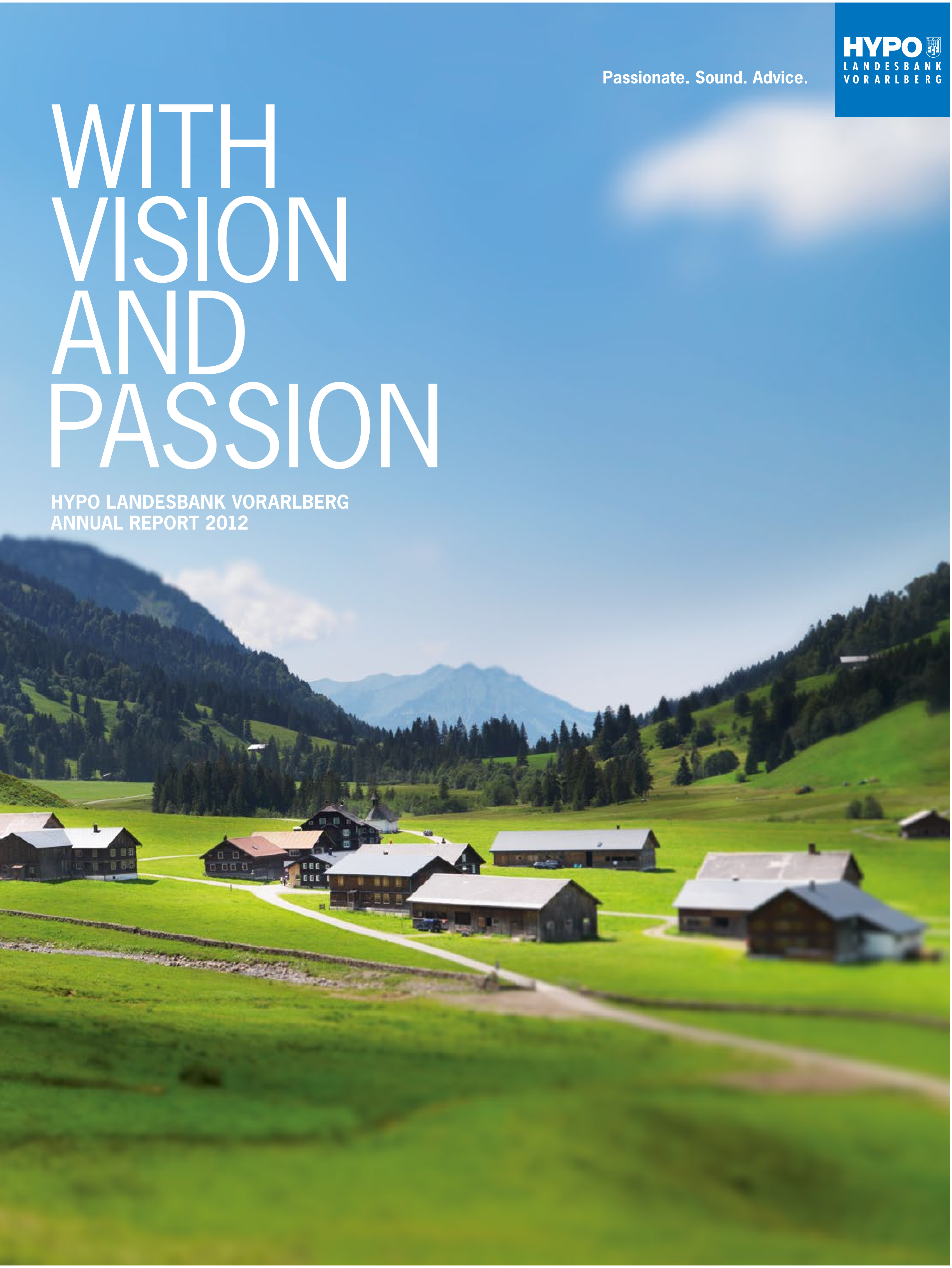
Passionate. Sound. Advice.

WITH VISION AND PASSION

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2012



Passionate. Sound. Advice.

KEY FIGURES 2012

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

in '000 EUR		31.12.2012	31.12.2011	Change	
				in '000 EUR	in %
Total assets		14,505,175	14,213,364	291,811	2.1
Loans and advances to customers (L&R)	(18)	8,585,799	8,520,964	64,835	0.8
Amounts owed to customers (LAC)	(33)	4,743,920	4,230,744	513,176	12.1
Liabilities evidenced by certificates (LAC)	(34)	1,389,115	1,489,110	−99,995	−6.5
Capital resources pursuant to the Austrian Banking Act	(67)	1,198,165	1,051,779	146,386	13.9
thereof core capital Tier 1		743,236	721,725	21,511	3.0

in '000 EUR		2012	2011	Change	
				in '000 EUR	in %
Net interest income after loan loss provisions		142,285	149,333	−7,048	−4.7
Net fee and commission income	(8)	37,588	39,907	−2,319	−5.8
Net trading result *	(10)	64,324	−20,924	85,248	–
Administrative expenses	(12)	−91,000	−79,670	−11,330	14.2
Earnings before taxes *		146,343	81,620	64,723	79.3

* includes premature repurchase of hybrid loans (Tier 1 capital) worth 39,806,000

Key figures		2012	2011	Change	
				Absolute	in %
Cost-income ratio (CIR)		47.10%	39.68%	7.42%	18.7
Solvency ratio (banking book)	(67)	15.80%	13.26%	2.54%	19.2
Return on equity (ROE) *		23.41%	14.23%	9.18%	64.5
Employees	(55)	728	724	4	0.6

* includes premature repurchase of hybrid loans (Tier 1 capital) worth 39,806,000

The shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft
(Hypo Landesbank Vorarlberg) as at 31 December 2012 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	Aaa
for liabilities without state deficiency guarantee (as of 2 April 2007)	A1
Short-term	P-1

* On 21 February 2012, the rating agency Moody's posted a negative outlook for Austria and also changed the outlook for numerous banks, including Hypo Landesbank Vorarlberg, from stable to negative.

This translation of the original German version of the annual report has been prepared for the convenience of English-speaking readers. The German version is authoritative.

WITH VISION AND PASSION

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2012

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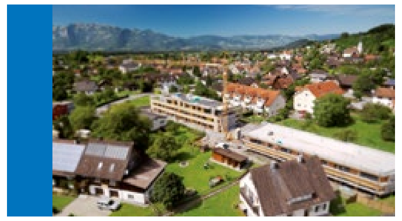

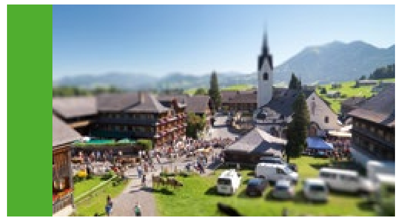

FOREWORD

CORPORATE GOVERNANCE

GROUP MANAGEMENT REPORT

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FINANCIAL STATEMENTS (IFRS)

BRANCH OFFICES | SUBSIDIARIES

WITH STABILITY AND DRIVE

HYPO LANDESBANK VORARLBERG
CORPORATE BANK | RESIDENTIAL BANK | INVESTMENT BANK

Johannes Hefel
Member of the Managing Board

Michael Grahammer
CEO, Chairman of the Managing Board

Michel Haller
Member of the Managing Board

WITH OPTIMISM AND CLEAR OBJECTIVES

HYPO LANDESBANK VORARLBERG FOREWORD – MANAGING BOARD

Dear reader

The past year 2012 was again rife with economic and political challenges and not just for the financial industry. Many global economic developments continue to be viewed with a degree of uncertainty. Therefore, we are especially pleased that we can report another successful business year at Hypo Landesbank Vorarlberg. Earnings before taxes of EUR 146.3 million resulted from our enduring, stable customer and interest business, our balanced loan portfolio and our consistent cost management. The large increase over the previous year of 79.3% is largely attributable to a one-off effect from the repurchase of hybrid capital loans.

The real economy in Austria is robust
Despite the economic slowdown in Europe, 2012 was a good year for the Austrian real economy, especially in our market areas. This is illustrated by the positive growth in corporate customer business and we remain the clear leader in Vorarlberg in this area.

Overall, we are observing a positive order situation in businesses. However, there was restraint in willingness to invest which resulted in slower growth in lending compared to the previous year. The fact that easily available, long-term loans are no longer a matter of course in the commercial sector has required a change in thinking. Companies have learned to deal with this new reality and are discovering other financing alternatives.

Proven business model will be consistently adhered to
Changes in the Managing Board last year led to reflection on the future strategy of the Bank. Hypo Landesbank Vorarlberg has always earned its results through customer business. The Managing Board did not enter into speculative lines of business, but rather focussed on our core business which is our customers. Thus, we even benefited from the financial crisis and reinforced our position as a sound, down-to-earth Bank in our region and throughout Austria. It is important for us to emphasise that at Hypo Landesbank Vorarlberg the customer remains the focal point. Personal, direct contact between people is the basis of our success and customer business is inseparably bound to the personal commitment of our staff. All this confirms our sustainable business policy that we will adhere to in the future. The theme of this year's annual report is fittingly "With vision and passion".

Strong capital position
Hypo Landesbank Vorarlberg is a very well established business – robust and sound. To optimise the capital structure and in view of the higher capital requirements under Basel III, we conducted a capital increase in 2012 and with our capital resources and liquidity ratio remain one of the best banks in Austria. In the past year we also repurchased two outstanding hybrid capital loans. The necessary capital replacement was accomplished through the successful issue of a subordinated bond in autumn. The strong demand during the subscription period resulted in an increase to EUR 100 million in funds. This confirms the great trust our customers have in Hypo Landesbank Vorarlberg.

At the same time we have eliminated areas that are not part of our core business in order to better serve our target group, middle-sized businesses in Austria. We are on a solid foundation and well prepared for the stricter regulatory requirements of the future. Our debt/equity ratio was 15.80% as per 31 December 2012, and core capital ratio also increased to 9.80%. We are well above the statutory minimum requirements and already have met the Basel III requirements for 2018. The necessary liquidity is also available from our high level of primary deposits. Our focus will remain on maintaining a solid capital base to ensure long-term growth opportunities and the independence of the Bank.

Many years of trust and loyalty
We thank our customers, business partners and shareholder representatives for the renewed trust they have given us in 2012. We would like to thank our employees for their great commitment and the results it has achieved. With this foundation, we are well equipped for the future and confidently approach the coming year.

The Managing Board
Michael Grahammer
Johannes Hefel
Michel Haller

WITH DIRECTNESS AND TRANSPARENCY

HYPO LANDESBANK VORARLBERG
INTERVIEW WITH MICHAEL GRAHAMMER

Curriculum Vitae of Michael Grahammer
Michael Grahammer (48) has been a member of the Board of Hypo Landesbank Vorarlberg since 2004 and took over the position of Chairman, Managing Board from Jodok Simma effective 1 May 2012. In addition to his function as Spokesman for the Board, Michael Grahammer is responsible for the areas Corporate Customer Sales, Treasury, Accounting, Human Resources, Communication as well as Participation Administration, Real Estate and Leasing. After finishing his doctoral degree in commercial sciences at the Vienna University of Business Administration, he began his career in 1993 at the Raiffeisen Zentralbank AG. In 1997, he became the 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 changed to Hypo Landesbank Vorarlberg where he headed the Leasing Department.

The past year was full of challenges for the financial industry. How would you summarise it?
The recovery that followed the financial and economic crisis again lost momentum last year. 2012 was a challenging year in that Europe had much to do to prevent a recession and the USA barely escaped the "fiscal cliff". This has led to much uncertainty concerning further global economic development. In Europe, it is now important to quickly press ahead with the reforms needed to restructure the economic and monetary union. Important steps have been taken through various monetary policy measures of the euro system and have given rise to cautious optimism for a way out of the European debt crisis.

How has Hypo Landesbank Vorarlberg evolved in this environment?
The real economy in Austria and in our market area in general reported a good year in 2012. We could also profit from the fortunately stable domestic economy and have posted a very positive balance for the previous year. Earnings before taxes amounted to EUR 146.3 million and exceeds the previous year's result by more than 79%. I would like to stress that this large increase is primarily due to one-off effects such as the repurchase of two hybrid capital loans. However, it was also a result of our continuing stable customer and interest business, a balanced loan portfolio as well as our consistent cost management. Federal, state and municipal governments profited from our excellent results with over EUR 43 million in tax monies, including EUR 7.5 million in bank excise tax.

How do you assess the economic situation in your core markets?
Austria only achieved weak economic growth of 0.8% in 2012, clearly attributable to the extensive public austerity measures in Europe and the ongoing difficult economic situation in neighbouring countries. In spite of the economic slowdown in Europe, growth in Corporate Business at Hypo Landesbank Vorarlberg reflects the robust conditions of the local economy in 2012. In general we have observed a positive order situation for firms, although fluctuations in raw material prices and last minute orders have made long-term planning more difficult. The willingness of companies to invest is currently somewhat restrained, reflected in the slight increase of 2.1% in corporate loans compared to last year. Corporations have recognised that easily available, long term loans are no longer a matter of course in the commercial and have learned to deal with this new situation or have found other alternatives. Hypo Landesbank Vorarlberg remains the leader in corporate customer business in Vorarlberg and plans to reinforce this excellent position in the future also.

How are the subsidiaries of Hypo Landesbank Vorarlberg doing?
The subsidiaries again made a positive contribution to group earnings in 2012. This additional range of services offers us, as a universal bank, the opportunity to round out our banking services and offer our customers comprehensive services and consulting. The successful merger of real estate and leasing into Hypo Immobilien & Leasing GmbH at the beginning of 2012 was immediately positive through the successful integration of a new IT structure and software as well as synergy in administration, especially in real estate leasing.

What were the most important milestones for you in the past year?
Changes in the Managing Board last year led to reflection on the future strategy of the Bank. We will continue to adhere to our successful business model making only small adjustments as needed. It is important for me to stress that the customer will continue to remain the main focus at Hypo Landesbank Vorarlberg. Personal contact between people is the basis of our success.

To optimise the capital structure and in view of the higher capital requirements under Basel III, we conducted a capital increase in 2012 and with our capital resources and liquidity ratio remain one of the best banks in Austria. In the past year we have also repurchased two outstanding hybrid capital loans. The necessary capital replacement was accomplished through the successful issue of a subordinated bond in autumn. The strong demand during the subscription period led to an increase to EUR 100 million and confirms the great trust our customers have in Hypo Landesbank Vorarlberg.

In May, I took over as Chairman of the Managing Board from Jodok Simma. It is a pleasure to be able to take over the leadership of such a well-functioning, profitable and secure bank. I thank our owners, our customers and our employees for the trust they have given the new Managing Board.

What future do you see for the banking industry?
Clearly, some banks committed serious errors in the years before the crisis began and oversight and regulation in part failed. The Austrian banking sector, however, is based on small and middle-sized institutions which contributed nothing to the crisis. Unfortunately, the entire industry now suffers from a loss of reputation and a voracious regulatory fury which chooses to focus on uncomplicated side issues in the smallest detail while the large and truly important issues are either ignored or postponed. Therefore I see no end to the tough times for banks.

WITH QUALITY AND INNOVATION

HYPO LANDESBANK VORARLBERG
INTERVIEW WITH JOHANNES HEFEL

Curriculum Vitae of Johannes Hefel
Johannes Hefel (55) has been a member of the Board of the Hypo Landesbank Vorarlberg since 1997. His responsibilities include the departments Private Customer Sales, Private Banking, Institutional Customers, Asset Management, Logistics and Marketing. He previously worked as a financial analyst and asset manager in Liechtenstein and Frankfurt am Main for many years. In 1990, he changed 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 obtained a doctoral degree in economic and social sciences.

How was the private customer segment at Hypo Landesbank Vorarlberg in 2012?
Despite difficult conditions, the private customer segment developed positively. Low interest rates led to the highest demand for loans for private customers since the Bank was founded. At the same time, many customers have prematurely repaid loans to reduce debt. In spite of the early and scheduled repayment of loans amounting to more than EUR 130 million, the lending volume to private customers increased by EUR 34 million to EUR 1.7 billion. Many holders of foreign currency loans reduced their risk by converting the loans to euros. To further reduce risk, we continue to recommend interest rate hedging instruments or fixed interest rate agreements to customers. Security counts in the lending business and is also a deciding factor for investment decisions.

To what extent does the need for security by customers influence the investment business?
In the past year especially, conservative and short-term investments were high in demand. The continued uncertainty of customers can also be detected in an obvious trend toward investment in real assets. Customers are investing their assets primarily in real estate and gold at the expense of savings deposits. The continued strong competition among Austrian banks in the deposit business as well as declining interest rates has put pressure on both conditions and margins. That the great trust that our customers have in Hypo Landesbank Vorarlberg remains unbroken is shown by the positive development in customer deposits: deposits from private customers rose 8.0% to EUR 2.2 billion.

You began constructing a direct banking platform in 2012…
Last year we extended our range of savings options through the online portal hypodirekt.at. Throughout Austria, customers can open an account with attractive conditions from the comfort of their home, even when there is no Hypo Landesbank Vorarlberg branch near them. We clearly have our finger on the pulse of the times, because the response in the first year was very high. It seems that seniors have developed an affinity for online services and value the convenience of our online banking system. We are relying on our excellent reputation for the success of hypodirekt.at but equally important are competitive conditions and complete transparency in managing interest rates.

Are further innovations planned in this area?
After the successful start of hypodirekt.at, we are planning future expansion in order to become one of the top direct banks in Austria. We are continually engaged in developing new products and assessing the need for new online services. In addition to savings options we plan to offer additional products to customers in the future.

Where do you see your strengths in private banking and asset management?
Hypo Landesbank Vorarlberg has a healthy history and has grown systematically over the years, including the private banking segment. For many years, we have served our asset management customers, including wealthy private individuals and businesses, with great success. We owe our strong position to, among other things, the specialised, individualised consultation we offer customers as well as the constant expansion of our product range. Based on share market experiences of recent years, our asset management has developed new, innovative asset management strategies including “Hypo IQ Maximum Return” (Hypo IQ), an investment concept that stands to gain from falling as well as rising markets. Hypo IQ was introduced at the beginning of 2012 and developed quite promisingly, especially when many quantitative approaches showed little success during the same period. Another specialty of our asset management is the single equity strategy, which includes a combination of two-thirds value shares and one-third momentum driven shares.

What is the future of private banking at Hypo Landesbank Vorarlberg?
Hypo Landesbank Vorarlberg is one of the most renowned private banking providers in Austria today, and we want to preserve and strengthen our excellent position. We plan to develop this segment throughout Austria and will expand the team in Vorarlberg and Vienna over the next few years. Our asset management specialists will continue to develop new, innovative investment strategies for Private Banking to open up new possibilities.

What do you look for in your commitments and partnerships?
As the State Bank of Vorarlberg, it is important for us to support the community as well as the local economy, for instance through partnerships with Vorarlberg cultural and sport institutions. These partnerships bring significant value to the province, including tourism, and also allow us to show our strong roots and close ties to the region. For example, we have for many years sponsored and lent our name to the Hypo-Meeting, a combined sport event, which regularly brings top athletes and visitors from all over the world to Vorarlberg. We have entered into two new partnerships for 2013, the Bregenzer Festspiele and the vorarlberg museum, which enrich both our core market Vorarlberg and the broader Bodensee region.

To promote environmental projects that serve the public interest, the Hypo–Umwelt–Förderpreis (an environment prize) was awarded for the first time in spring 2013. This is a joint initiative with our customers and is based on the Hypo-Umweltsparbuch (environmental savings book), where depositors forgo 0.1% interest and the Bank matches that amount. An independent jury then awards various projects for the protection of plants, animals or the climate.

WITH RELIABILITY AND FAIRNESS

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHEL HALLER

Curriculum Vitae of Michel Haller
Michel Haller (41) was appointed third member of the Board of Hypo Landesbank Vorarlberg effective 1 May 2012. He is responsible for the departments Risk Management, Legal, Auditing, Fund Services and Securities Settlement. He worked at Hypo Landesbank Vorarlberg from 1995 to 2002, first in the Corporate Customer department and then from 1998 in Treasury, where he headed the Asset Management group and was also head of Hypo-Kapitalanlage Ges.m.b.H. for two years. In 2002 he changed to join 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.

What are your views after almost one year as a member of the Managing Board at Hypo Landesbank Vorarlberg?
Hypo Landesbank Vorarlberg is a well-positioned firm, very healthy and sound. With years of stable earnings development, we have successfully positioned ourselves as both the largest bank in Vorarlberg and as one of the top ten banks in Austria. This underscores our sustainable business model, but also sets very high standards for the new Managing Board to meet in the future. We will remain with our three pillars - residential, corporate and investment bank - and will stay out of the speculative side of investment banking. We will continue to focus on customer business and put great value on personal contact with our customers. We are a bank of the region and for the region – and that is good.

Since May 2012, you have been responsible for risk management. What has changed?
For many years, the Managing Board has attached great importance to a very risk-conscious lending and business policy. This has proven to be an important factor in the success of the bank in times of increasing uncertainty and we will adhere to this policy in the future also. Compared to our competitors, our risk costs in lending are at a satisfactory level. Hypo Landesbank Vorarlberg only enters into risks that it can manage on its own and concentrates on business areas whose mechanism and rules it understands. Because of this we have value adjustments well under control and have made sufficient provisions for all recognisable risks.

What developments or challenges will the Bank face in the coming months?
The entire banking industry currently faces serious challenges and it is not just the tense economic situation that calls for a rethink. All banks, but especially those publicly owned, are being bombarded with new guidelines. In addition, the impending introduction of new, highly complex regulations such as Basel III, EMIR and MiFID II will affect the framework of credit institutions and impose an immense need for adjustment. Because of these measures, over the coming years, banks will have to use significantly more of their own capital for banking activities in order to make the entire financial system systemically more secure, or so hope the regulators. In my opinion, this overregulation is one of the greatest problems for banks, as well as for other industries, and will not increase the security of the Austrian financial industry.

What do you think of the new capital requirements?
In general, I think the guidelines to increase equity capital make sense. The delayed start of Basel III is welcome as time is needed for the large investment and enormous preparation, especially in regulatory reporting and bank management. Banks will simply have to make the most of the new framework. Basel III will make it difficult for everyone to continue business as usual, including supplying private customers and businesses with the necessary capital and liquidity. Unfortunately, with the new guidelines, even banks that are risk-conscious and have recorded healthy growth are also punished. With each new regulatory demand, costs for banks increase which cannot be passed on to the customer. This is a problem especially for middle-sized banks.

How is the Bank equipping itself?
Through a capital increase and the successful issue of our subordinated bond, we strengthened our capital base last year. We have a solid foundation and are prepared for the more stringent regulatory demands of the future. Our debt/equity ratio was 15.80 % and the core capital ratio rose to 9.80 % as per 31 December 2012. We are clearly over the statutory minimum requirement and already meet the 2018 Basel III requirements. The forthcoming rating of our cover funds will also contribute to strengthening our refinance structure.

Do you expect credit to tighten, especially for middle-sized businesses?
Basel III does not necessarily support extensive growth through financing, and this will lead to more restrictive selection and a reduction in lending. The new capital requirements will mainly affect the "nice-to-have" business and will probably not have much influence on the classic lending business. We will continue to finance meaningful projects with well-drawn up business plans. In 2012, we increased the required capital base and at the same time eliminated areas that were not part of our core business in order to better serve our core customers, middle-sized businesses in Austria. The necessary liquidity is also available from our high level of primary deposits.

What were the consequences of the financial crisis for Hypo Landesbank Vorarlberg?
In contrast to many other banks, we have always earned our results from customer business. We did not enter into speculative business, but rather focussed on our core business which is our customers. Thus, we benefited from the financial crisis and reinforced our position as a sound, down-to-earth Bank in our region and throughout Austria. With our excellent liquidity position, we could even support other banks and provide them with liquidity during the most critical times of the crisis. At the same time, we increased our workforce because, for us, customer business is bound to personal commitment. All of this confirms our sustainable business policy, which we will adhere to in the future.

What plans do you have to prepare for the future?
Because liquidity will be one of the major topics in the future, we have launched a new, attractive sales channel, hypodirekt.at, for our customers which allows us to acquire deposits throughout Austria. As previously mentioned, to further strengthen our capital resources, we also carried out a capital increase and issued a subordinated bond. The participation by the State of Vorarlberg shows that our owner trusts us and stands behind the Bank and its philosophy.

WITH AMBITION AND NEW IDEAS

**HYPO LANDESBANK VORARLBERG
THE CORPORATE BANK**

There are many reasons for the success of local companies. One of them is constant innovation. Another is their successful efforts to be active beyond the local borders. This strategy has made numerous Vorarlberg companies global market leaders. With our support.

