landesbank Vorarlberg has set itself the aim of using new technology to connect existing branches in a way that enables customers to benefit from optimum interaction. The Managing Board is confident that personal consulting will remain indispensable in future – especially for high-volume financing or comprehensive investment. For this reason, consulting expertise and training will be key issues in 2017 and beyond. The Bank remains clearly committed to its branches as an important sales channel. In order to provide flexibility and the highest possible level of service – and also as a sign of appreciation towards its customers – the Bank has increased field services and appointments outside of regular business hours.

At the same time, the range of online services is being continuously developed with the aim of enabling customers to buy products online for the first time in 2017. The new online banking system launched in autumn 2016 is also regularly updated with new functions.

Expected earnings development in 2017

Hypo Landesbank Vorarlberg continues to pursue cautious risk and accounting policies and will make corresponding additions to loan loss provisions. The Managing Board has always paid particular attention to a sustainable liquidity policy. The Bank thus holds extensive liquidity reserves to allow further organic expansion of the lending volume, meaning that a broad stabilisation of net interest income can be expected, albeit on a lower level than in the last few years.

The Managing Board expects net fee and commission income to stabilise in 2017. Interest-related business will remain a stable pillar of the Bank's earnings development in 2017, but is expected to decline on account of the low interest rate policy.

The majority of state guarantees expire in September 2017 and higher volumes will become due for repayment. In view of these maturities, pre-funding has already been carried out in recent years or outstanding issues prematurely bought back from the market. The remaining volume is being replaced in the course of new issuing activity and refinancing via the ECB (TLTRO).

Operating expenses will rise moderately and staff costs are also expected to increase slightly. Due to the deposit protection and single resolution fund, costs will be much higher for the Bank. The revision of the stability fee led to a very high advance payment in 2016. The ongoing payments will be lower as of 2017, which will have less impact on Hypo Landesbank Vorarlberg's earnings in the future overall.

Performance in the first few months of 2017 was satisfactory. The Managing Board is confident of achieving the anticipated earnings, which will nevertheless be much lower than the previous year's. The known economic and domestic political events require increased vigilance.

DISCLAIMER: The centralised portfolio management of Vorarlberger Landes- und Hypothekbank Aktiengesellschaft having registered offices in Bregenz qualifies as a firm within the meaning of the Global Investment Performance Standards (GIPS®). The firm comprises all asset management mandates of private and institutional customers as well as public funds that are managed in the context of the bank's centralised investment process. It does not include decentralised organisational units and other units of the group that operate independently. The firm is in compliance with the GIPS®. For a list of all composites along with a detailed description, please contact Vorarlberger Landes- und Hypothekbank Aktiengesellschaft at: +43 (0)50 414-1281 or e-mail us at gips@hypovbg.at.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS AT 31 MARCH 2017
I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD OF 1 JANUARY TO 31 MARCH 2017

Income statement

in '000 EUR	(Notes)	01.01.– 31.03.2017	01.01.– 31.03.2016	Change in '000 EUR	Change in %
Interest and similar income		62,026	65,125	-3,099	-4.8
Interest and similar expenses		-21,341	-23,144	1,803	-7.8
Net interest income	(2)	40,685	41,981	-1,296	-3.1
Loan loss provisions		3,008	5,049	-2,041	-40.4
Net interest income after loan loss provisions		43,693	47,030	-3,337	-7.1
Fee and commission income		9,779	9,270	509	5.5
Fee and commission expenses		-764	-708	-56	7.9
Net fee and commission income	(3)	9,015	8,562	453	5.3
Net result on hedge accounting	(4)	-446	3,014	-3,460	-
Net trading result (not including change in own credit risk)	(5)	2,240	-452	2,692	-
Net result from other financial instruments		-139	438	-577	-
Administrative expenses	(6)	-25,687	-25,111	-576	2.3
Other income		3,478	3,801	-323	-8.5
Other expenses		-11,814	-15,415	3,601	-23.4
Result from equity consolidation*		-23,165	1,691	-24,856	-
Operating result before change in own credit risk		-2,825	23,558	-26,383	-
Result from change in own credit risk		-522	-6,531	6,009	-92.0
Earnings before taxes		-3,347	17,027	-20,374	-
Taxes on income		-1,723	-3,241	1,518	-46.8
Consolidated net income		-5,070	13,786	-18,856	-
Of which attributable to:					
Parent company shareholders		-5,073	13,783	-18,856	-
Non-controlling interests		3	3	0	0.0

* The result from equity consolidation is attributable to the write-down of an investment by HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG). Due to changed exit opportunities and the associated liquidity requirement, HUBAG remeasured one of its investments.