ORGANISATIONAL CHART

OF VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Managing Board

Corporate Customers Div
Michael Grahammer, CEO

Corporate Customers Sales
Karl-Heinz Rossmann
- Branch Office for Corporate Customers
- Institutional Customers
- International Services
- Syndication I 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
- Controlling
- Bookkeeping
- Accounting

Participation Administration
Emmerich Schneider

Hypo Immobilien & Leasing GmbH
Peter Scholz
Wolfgang Bösch

Hypo Versicherungsmakler GmbH
Manfred Bösch
Christoph Brunner

Communication
Sabine Nigsch

Private Customers | Private Banking Div
Johannes Hefel

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

Private Customers | Private Banking Vienna
Roswitha Klein

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

Institutional Clients
Roland Rupprechter

Logistics
Johann Berchtold
- Information Technology
- Organisation
- Payment Transactions I 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 – Private Customers
Martin Heinzle
- Credit Management – Private Customers
- Certification I Credit Service
- Housing Construction Aids

Group Risk Controlling
Markus Seeger

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

Compliance
Reinhard Kaindl

Audit
German Kohler

Hypo Vorarlberg, Italy
Michael Meyer, Leasing
Alexander Ploner, Real estate

Funds Service
Florian Gorbach

Securities Settlement
Martin Baldauf

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

Vienna Branch Office
Roswitha Klein, RM
Kerstin Forgacs, PC
Sabine Mach, BM
Alexander Leschenko, CEE
Mobile Sales Unit
Lothar Mayer

Graz Branch Office
Horst Lang, RM
Andreas Draxler, BM

Wels Branch Office
Friedrich Hörtenhuber, RM
Iris Häuserer, BM

St. Gallen Branch Office
Dieter Wildauer, RM
Roger Baumann

Bludenz Branch Office
Christian Vonach, BOH
Walter Hartmann, BM

Feldkirch Branch Office
Jochen Egger, 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

- **Private Customers**
  Raymond Plankel
- **Private Banking**
  Stephan Bohle
- **Vorkloster**
  Udo Seidl, BM

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

- **Key Account Manager**
  Rainer Terwart
- **Corporate Customers Branch Office Germany**
  Markus Schmid

Bregenz Private Banking Plus
Stefan Schmitt, HPB

Financial Intermediaries International | CEE
Christoph Schwaninger

Hard Branch Office
Anja Schmidt, BM

Lauterach Branch Office
Karl-Heinz Ritter, BM

Dornbirn Branch Office
Richard Karlinger, BOH
Egon Gunz, BM

- **Messepark**
  Stephan Spies, BM

LKH-Feldkirch Branch Office
Stefan Kreiner, BM

Rankweil Branch Office
Günter Abbrederis, BM

- **Rankweil provincial hospital**
  Ringo Schieder, BM

Egg Branch Office
Stefan Ritter, BM

Riezlern Branch Office
Artur Klauser, BOH
Heinrich Denninger, HCS

- **Mittelberg**
  Josef Wirth, BM

Schruns Branch Office
Hannes Bodenlenz, BM

- **Gaschurn**
  Paul Roschitz, BM

Lech Branch Office
Reinhard Zangerl, BOH
Egon Smodic, BM

hypodirekt.at Branch Office (Online)
Björn Haid, BM

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

EXECUTIVE BOARDS

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

MANAGING BOARD

Michael Grahammer
CEO, Chairman of the Managing Board, Dornbirn
(since 01.05.2012)
Member of the Managing Board (until 30.04.2012)

Johannes Hefel
Member of the Managing Board, Schwarzach

Michel Haller
Member of the Managing Board, Tettnang
(since 01.05.2012)

Jodok Simma
CEO, Chairman of the Managing Board, Bregenz
(until 30.04.2012)

SUPERVISORY BOARD

Kurt Rupp
Chairman, Chairman of the Managing Board (retired), Bregenz

Norbert Metzler
Deputy Chairman, Management Consultant, Alberschwende

Christian Brand
CEO of Landeskreditbank Baden-Württemberg
Förderbank, Karlsruhe

Albert Büchele
Entrepreneur, Hard

Elmar Geiger
Managing Director (retired), Frastanz

Michael Horn
Deputy CEO of Landesbank Baden-Württemberg, Stuttgart

Andrea Kaufmann
Member of the Vorarlberg government, Bregenz

Christian Konzett
Lawyer, Bludenz

Klaus Martin
State Official (retired), Feldkirch

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
Chairman, Michael Horn (until 20.09.2012)
Chairman, Klaus Martin (since 21.09.2012)
Kurt Rupp
Norbert Metzler
Elmar Geiger
Veronika Moosbrugger
Elmar Köck

LOAN COMMITTEE
Chairman, Kurt Rupp
Norbert Metzler
Elmar Geiger
Michael Horn
Veronika Moosbrugger
Bernhard Egger

PERSONNEL AND REMUNERATION COMMITTEE
Chairman, Kurt Rupp
Norbert Metzler
Christian Brand
Klaus Martin
Veronika Moosbrugger
Bernhard Egger

ADMINISTRATIVE PENALTY COMMITTEE
Chairman, Michael Horn
Christian Konzett
Klaus Martin
Nicolas Stieger
Veronika Moosbrugger
Bernhard Egger

STATE COMMISSIONER

Gabriele Petschinger

Josef Nickerl
Deputy

ESCROW AGENTS

Heinz Bildstein
Deputy, President of the State Court, Feldkirch

Hubert Scheiber
Deputy, Head of the Tax and Revenue Office, Landeck

ADVISORY BOARD

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

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

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

Werner Abbrederis
Managing Director, GIKO Verpackungen AG, Weiler

Gerhart Bachmann
President, Vorarlberg Dental Chamber, Feldkirch

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

Astrid Bischof
Managing Director, Otto 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

Gerald Fleisch
Managing Director, Vorarlberger Krankenhaus-Betriebsges.m.b.H., Dornbirn

Lars Frormann
Dean, University of Applied Sciences Vorarlberg, 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

Andreas Haid
Mayor, Riezlern

Heinz Hämmerle
Entrepreneur, Lustenau

Hubert Hämmerle
President, Chamber of Labour, Lustenau

Anton Haller
Hotelier, Mittelberg

Dietmar Hefel
CEO, Hefel Textil AG, Dornbirn

Josef Huber
Managing Director, Huber Invest GmbH, Götzis

Robert Janschek
Managing Director, Walter Bösch KG, Bregenz

Michael Jonas
President, Chamber of Physicians, Dornbirn

Urs-Peter Koller
Entrepreneur, Gossau

Oswin Längle
Managing Director, Anton Längle KG, Götzis

Markus Linhart
Mayor, Bregenz

Hans-Peter Lorenz
Managing Director, Vorarlberger gemeinnützige Wohnungsbau- und Siedlungsgesellschaft mbH, Dornbirn

Sepp Manhart
Lawyer, Bregenz

Siegfried Metzler
President, Chamber of Public Accountants in Vorarlberg, Dornbirn

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

Hubert Rhomberg
Managing Director, Rhomberg Holding GmbH, Bregenz

Michael Ritsch
Chairman, SPÖ political party, Bregenz

Karlheinz Rüdisser
Member of the Vorarlberg government, Lauterach

Günter Schertler
Managing Director, Schertler-Alge GmbH, Lauterach

Hannelore Schneider
Hotelier, Lech

Thomas Sohm
Managing Director, Carini Etiketten GmbH, Lustenau

Harald Sonderegger
Mayor, President of the Association of Municipalities of Vorarlberg, Schlins

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

Ludwig Summer
CEO, Illwerke/VKW Group, Bregenz

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

WITH 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 2012. The core capital ratio (banking book) improved from 9.10 % to 9.80 % as a result of strong earnings and selective growth. In addition, an RWA (risk-weighted assets) project is being carried out to identify potential for savings in the use of equity. Despite the difficult environment, non-performing loans decreased in 2012. As at 31 December 2012, they amounted to EUR 249,920,000 (2011: EUR 255,800,000), equivalent to 1.51 % (2011: 1.57 %) of the maximum default risk. Rating class 4 (the worst rating class for exposures not in default) declined year-on-year from EUR 476,602,000 to EUR 416,768,000.

In the year under review, there was a substantial decrease in volatility on the money and capital markets. Value at risk (99 %/10 days) consequently fell from EUR 12,651,000 in the previous year to EUR 5,744,000. 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 management of loans for private customers, custodian bank services, product and business introduction, payment transactions and e-banking, documentary business, market and sales process.

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 these departments 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 project, processes were reviewed, adjusted and supplemented if necessary in terms of their current risk exposure and the existence of clear, effective and efficient risk-reducing measures and controls. These processes, measures and controls are continually adjusted to requirements and updated at least once per year. 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 overview 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 AND PRACTICES IN 2012

In 2011, the remuneration policy of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft was structured by the Managing Board in accordance with the statutory requirements, redefined and agreed by the Supervisory Board on 15 December 2011. These principles of remuneration policy are discussed and approved in the Remuneration Committee every year. On 2 February 2012, the Supervisory Board resolved to establish a Remuneration Committee consisting of six members, which will decide on the main features of remuneration policy:

- Kurt Rupp (remuneration expert)
- Norbert Metzler
- Christian Brand
- Klaus Martin
- Veronika Moosbrugger (staff representative)
- Bernhard Egger (staff representative)

Apart from the Supervisory Board – in particular, the Remuneration Committee headed by Kurt Rupp – the Internal Audit department is the controlling body. This is responsible for checking that these principles of remuneration policy have been implemented on behalf of the Supervisory Board.

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, its business is 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. Certain performance-related criteria, which are specified individually in the contract of employment and recorded, 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.

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.

Future bonus agreements 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.

On the basis of the very good business results in 2012, the Managing Board has decided, as in the previous year, to pay all employees of Hypo Landesbank Vorarlberg a non-recurring bonus of up to EUR 1,000.00 on fulfilment of defined formal preconditions.

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 financial year 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 (2011: EUR 150 million) that, like the participation capital, is fully paid in. As at 31 December 2012, 305,605 shares and 1,000,000 participation certificates with a nominal value of EUR 9.00 were issued.

Shareholder structure
At the extraordinary shareholders' meeting on 28 June 2012, a capital increase was resolved. Vorarlberger Landesbank-Holding made contributions totalling EUR 27.7 million. The equity interests of the shareholders now 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	7.9797 %	
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.

WITH CANDOUR AND TRUST

HYPO LANDESBANK VORARLBERG
THE RESIDENTIAL BANK

Those who want to build their own home have many questions. We are there to answer those questions. To realise all possibilities – with frank, detailed consultation, to find the best solution together. With straight talk and clear content. Trust with trust.

WITH EXPERTISE AND TECHNIQUE

HYPO LANDESBANK VORARLBERG ECONOMIC ENVIRONMENT

For the third year in a row, the euro debt crisis influenced the stock market. However, decisive action by the European Central Bank (ECB) prevented a break-up of the eurozone and ultimately led to a calming of financial markets.

Global economy and eurozone
At the beginning of 2012, the ECB made EUR 1,000 billion available which prevented a liquidity squeeze in the interbank market, but the positive effects expected in the real economy were minimal. Positive information from the real estate and employment markets in the USA and a generally more positive atmosphere prevented another round of monetary easing. In the eurozone, a write-down of Greek debt was inevitable, the highly leveraged banks in Spain were expected to be the next disruptive factor and Cyprus was forced to bailout its beleaguered banks.

In the second half of the year, the central banks carried out strategic initiatives. First the interest rate in the eurozone was reduced in the third quarter, followed by the ECB president's clear declaration that everything necessary to preserve the common currency would be undertaken. The specific structure was called the "OMT" (Outright Monetary Transaction) and included the intention to purchase bonds with a maturity of up to three years. This was expected to give governments time to implement necessary reforms.

Globally, restrained economic data pointed to declining economic growth. Especially disappointing was the weak data from China, which could not escape the fall in demand from the USA, Europe and Japan. Both Japan and the eurozone showed signs of recession during the year. The economy in the USA did not improve as hoped and the situation in the job market was extremely tense. This led to a decision by the Federal Open Market Committee (FOMC) of the Federal Reserve Bank to begin a securities purchase programme with focus on the real estate market. Unexpectedly, the USA reported GDP growth of 3.1 % (annual rate) in the third quarter.

Austria
After a good start in 2012, the Austrian economy was negatively affected by the declining global economic dynamics which brought lower foreign demand. The domestic economy stagnated in the second half of the year. Due to the extensive public austerity measures in the eurozone and the ongoing, difficult economic situation in neighbouring countries, Austria reported very modest growth of 0.8% for the entire year. Prospects for 2013/14 have improved somewhat since the autumn prognosis by WIFO (Austrian Institute for Economic Development) and strong economic activity is expected.

The rate of inflation was 2.4 %, slightly above the European average. One of the main drivers was the significant rise in real estate prices during the last few months of 2012. The inflation rate was noticeably lower than in the previous year (2011: 3.3 %).

Although the Austrian employment figures were positive when compared internationally, consumer spending was surprisingly weak. According to the Austrian National Bank, although employment rose by 1.1 % in response to strong economic activity at the beginning of the year, real household income suffered from weak real wages. Consumer spending, which had been soft for many years, weakened further. Growth in 2012 was only a half of a per cent. Although slightly higher than the previous year, the Austrian household saving rate remained low. According to Statistik Austria (Austrian statistical office), 7.6 % of disposable household income was saved in the year 2012, higher than the European average. The expected increase in household income will be partially used to increase savings in the future.

The Austrian national budget was also affected by the debt crisis. The national debt increased slightly but remains well below the European average. Budget consolidation moved forward slightly and from today's perspective was quite successful. The budget deficit is expected to be lower in 2013, however, the debt level will continue to increase and will stabilise at around 75 % of GDP from 2013.

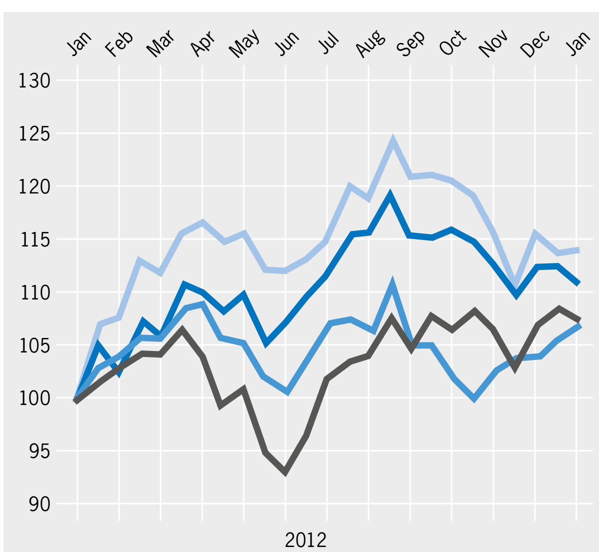
Vorarlberg
After a relatively positive year, Vorarlberg companies are cautiously optimistic for the near future, although fluctuating raw material prices and last minute orders have made long-term planning more difficult. International uncertainties have also influenced development of the local economy. The business climate index of Vorarlberg industry – an average of the current business situation and expectations for six months – improved in the fourth quarter 2012 with a value of +12.4 % , and is +5.6 % higher than the previous quarter. One third of the companies surveyed rated their business situation as good. Business conditions in six months are generally expected to be stable: 3 % expect favourable development, 95 % expect conditions to remain constant.

Exports remain a top driver of the local economy. Of those surveyed, 29 % characterised foreign orders as good, 59 % rated them as average or seasonal. Especially positive was the current earnings situation: 36 % of the companies surveyed gave a good rating, and over half of those surveyed rated it average. Looking ahead six months, 84 % expect the earnings situation to remain constant, only 4 % expect improvement.

Expectations for the three month employment level were positive: 87 % planned to maintain staffing levels, 4 % expected an increase. The current order situation was rated average (66 %) to good (26 %). 47 firms, with a total of 23,265 employees, took part in the survey which is carried out quarterly by the industry division of the Vorarlberg Chamber of Commerce and the Industriellenvereinigung (an industrial association).

Stock exchanges and emerging markets

The market began 2012 on a positive note. The leading German index DAX recorded the most successful start to the year since it was founded and managed an above-average overall annual performance. Similarly, the Austrian ATX also recovered and, with the German DAX, was among the best performers. In the second quarter unrest and volatility returned with concern over Spanish banks but better than expected company figures positively influenced markets. In the second half of the year there was an increased demand for equity investment which led by year's end to index levels not seen for a long time. Valuation ratios were favourable throughout 2012. Globally, industry winners were media, finance, automotive and chemistry. Losers included the sectors supply, energy (including oil, gas) and telecommunications.



Development of selected stock indices in 2012 (in euro)

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

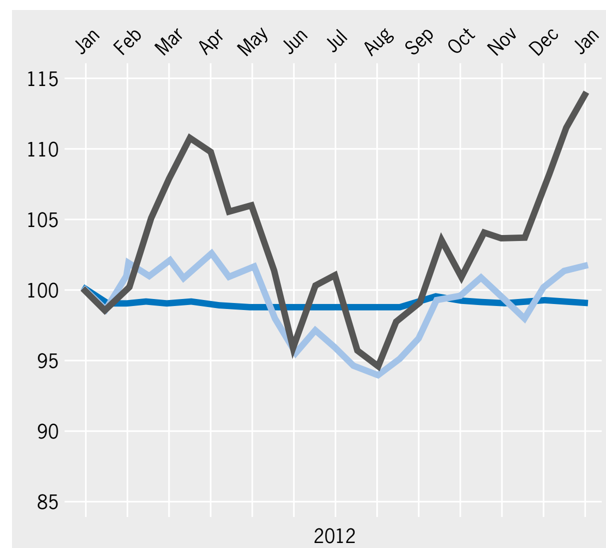
Interest markets

Bond prices, measured against German Bund Futures, registered further high levels in 2012 which pushed yields to historic lows. In particular, the spreads for Italy and Spain were a roller coaster ride. Periphery bonds, for instance from Portugal, could profit at the beginning of the year. Mario Draghi's pledge to safeguard the euro particularly profited Italian and Spanish bonds (e.g. Citigroup Italy +17%). Low interest rates will remain in the eurozone until further notice. Meanwhile, the USA is considering keeping low interest rates as long as the unemployment rate is over 6.5% and the inflation rate under 2.5%.

Currencies and raw materials

The nerves of investors were again tested in the final weeks of 2012 with the vote on assistance measures for Greece and the threatened fiscal cliff in the USA. The growing concern of investors over developments in the EUR/USD exchange rate was understandable. The fluctuations during the year were considerable, although marginal at year's end. The same was true for Brent crude, where the price fluctuation between high and low was 30% (based on USD).

The gold price was subject to strong price fluctuations but did not reach an all-time high. The industrial precious metal silver rose significantly despite considerable fluctuation over the year.



Euro in comparison to USD, CHF and JPY 2012

USD — CHF — JPY

Development of gold price in 2012

(per ounce)

THE AUSTRIAN BANKING SECTOR IN 2012

As of the end of the third quarter of 2012, the total assets of Austrian banks amounted to EUR 996.52 billion, falling short of the EUR 1,000 billion threshold again for the first time in a year. This equates to a decline of EUR 17.76 billion (or 1.75%) in the first nine months of 2012. This was primarily attributable to the balance sheet items foreign loans and advances and loans and advances to Austrian banks.

Viewed in terms of economic sectors, until September 2012 there was an increase in lending to companies in all major sectors (goods manufacturing, construction, trade, transport, hospitality) with the exception of the utilities sector, where lending has been decreasing for some time. In the fourth quarter, companies' demand for loans declined slightly.

Growth in loans to private households increased again after the financial crisis, although since July 2011 there has been a decline in the annual growth rate for household loans from 2.3% to 0.6% in October 2012. Loans extended to private households totalled EUR 132.88 billion as at 30 September 2012. The main reason for flatter growth in lending to private households was the acceleration in the repayment of foreign currency borrowings. In total, direct loans and advances to Austrian non-banks amounted to EUR 320.67 billion in the third quarter.

After deposits at Austrian banks grew by 4.90% year-on-year in June 2012, the growth rate declined to 1.80% in September 2012. Growth in deposits in the first three quarters amounted to EUR 3.80 billion, resulting in total deposits of EUR 292 billion. In the first three quarters of 2012, there was a rise in overnight deposits only (up EUR 10.6 billion or 9.3%), whereas all other maturities posted declines. This was due to the low level of interest rates together with a flat yield curve. The interest rate differential between overnight deposits and deposits with a lock-in period of up to one year fell from 90 to 17 basis points.

As a result of the historically low level of interest rates combined with attractive offers from direct banks, demand deposits became more sought-after. These have increased steadily in recent years and totalled EUR 105.46 billion as of the end of the third quarter of 2012, whereas savings deposits fell slightly over the course of the year to EUR 156.68 billion as at 30 September. Overall, total deposits by Austrian non-banks declined 1.15% to EUR 294.17 billion in the first three quarters of 2012.

In light of the uncertainties on the capital market, fund managers and investors acted very cautiously, resulting in a net outflow of capital totalling EUR 0.88 billion in the first half of 2012. High price gains of EUR 4.30 billion, which more than offset the net outflow of capital, led to a EUR 3.42 billion increase in the consolidated fund volume to EUR 120.17 billion in the first half of 2012, roughly equivalent to the volume in the second quarter of 2005.

Austrian banks significantly increased their annual earnings in 2012 as against the previous year, although not enough to reach the pre-crisis level. Consolidated annual earnings after taxes and minority interests climbed to EUR 2.97 billion after EUR 711 million in 2011. This increase was primarily due to non-recurring effects that had already occurred in the first quarter, such as the buyback of hybrid capital and long-term subordinated capital. In addition, decreases in goodwill impairment at subsidiaries and in risk provisions for securities also contributed to the positive development. However, higher provisions for non-performing loans had a negative impact on profits.

Since the low in the third quarter of 2008, the aggregate core capital ratio (debt/equity ratio) of all Austrian banks has risen continuously to 10.6% up to the third quarter of 2012. Despite the improvement in the debt/equity situation, Austrian banks remain undercapitalised when compared on an international level.

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

EUR billion	1.–4. quarter 2012	Change in %	1.–4. quarter 2011	1.–4. quarter 2010
Net interest income	8.82	−8.34%	9.62	9.12
Operating profit	6.93	−7.91%	7.42	8.16
Expected earnings from ordinary activities	4.37	156.49%	1.72	4.83

WITH SUCCESS AND CONFIDENCE

HYPO LANDESBANK VORARLBERG SUCCESSFUL BUSINESS DEVELOPMENT 2012

Hypo Landesbank Vorarlberg posted outstanding results of operations for financial year 2012. Despite adhering to a cautious policy regarding provisions, earnings before taxes grew by 79.3 % to EUR 146.3 million in financial year 2012, while consolidated net income rose to EUR 111.6 million. This high increase is largely attributable to non-recurring effects from the buyback of Tier 1 capital with income of EUR 39.8 million. Net interest income rose by 1.3 % to EUR 177.2 million (previous year: EUR 174.9 million).

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

in '000 EUR	2012	Change in %	2011	2010
Net interest income	177,245	1.3 %	174,907	151,875
Net interest income after loan loss provisions	142,285	–4.7 %	149,333	126,071
Net fee and commission income	37,588	–5.8 %	39,907	39,879
Administrative expenses	–91,000	14.2 %	–79,670	–79,121
Earnings before taxes	146,343*	79.3 %	81,620	76,511
Consolidated net income	111,599	79.9 %	62,042	59,742

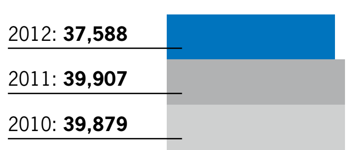
Includes premature repurchase of hybrid loans (Tier 1 capital) worth EUR 39.8 million

The Bank has always pursued conservative accounting policies and made no changes to its measurement principles in 2012. The Managing Board has attached great importance to a risk-aware lending and business policy for many years, and will continue to do so in its new line-up. This principle is proving – particularly in times of increasing uncertainty and changed risk profiles – to be a major factor in the bank's success.

Net interest income
At EUR 177.2 million, net interest income remained at the previous year's high level and thus contributed a large portion of annual earnings for 2012. In addition to slight growth in loans and advances to customers (up 0.8 % to EUR 8,585.8 million), earnings also benefit from the fact that the prefunding in previous years can now be gradually transformed from investments on the money and capital markets into loans and advances to customers. In light of the historically low interest rates, the stabilisation of net interest income can be considered a success.

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. Net risk costs for loans and securities held as current assets rose by 36.7 % to EUR 34.9 million (2011: EUR 25.6 million) due to an even more conservative valuation and are at a good level in comparison to competitors. Sufficient provisions were made for all recognisable risks.

Net fee and commission income in EUR thousand



Net fee and commission income amounted to EUR 37.6 million, down 5.8% year-on-year. Alongside the downward trend in securities business in 2012, this item also includes fee and commission income from payment transactions, trading in currencies and precious metals, and from lending business.

Net trading result
The Bank maintains a small trading portfolio per Section 22q of the Austrian Banking Act with a focus on customer service. Hypo Landesbank Vorarlberg has no proprietary trading operations either. The net trading result includes the result of the valuation of derivatives and amounts to EUR 64.3 million in financial year 2012 (previous year: EUR -20.9 million). This high increase as compared to 2011 is chiefly due to the buyback of two outstanding hybrid capital loans on the capital market with a nominal value of EUR 100.3 million and income of EUR 39.8 million.

Net result from other financial instruments
The result from other financial instruments rose to EUR 2.1 million in financial year 2012 (2011: EUR -9.9 million). Other operating income declined by 12.8% year-on-year to EUR 11.6 million.

Administrative expenses in EUR thousand

The continuous business performance of the Bank is accompanied by consistent cost management. Particular emphasis is placed on ensuring efficient processes and making corporate structures as lean as possible. Rationalisation projects – such as functional analyses – are carried out at regular intervals. They enable ongoing productivity and profitability improvement and contribute to consistently good key return figures. These projects ensure a reasonably constant development of administrative expenses (up 14.2%) and the necessary operating strength – even in an economically uncertain environment.

The Group's staff costs climbed by 16.4% to EUR 56.3 million in 2012. Wages and salaries rose by more than 7% year-on-year to EUR 39.6 million, while the average headcount increased from 724 to 728 employees in 2012 (weighted by employees' activity rate). The increase in staff costs is largely attributable to the allocation of pension and severance provisions, which is based on the adjustment of the discount factor from 4.5% to 3%. Materials expenses rose by 12.1% year-on-year and are mainly attributable to higher IT costs.

Proposed distribution of profits
The net profit posted by Hypo Landesbank Vorarlberg for financial year 2012 was EUR 99.3 million (2011: EUR 61.1 million). After the allocation to reserves, accumulated profits available for appropriation totalled EUR 4.5 million (2011: EUR 4.5 million).

Subject to approval by the shareholders' meeting, a dividend of EUR 9.00 (2011: EUR 9.00) per eligible share is proposed for the fully entitled existing shares and the associated share capital of EUR 150,000,000 (2011: EUR 150,000,000) and a dividend of EUR 4.60 per eligible share for the partly entitled new shares and the associated share capital of EUR 6,453,000 (2011: EUR 0). The total dividend distribution was thus EUR 2,695,000 (2011: EUR 2,637,000) on 305,605 shares (2011: 293,000 shares).

For the participation capital issued in 2008, interest rate profits are distributed on the basis of an agreed variable interest rate.

Key management indicators

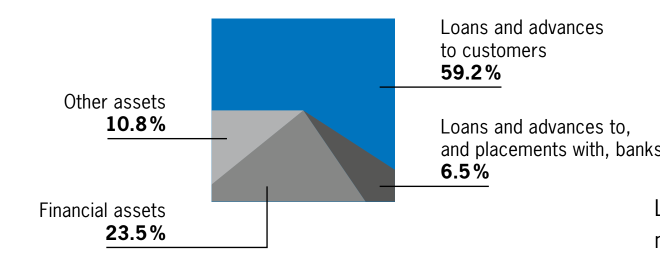
	2012	Change in %	2011	2010
Return on Equity (ROE)	23.41%	64.5%	14.23%	14.62%
Cost-Income-Ratio (CIR)	47.10%	18.7%	39.68%	41.99%
Solvency ratio (banking book)	15.80%	19.2%	13.26%	13.61%
Core capital ratio (banking book)	9.80%	7.7%	9.10%	9.04%

At 23.41%, return on equity (ROE) before taxes improved significantly compared with the previous year (2011: 14.23%). Hypo Landesbank Vorarlberg's cost/income ratio was 47.10% as at 31 December 2012 (2011: 39.68%), once again emphasising the Bank's high efficiency and productivity. The debt/equity ratio (banking book) increased considerably from 13.26% to 15.80%, and the core capital ratio rose from 9.10% to 9.80%.

CHANGES IN THE NET ASSETS AND FINANCIAL POSITION

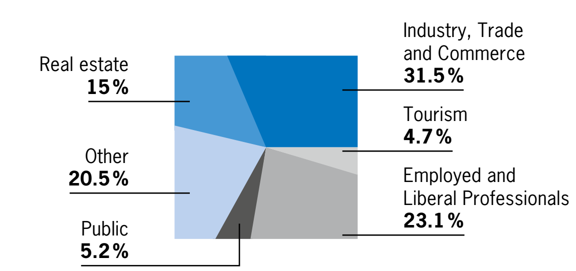
As at the end of 2012, Hypo Landesbank Vorarlberg's total assets increased by 2.1% to EUR 14,505.2 million as compared with last year's reporting date. On the liabilities side, customer business increased while lending business with customers saw hardly any growth.

Balance sheet assets

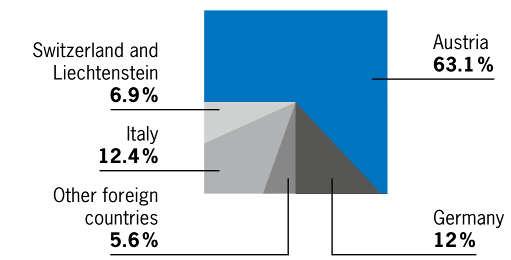


In 2012, loans and advances to banks decreased as planned by 13.9% to EUR 935.5 million. By contrast, loans and advances to customers rose only slightly by 0.8% to EUR 8,585.8 million. The securities item decreased slightly by 0.8% year-on-year to EUR 3,413.7 million.

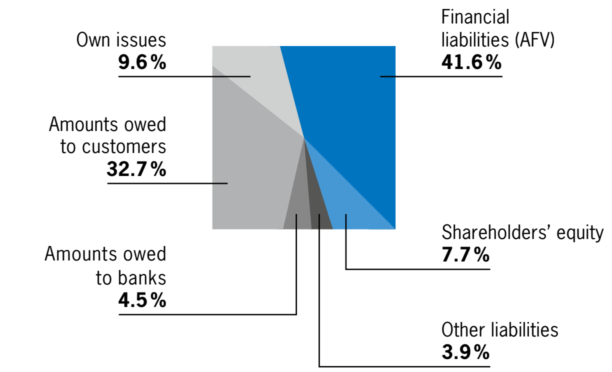
Loans and advances to customers – breakdown by industry



Loans and advances to customers – breakdown by region

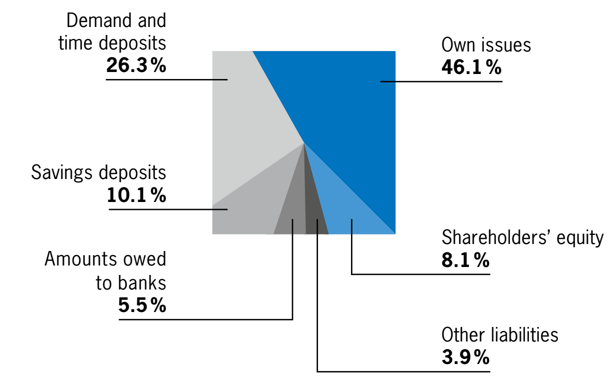


Balance sheet liabilities



Liabilities to banks recorded growth of 3.7% to EUR 655.7 million. Due to the elevated security needs of customers, there was strong demand for traditional, short-term savings vehicles in 2012. As a result of the new liquidity requirements, there was fierce competition between banks to obtain additional savings deposits, but amounts owed to customers nonetheless marked a 12.1% increase to EUR 4,743.9 million. Savings deposits declined by 3.8% to EUR 1,462.8 million, whereas demand and term deposits rose by 18.9% to EUR 3,814.4 million. In line with planning, securitised liabilities posted a decline to EUR 6,684.5 million.

Funding structure



Statement of changes in equity

in '000 EUR	2012	Change in %	2011	2010
Core capital (Tier 1)	743,236	3.0%	721,725	662,556
Paid-in capital	165,453	4.1%	159,000	159,000
Disclosed reserves	560,309	26.3%	443,558	385,048
Minority interests per Section 24 (2) no. 1 Austrian Banking Act	67	−99.9%	109,859	101,243
Consolidation per Section 24 (2) no. 2 Austrian Banking Act	19,316	76.4%	10,952	18,605
Intangible assets	−1,909	16.1%	−1,644	−1,340
Supplementary capital resources (Tier 2)	458,408	37.4%	333,560	338,102
Supplementary capital	95,124	−9.6%	105,236	102,192
Remeasurement reserve	105,284	161.1%	40,324	30,110
Subordinated capital (attributable)	258,000	37.2%	188,000	205,800
Deductions	−3,479	−0.8%	−3,506	−3,558
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	1,198,165	13.9%	1,051,779	997,100
Assessment basis (banking book)	7,582,549	−4.4%	7,932,346	7,326,872
Assessment basis	7,977,219	−3.6%	8,273,850	7,650,225
Required capital resources	638,177	−3.6%	661,908	612,018
Core capital ratio (banking book)	9.80%	7.7%	9.10%	9.04%
Core capital ratio	9.32%	6.8%	8.72%	8.66%
Debt/equity ratio (banking book)	15.80%	19.2%	13.26%	13.61%
Debt/equity ratio	15.02%	18.2%	12.71%	13.03%

To optimise its capital structure, Hypo Landesbank Vorarlberg repurchased two outstanding hybrid capital loans on the capital market in April 2012. The replacement of capital resources/increase in Tier 2 capital that this necessitated was effected by issuing a subordinated bond on the retail market. This resulted in a EUR 394.2 million change in the subordinated and supplementary capital item. Equity rose by 24.3% to EUR 781.9 million.

At the extraordinary shareholders' meeting on 28 June 2012, a capital increase was resolved. Vorarlberger Landesbank-Holding made contributions totalling EUR 27.7 million. Following the capital increase, the share capital and participation capital of Hypo Landesbank Vorarlberg amounts to EUR 165.5 million (2011: EUR 159 million). After the dividends to be distributed in the amount of EUR 2.695 million, core capital (Tier 1) increased by EUR 123.2 million. Supplementary capital resources (Tier 2) amounted to EUR 458.4 million as at 31 December 2012.

The Bank's issue of a subordinated bond totalling EUR 100 million in October 2012 was aimed at investors in Austria, Luxembourg and Germany. The strong demand, which meant that an increase was required during the subscription period, confirmed customers' high level of confidence in the security of Hypo Landesbank Vorarlberg. The issue proceeds are being used to safeguard strategic liquidity in the long term. Attributable subordinated capital amounted to EUR 258.0 million as at 31 December 2012.

Capital resources under Sections 23 and 24 of the Bankwesengesetz (Austrian Banking Act or BWG) as at 31 December 2012 came to EUR 1,198.2 million compared with EUR 1,051.8 million on the previous year's reporting date and are consequently well in excess of the minimum required by law. At the end of 2012, the debt/equity ratio (banking book) was 15.80% (previous year: 13.26%), while the core capital ratio (banking book) rose from 9.10% to 9.80%.

Events of material importance after the reporting date

The capital increase implemented in 2012 in the amount of EUR 27,748,000 was entered in the commercial register (Feldkirch District Court) on 9 January 2013. Other than this, there were no material events after the reporting date.

OUTLOOK FOR 2013

Economic situation

Following Austria's relatively modest economic growth of 0.8% in 2012, the experts now expect the economy to pick up momentum again. The Austrian economy is likely to have bottomed out as of the beginning of 2013. According to the Austrian National Bank (OeNB), the recent improvement in confidence indicators means that expansion can be expected again in the first quarter of 2013, albeit only at moderate level of 0.2%. A forecast by the Austrian Institute of Economic Research (WIFO) puts Austrian economic growth at close to 1.0% for 2013 and 1.8% for 2014. This assumes that the sovereign debt crisis will not intensify and the prevailing uncertainty among investors and consumers will gradually subside. Boosted by a continued expansive monetary policy and increasing global economic growth, Austrian GDP will return to a moderate growth path during 2013 already, according to WIFO forecasts. Interest rates will remain at a low level for the time being, contributing to the economic recovery.

Focus areas for 2013

In May 2012, there was a change in the top management at Hypo Landesbank Vorarlberg. Michael Grahammer took over as Chairman of the Managing Board from Jodok Simma, who did not extend his Managing Board contract since he was entering retirement. Alongside the long-standing Managing Board member Johannes Hefel, the Managing Board of Hypo Landesbank Vorarlberg has included Michel Haller since 1 May.

The new Managing Board line-up will adhere to the proven business model of Hypo Landesbank Vorarlberg. Nevertheless, new conditions will entail changes and reorganisation for the entire banking sector. To equip the Bank for this, the "Strategy Project 2018" was launched at Hypo Landesbank Vorarlberg at the same time as the change in the Managing Board. Vorarlberger Landesbank's strategy will continue to be characterised by a high degree of continuity. The strategic focus is on building up equity by further strengthening the Bank's ability to finance itself internally. There are also plans to secure as cost-effective a liquidity supply as possible for the long term. Existing customer relationships are to be deepened further by means of cross-selling and Hypo Landesbank Vorarlberg's presence on growth markets outside its home market of Vorarlberg is to be expanded so as to ensure the Bank's profitability. We remain dedicated to optimal customer service of existing customers and to obtaining new customers.

Hypo Landesbank Vorarlberg will continue to take a responsible approach in fulfilling its role as a leading corporate bank in Vorarlberg by supplying companies with financing in existing markets. Growth in corporate customer business will continue to take place on an organic basis. As in the previous year, we anticipate weaker demand for loans in 2013. The healthy condition of the companies in our market area also means that lower than average risk costs can be expected. Further increases in the primary deposit volume are also planned. We also intend to offer companies more services relating to payment transactions, documentary business and investments.

In the Private Customer segment, the liquidity and refinancing policies will continue to focus on obtaining new deposits. Hypo Landesbank Vorarlberg enjoys a high level of confidence from investment clients due to its good creditworthiness and high level of reliability. To enable it to meet customers' needs for security and flexibility, the Bank will offer attractive conditions for deposits. Creating living space and renovations continue to be given high priority. A consistently high level of willingness to invest can therefore be expected in the area of private financing in 2013, too.

The Managing Board still considers the Bank's branches to be the most important pillar of sales. In addition, customers have been able to execute various payment transactions and securities transactions (e-brokerage) online for several years. With the launch of its online savings platform hypodirekt.at in spring 2012, Hypo Landesbank Vorarlberg clearly had its finger on the pulse: Customers are able to open an account and invest their funds at an attractive rate from the comfort of their own homes. Following a successful start, further growth is now planned with hypodirekt.at in order to become one of the top direct banks in Austria and to participate in the growing market for online banking business.

In the Asset Management segment, we wish to attract more customers from among the customer groups of particularly high net-worth individuals, companies and institutions. In addition, the Private Banking team in Vorarlberg and Vienna is to be expanded over the next few years. Hypo Landesbank Vorarlberg has a sound history and has grown organically over the years. Its "assets" include an innovative product range and knowledgeable, individual advice and support.

With a debt/equity ratio of 15.80% (banking book) and a core capital ratio of 9.80% (banking book), Hypo Landesbank Vorarlberg already has a sound basis today. We wish to secure a good rating and consequently favourable funding in future and we therefore pay particular attention to building up capital resources, even after the capital increase.

A further reduction is to be made in the Bank's investments in securities. Despite planned growth in loans, this could mean that total assets will fall slightly. However, opportunistic prefunding may temporarily lead to an increase in total assets.

In addition to taxes on income of over EUR 34.7 million, Hypo Landesbank Vorarlberg pays a bank excise of approximately EUR 7.5 million. Following the announcement of a further increase in the bank excise, other sectors have now announced they will fight these erroneous regulatory signals.

Expected earnings development in 2013

By and large, the opening months of 2013 were satisfactory despite many factors generating political and economic uncertainty. Interest business will remain 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.

The excellent result for 2012 is partly attributable to the non-recurring effects from the buyback of Tier 1 capital. Overall, the Managing Board is expecting another good result in 2013, although this will be significantly lower than in 2012 due to the lack of on-recurring effects.

Hypo Landesbank Vorarlberg has always paid special attention to a sustainable liquidity policy and has sufficient liquidity reserves to allow a further expansion of its lending and to assume a further increase in net interest income.

The Managing Board expects a stabilisation of net fee and commission income at the current high level. Operating expenses will rise moderately in comparison to the previous year. A slight increase in staff costs must be assumed. Among administrative expenses, higher IT costs must be expected in particular.

In general, the Managing Board must assume a sharp increase in additional costs for the Bank again in 2013 due to the implementation of Basel III, securities capital gains tax and bank excise, which will lead to price increases in banking services.

DEVELOPMENT BY SEGMENT

Corporate Customers

Developments in corporate customer business underline the positive state of the Austrian economy. There is a positive order situation overall, although willingness to invest is restrained. At EUR 104.4 million or 2.1 %, the year-on-year rise in loans to corporate customers was therefore somewhat lower in 2012 than in 2011.

Hypo Landesbank Vorarlberg continued to prove its value as a reliable financing partner for companies and the public sector in 2012 and expanded this position further. In 2012, Hypo Landesbank Vorarlberg once again demonstrated that it is a strong and dependable partner for Austrian businesses even in more difficult economic conditions. Encouraging increases were achieved in the markets in Vienna, Graz and Wels in particular. In Vorarlberg, Southern Germany and Eastern Switzerland, we faced strong competition on conditions, in which Hypo Landesbank Vorarlberg participated only to a limited extent.

Austrian companies' great confidence in the security of Hypo Landesbank Vorarlberg is also clear from the trend in primary deposits: strong growth of EUR 493 million or 33.8 % was achieved in the corporate customers sector in 2012.

In its long and very successful tradition in the corporate customers sector, Hypo Landesbank Vorarlberg has repeatedly set a successful course, establishing the Hypo Academy for entrepreneurs as part of its corporate banking, for instance. With its Hypo breakfast for entrepreneurs, which takes place twice a year, Hypo Landesbank Vorarlberg offers decision-makers in business an extremely popular communication platform with fast-growing visitor numbers.

Private Customers

Despite difficult conditions, the Private Customers sector performed well in 2012, and premiums in new business were increased significantly. In the past financial year, historically low interest rates led to the highest demand for loans in Hypo Landesbank Vorarlberg's history. In residential construction, many customers invested in building their own homes or refurbishing them. At the same time, the trend towards paying off debts continued unabated, leading to a high proportion of unscheduled repayments. Despite repayments amounting to EUR 128.72 million (including unscheduled repayments of EUR 75.70 million), the volume of loans increased slightly in 2012 as against the previous year. Almost all financing for private customers takes place with entries in the land register. To reduce risk, many customers relocated their share of foreign currency financing in euro.

Despite the current low-interest phase, very few fixed-interest agreements were concluded, although demand for interest hedging agreements saw substantial growth.

Security is still what counts in investment. As far as investments are concerned, it is therefore primarily conservative, short-term forms of investment that are popular. At the same time, there is also a trend towards investment in real assets, particularly real estate and gold, at the expense of savings deposits. The continued intense competition between banks in deposits business, together with the falling interest rates, result in considerable pressure on conditions and margins.

At present, the majority of savings deposits are concentrated on short-term forms of saving such as the one-year special interest savings book. The Hypo-Umweltsparbuch launched in 2011 is an attractive alternative savings product. It involves the bank supporting environmental projects in the region together with its customers. All of the projects submitted are judged by a jury and the winners are then selected. Finally, the Hypo-Umwelt prize was paid out to the winning submissions in spring 2013.

In March 2012, the online savings platform hypodirekt.at was launched throughout Austria. Customers are able to open an account and invest their funds at attractive conditions from the comfort of their own homes. Hypo Landesbank Vorarlberg focuses on absolute transparency and clear parameters in determining interest rates, meaning that customer are informed about interest rate and bonus developments at an early stage. Following a successful start, growth is planned with hypodirekt.at and additional online services are to be offered.

We seek to contact our customers under the motto "Passionate. Sound. Advice" and offer them individual solutions – particularly in challenging times. The project "Delight customers – recommendation by pleased customers" led to high levels of recommendations from satisfied customers.

Private Banking and Asset Management

Asset Management
Although global economic growth slowed in the past financial year, the main financial markets stabilised to a large extent in the second half of 2012 compared to the tense economic environment in the first half. This stabilisation is attributable to the ECB's announcement that it would protect the single currency area in all circumstances and, if necessary, would intervene on selected government bond markets as part of the OMT bond buyback programme. In addition, elections in a number of euro-area countries turned out in favour of pro-European parties. This was of particular benefit to the equity markets, which climbed to their highest level since 2008.
In this context, Hypo Landesbank Vorarlberg's internationally oriented "Capital Gains" equity strategy generated a net return of around 15 % (after fees, before taxes). Alternative investments are also benefiting from the positive market environment. The "Satellite" asset management strategy, which invests in emerging market bonds, high-interest bonds, corporate bonds, emerging market shares, commodities (except for agricultural and food products) and real estate shares, achieved a net return of roughly 12 %. The bond markets also generated positive price increases. For example, Hypo Landesbank Vorarlberg's euro bond strategy "Dynamism Bonds 4.0" with active maturities management generated a net return of around 4.5 %.

Due to the continued uncertain macroeconomic environment, private and business customers' willingness to invest remained persistently low in the past year. As a result, the number of mandates and assets under management decreased slightly.

By contrast, Hypo Landesbank Vorarlberg's innovative new asset management strategies were well received by customers. The Hypo IQ Maximum Return strategy ("Hypo IQ") has brought in new funds of almost EUR 15 million since its launch in December 2011. The mathematical investment concept Hypo IQ is able to benefit from upward and downward trends on the stock markets.

International performance standards in asset management
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 strict international asset management standards "GIPS". Since 2005, Hypo Landesbank Vorarlberg has been the first and still the only Austrian bank whose asset management is certified according to these internationally-recognised standards.

Award for private banking
In the Private Banking and Asset Management sectors, Hypo Landesbank Vorarlberg has earned itself an excellent reputation in recent years. This is also underpinned by the Bank's award from World Finance in the Investment Management category for 2011 and 2012. The London-based business magazine presented us with the "World Finance Investment Management Award 2012" as the best Austrian bank for the second time in a row.

Elite Report has also repeatedly counted Hypo Landesbank Vorarlberg among Austria's best private banking institutions in recent years. For 2013, Hypo-Bank was assessed by Elite Report as "summa cum laude" for the second time in a row and was therefore included in the highest category of banks receiving awards in the Elite pyramid.

Treasury | Financial Markets

The positive sentiment in the second half of 2012 was primarily attributable to the ECB, which provided a boost to the markets by lowering the interest rate to a historically low level of 0.75% and announcing unlimited government bond purchases.

The reduction of the issue portfolio that had been planned for 2012 was implemented successfully. The EMTN programme and the programme for structured bonds were updated in the second quarter before the new Prospectus Directive came into force in July 2012.

To allow it to place mortgage bonds on the international capital market on a broad basis, Hypo Landesbank Vorarlberg is aiming for a rating for this securities category. Over the course of 2012, the necessary preparations were largely completed. The rating for mortgage bonds is expected before the end of the first quarter of 2013.

Despite the decreasing volume of the bond nostro, the contribution to conditions has been increased further since the beginning of the year. However, it will not be possible for this to continue in the same way in subsequent years, as the average margin for purchases will fall and highly liquid assets will need to be purchased to a greater extent for regulatory reasons, particularly to fulfil the liquidity coverage ratio. Accordingly, the asset class of government bonds will become increasingly important in future.

As at 31 December 2012, the earnings contribution of the Financial Markets/Treasury business segment amounts to EUR 86.1 million (previous year: EUR -3.0 million). In 2013, further developments in Treasury will depend heavily on developments on financial markets and the continuing sovereign debt crisis.

Asset Liability Management
In 2012, a net amount of approximately EUR 700 million was invested in bonds by the ALM/Investment unit. The weighted remaining term of these new investments is 5.3 years and their asset-swap spread amounts to 0.86%.

The total volume of loan receivables (not including promissory notes) managed by the Asset Liability Management unit was approximately EUR 470 million as at 31 December 2012. The extrapolated contribution to conditions from loan receivables for financial year 2012 amounts to EUR 2.7 million.
During 2012, the last credit default swaps (CDS) in place expired or were closed by way of sale. No CDS positions have been held since December 2012.

Asset Liability Management – funding
The Bank's plans for 2012 involved reducing its issue portfolio and subsequently also its total assets. Therefore, issuing activity in the past financial year was also very limited.

All in all, there were 14 new issues with a total volume of around EUR 198.4 million in the past financial year. This also included EUR 100 million of the subordinated capital bonds issued for 2012 – 2022. Buybacks of the Bank's own issues were also carried out in a total volume of EUR 223 million in 2012. Income of EUR 11.1 million was gained from this. EUR 200.4 million of the bonds and EUR 55 million of the promissory note loans expired in the past year.

Buyback of hybrid instruments
To optimise its capital structure and strengthen its equity base, Hypo Landesbank Vorarlberg repurchased two outstanding hybrid capital loans on the capital market on 10 April 2012. The loans with nominal volumes of JPY 7 billion (approximately EUR 70 million) and JPY 4 billion (approximately EUR 40 million) were placed with an institutional investor as private placements in 2003 and 2004 via HYPO VORARLBERG CAPITAL FINANCE (JERSEY) LIMITED. The hybrid capital loans were bought back in their full volume at a price of 51.25% of the nominal value after approval had been granted by the financial market supervisory authority.

The buyback of the hybrid instruments increased the capital base in light of the introduction of Basel III and formed part of Hypo Landesbank Vorarlberg's ongoing capital optimisation strategy. The gains from the buyback, less costs for unwinding the swaps, were included in retained earnings after deducting taxes. Due to the buyback of the hybrid capital (Tier 1), it was necessary to obtain capital resources to replace this. This replacement and the increase in the Tier 2 capital were conducted very successfully by means of a EUR 100 million issue on the retail market.

Money, Foreign Exchange and Interest Derivatives Trading
After short-term refinancing was utilised for the first time during the year, readily accessible short-term liquidity increased again by almost EUR 400 million over the course of the summer. Readily accessible short-term liquidity climbed to around EUR 500 million by the end of the year. The requirements for Swiss francs due to the major maturities in 2013 were almost entirely covered already at the end of 2012.
Increases were recognised here in almost all areas. In nostro business, maturities and sales predominated over new purchases and the ALM Funding unit also generated increases in liquidity through issues. There were also large increases from customer business, where net increases in funds were achieved through attractive conditions.

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 the persistently low interest rate level.

Fund Service
The Fund Service unit was administering 63 mandates as of the end of the year, with the volume under management totalling EUR 6,882 million as at 31 December 2012. This corresponds to a 10.87% decrease in comparison to the previous year and is attributable to the migration of an administered investment company to another custodian bank.

Tax representative and paying agent functions were performed for 303 tranches and classes of foreign investment funds. As tax representative responsible for calculating and reporting dividend-equivalent income and capital gains, the unit administered 202 mandates.

In addition, customer accounts are administered for external brokers. A number of bonds were repaid in the period under review. This resulted in account closures, which led to a decline in the number of customer accounts administered for external brokers.

Securities trading (non-proprietary)
The equity and bond markets continued to be heavily impacted by the sovereign debt crisis in various EU countries in 2012. Many investors were unsettled by a number of negative reports, leading to volatile markets. As a result of this uncertainty among customers, a decline in securities trading could be observed.

The annual volume of the branches decreased in 2012. In financial year 2012, approximately 370,000 orders were processed via Hypo Landesbank Vorarlberg, corresponding to total revenues of EUR 59 billion. The volume increased by around EUR 4 billion in comparison to the previous year. The number of orders was down slightly.

Swap unit
As at the end of the year, the Swap unit managed a total of 1,222 derivative transactions with a nominal volume of around EUR 10.32 billion. This is equivalent to a year-on-year increase of 118 transactions. However, the total nominal volume declined by 4.96%, as a number of large-volume issues together with the associated swaps expired.

Due to the turbulent upward and downward movements on the markets, the amounts of cash and bond collateral shifted increased almost on a daily basis in the year under review.