Statement of comprehensive income

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016	Change in '000 EUR	Change in %
Consolidated net income	-5,070	13,786	-18,856	-
Items which can be reclassified to consolidated net income				
Changes to foreign currency translation reserve	-1	9	-10	-
Changes to AFS revaluation reserve	85	-1,769	1,854	-
of which changes in measurement	282	-2,201	2,483	-
of which changes in holdings	-168	-157	-11	7.0
of which income tax effects	-29	589	-618	-
Total items which can be reclassified to consolidated net income	84	-1,760	1,844	-
Items which cannot be reclassified to consolidated net income				
Changes to IAS 19 revaluation reserve	0	0	0	0.0
of which changes in measurement	0	0	0	0.0
of which income tax effects	0	0	0	0.0
Total items which cannot be reclassified to consolidated net income	0	0	0	0.0
Other income after taxes	84	-1,760	1,844	-
Total comprehensive income	-4,986	12,026	-17,012	-
Of which attributable to:				
Parent company shareholders	-4,989	12,023	-17,012	-
Non-controlling interests	3	3	0	0.0

II. BALANCE SHEET DATED 31 MARCH 2017

Assets

in '000 EUR	(Notes)	31.03.2017	31.12.2016	Change in '000 EUR	Change in %
Cash and balances with central banks		832,044	338,000	494,044	>100.0
Loans and advances to banks		495,430	575,289	-79,859	-13.9
Loans and advances to customers		9,218,887	9,049,998	168,889	1.9
Positive market values of hedges	(7)	88,967	98,811	-9,844	-10.0
Trading assets and derivatives	(8)	283,473	309,314	-25,841	-8.4
Financial assets – designated at fair value	(9)	764,379	802,208	-37,829	-4.7
Financial assets – available for sale	(10)	737,278	769,093	-31,815	-4.1
Financial assets – held to maturity	(11)	1,087,121	1,103,893	-16,772	-1.5
Shares in companies valued at equity		11,585	34,750	-23,165	-66.7
Investment property		59,210	59,158	52	0.1
Intangible assets		1,987	2,011	-24	-1.2
Property, plant and equipment		74,157	74,912	-755	-1.0
Tax assets		310	824	-514	-62.4
Deferred tax assets		12,880	9,198	3,682	40.0
Other assets		124,937	96,928	28,009	28.9
Total Assets		13,792,645	13,324,387	468,258	3.5

Liabilities and shareholders' equity

in '000 EUR	(Notes)	31.03.2017	31.12.2016	Change in '000 EUR	Change in %
Amounts owed to banks		1,316,425	560,377	756,048	>100.0
Amounts owed to customers		5,367,128	5,282,097	85,031	1.6
Liabilities evidenced by certificates	(12)	2,696,609	2,682,267	14,342	0.5
Negative market values of hedges	(7, 13)	140,284	146,847	-6,563	-4.5
Trading liabilities and derivatives	(8, 14)	216,477	233,043	-16,566	-7.1
Financial liabilities – designated at fair value	(15)	2,442,204	2,826,384	-384,180	-13.6
Provisions		49,018	49,257	-239	-0.5
Tax liabilities		19,345	19,521	-176	-0.9
Deferred tax liabilities		4,353	2,678	1,675	62.5
Other liabilities		101,281	77,962	23,319	29.9
Subordinated capital		390,098	389,015	1,083	0.3
Shareholders' equity		1,049,423	1,054,939	-5,516	-0.5
Of which attributable to:					
Parent company shareholders		1,049,382	1,054,901	-5,519	-0.5
Non-controlling interests		41	38	3	7.9
Total Liabilities and shareholder's equity		13,792,645	13,324,387	468,258	3.5

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Subscribed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve	Reserves from currency translation	Total parent company shareholders	Non-controlling interests	Total Shareholders' equity
Balance 1 January 2016	165.453	48.874	747.607	7.160	-1	969.093	48	969.141
Consolidated net income	0	0	13.783	0	0	13.783	3	13.786
Other income	0	0	4	-1.764	0	-1.760	0	-1.760
Comprehensive income 2016	0	0	13.787	-1.764	0	12.023	3	12.026
Dividends	0	0	-222	0	0	-222	0	-222
Balance 31 March 2016	165.453	48.874	761.172	5.396	-1	980.894	51	980.945
Balance 1 January 2017	165.453	48.874	832.025	8.551	-1	1.054.902	38	1.054.940
Consolidated net income	0	0	-5.073	0	0	-5.073	3	-5.070
Other income	0	0	-1	85	0	84	0	84
Comprehensive income 2017	0	0	-5.074	85	0	-4.989	3	-4.986
Other changes	0	0	-321	0	0	-321	0	-321
Dividends	0	0	-210	0	0	-210	0	-210
Balance 31 March 2017	165.453	48.874	826.420	8.636	-1	1.049.382	41	1.049.423

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

IV. CONDENSED CASH FLOW STATEMENT

Cashflows from operating activities

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Consolidated net income	-5,070	13,786
Non-cash items included in consolidated net income	-22,818	8,616
Change in assets from operating activities	-114,892	-49,456
Change in liabilities from operating activities	527,377	-19,783
Interest received	48,820	55,513
Interest paid	-20,695	-48,186
Income tax paid	-4,274	-4,116
Cash flows from operating activities	408,448	-43,626

Cashflows from investing activities

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Cash inflow from the sale/ repayment of Financial instruments		
Financial instruments	195,781	128,865
Property, plant and equipment and intangible assets	914	131
Cash outflows for investments in financial instruments		
Financial instruments	-129,243	-75,770
Property, plant and equipment and intangible assets	-461	-3,160
Interest received	18,340	20,457
Dividends and profit distributions received	233	401
Cash flows from investing activities	85,564	70,924

Cashflows from financing activities

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Cash changes in subordinated capital	88	-340
Dividends	-210	-222
Interest paid	154	1
Cash flows from financing activities	32	-561

Reconciliation to cash and balances with central banks

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Cash and balances with central banks at 1 January	338,000	712,491
Cash flows from operating activities	408,448	-43,626
Cash flows from investing activities	85,564	70,924
Cash flows from financing activities	32	-561
Cash and balances with central banks at 31 March	832,044	739,228

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

The same accounting standards observed in preparing the consolidated annual financial statements dated 31 December 2016 were applied to the consolidated interim financial statements.

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

All amounts are stated in thousand Euro (TEUR or '000 EUR) unless specified otherwise.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(2) NET INTEREST INCOME

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Income from cash and balances with central banks	-64	-269
Income from loans and advances to banks	1,648	1,549
Income from loans and advances to customers	34,533	37,799
Income from leasing business	5,694	5,809
Income from hedging instruments	7,524	5,700
Income from derivatives, other	3,169	3,450
Income from debt securities	9,290	10,686
Income from shares	151	319
Income from investments, other	81	82
Interest and similar income	62,026	65,125
Expenses from amounts owed to banks	-263	-716
Expenses from amounts owed to customers	-4,235	-8,148
Expenses from liabilities evidenced by certificates	-10,760	-6,871
Expenses from hedging instruments	-7,737	-9,097
Expenses from derivatives, other	-174	-153
Expenses from liabilities designated AFV	3,667	3,730
Expenses from supplementary capital	-1,839	-1,889
Interest and similar expenses	-21,341	-23,144
Net interest income	40,685	41,981

(3) NET FEE AND COMMISSION INCOME

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Lending and leasing business	1,230	1,134
Securities business	4,133	3,916
Giro and payment transactions	3,024	2,935
Other service business	1,392	1,285
Fee and commission income	9,779	9,270

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Lending and leasing business	-184	-123
Securities business	-302	-314
Giro and payment transactions	-272	-257
Other service business	-6	-14
Fee and commission expenses	-764	-708

(4) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Adjustment to loans and advances to banks	-279	5,947
Adjustment to loans and advances to customers	-819	13,706
Adjustment to financial instruments available for sale	-4,266	5,503
Adjustment to liabilities to banks	76	-267
Adjustment to liabilities to customers	2,461	-12,907
Adjustment to securitised liabilities	9,004	-36,093
Adjustment to subordinated capital	998	-4,156
Net result from adjustment to underlying transactions from hedging	7,175	-28,267
Measurement of hedging instruments for loans and advances to banks	-153	-5,038
Measurement of hedging instruments for loans and advances to customers	999	-14,222
Measurement of hedging instruments for available for sale financial instruments	4,394	-5,566
Measurement of hedging instruments for liabilities to banks	-82	275
Measurement of hedging instruments for liabilities to customers	-2,599	13,902
Measurement of hedging instruments for securitised liabilities	-9,040	37,257
Measurement of hedging instruments for subordinated capital	-1,140	4,673
Net result of the measurement of hedging instruments	-7,621	31,281
Net result on hedge accounting	-446	3,014

(5) NET TRADING RESULT (NOT INCLUDING CHANGE IN OWN CREDIT RISK)

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Trading results	3,409	3,060
Result from the valuation of financial instruments – HFT	-33	-33
Result from the valuation of derivatives	-18,821	-2,295
Result from the valuation of financial instruments – AFV	17,685	-1,184
Net trading result (not including change in own credit risk)	2,240	-452

(6) ADMINISTRATIVE EXPENSES

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

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Staff costs	-15,412	-15,322
Material expenses	-8,658	-8,281
Depreciation/amortisation of property, plant and equipment and intangible assets	-1,617	-1,508
Administrative expenses	-25,687	-25,111