A total of 296 derivative transactions were traded in 2012, fewer than in the record year 2011 (345 transactions) but more than in 2010 (254 derivatives).

Cash and securities collateral amounted to EUR 259.16 million in total as of the end of December, representing a EUR 11.25 million decrease as against the previous year.

In 2012, the Swap unit worked intensively on the implementation of the European Market Infrastructure Regulation (EMIR). To map the requirements of the regulatory authority with regard to clearing, notification to a transaction register and techniques for minimising risk, extensive changes were made in the system landscape.

Since May, plain vanilla transactions can be confirmed electronically using MarkitWire. Full implementation of the EMIR project will take place in financial year 2013.

MAJOR SUBSIDIARIES OF HYPO LANDESBANK VORARLBERG

Hypo Immobilien & Leasing GmbH

At the beginning of 2012, Hypo Landesbank Vorarlberg merged the former Hypo Immobilien GmbH and Hypo SüdLeasing GmbH to form Hypo Immobilien & Leasing GmbH. Hypo Landesbank Vorarlberg's entire Austrian leasing and real estate business was combined in one company in the shape of Hypo Immobilien & Leasing GmbH. This enables the Bank to exploit administrative synergies and particularly synergies relating to real estate leasing. The merger was preceded by an extensive project, and a new, modern IT structure and software was also purchased in this context.

The company's 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. An experienced, mobile team of experts offers customers comprehensive leasing advisory services and real estate management in close cooperation with the Bank. The main headquarters is still the Hypo Office in Dornbirn, and real estate services are also offered at the offices in Bregenz, Bludenz and Feldkirch. In Vienna and Dornbirn, the customers are supported by leasing teams. The Swiss leasing market is serviced directly by a mobile team. The Bank's branches in Graz and Wels act as a point of contact for customers interested in leasing. This means that the services of Hypo Immobilien & Leasing GmbH can be offered throughout Austria and on the Swiss market. As at 31 December 2012, Hypo Immobilien & Leasing GmbH had 48 employees throughout Austria.

Hypo Immobilien & Leasing GmbH posted earnings before taxes of EUR 1.09 million for 2012. The consolidated earnings before taxes of the companies mainly included in the consolidated financial statements and belonging to the real estate and leasing subgroup came to EUR 7.1 million as at 31 December 2012. The volume of new business in the movables and vehicle leasing sector remained stable in comparison to the previous financial year, amounting to EUR 59 million. In real estate leasing, new business amounted to EUR 27 million.

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

The Italian leasing market recorded a sharp fall of 34.7% in 2012, particularly in the real estate sector, due to a low level of willingness to invest. For Hypo Vorarlberg Leasing AG, the past year was characterised by cautious business management and a planned sideways trend in total assets as a result of the difficult economic conditions. In total, 76 contracts comprising net new volume of EUR 77 million were concluded. This was mainly focused on top-quality lessees and guarantors, valuable lease assets, increased advance payments and attractive lending conditions. Under new legislation effective since April 2012, shorter terms can be presented again in real estate leasing. In addition to the real estate sector, a number of interesting projects were also handled in the hydroelectric power plant sector.

The real estate market remains persistently subdued throughout Italy and in Hypo Vorarlberg Leasing's market areas, both in terms of the number of transactions concluded and the sales price, particularly for commercial properties. For this reason, increased risk provisions were recognised to safeguard existing blank commitments. Hypo Vorarlberg Leasing AG therefore posted a loss after taxes of EUR 2.2 million for 2012, although a record level of net interest income of EUR 10.5 million was generated.

The aim for 2013 is to achieve a similar new volume 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. Similarly to the conventions in place with Südtiroler Volksbank and Südtiroler Sparkasse, a cooperation with Südtirol Bank that was launched in 2012 is to facilitate access to customers with impeccable credit ratings, particularly in South Tyrol and Trentino. Hypo Vorarlberg Leasing AG's activities in Lombardy were concentrated on the Como branch in 2012. The branch in Bergamo was closed and its contracts were acquired by Como.

Hypo Vorarlberg Immo Italia GmbH changed its name in 2012. The addition "Immo Italia" is intended to express the company's field of activity in its name. Despite the unfavourable environment, Hypo Vorarlberg Immo Italia GmbH generated an operating profit in the past year. Earnings from ordinary activities amounted to EUR 358,567. The Italian market for commercial property is still experiencing a difficult phase. Both the number of properties traded on the market and their prices have been decreasing. Nevertheless, Hypo Vorarlberg Immo Italia GmbH managed to sell several properties during 2012. In addition, Hypo Vorarlberg Immo Italia GmbH acquired some additional properties from Hypo Vorarlberg Leasing AG and let them to third parties on a long-term basis. These investment properties enabled the company to improve its results of operations.

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG)

HYPO EQUITY Unternehmensbeteiligungen AG is a holding company for venture capital and private equity activities with a focus on financing small and mid-sized enterprises by providing equity and mezzanine capital. Innovative companies should be supported in tense economic periods in particular. Financing expensive and risky expansion plans and product innovations with traditional borrowing is often difficult or even impossible. Due to Basel III and the resulting stricter regulatory requirements for bank financing, equity financing by third parties can be a sound alternative. Past experience shows that a large portion of the capital provided by a private equity company goes to growth sectors that create more highly qualified jobs. This in turn leads to a modernisation of industrial structures and creates new growth impetus for the Austrian economy.

HYPO EQUITY Unternehmensbeteiligungen AG's investors include Hypo Landesbank Vorarlberg, Hypo Tirol Bank, Volksbank Vorarlberg as well as insurance companies, foundations and the management.

The company followed up on the positive development of the past years and generated subgroup earnings after taxes of EUR 8.7 million in financial year 2011/12. Total assets increased from EUR 110 million to EUR 113 million.

The Alternative Investment Fund Management Directive (AIFMD) came into force in 2013. The main objectives of the AIFM Directive are to make the individual capital market segments more transparent and to establish supervision of the private equity market in Europe. In this Directive, the European Union has responded to the demand made repeatedly after the outbreak of the financial crisis for investment companies to be monitored more closely. If the AIFM Directive resolved by the EU is implemented sensibly in Austria, this could create good conditions for the private equity market and thus for growth opportunities.

With regard to financing instruments, the company will continue its tried and tested practice of using a broad mix ranging from pure equity through debt and mezzanine financing to derivative financial instruments in future. This will always take place against the backdrop of a clear focus on bespoke, private equity-related case-by-case solutions.

Hypo Versicherungsmakler GmbH

The uncertain economic development in Europe was also reflected in the insurance industry. In its planning for 2012, the Austrian Insurance Association therefore anticipated a negative premium development of -0.6%. In view of these forecasts, the sound business performance of Hypo Versicherungsmakler GmbH is all the more pleasing. With revenues of EUR 1.3 million (up 5.5%), earnings before taxes of EUR 190,908 were generated in 2012. This corresponds to a 53.2% year-on-year increase in earnings from ordinary activities. As at 31 December 2012, there were 12 employees.

Bucking the general trend in the insurance industry, Hypo Versicherungsmakler GmbH has achieved a 44% increase in revenues over the past five years with staff costs remaining virtually unchanged (up 3.6%). This was made possible by internal improvements in organisational processes, modernisation of the IT system and integration in Hypo-Informatik's IT structure.

The substantial headcount reduction at the insurance companies and the relocation of claims departments to national centres in Eastern Austria continued. As a result, the requirements on our employees have grown considerably in recent years. In addition, several new laws and regulations were required to be implemented in the past financial year, such as the Austrian Insurance Law Amendment Act and the UNISEX Directive initiated by Brussels.

The concept of personal support for corporate and private customers and constant optimisation of insurance and premium conditions has proved its worth. Customers appreciate the comparative lack of fluctuation, the extensive specialist knowledge and high level of commitment of the broker teams. With an experienced team of consultants that has not changed for several years, Hypo Versicherungsmakler GmbH will continue to face the growing challenges on the insurance market and offer attractive solutions for building up financial reinsurance.

WITH CONVICTION AND COMMITMENT

**HYPO LANDESBANK VORARLBERG
SUSTAINABILITY REPORT**

For us, sustainability is a central value – both an opportunity and an obligation. We must and will go in new directions to meet the challenges of the future. Out of solidarity with the region and its people. Out of conviction.

The euro and debt crises have shown that countries, companies and banks can only create sustainable value through responsible business. Hypo Landesbank Vorarlberg views sustainability as a joint process which involves connecting economic thinking, social orientation and environmental responsibility. Several measures have been put in place to reconcile these three areas. It is important to secure a sustainable business model but at the same time social responsibility is also important. The Managing Board has worked hard to anchor the concept of sustainability into the company culture so that it will be practiced by all employees.

ECONOMIC SUSTAINABILITY

To be fit for the future and to be able to benefit society you must have a sustainable business policy. Those who seek only short-term success and lose sight of the future cannot exist on the market indefinitely. The financial crisis of recent years has clearly shown how dangerous short-term thinking is. For the Managing Board of Hypo Landesbank Vorarlberg, economic sustainability is a matter of course. This is confirmed by the strategic orientation of the Managing Board, which is not speculation, but the generation of sustainable earnings.

The highest priority at Hypo Landesbank Vorarlberg is to secure long-term profitability. Strategy, corporate policy, goal setting and the remuneration system of the Bank are coordinated to make long-term corporate success possible. Long term successful development is the guiding principle of business activities.

Only with a long-term successful financial policy can we fulfil our social and ecological obligations, make an equitable contribution and create lasting added value for our customers. In order to be a long-term business partner for the people and the economy of our region, Hypo Landesbank Vorarlberg has placed great emphasis on a responsible financial policy.

With both the capital increase and the successful 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 their customers in the future.

ECOLOGICAL SUSTAINABILITY

For many years, Hypo Landesbank Vorarlberg has taken various measures to reduce the environmental impact of its operations. In addition to the consistent reduction of greenhouse gas emissions and efficient use of resources, we are constantly searching for further improvements. Environmentally conscious and long-term cost-reduction measures for building and energy management were applied in the renovation of the headquarters and the construction of the Hypo Office Dornbirn. In day-to-day processes (paper use and waste separation) the Bank introduced a sustainable programme at an early stage to make employees aware of the importance of these issues. Together, these measures contribute to a conscious and efficient use of natural resources.

In consideration of the next generations, Hypo Landesbank Vorarlberg has participated for many years in numerous projects to protect the environment. The Bank, together with other partners, supports local projects such as the VN Klimaschutzpreis (an environmental project) and "RIKKI – Schlauberger vermeiden Abfall", a project to reduce waste. Since 2008, the Bank has sponsored the VN Klimaschutzpreis, which recognises special innovative and energy saving projects.

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 answer to the increasing demand by customers for meaningful and sustainable products, the principles of sustainability and future orientation are also included in the products Hypo Landesbank Vorarlberg offers. Hypo-Klima-Kredit supports residential energy-saving investment. Currently, the Bank and its customers are committed to the Hypo-Umwelt-Förderpreis (an environmental award). This is based on the Hypo-Umweltsparbuch, introduced in 2011, where every customer can make a small contribution to the protection of people and the environment. Depositors waive 0.1 % of the interest and Hypo Landesbank Vorarlberg matches that amount. The more the Umweltsparbuch is used, the greater the support for selected environmental projects and for sustainable development in the region. The Hypo-Umwelt-Förderpreis will be first awarded in spring 2013 by an independent jury. Funds will be distributed to establish or continue the winning projects.

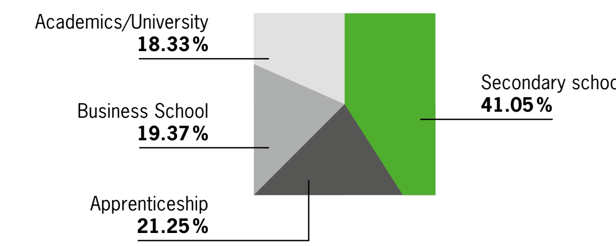
Responsibility for choice of transportation lies with the individual. Hypo Landesbank Vorarlberg can, however, raise awareness through conscious mobility management, which when compared to other transport policy instruments does not require major financial investment. By switching to public transportation for their commute, employees drive less. To this end, all employees at Hypo Landesbank Vorarlberg receive a travel expense subsidy for their commute to and from the workplace.

SOCIAL SUSTAINABILITY

Hypo Landesbank Vorarlberg as employer
As employer, Hypo Landesbank Vorarlberg influences both the work and the life style of its employees. They are our most valuable capital and the key to our success. We work every day to meet the expectations of our customers. We can only be successful – in both economic terms and with a view to our societal responsibilities – when our employees identify themselves with the philosophy and the goals of the bank. They are the drivers of our value creation and we owe our lasting success to their know-how, their dedication, their competence and their motivation.

Training and further education
We challenge and support our employees. The continued development of their professional expertise and personal skills is very important to the Bank and we support our employees in discovering their personal potential. Through offering excellent training for career starters and further educational opportunities for our established employees, Hypo Landesbank Vorarlberg will remain an attractive employer.

Training profile 2012



The professional training system of Hypo Landesbank Vorarlberg includes planned training for young employees, ensures training standards and creates a systematic needs-oriented further education. In 2012, we invested EUR 619,406 (2011: EUR 591,923) in training and further education. This corresponds to EUR 1,029 (2011: EUR 998) per employee. On average our employees spend 4.2 days a year in courses.

Last year, 61 employees passed the banking examinations (Hypo training level 1 and 2). 12 employees successfully completed professional career and technical training courses. In addition, seminars in specialized business-related fields and personal development were offered. In total 337 different educational activities were offered in 2012.

Expenditure on training and further education Hypo Landesbank Vorarlberg

	2012	Change in %	2011	2010
Expenditure for education and training in EUR*	619,406	4.64 %	591,923	623,131
Expenditure per employee in EUR	1,029	3.10 %	998	1,031
Average training days per employee per year	4.2	13.51 %	3.7	5.4

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

Hypo trainee and Hypo apprenticeship
The Hypo trainee programme is an integral part of future executive development. Hypo Landesbank Vorarlberg launched the first programme of its kind in Vorarlberg in 1999. Since then, more than 120 trainees have completed the programme. In autumn 2012, eight more young people started the programme to begin their future as bankers on a sound foundation.

As a company that has won awards for its apprenticeship programmes, we have for years also provided solid training for bankers. Since 2001, 38 young people have chosen this path. In addition, the Group also trains apprentices as IT experts and estate agents. Apprentices and trainees are sought-after employees in different areas within the company.

The Hypo Career Forum for secondary and university graduates takes place annually and offers both the bank and the potential applicant the chance to meet. It also offers the applicant an opportunity to go behind the scenes of Hypo Landesbank Vorarlberg. This is an established annual event where the bank can present itself as an attractive employer to a wide audience.

Employee and executive feedback
The annual goal-setting discussions with employees, which offer both groups the opportunity for an open exchange, are firmly anchored in the company culture. Holding these discussions regularly promotes dialogue between employee and executive and offers the opportunity to analyse the past year and set new goals. In return, every two years employees assess senior management in the areas of decision making, organisational and motivational skills etc. This feedback allows managers to reflect on their leadership performance and provides the basis for future executive training.

Executive development
Whenever possible, Hypo Landesbank Vorarlberg fills management positions with 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.

Knowledge management
Knowledge management is an important part of the sustainability of a company. Hypo Landesbank Vorarlberg has a company culture that encourages employees to share their knowledge. The knowledge platform Hypopedia, created in 2011, allows the flow of information to be brought together in a logical structure. All information concerning business processes at Hypo Landesbank Vorarlberg is bundled here. The newly developed search engine supports and simplifies the search for work procedures, and also allows browsing through other databases for information. A specially designed updating service provides a quick overview of all changes and new information in the knowledge base. A follow-up project in 2012 standardised all documents in Hypopedia.

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 wellness experts, we promote health awareness with our employees. Through focussing on various health topics, we help support their well-being and performance. In 2012, the workplace health promotion at Hypo Landesbank Vorarlberg was “resource management and relaxation/stress relief”. In addition to presentations and in-depth workshops about individual health resources and workday stresses, employees learned effective and simple relaxation tools.

The province-wide bicycle competition took place once again in 2012. Many employees at Hypo Landesbank Vorarlberg are enthusiastic bicyclists and participated as a team in this fun competition, which is not about athletic performance but rather about everyday enjoyment of biking.

Family-friendly corporate culture
At Hypo Landesbank Vorarlberg, a family-friendly culture is an integral part of our corporate identity. For many of our employees the reconciliation of career and family is an important element of the quality of both work and life. Hypo Landesbank Vorarlberg supports a family-friendly corporate culture and thus benefits from the increased motivation and contentment of their employees.

Family-friendly policies 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. Our dedication to the policy of family and work was recognised by our recent endorsement by the State of Vorarlberg as “Excellent family-friendly business 2011” which is valid for two years. The comparison with other companies is an incentive and promotes high quality family-oriented measures.

KEY EMPLOYEE FIGURES

Hypo Landesbank Vorarlberg

	2012	Change in %	2011	2010
Annual average number of employees	**602**	1.52%	593	606
thereof apprentices	**6.1**	−6.15%	6.50	7.00
thereof part time	**49.6**	7.13%	46.3	44.1
Number of women (incl. apprentices)	**59.7%**	−1.15%	60.4%	60.2%
Number of men (incl. apprentices)	**40.3%**	1.76%	39.6%	39.8%
Average length of employment in years	**9.6**	0%	9.6	9.5
Average age in years	**36.6**	0.55%	36.4	36.1

Group figures

	2012	Change in %	2011	2010
Annual average number of employees	**728**	0.6%	724 *	705
Number of employees at year-end	**819**	0.4%	816	778
Total employee training days in 2012	**2,760**	9.0%	2,532	3,461
Training hours per employee in 2012	**29.20**	8.43%	26.93	37.80
Total expenditure (in '000 EUR) for staff development	**1,031**	−11.5%	1,165	1,024
Cost for staff development per employee in EUR	**1,416**	−12.0%	1,609	1,452

* Incl. Hypo SüdLeasing GmbH effective 2011

Sponsoring and regional engagements
Art and culture influence the values of our society. Through our involvement in social issues, Hypo Landesbank Vorarlberg wants to provide recognisable benefits for society. Therefore we have for many years supported cultural and sporting projects with long-term commitment.

By lending its financial support to associations, projects and initiatives, the economic success of Hypo Landesbank Vorarlberg also benefits less privileged persons and groups.

RESEARCH AND DEVELOPMENT

The Bank reviews the effects of economic and market developments on earnings, equity and net assets on an ongoing basis. As part of the “Optimisation under Conditions of Uncertainty” project conducted at the Josef-Ressel Centre, the Bank cooperates closely with Vorarlberg University of Applied Sciences on the definition of market scenarios employed.

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.

WITH CAUTION AND BALANCE

HYPO LANDESBANK VORARLBERG
THE INVESTMENT BANK

A good investment means finding the right mix. Anticipating and reliably assessing market trends and tendencies. In this way we develop balanced, future-proof investment products, that always keep the interest of the investor in mind. Based on this foundation we build secure assets.

WITH CARE AND CLARITY

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS DATED 31 DECEMBER 2012

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2012

Income statement

in '000 EUR	(Notes)	2012	2011	Change in '000 EUR	Change in %
Interest and similar income		318,415	334,175	−15,760	−4.7
Interest and similar expenses		−141,170	−159,268	18,098	−11.4
Net interest income	**(6)**	**177,245**	**174,907**	**2,338**	**1.3**
Loan loss provisions	(7)	−34,960	−25,574	−9,386	36.7
Net interest income after loan loss provisions		**142,285**	**149,333**	**−7,048**	**−4.7**
Fee and commission income		42,557	45,138	−2,581	−5.7
Fee and commission expenses		−4,969	−5,231	262	−5.0
Net fee and commission income	**(8)**	**37,588**	**39,907**	**−2,319**	**−5.8**
Net result on hedge accounting	(9)	−2,853	−639	−2,214	> 100.0
Net trading result	(10)	64,324	−20,924	85,248	–
Net result from other financial instruments	(11)	2,120	−9,861	11,981	–
Administrative expenses	(12)	−91,000	−79,670	−11,330	14.2
Other income	(13)	11,599	13,305	−1,706	−12.8
Other expenses	(14)	−21,757	−18,596	−3,161	17.0
Result from equity consolidation		4,037	8,765	−4,728	−53.9
Earnings before taxes		**146,343**	**81,620**	**64,723**	**79.3**
Taxes on income	(15)	−34,744	−19,578	−15,166	77.5
Consolidated net income		**111,599**	**62,042**	**49,557**	**79.9**
Of which attributable to:					
Parent company shareholders		111,583	62,030	49,553	79.9
Non-controlling interests		16	12	4	33.3

Statement of comprehensive income

in '000 EUR	2012	2011	Change in '000 EUR	Change in %
Consolidated net income	111,599	62,042	49,557	79.9
Other income after taxes	17,579	−8,644	26,223	–
Changes to foreign currency translation reserve	11	16	−5	−31.3
Changes to revaluation reserve	17,569	−8,659	26,228	–
of which changes in measurement	22,848	−10,981	33,829	–
of which changes in holdings	577	−564	1,141	–
of which income tax effects	−5,856	2,886	−8,742	–
Change from equity consolidation	−1	−1	0	0.0
Total comprehensive income	**129,178**	**53,398**	**75,780**	**> 100.0**
Of which attributable to:				
Parent company shareholders	129,162	53,386	75,776	> 100.0
Non-controlling interests	16	12	4	33.3

II. BALANCE SHEET DATED 31 DECEMBER 2012

Assets

in '000 EUR	(Notes)	31.12.2012	31.12.2011	Change in '000 EUR	Change in %
Cash and balances with central banks	(16)	532,010	137,821	394,189	> 100.0
Loans and advances to banks	(17)	935,466	1,087,052	−151,586	−13.9
Loans and advances to customers	(18)	8,585,799	8,520,964	64,835	0.8
Positive market values of hedges	(19)	4,188	2,173	2,015	92.7
Trading assets and derivatives	(20)	809,165	806,682	2,483	0.3
Financial assets – at fair value	(21)	1,484,325	1,571,962	−87,637	−5.6
Financial assets – available for sale	(22)	910,103	791,054	119,049	15.0
Financial assets – held to maturity	(23)	1,019,250	1,079,789	−60,539	−5.6
Shares in companies valued at equity	(24)	34,778	34,617	161	0.5
Investment property	(25, 31)	58,548	37,788	20,760	54.9
Intangible assets	(26, 31)	2,121	1,673	448	26.8
Property, plant and equipment	(27, 31)	68,624	70,552	−1,928	−2.7
Tax assets		764	1,248	−484	−38.8
Deferred tax assets	(28)	4,539	13,649	−9,110	−66.7
Non-current assets available for sale	(29)	5,185	4,750	435	9.2
Other assets	(30)	50,310	51,590	−1,280	−2.5
Total Assets		**14,505,175**	**14,213,364**	**291,811**	**2.1**

Liabilities and shareholders' equity

in '000 EUR	(Notes)	31.12.2012	31.12.2011	Change in '000 EUR	Change in %
Amounts owed to banks	(32)	655,680	632,490	23,190	3.7
Amounts owed to customers	(33)	4,743,920	4,230,744	513,176	12.1
Liabilities evidenced by certificates	(34)	1,389,115	1,489,110	−99,995	−6.7
Negative market values of hedges	(19, 35)	148,400	84,436	63,964	75.8
Trading liabilities and derivatives	(20, 36)	319,016	327,225	−8,209	−2.5
Financial liabilities – at fair value	(37)	6,039,128	6,505,017	−465,889	−7.2
Provisions	(38)	37,703	32,479	5,224	16.1
Tax liabilities	(39)	15,773	5,146	10,627	> 100.0
Deferred tax liabilities	(40)	2,967	1,752	1,215	69.3
Other liabilities	(41)	44,884	38,772	6,112	15.8
Subordinated and supplementary capital	(42)	326,667	237,352	89,315	37.6
Shareholders' equity	(43)	781,922	628,841	153,081	24.3
Of which attributable to:					
Parent company shareholders		781,855	628,763	153,092	24.3
Non-controlling interests		67	78	−11	−14.1
Total Liabilities and shareholder's equity		**14,505,175**	**14,213,364**	**291,811**	**2.1**

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Sub-scribed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve (available for sale)	Reserves from currency trans-lation	Total parent company share-holders	Non-controlling interests	Total share-holders' equity
Balance 1 January 2011	**159,000**	**27,579**	**403,110**	**−2,945**	**188**	**586,932**	**0**	**586,932**
Consolidated net income	0	0	62,030	0	0	62,030	12	62,042
Other income	0	0	178	−8,659	−163	−8,644	0	−8,644
Comprehensive income 2011	**0**	**0**	**62,208**	**−8,659**	**−163**	**53,386**	**12**	**53,398**
Change in scope of consolidation	0	0	0	0	0	0	98	98
Dividends	0	0	−11,555	0	0	−11,555	0	−11,555
Distributions to third parties	0	0	0	0	0	0	−32	−32
Balance 31 December 2011	**159,000**	**27,579**	**453,763**	**−11,604**	**25**	**628,763**	**78**	**628,841**
Balance 1 January 2012	**159,000**	**27,579**	**453,763**	**−11,604**	**25**	**628,763**	**78**	**628,841**
Consolidated net income	0	0	111,583	0	0	111,583	16	111,599
Other income	0	0	26	17,569	−16	17,579	0	17,579
Comprehensive income 2012	**0**	**0**	**111,609**	**17,569**	**−16**	**129,162**	**16**	**129,178**
Change in scope of 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	−1	0	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**	**561,554**	**5,965**	**9**	**781,855**	**67**	**781,922**

IV. CASH FLOW STATEMENT

Cash flows from operating activities

in '000 EUR	2012	2011
Consolidated net income	111,599	62,042
Non-cash items included in consolidated net income and reconciliation with cash flows from operating activities		
Impairments/reversals on financial instruments and property, plant and equipment	−44,828	−4,105
Allocations/reversals to/from reserves and loan loss provisions	26,183	21,137
Change in other non-cash items	50,369	−19,168
Reclassification of income from the sale of financial instruments and property, plant and equipment	49	1,437
Other adjustments	−155,224	−169,571
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks	158,324	355,650
Loans and advances to customers	−98,125	−459,323
Trading assets and derivatives	2,112	−524
Other assets	−1,072	−1,382
Amounts owed to banks	24,632	−164,568
Amounts owed to customers	530,038	387,897
Liabilities evidenced by certificates	−100,026	−21,411
Trading liabilities, derivatives	1	0
Financial liabilities – at fair value	−477,139	76,813
Other liabilities	18,400	−2,760
Interest received	219,323	254,798
Interest paid	−151,284	−162,657
Income tax paid	−19,892	−23,644
Cash flows from operating activities	**93,440**	**130,661**

Cash flows from investing activities

in '000 EUR	2012	2011
Cash inflows from the sale of/ repayment on		
Financial instruments	696,037	668,081
Property, plant and equipment and intangible assets	2,593	1,899
Cash outflows for investments in		
Financial instruments	−611,530	−874,704
Property, plant and equipment and intangible assets	−4,950	−7,657
Subsidiaries	0	−6,300
Interest received	106,338	101,024
Dividends and profit distributions received	3,140	4,498
Cash flows from investing activities	**191,628**	**−113,159**

Cash flows from financing activities

in '000 EUR	2012	2011
Proceeds from capital increases	27,748	0
Non-cash changes in subordinated and supplementary capital	87,480	−2,552
Dividend payments	−3,820	−11,555
Interest paid	−2,401	−4,448
Cash flows from financing activities	**109,007**	**−18,555**

Reconciliation with cash and balances with central banks

in '000 EUR	2012	2011
Cash and balances with central banks at end of previous period	**137,821**	**138,452**
Cash flows from operating activities	93,440	130,661
Cash flows from investing activities	191,628	−113,159
Cash flows from financing activities	109,007	−18,555
Effects of changes in exchange rate	114	422
Cash and balances with central banks at end of period	**532,010**	**137,821**

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 2012 financial year and the comparative figures for 2011 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 22 March 2013, 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 2012. 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, 37 subsidiaries are included in the consolidated financial statements (2011: 34), 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 (2011: 25) and eight internationally (2011: 9).