Of which staff costs

in '000 EUR	01.01.– 31.03.2017	01.01.– 31.03.2016
Wages and salaries	-11,598	-11,449
Statutory social security contributions	-3,016	-2,952
Voluntary social benefits	-345	-352
Expenses for retirement benefits	-436	-577
Social capital	-17	8
Staff costs	-15,412	-15,322

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

in '000 EUR	31.03.2017	31.12.2016
Positive market values of fair value hedges	70,190	81,664
Deferred interest on derivative hedges	18,777	17,147
Positive market values of hedges	88,967	98,811

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

in '000 EUR	31.03.2017	31.12.2016
Interest rate swaps	3,871,737	3,833,147
Cross currency swaps	190,799	195,006
Interest rate derivatives	4,062,536	4,028,153
Derivatives	4,062,536	4,028,153

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

in '000 EUR	31.03.2017	31.12.2016
Interest rate swaps	69,606	80,796
Cross currency swaps	584	868
Interest rate derivatives	70,190	81,664
Derivatives	70,190	81,664

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

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

in '000 EUR	31.03.2017	31.12.2016
Investment certificates	634	661
Positive market values of derivative financial instruments	245,857	271,093
Deferred interest	36,982	37,560
Trading assets and derivatives	283,473	309,314

Nominal values from derivatives – breakdown by type of business

in '000 EUR	31.03.2017	31.12.2016
Interest rate swaps	3,944,688	4,015,900
Cross currency swaps	1,332,475	1,283,800
Interest rate options	230,273	230,273
Interest rate derivatives	5,507,436	5,529,973
FX forward transactions	274,452	291,676
FX swaps	122,274	238,380
FX options	4,632	3,161
Currency derivatives	401,358	533,217
Derivatives	5,908,794	6,063,190

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

in '000 EUR	31.03.2017	31.12.2016
Interest rate swaps	191,923	220,582
Cross currency swaps	49,498	44,269
Interest rate options	2,199	2,345
Interest rate derivatives	243,620	267,196
FX forward transactions	2,097	2,994
FX swaps	77	727
FX options	63	176
Currency derivatives	2,237	3,897
Derivatives	245,857	271,093

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

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

in '000 EUR	31.03.2017	31.12.2016
Debt securities of public issuers	189,554	190,524
Debt securities of other issuers	126,265	142,843
Investment certificates	2,767	2,770
Other equity interests	0	5,410
Loans and advances to customers	443,168	454,932
Deferred interest	2,625	5,729
Financial assets – at fair value	764,379	802,208

(10) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

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

in '000 EUR	31.03.2017	31.12.2016
Debt securities of public issuers	339,516	329,611
Debt securities of other issuers	352,584	391,179
Shares	110	110
Investment certificates	5,863	5,835
Other equity interests	19,867	19,913
Deferred interest	8,071	11,209
Other equity investments	11,239	11,208
Other investments in affiliated companies	28	28
Financial assets – available for sale	737,278	769,093

(11) FINANCIAL ASSETS HELD TO MATURITY (HTM)

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

in '000 EUR	31.03.2017	31.12.2016
Debt securities of public issuers	266,476	282,147
Debt securities of other issuers	807,441	795,733
Supplementary capital of other issuers	0	10,000
Deferred interest	13,204	16,013
Financial assets – held to maturity	1,087,121	1,103,893

(12) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

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

in '000 EUR	31.03.2017	31.12.2016
Mortgage bonds	1,121,890	1,127,574
Municipal bonds	41,878	42,470
Medium-term fixed-rate notes	1,647	1,827
Bonds	1,305,772	1,260,247
Housing construction bonds	31,281	57,176
Bonds issued by Pfandbriefbank	175,884	175,876
Deferred interest	18,257	17,097
Liabilities evidenced by certificates	2,696,609	2,682,267

(13) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.03.2017	31.12.2016
Negative market values of fair value hedges	126,289	130,969
Deferred interest on derivative hedging instruments	13,995	15,878
Negative market values of hedges	140,284	146,847

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

in '000 EUR	31.03.2017	31.12.2016
Interest rate swaps	89,292	96,764
Cross currency swaps	36,997	34,205
Interest rate derivatives	126,289	130,969
Derivatives	126,289	130,969

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

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

in '000 EUR	31.03.2017	31.12.2016
Negative market values of derivative financial instruments	212,698	228,421
Deferred interest	3,779	4,622
Trading liabilities and derivatives	216,477	233,043