In addition, in financial year 2012 one special fund (2011: 1) was also included in the consolidated financial statements in line with IAS 27 and SIC 12. Inclusion of this special fund has no material impact on the Group's assets and liabilities, financial condition, and results of operations. 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 post-acquisition. 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 (2011: 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 40,254,000 for the past financial year (2011: EUR 45,284,000). The aggregate shareholder 's equity of these holdings amounted to EUR 11,968,000 (2011: EUR 10,255,000), and a result after taxes totalling EUR 214,000 was achieved (2011: EUR – 5,000).

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 with the exception of Hypo Spezialfonds. The reporting date for Hypo Spezialfonds, 30 September, is different by three months. However, interim financial statements as at 31 December 2011 were prepared. The fund was dissolved on 30 September 2012.

The associated company Hypo Equity Unternehmensbeteiligungen AG also has a different reporting date of 30 September 2012.

In 2011, the scope of consolidation changed because of the acquisition of the equity interest in HIL Mobilienleasing GmbH & Co KG (previously HIL Mobilien GmbH). As a result of the purchase, the equity interests in the company increased from 26% to 100%. HIL Mobilienleasing GmbH & Co KG and its subsidiaries runs the Group's finance leasing business in the movables and real estate sectors. The purchase of the equity interests took place on 31 October 2011. The same percentage of voting rights was acquired with this acquisition of 74% of the shares. The management expects the purchase of the HIL Mobilien Group to generate synergies in administration and marketing and to increase the potential for cross-selling. The management also plans to refocus the business model towards real estate leasing. As a result of the purchase price allocation, tax loss carryforwards were recognised in the amount of EUR 3,348,000 in 2011. In addition, existing liabilities were written down in the amount of EUR 5,709,000 due to the favourable conditions in the Group. The brand equity and the customer base were examined in detail as part of the purchase price allocation. Because the subgroup had changed its name, no brand equity was identified and recognised. Due to the strategic realignment of the business model, the value of the customer base was remeasured under these premises. The value of the customer base is immaterial and therefore was not recognised. The purchase price allocation together with the remeasurement of assets and liabilities did not result in any goodwill and this was therefore recognised at EUR 0. The consolidation of this addition had an effect of EUR 501,000, which was recognised in the item net result from other financial instruments. The sum of the consideration provided for the acquisition amounted to EUR 6,300,000 and was transferred in the form of cash equivalents. The fair value of the consideration transferred amounted to EUR 6,300,000. The fair value at the acquisition date of the equity interest held directly before the acquisition date was EUR 2,528,000. A profit of EUR 2,445,000 resulted from the appreciation of the shares held up to the acquisition date and was recognised in the item net result from equity consolidation. As a result of the acquisition, receivables from finance leases of EUR 404,613,000 and loans and advances to banks of EUR 1,262,000 were acquired. Tax assets amounted to EUR 2,919,000 and the remaining assets EUR 196,000. The vast majority of the companies' liabilities are to the Group and amounted to EUR 375,701,000 at the time of the acquisition. There were also amounts owed to customers from advance payments on leased items under construction of EUR 15,184,000, tax liabilities of EUR 454,000, provisions of EUR 177,000 and other liabilities of EUR 7,650,000. The fair value of the receivables acquired amounted to EUR 404,515,000, the contractual gross amount of the receivables EUR 490,713,000, the anticipated uncollectible contractual cash flows EUR 16,474,000. The provisions assumed from the acquisition amounted to EUR 177,000. Net interest income constitutes the revenues of the HIL Mobilien Group because of its business activities. This amounted to EUR 5,511,000 in 2011. Of this figure, EUR 919,000 was taken into account in the Group's profit or loss for 2011. In 2011, the net profit of the HIL Mobilien Group amounted to EUR 3,017,000. Of this figure, EUR 1,157,000 was recognised in the Group's profit or loss for the period. The changes in provisions and HIL Mobilienleasing GmbH & Co KG are as follows.

in '000 EUR 2011	Ongoing litigation	Other provisions
Carrying amount 01.01.	0	0
Change in scope of consolidation	0	479
Allocation	43	585
Use	0	–931
Carrying amount 31.12.	**43**	**133**

The following subsidiaries were included in the consolidated financial statements for the first time as at 1 July 2012.

- "POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H.
- Hypo Immobilien Cinemabetriebs GmbH
- Edeltraut Lampe GmbH & Co KG
- D. TSCHERNE Gesellschaft m.b.H.

The effects from the first-time consolidation in the amount of EUR 3,247,000 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. 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 in amortised cost are recorded under the net trading result on the income statement. However, translation differences resulting from market value changes are recorded under other result in equity in the AFS revaluation reserve.

Translation differences on non-monetary assets including equity securities designated as AFV are recorded in the income statement in net trading result through profit and loss as gains/ losses from fair value changes. Translation differences on non-monetary assets designated as AFS are contained in the AFS reserve, not through profit and loss.

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	31.12.2012	31.12.2011
CHF	1.2072	1.2156
JPY	113.6100	100.2000
USD	1.3194	1.2939
PLN	4.0740	4.4580
CZK	25.1510	25.7870
GBP	0.8161	0.8353

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 and customers and 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 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. According to IAS 39.AG71, a financial instrument is regarded as quoted on an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and these prices reflect actual and regularly occurring market transactions on an arm's length basis. If these conditions are not met, an inactive market is in evidence.

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).

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, 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 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. The discounting factor applied is the risk-free interest rate (e.g. swap curve) plus a risk premium for specific credit risks (credit spread) and a premium for additional costs (administrative fees, liquidity spread etc.). A uniform risk-free interest rate curve should always be used in valuation. Adjustments are to be made accordingly reflecting the counterparty's current credit spread (assets) and one's own credit spread (liabilities). If a counterparty's current credit spread is unknown, the last known credit spread is to be used. On the liability side, credit spread changes are to be presumed to be uniform.

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

1. Market approach	Measurement based on quoted exchange prices and comparable methods
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

- **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. The Hypo Spezial I institutional fund is fully consolidated within the Group per IAS 27 in conjunction with SIC 12. As the individual fund assets form part of the fund portfolio on which management receives regular market value reporting for monitoring and management purposes, the fund's assets were designated as AFV. 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. 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.

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.

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 write-down, 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. 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.

  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 2012, 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	2012	2011
Return in %	4–7%	4–8%
Inflation rate in %	2.50%	2.25%
Rental loss risk in %	2–5%	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.

For intangible assets with unlimited useful lives, an impairment test is carried out at least once a year for the individual asset or at the level of the cash generating unit. These intangible assets are not subject to scheduled depreciation. The useful life of an intangible asset with an unlimited useful life is tested once a year as to whether the assessment of an unlimited useful life remains justified. If this is not the case, the assessment of an unlimited useful life is changed prospectively to a limited useful life. Gains or losses from the derecognition of intangible assets are determined as the difference between the net sales proceeds and the carrying amount of the asset and recognised in the income statement in the period in which the asset is derecognised.
The balance sheet item for the Group’s intangible assets comprises software acquired as well as goodwill. Capitalised goodwill has an unlimited useful life. 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 in other 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.

Foreclosed real estate properties acquired to realise greater value and held available for sale as part of debt collection are reported under the item non-current assets available for sale. Also shown in this account are leased assets to be sold upon lease contract expiration. Hypo Immobilien & Leasing GmbH and the leasing companies oversee realisation of these assets. The objective is to realise them within one year. Properties that cannot be realised within the longer term are generally leased or land leased, at which time they are reclassified as investment property. These assets are not depreciated; impairment is taken instead if fair value less realisation costs fall below carrying value.

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 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.

Pensions
Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft has defined benefit pension obligations to 12 pension plan participants and their survivors (2011: 12). These are receiving pension benefits, and thus no longer make contributions. There is no intention to close this agreement. 23 (2011: 27) 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. 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; the amount depends on length of service. 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.

Provisions for pensions and severance pay 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% (2011: 4.5%)
- Annual indexing, collective bargaining and performance-based salary increases 2.5% (2011: 3.0%) for provisions for severance, service anniversary bonuses and disability/incapacity risk
- Fluctuation rate of 2.0% (2011: 2.0%) for severance provisions and 8.2% (2011: 8.4%) for other provisions
- Individual career trend 2.5% (2011: 2.5%)
- Annual indexing 3.5% (2011: 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 immediately taken to income in the income statement. For 2013 pension benefits to be paid are projected at EUR 337,000, severance payments at EUR 1,022,000 and service anniversary bonuses at EUR 85,000.

Contributions to defined contribution retirement plans are expensed on an ongoing basis. Compulsory contributions to the "New Severance" fund are also expensed on ongoing basis. There are no other benefit obligations.

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

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

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

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

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

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

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

  Market prices are generally used for measuring the fair value of trading assets and liabilities. The present value method or suitable valuation models are used for determining the fair value of non-listed products. The trading result reflects both realised net gains/losses and net measurement changes in trading activities. It also includes 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.

- **Administrative 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 1,507,000 (2011: EUR 1,297,000) at the existing exposure level. A 1 % decrease in the impairment ratio would have lowered loan loss provisions by the amount of EUR 1,507,000 (2011: EUR 1,297,000) 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 100,000 (2011: EUR 97,000). Overall, a 1 % increase in the default probabilities would change the expected loss from non-impaired loans and advances by EUR 299,000 (2011: EUR 389,000). 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 9,521,265,000 (2011: EUR 9,608,016,000).

- **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 6,906,000 (2011: 11,380,000) and the net result from other financial instruments by EUR 6.906,000 (2011: 11,380,000). 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 910,103,000 (2011: EUR 791,054,000).

- **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 1,741,000 (2011: 7,158,000). 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 1,019,250,000 (2011: EUR 1,079,789,000).

- **Fair values**
  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). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 2,297,678,000 (2011: EUR 2,380,817,000) that of liabilities to EUR 6,506,544,000 (2011: EUR 6,916,678,000).

- **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 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 1,729,000 (2011: EUR 12,339,000) that of liabilities to EUR 18,740,000 (2011: EUR 6,898,000).

- **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 14,928,000 (2011: EUR 12,808,000).

- **Social capital**
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 1,632,000 (2011: EUR 1,260,000); increasing the discount factor by 0.5% would result in a decrease in staff costs in the amount of EUR 1,476,000 (2011: EUR 1,148,000). 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 22,775,000 (2011: EUR 19,671,000).

- **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 1,401,129,000 (2011: EUR 1,444,710,000).

(4) APPLICATION OF REVISED AND NEW IFRS AND IAS

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

a) First-time application of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has made a number of changes to existing standards and issued new standards and interpretations, application of which is mandatory for 2012. These rules must be observed in the EU, and concern the following areas:

In 2012, there were no amendments to the existing standards with mandatory application in the EU and no newly applicable standards.

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 2012 financial year.

- **Annual Improvement Project 2012**
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. The amendments come into effect for financial years beginning on or after 1 January 2013. The implementation of these revisions will not have any material effect on the consolidated financial statements. The Group plans to apply the revisions when they become effective.

- **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. The amendments come into force for financial years beginning on or after 1 July 2012. Early application is permissible. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 5 June 2012. The amendment will be applied by the Group in its first annual reporting after the amendment becomes effective.

- **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. The amendments come into effect for financial years beginning on or after 1 January 2013. Early application 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 expects no material impact from application of the amended standard.

- **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. The amendments come into effect for financial years beginning on or after 1 January 2013. Early application is permissible. The amendments have been adopted by the IASB and were endorsed in European law by the EU on 5 June 2012. As the Group has not set aside any plan assets for the fulfilment of employee benefits, it does not expect any material impact from application of the standard.

- **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.

- **Amendments 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 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. Both amendments were endorsed in European law by the EU on 11 December 2012 and will come into effect for financial years beginning on or after 1 January 2013. These amendments will have no impact 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. The amendment is to be applied for the first time to financial years beginning on or after 1 January 2013. It was endorsed in European law by the EU on 5 March 2013. These amendments will have no 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. The amendment is to be applied for the first time to financial years beginning on or after 1 January 2013. The amendment of the standard was endorsed in European law by the EU on 13 December 2012 and is not expected to have any impact on the presentation of the Group's net assets, financial position and results of operations.

- **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 2011, the date of mandatory first-time adoption was postponed until 1 January 2015. 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 in-vestment. 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 plans to apply the amendment when it becomes effective and does not expect any material impact.

- **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.

- **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.

- **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 Group expects the application of the new standard to result in de-designation and redesignation of hedges and effects on the valuation of derivatives.

- **Publication of IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine**
  IFRIC 20 was published by the IASB in October 2011 and relates to accounting for stripping costs incurred during the production phase of a surface mine. The interpretation governs accounting for the benefits arising from the stripping activity. The interpretation is to be applied for the first time to financial years beginning on or after 1 January 2013 and will not have any impact on the consolidated financial statements.

(5) RESTATEMENT OF PREVIOUS-YEAR FIGURES

As described in the 2011 consolidated financial statements, the purchase price allocation for the acquisition of 74% of the shares in HIL Mobilienleasing GmbH & Co KG (formerly HIL Mobilien GmbH) took place during 2012. The assets and liabilities of HIL Mobilienleasing GmbH & Co KG and its subsidiaries were remeasured and adjusted retrospectively in financial year 2011. This adjustment resulted in several adjustments.

Adjustment of assets

in '000 EUR – 31 Dec. 2011	Reported	Adjusted
Loans and advances to customers	8,522,023	8,585,799
Intangible assets	8,070	1,673
Deferred tax assets	8,876	13,649
Other assets	54,147	51,590
Total assets	**14,218,604**	**14,213,364**

The adjustment of assets firstly includes the capitalisation of existing loss carryforwards at HIL Mobilienleasing GmbH & Co KG and its subsidiaries in the amount of EUR 3,347,000. In additional to previously capitalised loss carryforwards, tax loss carryforwards totalling EUR 3,953,000 were capitalised. The valuation of lease receivables identified impairment of EUR 1,059,000, resulting in a deferred tax asset of EUR 265,000. The valuation of amounts owed to customers resulted in a deferred tax liability that was deducted from the assets in the amount of EUR 1,397,000 due to offsetting, meaning that the "deferred tax assets" balance sheet item increased by a total of EUR 2,215,000. The loss carryforwards were utilised in 2012 already by way of allocation to Hypo Landesbank Vorarlberg. Secondly, the goodwill of EUR 6,396,000 recognised as at 31 December 2011 that was capitalised until completion of the purchase price allocation was derecognised, as a positive difference of EUR 501,000 was recognised in the income statement in the item net result from other financial instruments following the valuation. There was also a reclassification from other tax assets to the deferred tax assets item in the amount of EUR 2,557,000.

Adjustment of liabilities and shareholders' equity

in '000 EUR – 31 Dec. 2011	Reported	Adjusted
Amounts owed to customers	4,236,334	4,230,744
Equity	628,491	628,841
Total liabilities and shareholders' equity	**14,218,604**	**14,213,364**

The decline in value of amounts owed to customers is due to the revaluation of the capital contribution of the former main owner of HIL Mobilienleasing GmbH & Co KG in the amount of EUR 5,709,000, maturing by 2019, for which the conditions were lower than the market level as at the acquisition date. This valuation effect is subsequently reversed in the net interest income item. The reversal in 2011 amounted to EUR 119,000. The change in equity is attributable to the above-mentioned valuation effects and the effect on equity consolidation up to the acquisition date in the amount of EUR 1,000.

Adjustment of the income statement

in '000 EUR - 2011	Reported	Adjusted
Interest and similar income	334,294	334,175
Net interest income	**175,026**	**174,907**
Net result from other financial instruments	−10,311	−9,861
Result from equity consolidation	8,766	8,765
Earnings before taxes	**81,290**	**81,620**
Taxes on income	−19,608	−19,578
Consolidated net income	**61,682**	**62,042**

The reduction of interest and similar income in the amount of EUR 119,000 is attributable to the reversal of the valuation effect for the maturing refinancing of the former main owner.

The change in the item "net result from other financial instruments" is due to the recognition of the positive difference of EUR 450,000 from the consolidation of the addition. The change in the result from equity consolidation in the amount of EUR 1,000 is due to the appreciation of the 26% equity interest previously held in HIL Mobilienleasing GmbH & Co KG as at the acquisition date.

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

in '000 EUR	2012	2011
Income from cash and balances with central banks	537	1,002
Income from loans and advances to banks	5,981	9,261
Income from loans and advances to customers	165,644	175,942
Income from leasing business	30,053	35,362
Income from hedging instruments	850	0
Income from derivatives, other	8,139	5,761
Income from debt securities	104,070	102,349
Income from shares	1,368	2,364
Income from investments in affiliated companies	345	994
Income from equity investments, other	1,428	1,140
Interest and similar income	**318,415**	**334,175**
Expenses from amounts owed to banks	–4,990	–7,569
Expenses from amounts owed to customers	–46,786	–50,016
Expenses from liabilities evidenced by certificates	–15,229	–22,011
Expenses from hedging instruments	–27,967	–15,884
Expenses from derivatives, other	–9,250	–7,753
Expenses from liabilities designated AFV	–34.308	–51,530
Expenses from subordinated and supplementary capital	–2,640	–4,505
Interest and similar expenses	**–141,170**	**–159,268**
Net interest income	**177,245**	**174,907**

An amount of EUR 879,000 from unwinding was recorded under interest income from loans and advances to customers (2011: EUR 912,000). Interest income from loans and advances measured at amortised cost amounts to EUR 239,159,000 (2011: EUR 260,711,000). Interest expense on loans and advances measured at amortised cost amounts to EUR –69,645,000 (2011: EUR –84,101,000).

Of which income from debt securities

in '000 EUR	2012	2011
Income from debt securities – AFV	39,758	42,495
Income from debt securities – AFS	27,831	21,292
Income from debt securities – HTM	36,481	38,562
Income from debt securities	**104,070**	**102,349**

Of which income from shares

in '000 EUR	2012	2011
Income from shares – HFT	6	9
Income from shares – AFV	452	1,298
Income from shares – AFS	447	594
Income from shares – HTM	463	463
Income from shares	**1,368**	**2,364**

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

(7) LOAN LOSS PROVISIONS

in '000 EUR	2012	2011
Additions to valuation allowances	–53,535	–42,554
Reversals of valuation allowances	17,466	18,368
Direct write-downs of loans and advances	–431	–1,173
Income from amounts received on loans and advances already written down	2,206	1,799
Additions to provisions	–2,692	–2,795
Reversals of provisions	2,026	781
Loan loss provisions	**–34,960**	**–25,574**

In 2012, the loss from the direct write-down of loans and advances and consumption of loan loss provisions created amounted to EUR 14,264,000 (2011: EUR 18,834,000). 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	2012	2011
Lending and leasing business	4,797	4,518
Securities business	20,257	21,797
Giro and payment transactions	12,006	11,940
Other service business	5,497	6,883
Fee and commission income	**42,557**	**45,138**

in '000 EUR	2012	2011
Lending and leasing business	–1,381	–1,223
Securities business	–1,694	–1,368
Giro and payment transactions	–1,838	–2,483
Other service business	–56	–157
Fee and commission expenses	**–4,969**	**–5,231**

Fee and commission income from financial assets or liabilities, which are not classified as measured at fair value through profit or loss, amounts to EUR 8,003,000 (2011: EUR 7,175,000). 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 –692,000 (2011: EUR –498,000). Fee and commission income from fiduciary activities amounts to EUR 1,300,000 (2011: EUR 1,651,000).

(9) NET RESULT ON HEDGE ACCOUNTING

in '000 EUR	2012	2011
Adjustment to loans and advances to banks	8,726	3,735
Adjustment to loans and advances to customers	17,454	21,359
Adjustment to financial instruments available for sale	26,247	23,666
Adjustment to securitised liabilities	–637	–1,156
Adjustment to subordinated and supplementary capital	–1,596	0
Net result from adjustment to underlying transactions from hedging	**50,194**	**47,604**
Measurement of hedging instruments for loans and advances to banks	–9,115	–3,721
Measurement of hedging instruments for loans and advances to customers	–18,368	–21,698
Measurement of hedging instruments for available for sale financial instruments	–27,467	–23,978
Measurement of hedging instruments for securitised liabilities	612	1,154
Measurement of hedging instruments for subordinated and supplementary capital	1,291	0
Net result of the measurement of hedging instruments	**–53,047**	**–48,243**
Net result from hedging	**–2,853**	**–639**

(10) NET TRADING RESULT

in '000 EUR	2012	2011
Trading result	–5,025	3,745
Result from the valuation of financial instruments – HFT	148	–251
Result from the valuation of derivatives	22,455	183,435
Result from the valuation of financial instruments – AFV	46,746	–207,853
Net trading result	**64,324**	**–20,924**

Of which trading result

in '000 EUR	2012	2011
Currency-based transactions	144	835
Interest-based transactions	–506	4,382
Credit risk-related transactions	–4,701	–1,408
Result from consolidation of liabilities	38	–64
Trading result	**–5,025**	**3,745**

Currency-related transactions include translation differences from assets and liabilities in foreign currencies. In 2012, the translation differences totalled EUR 5,515,000 (2011: EUR 5,290,000).

Of which result from the valuation of financial instruments HFT

in '000 EUR	2012	2011
HFT – realised gains	63	14
HFT – appreciation in value	103	112
HFT – depreciation/amortisation	–18	–377
Net result from the valuation of financial instruments – HFT	**148**	**–251**

Of which result from the valuation of derivatives

in '000 EUR	2012	2011
Interest rate swaps	28,572	159,743
Cross-currency swaps	–17,202	19,667
Interest rate options	136	73
Credit default swaps	6,334	–591
Foreign exchange forwards	–381	566
Currency swaps	4,996	3,977
Result from the valuation of derivatives	**22,455**	**183,435**

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	2012	2011
Realised gains on assets – AFV	17,762	9,132
Realised gains on liabilities – LAFV	59,348	9,126
Realised losses on assets – AFV	–16,715	–12,034
Realised losses on liabilities – LAFV	–12,040	–4,571
Impairment reversals on assets AFV	60,792	45,746
Impairment reversals on liabilities LAFV	58,810	19,446
Impairments on assets AFV	–13,338	–35,819
Impairments on liabilities LAFV	–107,873	–238,879
Result from the valuation of financial instruments – AFV	**46,746**	**–207,853**

The result from the valuation of derivative financial instruments in the amount of EUR 17,840,000 (2011: EUR +183,435,000) should be considered in connection with the valuation result from use of the fair value option in the amount of EUR + 46,746,000 (2011: EUR –207,853,000), 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. The opposite development is distorted in 2012, as the "realised gains on liabilities – LAFV" item includes non-recurring income from early buybacks of our own issues. There is no intention to trade these derivatives, which are used to hedge long-term underlying transactions. In the 2012 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	2012	2011
Realised gains on sales of financial instruments	7,227	3,197
Realised losses on sales of financial instruments	–2,744	–934
Impairment reversals on financial instruments	7,396	1,047
Impairments on financial instruments	–9,759	–13,171
Net result from other financial instruments	**2,120**	**–9,861**

For AFS financial assets, an impairment of EUR 1,696,000 (2011: EUR 2,662,000) was recorded under impairment, affecting income. Impairment of EUR 1,884,000 was recognised in the financial year on financial assets designated as HTM (2011: EUR 5,382,000) under impairment. Impairment of EUR 4,783,000 was recognised in financial year 2012 on financial assets designated as L&R (2011: EUR 4,007,000) under impairment on financial instruments.

Net result from other financial instruments by measurement classification

in '000 EUR	2012	2011
AFS – realised gains	1,763	1,486
AFS – realised losses	–1,034	–62
AFS – impairment reversals	3,936	509
AFS – impairments	–1,696	–2,662
Result from financial assets AFS	**2,969**	**–729**
HTM – realised gains	121	119
HTM – realised losses	–1,237	–518
HTM – impairment reversals	417	0
HTM – impairments	–1,884	–5,797
Result from financial assets HTM	**–2,583**	**–6,196**
L&R – realised gains	4,863	1,404
L&R – realised losses	–469	–17
L&R – impairment reversals	3,000	469
L&R – impairments	–4,999	–4,087
Result from financial assets L&R	**2,395**	**–2,231**
LAC – realised gains	480	188
LAC – realised losses	–4	–337
LAC – impairment reversals	43	69
LAC – impairments	–1,180	–625
Result from liabilities LAC	**–661**	**–705**
Net result from other financial instruments	**2,120**	**–9,861**

(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	2012	2011
Staff costs	–56,346	–48,409
Materials expenses	–30,498	–27,214
Depreciation/amortisation of property, plant and equipment and intangible assets	–4,156	–4,047
Administrative expenses	**–91,000**	**–79,670**

Of which staff costs

in '000 EUR	2012	2011
Wages and salaries	–39,560	–36,695
Statutory social security contributions	–10,150	–9,482
Voluntary social benefits	–812	–722
Expenses for retirement benefits	–2,429	–949
Social capital	–3,395	–561
Staff costs	**–56,346**	**–48,409**

Expenses for retirement and other benefits include contributions to defined contribution plans as an employee retirement benefit and pension fund contributions of EUR 993,000 (2011: EUR 890,000).

Of which material expenses

in '000 EUR	2012	2011
Building expenses	–4,433	–4,322
IT expenses	–11,530	–10,291
Advertising and PR expenses	–3,885	–3,173
Legal and advisory expenses	–1,787	–1,148
Communications expenses	–1,294	–1,218
Organisational form-related expenses	–2,439	–2,097
Staff development expenses	–1,031	–1,165
Other materials expenses	–4,099	–3,800
Materials expenses	**–30,498**	**–27,214**

Building expenses include payments for rented and leased assets. For 2013, minimum lease expenses of EUR 1,604,000 are projected (2012: EUR 1,611,000); the projected amount for the next five years is EUR 7,989,000 (2012: EUR 8,261,000). The increase in IT expenses is largely attributable to data processing costs incurred because of our custodian bank function.

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

in '000 EUR	2012	2011
Depreciation of property, plant and equipment	–3,646	–3,454
Depreciation/amortisation of intangible assets	–510	–593
Depreciation/amortisation of property, plant and equipment and intangible assets	**–4,156**	**–4,047**

(13) OTHER INCOME

in '000 EUR	2012	2011
Income from operating leases	3,734	2,606
Income from the disposal of assets	2,241	4,828
Other revenue from leasing business	1,886	2,019
Operating cost income	1,051	64
Merchandise revenues	590	707
Revenues from consultancy and other services	761	1,010
Miscellaneous other income	1,336	2,071
Other income	**11,599**	**13,305**

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 operating leasesn

in '000 EUR	2012	2011
Up to 1 year	3,158	1,011
More than 1 year to 5 years	9,371	2,806
More than 5 years	534	218
Minimum lease payments from non-terminable operating leases	**13,063**	**4,035**

(14) OTHER EXPENSES

in '000 EUR	2012	2011
Depreciation/amortisation investment properties	–1,375	–924
Depreciation/amortisation other assets	–1,706	–516
Impairment other assets	–200	–1,150
Disposals of remaining carrying amounts	–101	–1
Losses on the disposal of assets	–1,164	–3,165
Other expenses from leasing business	–2,115	–2,441
Operating cost expenses	–1,337	–745
Cost of merchandise	–547	–678
Other tax expenses	–8,412	–6,362
Expenses resulting from losses	–70	–316
Miscellaneous other expenses	–4,730	–2,298
Other expenses	**–21,757**	**–18,596**

Other tax expenses include the stability tax in the amount of EUR 7,504,000 (2011: EUR 6,002,000).

(15) TAXES ON INCOME

in '000 EUR	2012	2011
Current income taxes	–29,929	–19,378
Deferred income taxes	–4,468	–204
Income taxes from previous periods	–347	4
Taxes on income	**–34,744**	**–19,578**

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

in '000 EUR	2012	2011
Earnings before taxes	146,343	81,620
Applicable tax rate	25 %	25 %
Income tax computed	**–36,586**	**–20,405**
Tax effects		
from tax-exempt investment income	2,923	3,924
from other tax-exempt income	22	2
from previous years and tax rate changes	23	–495
from differing international tax rates	84	–456
from other non-deductible expenses	–71	–2,909
from other differences	–1,139	761
Taxes on income	**–34,744**	**–19,578**

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. In 2012, these deferred tax liabilities totalled EUR 1,988,000 (tax liabilities) (2011: tax assets of EUR 3,868,000).

C. NOTES TO THE BALANCE SHEET

(16) CASH AND BALANCES WITH CENTRAL BANKS

in '000 EUR	31.12.2012	31.12.2011
Cash on hand	32,680	23,872
Balances with central banks	499,310	113,909
Deferred interest	20	40
Cash and balances with central banks	**532,010**	**137,821**

Balances with central banks of EUR 46,375,000 comprise the minimum reserve per ECB regulations (2011: EUR 98,376,000). 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)

In loans and advances to banks, the use of hedge accounting led to amortised cost of EUR 186,672,000 (2011: EUR 108,251,000) being adjusted by the hedged fair value of EUR 12,857,000 (2011: EUR 3,711,000).

Loans and advances to banks – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Interbank accounts	131,010	133,501
Money market investments	152,309	90,243
Loans to banks	145,156	199,006
Bonds	503,043	660,707
Other loans and advances	3,948	3,595
Loans and advances to banks	**935,466**	**1,087,052**

Loans and advances to banks – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	511,888	271,303
Germany	166,961	259,345
Switzerland and Liechtenstein	46,304	72,091
Italy	2,978	37,663
Other foreign countries	207,335	446,650
Loans and advances to banks	**935,466**	**1,087,052**

Valuation allowances included – by type

in '000 EUR	31.12.2012	31.12.2011
Portfolio valuation allowances	–99	–79
Loan loss provisions for loans and advances to banks	**–99**	**–79**

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

In loans and advances to customers, the use of hedge accounting led to amortised costs of EUR 435,439,000 (2011: EUR 347,393,000) being adjusted by the hedged fair value of EUR 42,006,000 (2011: EUR 24,953,000).

Loans and advances to customers – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Cash advances	392,968	373,350
Overdraft lines	727,076	699,319
Acceptance credits	9,972	10,902
Municipal cover loans	852,423	828,809
Mortgage bond cover	1,843,713	1,576,624
Lombard loans	170,623	153,635
Other loans	2,944,493	3,174,877
Lease receivables (net investment in a lease)	1,401,129	1,444,710
Bonds	243,274	258,610
Other loans and advances	128	128
Loans and advances to customers	**8,585,799**	**8,520,964**

Loans and advances to customers – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	5,414,141	5,145,717
Germany	1,025,604	1,029,429
Switzerland and Liechtenstein	593,716	593,411
Italy	1,068,283	1,066,046
Other foreign countries	484,055	686,361
Loans and advances to customers	**8,585,799**	**8,520,964**

Loans and advances to customers – breakdown by segment

in '000 EUR	31.12.2012	31.12.2011
Corporate Customers	5,042,538	4,938,152
Private Customers	1,659,242	1,625,269
Financial Markets	439,676	458,023
Corporate Center	1,444,343	1,499,520
Loans and advances to customers	**8,585,799**	**8,520,964**

Loans and advances to customers – breakdown by industry

in '000 EUR	31.12.2012	31.12.2011
Public sector	449,684	464,351
Commerce	1,074,567	1,048,311
Industry	997,692	1,084,533
Trading	628,097	547,082
Tourism	407,591	379,373
Real estate	1,283,647	1,304,806
Other industries	1,696,811	1,691,239
Liberal professionals	171,240	174,717
Private households	1,813,839	1,772,984
Other	62,631	53,568
Loans and advances to customers	**8,585,799**	**8,520,964**

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	31.12.2012	31.12.2011
Minimum lease payments	1,718,955	1,807,759
Non-guaranteed residual values	0	11,847
Gross total investment	**1,718,955**	**1,819,606**
Unrealised financial income	–317,826	–374,896
Net investment	**1,401,129**	**1,444,710**
Present value of non-guaranteed residual values	0	–10,673
Present value of minimum lease payments	**1,401,129**	**1,434,037**

Total valuation allowances on finance leases amounted to EUR 24,785,000 (2011: EUR 25,460,000). 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	31.12.2012	31.12.2011
Gross total investment	**1,718,955**	**1,819,606**
of which up to 1 year	248,978	297,907
of which 1 to 5 years	529,542	552,872
of which more than 5 years	940,435	968,827
Present value of minimum lease payments	**1,401,129**	**1,434,037**
of which up to 1 year	208,149	242,731
of which 1 to 5 years	394,769	394,526
of which more than 5 years	798,211	796,780

Loan loss provisions – breakdown by type

in '000 EUR	31.12.2012	31.12.2011
Individual valuation allowances	–138,734	–118,325
Portfolio valuation allowances	–10,760	–10,076
Other valuation allowances	–1,075	–1,230
Loan loss provisions for loans and advances to customers	**–150,569**	**–129,631**

Loan loss provisions – breakdown by segment

in '000 EUR	31.12.2012	31.12.2011
Corporate Customers	–104,688	–81,432
Private Customers	–21,443	–21,328
Financial Markets	–447	–342
Corporate Center	–23,991	–26,529
Loan loss provisions for loans and advances to customers	**–150,569**	**–129,631**

Specific valuation allowances

in '000 EUR	2012	2011
Balance 1 January	–118,325	–98,891
Currency differences	936	498
Change in scope of consolidation	0	–13,462
Reclassifications	341	1,106
Utilisation	13,830	17,663
Reversals	15,816	16,428
Additions	–51,332	–41,667
Balance 31 December	**–138,734**	**–118,325**

Portfolio valuation allowances

in '000 EUR	2012	2011
Balance 1 January	–10,076	–10,859
Reclassifications	0	14
Utilisation	2	0
Reversals	647	1,340
Additions	–1,333	–571
Balance 31 December	**–10,760**	**–10,076**

Changes in the other valuation allowances included

in '000 EUR	2012	2011
Balance 1 January	–1,230	–183
Change in scope of consolidation	0	–1,432
Utilisation	1	23
Reversals	1,004	601
Additions	–850	–239
Balance 31 December	**–1,075**	**–1,230**

(19) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2012	31.12.2011
Positive market values of fair value hedges	3,509	1,845
Deferred interest on derivative hedges	679	328
Positive market values of hedges	**4,188**	**2,173**

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

in '000 EUR	31.12.2012	31.12.2011
Interest rate swaps	1,386,897	976,822
Cross-currency swaps	43,064	12,772
Interest rate derivatives	**1,429,961**	**989,594**
Nominal values from fair value hedges	**1,429,961**	**989,594**

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

in '000 EUR	31.12.2012	31.12.2011
Interest rate swaps	3,509	1,845
Interest rate derivatives	**3,509**	**1,845**
Positive market values from fair value hedges	**3,509**	**1,845**

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	31.12.2012	31.12.2011
Investment certificates	729	2,841
Positive market values of derivative financial instruments	735,004	728,202
Deferred interest	73,432	75,639
Trading assets and derivatives	**809,165**	**806,682**

Trading assets and derivatives – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	54,561	57,273
Germany	285,173	252,800
Switzerland and Liechtenstein	7,554	4,959
Other foreign countries	461,877	491,650
Trading assets and derivatives	**809,165**	**806,682**

Nominal values from derivatives – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Interest rate swaps	7,070,483	7,591,644
Cross-currency swaps	1,246,022	1,537,255
Interest rate options	598,494	711,325
Interest rate futures	0	12,000
Interest rate derivatives	**8,914,999**	**9,852,224**
FX forward transactions	2,032,582	1,780,251
FX swaps	900,314	283,877
FX options	20,945	46,856
Other FX derivatives	0	2,000
Currency derivatives	**2,953,841**	**2,112,984**
Stock index futures	0	12,750
Stock options	0	7,433
Derivatives on securities	**0**	**20,183**
Credit default swaps	0	135,141
Credit derivatives	**0**	**135,141**
Nominal values from derivatives	**11,868,840**	**12,120,532**

Positive market values from derivatives – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Interest rate swaps	550,191	494,218
Cross-currency swaps	165,379	198,168
Interest rate options	4,225	4,174
Interest rate derivatives	**719,795**	**696,560**
FX forward transactions	14,297	23,645
FX swaps	641	4,378
FX options	271	1,418
Other FX Derivatives	0	1,573
Currency derivatives	**15,209**	**31,014**
Credit default swaps	0	628
Credit derivatives	**0**	**628**
Positive market values from derivatives	**735,004**	**728,202**

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

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

in '000 EUR	31.12.2012	31.12.2011
Debt securities of public issuers	322,756	298,563
Debt securities of other issuers	468,355	533,896
Shares	0	15,636
Investment certificates	0	24,060
Other equity interests	4,724	4,765
Loans and advances to banks	0	5,254
Loans and advances to customers	675,770	674,236
Deferred interest	12,720	15,552
Financial assets – at fair value	**1,484,325**	**1,571,962**

Notes on credit risk

in '000 EUR	2012	2011
Credit exposure	**1,484,325**	**1,571,962**
Collateral	480,264	318,800
Total change in market value	**149,759**	**100,744**
thereof due to market risk	149,544	112,915
thereof due to credit risk	215	–12,171
Change in market value during the reporting period	**49,015**	**24,604**
thereof due to market risk	36,629	32,734
thereof due to credit risk	12,386	–8,130

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 556,000 (2011: EUR –616,000). This loss is offset by a realised gain of EUR –705,000 (2011: EUR +659,000) 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	31.12.2012	31.12.2011
Austria	725,408	676,506
Germany	244,279	319,992
Switzerland and Liechtenstein	75,610	80,714
Italy	23,708	32,387
Other foreign countries	415,320	462,363
Financial assets – at fair value	**1,484,325**	**1,571,962**

(22) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Debt securities of public issuers	260,511	154,911
Debt securities of other issuers	580,422	570,123
Shares	110	1,142
Investment certificates	13,887	11,004
Other equity interests	16,647	17,994
Deferred interest	16,413	14,392
Other equity investments	22,019	21,384
Other investments in affiliated companies	94	104
Financial assets – available for sale	**910,103**	**791,054**

Financial assets available for sale – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	452,684	353,967
Germany	48,288	23,436
Switzerland and Liechtenstein	10,673	10,231
Italy	23,962	20,930
Other foreign countries	374,496	382,490
Financial assets – available for sale	**910,103**	**791,054**

The financial assets available for sale item represents other holdings and shares in affiliated companies with a carrying value of EUR 10,813,000 (2011: EUR 10,188,000). 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 2012, 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. In 2012, this amount was EUR +49,065,000 (2011: EUR +12,453,000). 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 +577,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2011: EUR –564,000). 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 1,696,000 in 2012 (2011: EUR 748,000).

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 –41,972,000 (2011: EUR –22,287,000) 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	31.12.2012	31.12.2011
Debt securities of public issuers	226,158	182,758
Debt securities of other issuers	770,982	873,830
Deferred interest	22,110	23,201
Financial assets – held to maturity	**1,019,250**	**1,079,789**

In 2011, an impairment of EUR 1,389,000 (2010: EUR 3,960,000) was recognised and reported in the result from other financial instruments. Assets were cut by EUR 492,000 (2011: 414,000) in the 2012 financial year as a result of the portfolio valuation allowance.

Financial assets held to maturity – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	310,857	330,290
Germany	90,677	99,910
Switzerland and Liechtenstein	10,227	35,362
Italy	38,987	39,065
Other foreign countries	568,502	575,162
Financial assets – held to maturity	**1,019,250**	**1,079,789**

(24) SHARES IN COMPANIES VALUED AT EQUITY

Change in shares in companies measured at equity

in '000 EUR	2012	2011
Carrying value of holding 1 January	34,617	21,947
Attributable profit/loss	4,038	5,577
Change in the scope of consolidation	0	5,951
Appreciation in the value of investments	0	2,678
Dividends	–3,877	–1,536
Carrying value of holding 31 December	**34,778**	**34,617**

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 13,036,000 (2011: EUR 12,931,000). 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 2012, these gains and losses amounted to EUR 4,038,000 (2011: EUR 5,577,000). Further information on companies valued at equity is given under item VII.

(25) INVESTMENT PROPERTY

in '000 EUR	31.12.2012	31.12.2011
Land portion	10,211	6,818
Buildings portion	48,337	30,970
Investment property	**58,548**	**37,788**

In 2012, the real estate portfolio comprised 60 properties in Austria, Switzerland, Germany and Italy (2011: 57). The portfolio contains both residential properties with a carrying amount of EUR 7,990,000 (2011: EUR 8,271,000) and commercial properties with a carrying amount of EUR 50,558,000 (2011: EUR 29,516,000). The current market value of our property portfolio is EUR 65,427,000 (2011: EUR 45,722,000).

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	31.12.2012	31.12.2011
Software acquired	2,119	1,672
Other intangible assets	2	1
Intangible assets	**2,121**	**1,673**

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	31.12.2012	31.12.2011
Land without buildings	1,328	1,676
Land with buildings	7,805	7,827
Buildings	53,734	55,705
Operational and office equipment	5,325	4,931
Leased movables	403	409
Construction in progress	29	4
Property, plant and equipment	**68,624**	**70,552**

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 respective tax entity.

in '000 EUR	31.12.2012	31.12.2011
Temporary differences from the measurement of financial instruments via the income statement	7	0
Temporary differences from the measurement of financial instruments via other result	0	3,868
Temporary differences from writing-down assets	1,099	0
Temporary differences from provisions	287	714
Temporary differences from social capital	4,889	3,418
Temporary differences from impairments	4,873	4,033
Other temporary differences	864	268
From tax loss carryforwards	334	4,403
Deferred tax assets	**12,353**	**16,704**
Set-off of deferred taxes	–7,814	–3,055
Net deferred tax assets	**4,539**	**13,649**

Group companies hold unused tax loss carry-forwards in the amount of EUR 1,337,000 recognised as assets (2011: EUR 17,612,000). In addition, there are tax loss carry-forwards of EUR 350,000 (2011: EUR 539,000) not recognised as assets in the Group. Non-capitalised loss carryfowards in the Group may be carried forward without restrictions. The breakdown by maturity is shown in Note (45).

(29) NON-CURRENT ASSETS AVAILABLE FOR SALE

in '000 EUR	31.12.2012	31.12.2011
Available-for-sale real estate	5,185	4,750
Non-current assets available for sale	**5,185**	**4,750**

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 2013. A profit of EUR 0 was achieved from the sale in 2012. 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.

(30) OTHER ASSETS

in '000 EUR	31.12.2012	31.12.2011
Other real estate	31,246	32,655
Trade receivables	751	272
Check receivables	0	1,344
Other tax claims	4,709	2,119
Deferred loans and advances	679	6,971
Other assets	12,925	8,229
Other assets	**50,310**	**51,590**

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 2012 came to EUR 200,000 (2011: EUR 1,150,000).

(31) STATEMENT OF CHANGES IN ASSETS

in '000 EUR 2011	Acquisition cost 01.01.	Currency trans-lation	Change in scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,805	33	351	656	−2,133	20	6,732	1,672
Other intangible assets	148	−1	0	0	0	−20	127	1
Intangible assets	**7,953**	**32**	**351**	**656**	**−2,133**	**0**	**6,859**	**1,673**
Owner-occupied land and buildings	80,193	57	3,867	1,188	0	451	85,756	63,532
Operational and office equipment	11,058	18	267	1,471	−1,153	0	11,661	4,931
Other property, plant and equipment	1,864	0	0	1,115	−98	−451	2,430	2,089
Property, plant and equipment	**93,115**	**75**	**4,134**	**3,774**	**−1,251**	**0**	**99,847**	**70,552**
Investment property	41,147	0	−3,867	4,536	−732	5,777	46,861	37,788
Total	**142,215**	**107**	**618**	**8,966**	**−4,116**	**5,777**	**153,567**	**110,013**

in '000 EUR 2011	Cumulative deprecia-tion/amor-tisation 01.01.	Currency trans-lation	Change in scope of consoli-dation	Regular amortisa-tion	Less cumulative deprecia-tion/amor-tisation	Reclassifi-cations	Impair-ments	Cumulative deprecia-tion/amor-tisation 31.12.
Software acquired	−6,249	−10	−323	−593	2,133	−18	0	−5,060
Other intangible assets	−144	0	0	0	0	18	0	−126
Intangible assets	**−6,393**	**−10**	**−323**	**−593**	**2,133**	**0**	**0**	**−5,186**
Owner-occupied land and buildings	−19,986	−15	−264	−1,959	0	0	0	−22,224
Operational and office equipment	−5,946	−10	−179	−1,486	891	0	0	−6,730
Other property, plant and equipment	−352	0	0	−9	20	0	0	−341
Property, plant and equipment	**−26,284**	**−25**	**−443**	**−3,454**	**911**	**0**	**0**	**−29,295**
Investment property	−8,584	0	264	−923	100	70	0	−9,073
Total	**−41,261**	**−35**	**−502**	**−4,970**	**3,144**	**70**	**0**	**−43,554**

in '000 EUR 2012	Acquisition cost 01.01.	Currency trans-lation	Change in scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	6,732	10	0	969	−186	0	7,525	2,119
Other intangible assets	127	1	0	0	0	0	128	2
Intangible assets	**6,859**	**11**	**0**	**969**	**−186**	**0**	**7,653**	**2,121**
Owner-occupied land and buildings	85,756	15	0	329	0	−502	85,598	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	**99,847**	**20**	**1,043**	**2,194**	**−1,725**	**−506**	**100,873**	**68,624**
Investment property	46,861	0	28,535	4,198	−104	506	79,996	58,548
Total	**153,567**	**31**	**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	Change in scope of consoli-dation	Regular amortisa-tion	Less cumulative deprecia-tion/amor-tisation	Reclassifi-cations	Impair-ments	Cumulative deprecia-tion/amor-tisation 31.12.
Software acquired	−5,060	−2	0	−510	166	0	0	−5,406
Other intangible assets	−126	0	0	0	0	0	0	−126
Intangible assets	**−5,186**	**−2**	**0**	**−510**	**166**	**0**	**0**	**−5,532**
Owner-occupied land and buildings	−22,224	−4	0	−1,878	0	47	0	−24,059
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	**−29,295**	**−7**	**−526**	**−3,647**	**1,179**	**47**	**0**	**−32,249**
Investment property	−9,073	0	−11,002	−1,374	49	−48	0	−21,448
Total	**−43,554**	**−9**	**−11,528**	**−5,531**	**1,394**	**−1**	**0**	**−59,229**

(32) AMOUNTS OWED TO BANKS (LAC)

Amounts owed to banks – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Interbank accounts	408,077	415,365
Money market borrowing	60,013	109,953
Loans from banks	187,496	107,166
Other liabilities	94	6
Amounts owed to customers	**655,680**	**632,490**

Amounts owed to banks – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	168,838	61,977
Germany	155,057	197,937
Switzerland and Liechtenstein	91,670	111,757
Other foreign countries	240,115	260,819
Amounts owed to banks	**655,680**	**632,490**

(33) AMOUNTS OWED TO CUSTOMERS (LAC)

Amounts owed to customers – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Demand deposits	2,745,442	2,355,727
Time deposits	535,629	354,351
Savings deposits	689,892	689,041
Special-interest savings books	772,957	831,625
Amounts owed to customers	**4,743,920**	**4,230,744**

Amounts owed to customers – breakdown by region

in '000 EUR	31.12.2012	31.12.2011
Austria	3,288,734	2,940,122
Germany	574,351	613,184
Switzerland and Liechtenstein	290,606	270,307
Italy	5,318	7,266
Other foreign countries	584,911	399,865
Amounts owed to customers	**4,743,920**	**4,230,744**

Amounts owed to customers – breakdown by segment

in '000 EUR	31.12.2012	31.12.2011
Corporate Customers	1,953,051	1,459,842
Private Customers	2,170,179	2,008,780
Financial Markets	382,754	428,840
Corporate Center	237,936	333,282
Amounts owed to customers	**4,743,920**	**4,230,744**

Amounts owed to customers – breakdown by industry

in '000 EUR	31.12.2012	31.12.2011
Public sector	268,100	129,092
Commerce	479,101	410,513
Industry	349,829	256,965
Trading	187,343	154,673
Tourism	34,630	39,711
Real estate	107,520	66,433
Other industries	791,977	643,168
Liberal professionals	101,850	103,504
Private households	1,949,078	1,888,856
Other	474,492	537,829
Amounts owed to customers	**4,743,920**	**4,230,744**

(34) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

The repurchase by the Group of outstanding bonds valued at EUR 29,840,000 was directly charged to liabilities evidenced by certificates (2011: EUR 183,343,000). In liabilities evidenced by certificates, the use of hedge accounting led to amortised cost of EUR 154,953,000 (2011: EUR 32,683,000) being adjusted by the hedged fair value of EUR +3,851,000 (2011: EUR −1,619,000).