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

in '000 EUR	31.03.2017	31.12.2016
Interest rate swaps	83,944	134,705
Cross currency swaps	86,212	88,626
Interest rate options	1,815	1,903
Interest rate derivatives	171,971	225,234
FX forward transactions	40,462	2,570
FX swaps	202	441
FX options	63	176
Currency derivatives	40,727	3,187
Derivatives	212,698	228,421

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

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

in '000 EUR	31.03.2017	31.12.2016
Amounts owed to banks at fair value	149,956	149,837
Amounts owed to customers at fair value	538,186	559,628
Mortgage bonds at fair value	25,938	26,206
Municipal bonds at fair value	729,552	734,990
Bonds at fair value	673,320	1,025,826
Housing construction bonds at fair value	196,071	199,672
Bonds issued by Pfandbriefbank at fair value	40,211	40,189
Supplementary capital at fair value	55,796	55,633
Deferred interest	33,174	34,403
Financial liabilities at fair value	2,442,204	2,826,384

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

in '000 EUR	31.03.2017	31.12.2016
Liabilities from financial guarantees	354,986	318,242
Other contingent liabilities	24,331	29,054
Contingent liabilities	379,317	347,296

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

in '000 EUR	31.03.2017	31.12.2016
Credit commitments and unutilised credit lines	1,743,775	1,836,215
Credit risks	1,743,775	1,836,215

(17) HUMAN RESOURCES

	01.01.– 31.03.2017	01.01.– 31.03.2016
Full-time salaried staff	627	628
Part-time salaried staff	83	85
Apprentices	10	6
Full-time other employees	2	2
Average number of employees	722	721

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

in '000 EUR				
31.12.2016	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	97,487	1,324	98,811
Trading assets and derivatives	661	251,026	57,627	309,314
Financial assets – at fair value	71,713	571,374	159,121	802,208
Financial assets – available for sale	714,900	0	54,193	769,093
Total assets	787,274	919,887	272,265	1,979,426
Reclassification of assets from levels 2 and 3 to level 1	7,500	-7,500	0	0
Reclassification of assets from levels 1 and 3 to level 2	0	171,149	-171,149	0
Derivative hedging instruments	0	136,488	10,359	146,847
Trading liabilities and derivatives	0	220,083	12,960	233,043
Financial liabilities – at fair value	428,047	683,453	1,714,884	2,826,384
Total liabilities	428,047	1,040,024	1,738,203	3,206,274
Reclassification of assets from levels 2 and 3 to level 1	0	0	0	0
Reclassification of assets from levels 1 and 3 to level 2	-361,059	365,444	-4,385	0

in '000 EUR				
31.03.2017	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	85,101	3,866	88,967
Trading assets and derivatives	634	231,999	50,840	283,473
Financial assets – at fair value	67,456	552,204	144,719	764,379
Financial assets – available for sale	677,838	5,036	54,404	737,278
Total assets	745,928	874,340	253,829	1,874,097
Reclassification of assets from levels 2 and 3 to level 1	0	0	0	0
Reclassification of assets from levels 1 and 3 to level 2	0	0	0	0
Derivative hedging instruments	0	126,076	14,208	140,284
Trading liabilities and derivatives	0	188,757	27,720	216,477
Financial liabilities – at fair value	427,010	318,426	1,696,768	2,442,204
Total liabilities	427,010	633,259	1,738,696	2,798,965
Reclassification of liabilities from levels 2 and 3 to level 1	0	0	0	0
Reclassification of liabilities from levels 1 and 3 to level 2	0	0	0	0

Fair value hierarchy for financial assets – breakdown by class

in '000 EUR 31.12.2016	Level 1	Level 2	Level 3	Gesamt
Interest rate swaps	0	96,901	1,277	98,178
Cross currency swaps	0	586	47	633
Derivative hedging instruments	0	97,487	1,324	98,811
Interest rate swaps	0	202,085	54,454	256,539
Cross currency swaps	0	45,817	0	45,817
Interest rate options	0	1,157	1,243	2,400
Currency options	0	176	0	176
Foreign exchange forwards	0	1,791	1,930	3,721
Investment funds	661	0	0	661
Trading assets and derivatives	661	251,026	57,627	309,314
Bonds	68,943	257,688	8,837	335,468
Investment funds	2,770	0	0	2,770
Other	0	0	5,634	5,634
Loans and credit	0	313,686	144,650	458,336
Financial assets – designated at fair value	71,713	571,374	159,121	802,208
Bonds	711,853	0	20,146	731,999
Investment funds	3,047	0	2,788	5,835
Shares	0	0	110	110
Other	0	0	31,149	31,149
Financial assets – available for sale	714,900	0	54,193	769,093

in '000 EUR 31.03.2017	Level 1	Level 2	Level 3	Gesamt
Interest rate swaps	0	84,133	3,534	87,667
Cross currency swaps	0	968	332	1,300
Derivative hedging instruments	0	85,101	3,866	88,967
Interest rate swaps	0	221,574	43,878	265,452
Cross Currency swaps	0	8,814	5,144	13,958
Interest rate options	0	1,048	1,153	2,201
Currency options	0	61	0	61
Foreign exchange forwards	0	502	665	1,167
Investment funds	634	0	0	634
Trading assets and derivatives	634	231,999	50,840	283,473
Bonds	64,689	243,696	8,833	317,218
Investment funds	2,767	0	0	2,767
Loans and credits	0	308,508	135,886	444,394
Financial assets – designated at fair value	67,456	552,204	144,719	764,379
Bonds	674,763	5,036	20,371	700,170
Investment funds	3,075	0	2,788	5,863
Shares	0	0	110	110
Other	0	0	31,135	31,135
Financial Assets – available for sale	677,838	5,036	54,404	737,278

Fair value hierarchy for financial liabilities – breakdown by class

in '000 EUR				
31.12.2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	106,706	3,751	110,457
Cross currency swaps	0	29,782	6,608	36,390
Derivative hedging instruments	0	136,488	10,359	146,847
Interest rate swaps	0	131,804	8,566	140,370
Cross currency swaps	0	84,616	2,925	87,541
Interest rate options	0	1,838	108	1,946
Currency options	0	147	30	177
Foreign exchange forwards	0	1,678	1,331	3,009
Trading liabilities and derivatives	0	220,083	12,960	233,043
Deposits	0	0	716,141	716,141
Bonds	428,047	663,553	962,708	2,054,308
Subordinated capital	0	19,900	36,035	55,935
Financial liabilities – designated at fair value	428,047	683,453	1,714,884	2,826,384

in '000 EUR				
31.03.2017	Level 1	Level 2	Level 3	Total
Interest rate swaps	0	118,485	13,308	131,793
Cross currency swaps	0	7,591	900	8,491
Derivative hedging instruments	0	126,076	14,208	140,284
Interest rate swaps	0	174,930	26,924	201,854
Cross currency swaps	0	10,984	269	11,253
Interest rate options	0	1,716	101	1,817
Currency options	0	0	61	61
Foreign exchange forwards	0	1,127	365	1,492
Trading liabilities and derivatives	0	188,757	27,720	216,477
Deposits	0	0	698,844	698,844
Bonds	427,010	298,052	961,836	1,686,898
Subordinated capital	0	20,374	36,088	56,462
Financial liabilities – designated at fair value	427,010	318,426	1,696,768	2,442,204

Development of financial instruments in Level 3

in '000 EUR 2016	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassifica- tion to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	361	0	0	0	0	963	1,324
Trading assets and derivatives	71,381	0	0	0	-1,918	-11,836	57,627
Financial assets – designated at fair value	366,046	0	0	0	-157,247	-49,678	159,121
Financial assets – available for sale	40,655	139	0	10,877	0	2,522	54,193
Total assets	478,443	139	0	10,877	-159,165	-58,029	272,265
Derivative hedging instruments	9,666	0	0	0	0	693	10,359
Trading liabilities and derivatives	8,013	0	0	0	-90	5,037	12,960
Financial liabilities – designated at fair value	1,781,158	15,000	-98,612	5,102	-4,314	16,550	1,714,884
Total liabilities	1,798,837	15,000	-98,612	5,102	-4,404	22,280	1,738,203

in '000 EUR 2017	Opening balance	Purchases/ issues	Sales/ repay- ments	Addition from Level 1 and Level 2	Reclassifica- tion to Level 1 and Level 2	Changes in fair value	Closing balance
Derivative hedging instruments	1,324	0	0	2,215	0	327	3,866
Trading assets and derivatives	57,627	0	0	0	0	-6,787	50,840
Financial assets – designated at fair value	159,121	0	-5,634	0	0	-8,768	144,719
Financial assets – available for sale	54,193	62	-30	0	0	179	54,404
Total assets	272,265	62	-5,664	2,215	0	-15,049	253,829
Derivative hedging instruments	10,359	0	0	0	0	3,849	14,208
Trading liabilities and derivatives	12,960	0	0	18,569	0	-3,809	27,720
Financial liabilities – designated at fair value	1,714,884	0	-22,649	0	0	4,533	1,696,768
Total liabilities	1,738,203	0	-22,649	18,569	0	4,573	1,738,696