Liabilities evidenced by certificates – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Mortgage bonds	56	4,857
Municipal bonds	312,065	282,069
Medium-term fixed-rate notes	1,540	801
Bonds	422,136	532,771
Housing construction bonds	110,264	124,319
Bonds issued by Pfandbriefstellen	538,739	538,662
Deferred interest	4,315	5,631
Liabilities evidenced by certificates	**1,389,115**	**1,489,110**

(35) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2012	31.12.2011
Negative market values of fair value hedges	127,593	70,036
Deferred interest on derivative hedging instruments	20,807	14,400
Negative market values of hedges	**148,400**	**84,436**

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

in '000 EUR	31.12.2012	31.12.2011
Interest rate swaps	115,894	64,583
Cross-currency swaps	11,699	5,453
Negative market values from fair value hedges	**127,593**	**70,036**

The nominal 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	31.12.2012	31.12.2011
Negative market values of derivative financial instruments	307,357	315,765
Deferred interest	11,659	11,460
Trading liabilities and derivatives	**319,016**	**327,225**

Negative market values from derivatives – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Interest rate swaps	226,286	201,497
Cross-currency swaps	56,855	77,582
Interest rate options	4,391	4,476
Interest rate futures	0	300
Interest rate derivatives	**287,532**	**283,855**
FX forward transactions	13,916	23,272
FX swaps	5,638	401
FX options	271	1,418
Currency derivatives	**19,825**	**25,091**
Stock index futures	0	309
Stock options	0	166
Derivatives on securities	**0**	**475**
Credit default swaps	0	6,344
Credit derivatives	**0**	**6,344**
Negative market values from derivatives	**307,357**	**315,765**

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

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

The repurchase by the Group of outstanding bonds valued at EUR 108,633,000 was directly charged to financial liabilities designated at fair value (2011: EUR 172,822,000).

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

in '000 EUR	31.12.2012	31.12.2011
Amounts owed to banks at fair value	142,771	141,395
Amounts owed to customers at fair value	533,416	499,184
Mortgage bonds at fair value	26,046	24,040
Municipal bonds at fair value	1,016,622	974,474
Bonds at fair value	3,503,171	3,832,435
Housing construction bonds at fair value	146,462	155,165
Bonds issued by Pfandbriefstellen at fair value	527,155	633,528
Subordinated capital at fair value	45,190	42,266
Supplementary capital at fair value	22,361	118,136
Deferred interest	75,934	84,394
Financial liabilities at fair value	**6,039,128**	**6,505,017**

Financial liabilities are designated at fair value primarily in private placements. Only a small portion of these liabilities are quoted on an exchange. Supplementary capital at fair value includes hybrid capital per Section 24 (2) no. 5 Austrian Banking Act carried at a fair value of EUR 0 (2011: EUR 99,147,000) which the Group can recognise as core capital in the narrower sense (Tier 1) – see Note (67) and carry at cost of EUR 0 (2011: EUR 109,780,000), up to 30% of core capital for regulatory purposes. This financial instrument was repaid in April 2012. In its place, a supplementary capital bond of EUR 100,000,000 was issued in autumn 2012, which is intended to fulfil the requirements for eligible equity instruments under the CRD IV.

Notes on own credit risk

in '000 EUR	2012	2011
Carrying value	**6,039,128**	**6,505,017**
Repayment amount	5,528,796	5,959,589
Difference between carrying and repayment amount	510,332	545,428
Total change in market value	**500,965**	**459,124**
thereof due to market risk	505,663	466,422
thereof due to credit risk	−4,698	−7,298
Change in market value during the reporting period	**41,841**	**213,387**
thereof due to market risk	39,241	212,186
thereof due to credit risk	2,600	1,201

The credit spread of market data is determined for the computation of the market value of financial liabilities – LAFV. In measuring credit risk-related changes in fair value, differentiation is made between financial instruments backed by the state of Vorarlberg (issues with maturities up to 2017) and financial instruments without such backing.

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	31.12.2012	31.12.2011
Severance provisions	15,144	13,174
Pension provisions	6,001	5,243
Service anniversary provisions	1,630	1,254
Social capital	**22,775**	**19,671**
Provisions for guarantees/ assumed liability	1,462	1,215
Provisions for credit risks	8,813	8,458
Provisions for ongoing litigation	1,913	2,363
Association obligation provisions	521	537
Other provisions	2,219	235
Other provisions	**14,928**	**12,808**
Provisions	**37,703**	**32,479**

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.

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 2012	6,001	14.9%
For 2011	5,243	−21.1%
For 2010	6,576	8.9%
For 2009	6,271	2.5%
For 2008	5,873	1.7%

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

Change in social capital

in '000 EUR 2011	Severance provisions	Pension provisions	Service anniversary provisions	Total
Present value 1 January	12,373	6,576	1,193	20,142
Years of service expense	637	0	108	745
Interest expense	408	197	41	646
Payments	−548	−424	−58	−1,030
Actuarial gains/losses	304	−1,106	−30	−832
Present value 31 December	**13,174**	**5,243**	**1,254**	**19,671**

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	807	0	114	921
Interest expense	554	201	55	810
Payments	−1,176	−337	−85	−1,598
Actuarial gains/losses	1,785	894	292	2,971
Present value 31 December	**15,144**	**6,001**	**1,630**	**22,775**

Change in other provisions

in '000 EUR 2011	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	839	7,415	2,140	562	20	10,976
Allocation	509	1,749	437	2	685	3,382
Use	0	−389	−204	−27	−951	−1,571
Reversal	−133	−317	−10	0	0	−460
Change in scope of consolidation	0	0	0	0	481	481
Carrying value 31 December	**1,215**	**8,458**	**2,363**	**537**	**235**	**12,808**

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	235	12,808
Allocation	556	1,896	197	0	2,210	4,859
Use	0	−198	−360	−16	−98	−672
Reversal	−309	−1,343	−287	0	−134	−2,073
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**

(39) TAX LIABILITIES

Tax liabilities – breakdown by type

in '000 EUR	31.12.2012	31.12.2011
Tax provision	15,460	5,076
Current tax liability	313	70
Tax liabilities	**15,773**	**5,146**

Change in tax provisions

in '000 EUR	2012	2011
Carrying value 1 January	5,076	9,345
Currency translation	4	13
Allocation	10,795	546
Use	−116	−525
Reversal	0	−4,383
Change in scope of consolidation	−299	80
Carrying value 31 December	**15,460**	**5,076**

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

(40) DEFERRED TAX LIABILITIES

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.

in '000 EUR	31.12.2012	31.12.2011
Temporary differences from the measurement of financial instruments via the income statement	4,065	2,992
Temporary differences from the measurement of financial instruments via other result	1,988	0
Temporary differences from writing down assets	1,836	1,250
Temporary differences from provisions	2,501	0
Temporary differences from social capital	0	55
Temporary differences from impairment	0	262
Other temporary differences	391	248
Deferred tax liabilities	**10,781**	**4,807**
Set-off of deferred taxes	−7,814	−3,055
Net deferred tax liabilities	**2,967**	**1,752**

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

(41) OTHER LIABILITIES

in '000 EUR	31.12.2012	31.12.2011
Liabilities in connection with social security	1,317	1,269
Other tax liabilities	15,439	7,634
Trade payables	4,365	7,948
Amounts owed to associates	0	60
Check liabilities	1,008	544
Deferred liabilities	5,545	3,775
Commercial code provisions	0	121
Consolidation difference	5	0
Other liabilities	17,205	17,421
Other liabilities	**44,884**	**38,772**

(42) SUBORDINATED AND SUPPLEMENTARY CAPITAL (LAC)

Subordinated and supplementary capital – breakdown by type of business

in '000 EUR	31.12.2012	31.12.2011
Subordinated capital per Section 23 (8) BWG	251,465	149,832
Supplementary capital per Section 23 (7) BWG	74,703	87,260
Deferred interest	499	260
Subordinated and supplementary capital	**326,667**	**237,352**

Change in subordinated and supplementary capital

in '000 EUR	2012	2011
Balance 1 January	237,352	239,714
Additions	100,000	49
Repayments	–12,529	–2,468
Change from valuation of hedge accounting	199	57
Change in deferred interest	1,645	0
Balance 31 December	**326,667**	**237,352**

(43) SHAREHOLDERS' EQUITY

In 2012, a capital increase was carried out at Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft by Vorarlberger Landesbank-Holding, which subscribed to 12,605 shares and contributed a sum of EUR 27,748,000 to the company. EUR 6,453,000 of this amount was allocated to the share capital and EUR 21,295,000 to the appropriated capital reserves. The subscribed capital consists of fully paid-in share capital of EUR 156,453,000 (2011: EUR 150,000,000). On 31 December 2012, 305,605 (2011: 293,000) shares with a nominal value of EUR 511.95 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 (2011: EUR 9,000,000). On 31 December 2012, 1,000,000 (2011: 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.

Market value changes of available-for-sale financial instruments shown directly under other result amounted to EUR 17,569,000 in 2012 (2011: EUR -8,659,000). Market value changes recorded were adjusted for deferred taxes. In 2012, this effect amounted to EUR -5,856,000 (2011: EUR 2,886,000). In the year under review, an amount of EUR 577,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2011: EUR -564,000). Impairment on these assets was recorded under result from other financial instruments, affecting income. In 2012, an amount of EUR -1,696,000 was recorded on the income statement (2011: EUR -748,000).

Currency translation effects were also recorded directly under other result. In 2012, these amounted to EUR 4,000 (2011: EUR - 163,000). Of the consolidated net income after taxes of EUR 111,599,000 (2011: EUR 62,836,000), an amount of EUR 111,583,000 (2011: EUR 62,824,000) was attributable to shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and EUR 16,000 (2011: EUR 12,000) was attributable to non-controlling interests in subsidiaries.

Retained earnings include the legal reserve. Reversals from the legal reserve in the amount of EUR 13,393,000 (2011: EUR 13,386,000) 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 (2011: EUR 124,237,000) 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 4,500,000 recorded in the (separate) financial statements prepared in accordance with the Austrian Banking Act and the Austrian Corporate Code (2011: EUR 4,500,000).

The net profit posted by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft for financial year 2012 was EUR 99,260,000 (2011: EUR 61,051,000). After the allocation of EUR 95,439,000 to reserves (2011: EUR 58,496,000) and adding net profit of EUR 680,000 carried forward (2011: EUR 1,945,000), accumulated profits available for appropriation totalled EUR 4,500,000 (2011: EUR 4,500,000). Subject to approval by the shareholders' meeting, a dividend of EUR 9.00 (2011: EUR 9.00) per eligible share is proposed for the fully entitled existing shares and the associated share capital of EUR 150,000,000 (2011: EUR 150,000,000) and a dividend of EUR 4.60 per eligible share for the partly entitled new shares and the associated share capital of EUR 6,453,000 (2011: EUR 0). The total dividend distribution was thus EUR 2,695,000 (2011: EUR 2,637,000) on 305,605 shares (2011: 293,000 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 2011						
Cash and balances with central banks	120,128	182	17,406	10	95	137,821
Loans and advances to banks	514,282	119,740	397,024	20,808	35,198	1,087,052
Loans and advances to customers	5,932,202	117,575	2,246,219	131,658	93,310	8,520,964
Positive market values from hedging	1,604	0	569	0	0	2,173
Trading assets and derivatives	350,976	4,314	320,238	126,178	4,976	806,682
Financial assets – at fair value	1,253,862	37,388	104,144	153,650	22,918	1,571,962
Financial assets – available for sale	741,080	38,606	4,289	0	7,079	791,054
Financial assets – held to maturity	994,391	15,942	69,456	0	0	1,079,789
Shares in companies valued at equity	34,617	0	0	0	0	34,617
Investment property	37,788	0	0	0	0	37,788
Intangible assets	409	0	1,264	0	0	1,673
Property, plant and equipment	68,832	0	1,720	0	0	70,552
Tax assets	1,112	0	0	0	136	1,248
Deferred tax assets	13,649	0	0	0	0	13,649
Non-current assets available for sale	4,750	0	0	0	0	4,750
Other assets	43,273	33	285	7,086	913	51,590
Total assets	**10,112,955**	**333,780**	**3,162,614**	**439,390**	**164,625**	**14,213,364**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 2011						
Amounts owed to banks	576,396	40,143	504	329	15,118	632,490
Amounts owed to customers	3,780,827	301,323	100,013	2,666	45,915	4,230,744
Liabilities evidenced by certificates	1,283,959	3,166	201,985	0	0	1,489,110
Negative market values from hedging	70,897	5,424	2,630	0	5,485	84,436
Trading liabilities and derivatives	184,106	24,796	65,058	45,466	7,799	327,225
Financial liabilities – at fair value	2,760,635	35,101	3,099,254	593,497	16,530	6,505,017
Provisions	32,479	0	0	0	0	32,479
Tax liabilities	4,409	0	639	0	98	5,146
Deferred tax liabilities	1,752	0	0	0	0	1,752
Other liabilities	37,306	27	918	0	521	38,772
Subordinated and supplementary capital	237,352	0	0	0	0	237,352
Shareholders' equity	628,841	0	0	0	0	628,841
Total liabilities and shareholders' equity	**9,598,959**	**409,980**	**3,471,001**	**641,958**	**91,466**	**14,213,364**

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	6,275,253	83,165	2,031,785	101,457	94,139	8,585,799
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	1,157,273	25,879	100,966	155,006	45,201	1,484,325
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	4,539	0	0	0	0	4,539
Non-current assets available for sale	5,185	0	0	0	0	5,185
Other assets	43,083	0	504	6,249	474	50,310
Total assets	**11,039,076**	**231,055**	**2,623,130**	**385,855**	**226,059**	**14,505,175**

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	15,357	0	317	0	99	15,773
Deferred tax liabilities	2,967	0	0	0	0	2,967
Other liabilities	43,520	33	475	0	856	44,884
Subordinated and supplementary capital	326,667	0	0	0	0	326,667
Shareholders' equity	781,922	0	0	0	0	781,922
Total liabilities and shareholders' equity	**10,087,149**	**584,793**	**3,264,937**	**473,831**	**94,465**	**14,505,175**

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 2012, the total of all open foreign currency positions per Section 26 of the Austrian Banking Act was EUR 863,000 (2011: EUR 1,554,000).

Foreign-denominated assets and liabilities

in '000 EUR	31.12.2012	31.12.2011
Foreign assets	6,355,819	6,161,738
Foreign liabilities	8,618,580	8,193,952

(45) MATURITIES

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Assets as at 31 December 2011							
Cash and balances with central banks	113,949	0	0	0	0	23,872	137,821
Loans and advances to banks	105,194	137,746	226,112	465,128	152,872	0	1,087,052
Loans and advances to customers	1,714,902	609,443	505,894	2,064,007	3,516,932	109,786	8,520,964
Positive market values of hedges	0	0	0	1,431	742	0	2,173
Trading assets and derivatives	0	24,758	18,457	258,024	502,602	2,841	806,682
Financial assets – at fair value	0	42,035	69,155	549,670	871,406	39,696	1,571,962
Financial assets – available for sale	0	52,553	63,371	361,258	271,505	42,367	791,054
Financial assets – held to maturity	0	68,518	183,591	500,513	327,167	0	1,079,789
Shares in companies valued at equity	0	0	0	0	0	34,617	34,617
Investment property	0	0	0	0	0	37,788	37,788
Intangible assets	0	0	0	0	0	1,673	1,673
Property, plant and equipment	0	0	0	0	0	70,552	70,552
Tax assets	0	0	657	591	0	0	1,248
Deferred tax assets	0	2,225	–1,071	2,698	5,380	4,417	13,649
Non-current assets available for sale	0	0	4,750	0	0	0	4,750
Other assets	11,563	980	3,108	124	2,164	33,651	51,590
Total assets	**1,945,608**	**938,258**	**1,074,024**	**4,203,444**	**5,650,770**	**401,260**	**14,213,364**

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Liabilities and shareholders' equity as at 31 December 2011							
Amounts owed to banks	464,632	63,857	91,771	11,288	942	0	632,490
Amounts owed to customers	2,624,410	151,139	605,835	448,675	395,978	4,707	4,230,744
Liabilities evidenced by certificates	155	4,439	8,463	645,373	830,680	0	1,489,110
Negative market values of hedges	0	314	192	31,451	52,479	0	84,436
Trading liabilities and derivatives	0	22,697	24,758	86,862	192,908	0	327,225
Financial liabilities – at fair value	0	42,777	144,804	2,558,514	3,659,331	99,591	6,505,017
Provisions	0	88	1,689	13,099	16,100	1,503	32,479
Tax liabilities	100	0	5,046	0	0	0	5,146
Deferred tax liabilities	0	0	0	0	1,081	671	1,752
Other liabilities	23,568	7,605	4,479	2,896	136	88	38,772
Subordinated and supplementary capital	0	0	0	0	237,352	0	237,352
Shareholders' equity	0	0	0	0	0	628,841	628,841
Total liabilities and shareholders' equity	**3,112,865**	**292,916**	**887,037**	**3,798,158**	**5,386,987**	**735,401**	**14,213,364**

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Assets as at 31 December 2012							
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	3,485,957	103,561	8,585,799
Positive market values of hedges	1	3	60	1,304	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	862,509	0	1,484,325
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	0	0	0	265	4,042	232	4,539
Non-current assets available for sale	0	0	5,185	0	0	0	5,185
Other assets	12,762	755	1,616	520	1,454	33,203	50,310
Total assets	**2,341,423**	**860,988**	**703,020**	**4,628,255**	**5,593,196**	**378,293**	**14,505,175**

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Liabilities and shareholders' equity as at 31 December 2012							
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	990	2,272	7,197	24,669	2,575	37,703
Tax liabilities	62	105	15,557	49	0	0	15,773
Deferred tax liabilities	–535	–1,330	–992	11,767	–6,621	678	2,967
Other liabilities	21,946	10,952	8,203	2,816	229	738	44,884
Subordinated and supplementary capital	0	0	0	163,459	163,208	0	326,667
Shareholders' equity	0	0	0	0	0	781,922	781,922
Total liabilities and shareholders' equity	**3,907,895**	**1,070,746**	**943,266**	**5,985,381**	**1,811,974**	**785,913**	**14,505,175**

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.

(47) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities

in '000 EUR	31.12.2012	31.12.2011
Liabilities from financial guarantees	307,385	478,854
Other contingent liabilities	42,421	24,879
Contingent liabilities	**349,806**	**503,733**

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. 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% (2011: 1.5%) of the assessment basis in line with Section 22 (2) BWG at the last balance sheet date, and thus amounts to EUR 112,288,000 for the Bank (2011: EUR 109,637,000).

- **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. 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 and limited for liabilities incurred after 2 April 2003 and up to 1 April 2007 – if maturity does not exceed 30 September 2017. Pfandbriefstelle bonds held in trust by Hypothekenbank Vorarlberg amount to EUR 1,033,020,000 (2011: EUR 1,135,393,000).

Credit risks per Section 51 (14) Austrian Banking Act

in '000 EUR	31.12.2012	31.12.2011
Credit commitments and unused credit lines	1,429,467	1,603,943
Credit risks	**1,429,467**	**1,603,943**

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	31.12.2012	31.12.2011
Loans and advances to banks	54,692	63,918
Loans and advances to customers	56,335	73,845
Interest-free loans and advances	**111,027**	**137,763**

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	31.12.2012	31.12.2011
Loans and advances to banks	409,283	377,963
Loans and advances to customers	2,829,648	2,561,815
Financial assets – at fair value	600,257	386,057
Financial assets – available for sale	620,882	675,125
Financial assets – held to maturity	746,082	764,999
Assets provided as collateral	**5,206,152**	**4,765,959**
thereof covered pool for mortgage bonds	1,848,113	1,580,770
thereof covered pool for public-sector covered bonds	1,919,965	1,936,822

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.

(50) SUBORDINATED ASSETS

in '000 EUR	31.12.2012	31.12.2011
Loans and advances to banks	32,700	35,628
Loans and advances to customers	12,462	8,664
Financial assets – at fair value	47,990	48,810
Financial assets – available for sale	18,345	19,871
Financial assets – held to maturity	14,422	14,422
Subordinated assets	**125,919**	**127,395**

(51) FIDUCIARY TRANSACTIONS

in '000 EUR	31.12.2012	31.12.2011
Loans and advances to customers	55,605	66,481
Fiduciary assets	**55,605**	**66,481**
Amounts owed to banks	35,688	48,464
Amounts owed to customers	19,958	18,236
Fiduciary liabilities	**55,646**	**66,700**

(52) GENUINE REPURCHASE AGREEMENTS

In the year under review, as in the previous year, there were no repo transactions as at 31 December.

(53) RELATED PARTY DISCLOSURES

Related parties include:

- The owners, as stated below,
- 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 2,752,000 (2011: EUR 3,200,000), 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 3,457,000 (2011: EUR 2,615,000), 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 2012 for the four active Managing Board members are shown below.

in '000 EUR	2012	2011
Jodok Simma	574	325
Michael Grahammer	274	222
Johannes Hefel	235	222
Michel Haller	135	0
Managing Board remuneration	**1,218**	**769**

Remuneration paid to related parties

in '000 EUR	2012	2011
Managing Board members and managing directors	1,970	1,688
Retired Managing Board members and survivors	59	156
Managerial personnel	3,794	4,378
Supervisory Board members	179	163
Remuneration paid to related parties	**6,002**	**6,385**

Severance and pensions

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

in '000 EUR	2012	2011
Managing Board members and managing directors	205	4
Pensioners	969	–809
Managerial personnel	677	486
Other active employees	3,341	1,849
Expenses for severance and pensions for related parties	**5,192**	**1,530**

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

Business relationships with affiliated companies

in '000 EUR	31.12.2012	31.12.2011
Loans and advances to customers	4,337	20,871
Loans and advances	**4,337**	**20,871**
Amounts owed to customers	1,612	1,788
Liabilities	**1,612**	**1,788**

Transactions with affiliated companies include firstly loans and credit and business current accounts for our subsidiaries. Loans and advances have interest rates between 0% and 0.5%, with the majority being non-interest-bearing. Liabilities have an interest rate of 0.125%.

Business relationships with associated companies

in '000 EUR	31.12.2012	31.12.2011
Loans and advances to customers	40,527	32,541
Trading assets and derivativese	1,082	0
Financial assets	0	1,064
Loans and advances	**41,609**	**33,605**
Amounts owed to banks	733	282
Amounts owed to customers	2,587	2,949
Trading liabilities and derivatives	0	1
Liabilities	**3,320**	**3,232**

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. Warranties of EUR 0 were assumed for associated companies (2011: EUR 0).

Business relationships with shareholders

in '000 EUR	31.12.2012	31.12.2011
Loans and advances to banks	10,268	43,593
Loans and advances to customers	54,817	60,751
Trading assets and derivatives	69,606	52,525
Financial assets	73,634	61,008
Loans and advances	**208,325**	**217,877**
Amounts owed to banks	25,787	20,286
Amounts owed to customers	45,700	31,157
Trading liabilities and derivatives	62,727	70,865
Liabilities	**134,214**	**122,308**

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 1,784,109,000 (2011: EUR 1,883,577,000) 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.

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%**

Shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft at 31 December 2011

Shareholders	Interest	Voting rights
Vorarlberger Landesbank-Holding	74.9997%	74.9997%
Austria Beteiligungsgesellschaft mbH	25.0003%	25.0003%
Landesbank Baden-Württemberg	16.6669%	
Landeskreditbank Baden-Württemberg Förderbank	8.3334%	
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 (2011: 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	31.12.2012	31.12.2011
Loans and advances to customers	59,613	78,650
Financial assets	4,822	0
Loans and advances	**64,435**	**78,650**
Amounts owed to customers	73,056	54,014
Liabilities	**73,056**	**54,014**

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.

(54) SHARE-BASED PAY ARRANGEMENTS

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

(55) HUMAN RESOURCES

	2012	2011
Full-time salaried staff	657	655
Part-time salaried staff	59	56
Apprentices	8	9
Full-time other employees	4	4
Average number of employees	**728**	**724**

(56) EVENTS AFTER THE REPORTING DATE

The capital increase implemented in 2012 in the amount of EUR 27,748,000 was entered in the commercial register (Feldkirch District Court) on 9 January 2013. Other than this, there were no material events after the reporting date.

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2012	73,505	32,052	34,729	36,959	177,245
	2011	71,714	33,554	38,110	31,529	174,907
Loan loss provisions	2012	–27,931	–837	–37	–6,155	–34,960
	2011	–19,693	–4,831	1,679	–2,729	–25,574
Net fee and commission income	2012	12,083	16,590	5,585	3,330	37,588
	2011	13,718	16,464	6,376	3,349	39,907
Result from hedge relationships	2012	0	0	–2,853	0	–2,853
	2011	0	0	–639	0	–639
Net trading result	2012	–1,804	1,650	64,694	–216	64,324
	2011	3,055	1,624	–24,603	–1,000	–20,924
Result from other financial instruments	2012	–917	0	–952	3,989	2,120
	2011	0	0	–10,184	323	–9,861
Administrative expenses	2012	–29,018	–40,114	–11,398	–10,470	–91,000
	2011	–25,550	–35,662	–10,448	–8,010	–79,670
Other income	2012	736	367	21	10,475	11,599
	2011	231	354	42	12,678	13,305
Other expenses	2012	–3,555	–1,164	–3,655	–13,383	–21,757
	2011	–2,096	–872	–3,303	–12,325	–18,596
Result from equity consolidation	2012	0	0	0	4,037	4,037
	2011	0	0	0	8,765	8,765
Earnings before taxes	**2012**	**23,099**	**8,544**	**86,134**	**28,566**	**146,343**
	2011	**41,379**	**10,631**	**–2,970**	**32,580**	**81,620**
Assets	2012	5,573,554	1,732,531	5,499,211	1,699,879	14,505,175
	2011	5,407,927	1,720,962	5,626,347	1,458,128	14,213,364
Liabilities and shareholders' equity	2012	2,562,362	2,802,493	8,855,374	284,946	14,505,175
	2011	1,872,865	2,655,042	9,352,885	332,572	14,213,364
Liabilities (incl. own issues)	2012	2,078,645	2,692,290	8,722,036	230,282	13,723,253
	2011	1,584,074	2,496,517	9,211,359	292,573	13,584,523

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. 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 34,778,000 was included in total assets for the Corporate Centre segment from consolidation using the equity method (2011: EUR 34,617,000).