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

Disclosures regarding sensitivity of internal input factors

in '000 EUR	Positive fair value change with alternative measurement parameters		Negative fair value change with alternative measurement parameters	
	31.03.2017	31.12.2016	31.03.2017	31.12.2016
	Derivatives	284	376	-414
Financial assets – designated at fair value	827	896	-848	-1,015
of which securities	0	0	0	0
of which loans and credits	827	896	-848	-1,015
Financial assets – available for sale	127	176	-159	-218
Financial liabilities – designated at fair value	-6,489	-7,234	6,489	7,234
of which issues	-4,533	-4,800	4,533	4,800
of which time deposits	-1,956	-2,434	1,956	2,434
Total	-5,251	-5,786	5,068	5,454

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2017	22,556	8,122	1,211	8,796	40,685
	2016	22,017	8,921	2,534	8,509	41,981
Loan loss provisions	2017	3,427	465	-22	-862	3,008
	2016	3,985	667	83	314	5,049
Net fee and commission income	2017	3,180	4,550	506	779	9,015
	2016	3,066	4,399	397	700	8,562
Result from hedge relationships	2017	0	0	-446	0	-446
	2016	0	0	3,014	0	3,014
Net trading result (not including change in own credit risk)	2017	408	378	1,419	35	2,240
	2016	486	399	-1,186	-151	-452
Result from other financial instruments	2017	0	0	-139	0	-139
	2016	13	0	425	0	438
Administrative expenses	2017	-9,310	-11,060	-2,320	-2,997	-25,687
	2016	-8,696	-10,901	-2,300	-3,214	-25,111
Other income	2017	144	236	4	3,094	3,478
	2016	131	117	61	3,492	3,801
Other expenses	2017	-1,741	-2,146	-4,115	-3,812	-11,814
	2016	-1,798	-1,351	-1,924	-10,342	-15,415
Result from equity consolidation	2017	0	0	0	-23,165	-23,165
	2016	0	0	0	1,691	1,691
Operating result before change in own credit risk	2017	18,664	545	-3,902	-18,132	-2,825
	2016	19,204	2,251	1,104	999	23,558
Result from change in own credit risk	2017	0	0	-522	0	-522
	2016	0	0	-6,531	0	-6,531
Earnings before taxes	2017	18,664	545	-4,424	-18,132	-3,347
	2016	19,204	2,251	-5,427	999	17,027
Assets	2017	5,935,349	1,960,490	4,362,974	1,533,832	13,792,645
	2016	5,772,814	1,994,650	3,992,595	1,564,328	13,324,387
Liabilities and shareholders' equity	2017	2,348,857	3,122,175	7,609,499	712,114	13,792,645
	2016	2,310,832	3,200,631	7,095,789	717,135	13,324,387
Liabilities (incl. own issues)	2017	1,961,866	3,034,593	7,278,831	467,932	12,743,222
	2016	1,912,516	3,109,884	6,820,063	426,985	12,269,448

F. FINANCIAL RISKS AND RISK MANAGEMENT

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

(19) OVERALL RISK MANAGEMENT

The Bank's operations involve the following risks:

- **Credit risk:** This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods and currency or concentration risks in lending business.
- **Market risks:** The common characteristic of these risks is that they result from price changes in money and capital markets. Market price risks are categorised as interest rate, spread change, stock price, foreign currency or commodity risks.
- **Liquidity risk:** Liquidity risks can be broken down into maturity and retrieval risks, structural liquidity risk (rollover financing risk) and market liquidity risk. Maturity risk is an unplanned extension of maturities in the lending business. Retrieval risk is the risk that credit commitments are unexpectedly utilised or deposits withdrawn. As a result, a bank may no longer be able to fully meet its payment obligations. Structural liquidity risk arises from the possibility that the required roll-over financing may only be available at less favourable conditions, or not at all. Market liquidity risk is in evidence when positions can only be sold immediately by taking a loss.
- **Operational risk:** This includes the risk of direct or indirect losses caused by human error, process deficits, technological failure, or external influence. Operational risks also include legal risk.
- **Shareholder risk:** This covers items including private equity, mezzanine financing, subordinated financing and investments in funds with these components. This also includes subordinated banking securities.
- **Real estate risk:** This refers to the risk of fluctuations in the value of property owned by the Group. This especially includes properties which serve as collateral (including leased assets) and cannot be sold promptly to third parties as part of realisation ("foreclosed assets"). This does not include owner-occupied properties.
- **Risk of excessive indebtedness:** That means the risk of a low capital ratio.
- **Money laundering and financing of terrorism:** The Bank continues to counter this risk by all countermeasures provided.
- **Model risks:** This is the risk of significant underestimation of the capital backing for major risks in the risk-bearing capacity statement due to false input parameters, false premises, false models or incorrect application of these models.

- **Other risks:** These include above all those types of risks for which only rudimentary or no quantification methods exist. Specifically, strategic, reputation, equity, performance and business risks may be classified as other risks.

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

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

The overall risk management of Hypo Landesbank Vorarlberg is based on a strict separation between Front Office and Back Office. The risk management functions of Hypo Landesbank Vorarlberg are bundled under the responsibility of the Managing Board member responsible for risk management. Risk controlling at Hypo Landesbank Vorarlberg is developed and implemented by group risk controlling. This unit measures the risks on a group level. The independent assessment and approval of credit applications is carried out by the credit management departments for corporate and private customers.

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

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

Non-performing loans correspond to the regulatory asset class of loans in arrears. In the first quarter 2017, non-performing loans increased from TEUR 311,699 to TEUR 312,820.

Maturity transformation is at a moderate level. The Bank's risk-bearing capacity was guaranteed at all times within the limits set by the Managing Board. No significant repayments of the Bank's own bonds are scheduled for this year. The corresponding liquidity is already available (primarily due to the participation in the ECB'S TLTRO).

The value at risk (VaR) for general market risk compared to the previous year developed as follows:

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

in '000 EUR	2017	2016
January	12,740	15,126
February	12,049	16,090
March	10,023	16,997

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

in '000 EUR	2017	2016
January	2,024	2,504
February	1,883	1,296
March	1,522	1,585

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

in '000 EUR	2017	2016
January	444	606
February	428	622
March	350	627

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

in '000 EUR	2017	2016
January	7,178	1,137
February	7,054	1,195
March	6,282	1,189

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

in '000 EUR	2017	2016
January	11,644	15,355
February	11,104	16,354
March	9,891	17,648

(20) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

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

Total risk exposure according to CRR

in '000 EUR	31.03.2017	31.12.2016
Risk-weighted exposure amount	7,050,910	7,055,220
Total risk exposure amount for settlement/delivery	0	0
Total risk exposure amount for position, foreign exchange and commodities risks	423	492
Total risk exposure amount for operational risk	442,563	450,246
Total risk exposure amount for credit valuation adjustment	37,600	38,215
Total risk exposure amount	7,531,496	7,544,173

Common Equity Tier 1 capital (CET1) according to CRR

in '000 EUR	31.03.2017	31.12.2016
Capital instruments eligible as CET1 capital	184,327	184,327
Retained earnings	588,272	671,984
Accumulated other comprehensive income	8,549	8,549
Other reserves	128,472	128,472
Transitional adjustment due to grandfathered CET1 capital instruments	15,000	18,000
Minority interests given recognition in CET1 capital	22	17
Transitional adjustment due to additional minority interests	3	12
Adjustments to CET1 due to prudential filters	2,769	2,769
Intangible assets	-1,936	-1,960
Other transitional adjustments to CET1 capital	-7,841	-15,674
Common equity Tier 1 capital (CET1)	917,637	996,496

Additional Tier 1 capital (AT1) according to CRR

in '000 EUR	31.03.2017	31.12.2016
Capital instruments eligible as AT1 capital	10,000	10,000
Instruments issued by subsidiaries that are given recognition in AT1 capital	5	4
Transitional adjustment due to additional recognition in AT1 capital of instruments issued by subsidiaries	-1	-2
Other transitional adjustments to AT1 capital	-387	-783
Additional Tier 1 capital (AT1)	9,617	9,219

Tier 2 capital (T2)

in '000 EUR	31.03.2017	31.12.2016
Capital instruments and subordinated loans eligible as T2 capital	229,656	240,810
Instruments issued by subsidiaries that are given recognition in T2 capital	7	6
Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries	-2	-2
Tier 2 capital (T2)	229,661	240,814

Composition of own funds in accordance with CRR and capital ratios

in '000 EUR	31.03.2017	31.12.2016
Common equity Tier 1 capital (CET1)	917,637	996,496
Additional Tier 1 capital (AT1)	9,617	9,219
Tier 1 capital	927,253	1,005,715
Tier 2 capital (T2)	229,661	240,814
Own funds	1,156,915	1,246,529
CET1 capital ratio	12.18%	13.21%
Surplus of CET1 capital	578,719	657,009
T1 capital ratio	12.31%	13.33%
Surplus of T1 capital	475,363	553,065
Total capital ratio	15.36%	16.52%
Surplus of total capital	554,395	642,995

Because our auditor's report for 2016 was signed on 10 April 2017, the 2016 retained earnings of TEUR 100,509 were not yet included as at 31 March 2017, in compliance with Article 26 (2) CRR. For this reason, the own funds, ratios and surpluses reported as at 31 March 2017 are lower than the audited and affirmed year-end figures.

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

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

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

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

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

Bregenz, 12 June 2017

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The members of the Managing Board



Michel Haller
Chairman of the Managing board

Risk Management



Johannes Hefel
Managing Board member

Private Customers



Wilfried Amann
Managing Board member

Corporate Customers

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