Impairments and impairment reversals

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Recognition of impairments	2012	−44,956	−4,544	−8,683	−6,803	−64,986
	2011	−30,669	−7,017	−12,543	−8,737	−58,966
Reversals of impairments	2012	13,651	3,005	7,354	2,837	26,847
	2011	10,765	2,043	2,826	4,494	20,128

Reporting by region

in '000 EUR		Austria	Other countries	Total
Net interest income	2012	143,531	33,714	177,245
	2011	141,075	33,832	174,907
Loan loss provisions	2012	−30,958	−4,002	−34,960
	2011	−22,502	−3,072	−25,574
Net fee and commission income	2012	36,757	831	37,588
	2011	39,136	771	39,907
Result from hedge relationships	2012	−2,853	0	−2,853
	2011	−639	0	−639
Net trading result	2012	63,732	592	64,324
	2011	−20,543	−381	−20,924
Result from other financial instruments	2012	2,120	0	2,120
	2011	−9,861	0	−9,861
Administrative expenses	2012	−80,961	−10,039	−91,000
	2011	−70,268	−9,402	−79,670
Other income	2012	6,444	5,155	11,599
	2011	4,724	8,581	13,305
Other expenses	2012	−13,521	−8,236	−21,757
	2011	−9,277	−9,319	−18,596
Result from equity consolidation	2012	4,038	−1	4,037
	2011	8,765	0	8,765
Earnings before taxes	**2012**	**128,329**	**18,014**	**146,343**
	2011	**60,610**	**21,010**	**81,620**
Assets	2012	12,947,960	1,557,215	14,505,175
	2011	12,694,172	1,519,192	14,213,364
Liabilities and shareholders' equity	2012	14,396,125	109,050	14,505,175
	2011	13,989,554	223,810	14,213,364
Liabilities (incl. own issues)	2012	13,630,324	92,929	13,723,253
	2011	13,377,374	207,149	13,584,523

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(57) EARNINGS BY MEASUREMENT CLASSIFICATION

Earnings by category L&R

in '000 EUR	2012	2011
Interest and similar income	202,215	221,567
Net interest income	**202,215**	**221,567**
Impairment losses	−58,534	−46,641
Reversed impairments	20,466	18,837
Realised losses	−900	−1,190
Realised gains	7,069	3,203
Net result from hedging	−1,303	−325
Total	**169,013**	**195,451**

Earnings by category HFT

in '000 EUR	2012	2011
Interest and similar income	8,995	5,770
Net interest income	**8,995**	**5,770**
Write-downs	−18	−377
Write-ups	103	112
Realised gains	62	14
Net result from trading	−5,025	3,745
Measurement result – derivatives	6,802	192,039
Total	**10,919**	**201,303**

Earnings by category AFV

in '000 EUR	2012	2011
Interest and similar income	40,210	43,793
Net interest income	**40,210**	**43,793**
Write-downs	−13,338	−35,819
Write-ups	60,792	45,746
Realised losses	−16,715	−12,034
Realised gains	17,762	9,132
Total	**88,711**	**50,818**

Earnings by category AFS

in '000 EUR	2012	2011
Interest and similar income	30,051	24,020
Net interest income	**30,051**	**24,020**
Impairment losses	−1,696	−2,662
Reversed impairments	3,937	509
Realised losses	−1,034	−62
Realised gains	1,763	1,486
Net result from hedging	−1,220	−312
Total	**31,801**	**22,979**
Gains/losses shown in other result	23,425	−11,545

Earnings by category HTM

in '000 EUR	2012	2011
Interest and similar income	36,944	39,025
Net interest income	**36,944**	**39,025**
Impairment losses	−1,884	−5,797
Reversed impairments	417	0
Realised losses	−1,237	−518
Realised gains	121	119
Total	**34,361**	**32,829**

Earnings by category LAC

in '000 EUR	2012	2011
Interest and similar expenses	−69,645	−84,101
Net interest income	**−69,645**	**−84,101**
Write-downs	−1,180	−625
Write-ups	43	69
Realised losses	−4	−337
Realised gains	480	188
Net result from hedging	−330	−2
Total	**−70,636**	**−84,808**

Earnings by category LHFT

in '000 EUR	2012	2011
Interest and similar expenses	−37,217	−23,637
Net interest income	**−37,217**	**−23,637**
Measurement result – derivatives	15,653	−8,604
Total	**−21,564**	**−32,241**

Earnings by category LAFV

in '000 EUR	2012	2011
Interest and similar expenses	−34,308	−51,530
Net interest income	**−34,308**	**−51,530**
Write-downs	−107,873	−238,879
Write-ups	58,810	19,446
Realised losses	−12,040	−4,571
Realised gains	59,348	9,126
Total	**−36,063**	**−266,408**

(58) DISCLOSURES ON FAIR VALUES

in '000 EUR	31.12.2011	
	Fair Value	Carrying value
Assets		
Cash and balances with central banks	137,821	137,821
Loans and advances to banks	1,081,619	1,087,052
Loans and advances to customers	8,550,084	8,520,964
Positive market values of hedges	2,173	2,173
Trading assets and derivatives	806,682	806,682
Financial assets – at fair value	1,571,962	1,571,962
Financial assets – available for sale	791,054	791,054
Financial assets – held to maturity	1,106,314	1,079,789
Liabilities		
Amounts owed to banks	631,285	632,490
Amounts owed to customers	4,265,897	4,230,744
Liabilities evidenced by certificates	1,469,006	1,489,110
Negative market values of hedges	84,436	84,436
Trading liabilities and derivatives	327,225	327,225
Financial liabilities – at fair value	6,505,017	6,505,017
Subordinated and supplementary capital	234,885	237,352

in '000 EUR	31.12.2012	
	Fair Value	Carrying value
Assets		
Cash and balances with central banks	531,877	532,010
Loans and advances to banks	941,053	935,466
Loans and advances to customers	8,751,905	8,585,799
Positive market values of hedges	4,188	4,188
Trading assets and derivatives	809,165	809,165
Financial assets – at fair value	1,484,325	1,484,325
Financial assets – available for sale	910,103	910,103
Financial assets – held to maturity	1,098,271	1,019,250
Liabilities		
Amounts owed to banks	657,499	655,680
Amounts owed to customers	4,764,893	4,743,920
Liabilities evidenced by certificates	1,375,986	1,389,115
Negative market values of hedges	148,400	148,400
Trading liabilities and derivatives	319,016	319,016
Financial liabilities – at fair value	6,039,128	6,039,128
Subordinated and supplementary capital	313,570	326,667

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 per IFRS 7.27A:

Level 1 Published prices on an active market for the same financial instrument (without modification)
Level 2 Other price factors than for Level 1 that are observable for the financial instruments, either directly (as price) or indirectly (derived from a price)
Level 3 Price factors (inputs) based not on the observable market data, but rather internal assumptions and estimates

The fair values of financial instruments classified as Level 3 in the amount of EUR 17,052,000 (2011: EUR 16,154,000) 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. An internal valuation model was used to determine the fair value of financial instruments amounting to EUR 575,660,000 (2011: EUR 651,616,000). This group of financial instruments is valued using the recognised DCF method, in which expected cash flows are first discounted applying the risk-free swap curve.

Credit spreads are determined using a credit risk-adjusted credit spread matrix for measuring credit risk. The spread matrix is generated using credit spreads of bonds in the FTSE Euro Corporate Bond Index. A weighted rolling 254-day average is applied (weighting of most recent value 254/32,385, oldest value 1/32,385) to ensure the data are as reliable and meaningful as possible.

This weighting method is commonly used in the financial industry in a range of different approaches for determining parameters. 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 127-day average had been applied instead of the 254-day average, this would have deducted EUR 772,000 (2011: EUR –5,462,000) from the income statement factoring out deferred tax effects and decreased the valuation reserve, directly in equity, by EUR 450,000 (2011: EUR –82,000). If the observation period was limited to the last 30 days, this would have deducted EUR 635,000 (2011: EUR –11,805,000) from the income statement factoring out deferred tax effects and decreased the revaluation reserve under other result by EUR 1,041,000 (2011: EUR –1,408,000).

The changes in fair value shown in the table below constitute gains and losses. The change in the fair value of financial assets – at fair value of EUR –6,512,000 (2011: EUR 146,545,000) 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 –830,000 (2011: EUR –6,391,000) was recognised as expense of EUR –68,000 (2011: EUR –669,000) in the income statement in the item net result from other financial instruments and of EUR –762,000 (2011: EUR –5,722,000) in other result.

Fair value hierarchy

in '000 EUR 31.12.2011	Level 1	Level 2	Level 3	Total
Derivative hedging instruments	0	2,173	0	2,173
Trading assets, derivatives	5,032	801,650	0	806,682
Financial assets – at fair value	10,859	920,607	640,496	1,571,962
Financial assets – available for sale	741,259	0	49,795	791,054
Total assets	**757,150**	**1,724,430**	**690,291**	**3,171,871**
Derivative hedging instruments	0	84,436	0	84,436
Trading liabilities, derivatives	0	327,225	0	327,225
Financial liabilities – at fair value	0	6,505,017	0	6,505,017
Total liabilities	**0**	**6,916,678**	**0**	**6,916,678**

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	901,939	566,267	1,484,325
Financial assets – available for sale	861,544	0	48,559	910,103
Total assets	**878,392**	**1,714,563**	**614,826**	**3,207,781**
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**

Changes in Level 3 financial instruments

in '000 EUR 2011	Starting balance	Purchases/ issues	Sales/ repay-ments	Additions from Level 1 and Level 2	Reclassifi-cation to Level 1 and Level 2	Fair value change	Final balance
Financial assets – at fair value	478,638	0	0	15,313	0	146,545	640,496
Financial assets – available for sale	55,997	189	0	0	0	−6,391	49,795
Total assets	**534,635**	**189**	**0**	**15,313**	**0**	**140,154**	**690,291**

in '000 EUR 2012	Starting balance	Purchases/ issues	Sales/ repay-ments	Additions from Level 1 and Level 2	Reclassifi-cation to Level 1 and Level 2	Fair value change	Final balance
Financial assets – at fair value	640,496	0	0	8,445	−76,162	−6,512	566,267
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**	**−7,342**	**614,826**

(59) IMPAIRMENTS AND IMPAIRMENT REVERSALS

Recognition of impairments

in '000 EUR	2012	2011
Loans and advances to customers	−58,534	−46,641
Financial assets – available for sale	−1,696	−2,662
Financial assets – held to maturity	−1,884	−5,797
Total	**−62,114**	**−55,100**

Reversals of impairment

in '000 EUR	2012	2011
Loans and advances to customers	20,466	18,837
Financial assets – available for sale	3,936	509
Financial assets - held to maturity	417	0
Total	**24,819**	**19,346**

(60) RECATEGORISED ASSETS

Disclosures regarding recategorised securities in the period from 2008 to 2009

There was no recategorisation of financial assets in 2012. 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 2012 are shown below.

in '000 EUR 31.12.2012	Carrying value	Market value
Loans and advances to banks	20,300	20,110
Loans and advances to customers	42,595	42,236
Total	**62,895**	**62,346**

in '000 EUR 31.12.2012	Amortised cost	Revaluation reserve [1]
Loans and advances to banks	20,300	−45
Loans and advances to customers	42,595	−464
Total	**62,895**	**−509**

[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	2012	2011
Net interest income	1,112	17
Net result from financial instruments	3,627	762
Taxes on income	−1,185	−195
Recording in AFS reserve directly in equity [1]	3,097	485
Gain/loss – after reclassification	**6,651**	**1,069**

[1] adjusted for deferred tax effects

In 2012, impairment in the amount of EUR 368,000 (2011: EUR 907,000) was recognised for securities recategorised in 2008. In 2012, impairment created in previous years amounting to EUR 102,000 (2011: EUR 1,690,000) 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 recategorisation date of the remeasured amortised cost of the reclassified securities recorded in the result from other financial instruments.

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

Simulation without reclassification of the years 2008 and 2009

in '000 EUR	2012	2011
Net interest income	1,112	17
Net result from financial instruments	3,627	762
Taxes on income	−1,185	−195
Recording in AFS reserve directly in equity [1]	277	−3,467
Gain/loss – after reclassification	**3,831**	**−2,883**

[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.
- 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.

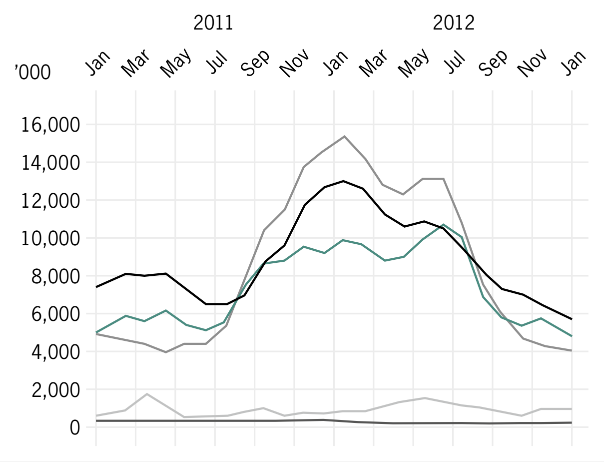
The Bank conducts stress testing to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain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

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 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.

Development of mean value of VaR



Mean value of VaR-market risk
Mean value of VaR-interest
Mean value of VaR-equity
Mean value of VaR-credit spreads
Mean value of VaR-forex

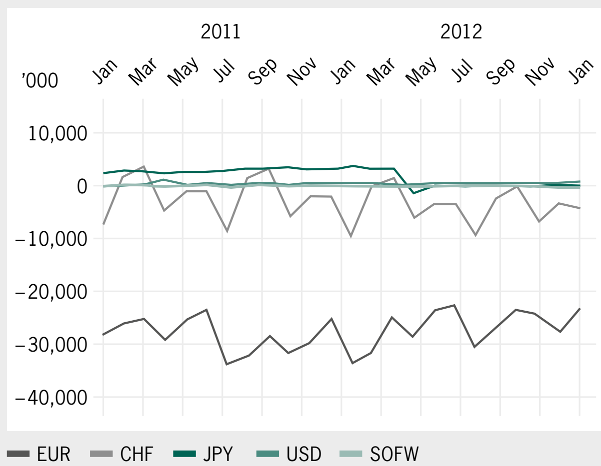
The VaR for individual risk types for the past two years is shown below.

in '000 EUR 2011	Mean value of VaR-market risk	Mean value of VaR-interest	Mean value of VaR-equity	Mean value of VaR-credit-spreads	Mean value of VaR-forex
January	7,343	4,930	352	4,752	634
February	8,084	5,834	349	4,473	831
March	7,996	5,616	308	4,297	1,678
April	8,095	6,112	322	3,984	1,001
May	7,239	5,342	317	4,329	479
June	6,491	5,111	317	4,329	512
July	6,455	5,637	294	5,274	538
August	7,009	7,455	288	7,657	801
September	8,611	8,593	296	10,372	936
October	9,654	8,785	359	11,403	556
November	11,669	9,470	364	13,723	727
December	12,651	9,204	399	14,593	647

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

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. 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 31.12.2011		Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Unrated	Total
Exposure	Corporate Customers	1,077,785	1,914,223	3,279,330	362,479	150,859	316,900	7,101,576
	Private Customers	1,580	309,746	846,140	17,305	55,514	613,258	1,843,543
	Financial Markets	4,296,832	727,547	159,459	16,415	3	201,295	5,401,551
	Corporate Center	12,329	360,180	726,799	80,403	107,980	662,807	1,950,498
Total exposure		**5,388,526**	**3,311,696**	**5,011,728**	**476,602**	**314,356**	**1,794,260**	**16,297,168**

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**

Regions broken down by rating (maximum default risk)

in '000 EUR 31.12.2011	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Unrated	Total
Austria	2,484,866	1,727,876	3,405,498	258,558	129,389	1,271,029	9,277,216
Italy	82,889	229,083	648,511	83,460	110,512	123,479	1,277,934
Germany	738,983	611,478	487,498	22,022	53,194	103,065	2,016,240
Switzerland and Liechtenstein	166,948	160,337	271,242	74,975	20,763	248,488	942,753
Other foreign countries	1,914,840	582,922	198,979	37,587	498	48,199	2,783,025
Total exposure	**5,388,526**	**3,311,696**	**5,011,728**	**476,602**	**314,356**	**1,794,260**	**16,297,168**

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
Germany	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**

Industries (maximum default risk)

in '000 EUR	31.12.2012	31.12.2011
Financial intermediaries	4,289,365	4,397,641
Consumers/private customers	1,990,540	1,958,286
Public sector	2,121,009	1,923,916
Real estate	1,686,283	1,613,080
Services	1,458,708	1,389,252
Trading	984,737	996,582
Metals/machinery	461,182	540,033
Construction	481,194	533,661
Transport/communications	500,197	474,885
Tourism	452,870	425,189
Water and energy utilities	402,410	370,877
Other goods	204,802	298,928
Vehicle construction	221,348	233,677
Petroleum, plastics	207,202	220,793
Other industries	1,046,299	920,368
Total	**16,508,146**	**16,297,168**

Exposure in rating class 5

in '000 EUR		31.12.2012	31.12.2011
Corporate Customers			
	Exposure	195,166	150,859
	Value adjustments	85,447	53,834
Private Customers			
	Exposure	51,060	55,514
	Value adjustments	18,522	19,360
Financial Markets			
	Exposure	0	3
	Value adjustments	0	0
Corporate Center			
	Exposure	127,132	107,980
	Value adjustments	19,153	10,336
Total	**Exposure**	**373,358**	**314,356**
Total	**Value adjustments**	**123,122**	**83,530**

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 2012, no bonds were included therein. These amounted to EUR 249,920,000 (2011: EUR 255,800,000) as at 31 December 2012, accounting for 1.51 % (2011: 1.57 %) 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 thre 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 5 (2011: 6) real estate properties under these circumstances at a cost of EUR 4,679,000 (2011: EUR 3,796,000).

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 3,975,000 was rated as healthy in 2012 (2011: EUR 5,430,000). This allowed the reversal of EUR 1,159,000 in loan loss provisions in 2012 (2011: EUR 1,644,000).

Past due but non-impaired receivables

Length of time overdue	31.12.2012 Exposure in '000 EUR	31.12.2011 Exposure in '000 EUR
less than 1 day	15,988,121	15,809,802
1 to 60 days	131,104	151,549
61 to 90 days	9,765	16,346
More than 90 days	5,798	5,115
Total	**16,134,788**	**15,982,812**

(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).

Maturity profile money market	Assets		Liabilities		
per 31.12.2011 in '000 EUR	Assets	Derivatives	Liabilities	Derivatives	Total
January 2012	805,986	315,457	−1,049,274	−308,576	−236,407
February 2012	259,056	320,069	−153,489	−302,118	123,518
March 2012	203,107	1,271,565	−232,730	−1,254,814	−12,872
April 2012	248,813	185,636	−337,975	−183,013	−86,539
May 2012	178,124	147,527	−154,127	−147,051	24,473
June 2012	186,643	17,386	−121,555	−16,208	66,266
July 2012	362,637	56,326	−211,246	−51,444	156,273
August 2012	113,840	111,663	−180,159	−109,916	−64,572
September 2012	293,730	47,683	−205,798	−39,642	95,973
October 2012	109,436	10,081	−167,718	−13,563	−61,764
November 2012	97,454	125,190	−208,288	−112,831	−98,475
December 2012	196,293	22,465	−326,343	−25,861	−133,446

Maturity profile money market	Assets		Liabilities		
per 31.12.2012 in '000 EUR	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 capital market	Assets		Liabilities		
per 31.12.2011 in '000 EUR	Assets	Derivatives	Liabilities	Derivatives	Total
2012	2,847,794	2,394,601	–3,186,704	–2,398,929	–343,238
2013	1,879,466	314,692	–2,076,895	–319,600	–202,337
2014	1,128,827	31,059	–579,214	–28,607	552,065
2015	1,026,246	65,306	–901,949	–68,515	121,088
2016	895,680	245,372	–1,059,150	–200,465	–118,563
2017	857,951	282,968	–3,435,609	–197,701	–2,492,391
2018	465,820	26,216	–243,398	–29,940	218,698
2019	453,607	97,287	–331,835	–119,170	99,889
2020	451,068	37,987	–119,439	–44,421	325,195
2021	433,557	13,386	–175,014	–15,968	255,961
2022	262,554	0	–67,778	0	194,776
2023	244,359	12,379	–21,433	–12,974	222,331

Maturity profile capital market	Assets		Liabilities		
per 31.12.2012 in '000 EUR	Assets	Derivatives	Liabilities	Derivatives	Total
2013	3,391,440	3,210,687	–4,079,819	–3,216,243	–693,935
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

(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. 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 2012 and 2011 reporting dates, and the breakdown of the Group's capital as at 31 December 2012 and 31 December 2011.

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. A PD-LGD method is used for shareholder risk, and a capital buffer is recognised for other risks.

Capital requirements per Section 22 Austrian Banking Act

in '000 EUR	31.12.2012	31.12.2011
Assessment basis per Section 22 Austrian Banking Act	**7,582,549**	**7,932,346**
Capital resource requirement for solvency	606,604	634,588
Capital requirement for settlement risk	0	0
Capital requirement for position risks	0	0
Capital resource requirement for operational risk	31,573	27,320
Total capital resource requirements	**638,177**	**661,908**

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

in '000 EUR	31.12.2012	31.12.2011
Core capital (Tier 1)	**743,236**	**721,725**
Paid-in capital	165,453	159,000
Capital reserves	48,874	27,579
Retained earnings	385,430	291,742
Liable capital	126,005	124,237
Minority interests per Section 24 (2) no. 1 Austrian Banking Act	67	109,859
Consolidation per Section 24 (2) no. 2 Austrian Banking Act	19,316	10,952
Intangible assets	–1,909	–1,644
Supplementary capital resources (Tier 2)	**458,408**	**333,560**
Supplementary capital	95,124	105,236
Remeasurement reserve	105,284	40,324
Subordinated capital	258,000	188,000
Deductions	–3,479	–3,506
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	**1,198,165**	**1,051,779**
Assessment basis (banking book)	**7,582,549**	**7,932,346**
Core capital ratio (banking book)	9.80%	9.10%
Solvency ratio (banking book)	15.80%	13.26%
Assessment basis (modified)	**7,977,219**	**8,273,850**
Core capital ratio	9.32%	8.72%
Solvency ratio	15.02%	12.71%

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 30,451,000 (2011: EUR 24,674,000). The difference between the repayment amount and the lower cost per Section 56 (3) Austrian Banking Act was EUR 9,973,000 (2011: EUR 9,209,000). The projected repayment of principal for 2013 is EUR 569,754,000 (2012: EUR 746,302,000). At 31 December 2012, supplementary and subordinated capital in the portfolio securities totalled EUR 0 (2011: EUR 0). In the coming year, liabilities evidenced by certificates and LAFV liabilities evidenced by certificates in the nominal amount of EUR 851,978,000 (2012: EUR 200,117,000) will mature and be due for repayment.

(70) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE

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	2012	2011
Expenses for auditing the consolidated financial statements	40	32
Expenses for other auditing services	140	144
Expenses for other services	6	22
Total fees	**186**	**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 2012 is provided below.

in '000 EUR	Not listed 31.12.2012	Listed 31.12.2012	Not listed 31.12.2011	Listed 31.12.2011	Total 31.12.2012	Total 31.12.2011
Bonds – AFV	203,265	587,846	185,310	647,149	791,111	832,459
Bonds – AFS	7,072	833,861	11,885	713,149	840,933	725,034
Bonds – HTM	34,804	962,336	32,511	1,024,077	997,140	1,056,588
Shares – HFT	645	84	2,692	149	729	2,841
Shares – AFV	0	4,724	24,060	20,401	4,724	44,461
Shares – AFS	21,693	8,951	20,880	9,260	30,644	30,140
Equity investments	22,019	0	21,384	0	22,019	21,384
Investments in affiliated companies	94	0	104	0	94	104
Total securities	**289,592**	**2,397,802**	**298,826**	**2,414,185**	**2,687,394**	**2,713,011**

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.

VI. MANAGING BOARD/SUPERVISORY BOARD

SUPERVISORY BOARD

Kurt Rupp
Chairman
Chairman of the Managing Board (retired), Bregenz

Norbert Metzler
Deputy Chairman
Management consultant, Alberschwende

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

Albert Büchele
Entrepreneur, Hard

Elmar Geiger
Managing Director (retired), Frastanz

Michael Horn
Deputy Chairman of the Managing Board
Landesbank Baden-Württemberg, Stuttgart

Andrea Kaufmann
Member of the Vorarlberg government, Bregenz

Christian Konzett
Lawyer, Bludenz

Klaus Martin
Provincial Official (retired), Feldkirch

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

MANAGING BOARD

Michael Grahammer
CEO, Chairman of the Managing Board, Dornbirn
(since 01.05.2012)
Member of the Managing Board (until 30.04.2012)

Johannes Hefel
Member of the Managing Board, Schwarzach

Michel Haller
Member of the Managing Board, Tettnang (since 01.05.2012)

Jodok Simma
CEO, Chairman of the Managing Board, Bregenz
(until 30.04.2012)

VII. SUBSIDIARIES AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statements:

Company name, place	Percentage of capital	Date of financial reporting
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00%	31.12.2012
LD-Leasing GmbH, Dornbirn	100.00%	31.12.2012
Hypo Vorarlberg Leasing AG, IT-Bolzano	100.00%	31.12.2012
Hypo Vorarlberg Holding (Italien) – GmbH, IT-Bolzano	100.00%	31.12.2012
Hypo Vorarlberg Immo Italia srl, IT-Bozen (formerly Hypo-Vorarlberg GmbH, IT-Bolzano)	100.00%	31.12.2012
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2012
Hypo Immobilien Besitz GmbH, Dornbirn	100.00%	31.12.2012
"Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100.00%	31.12.2012
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00%	31.12.2012
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2012
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00%	31.12.2012
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00%	31.12.2012
Hypo Versicherungsmakler GmbH, Dornbirn	100.00%	31.12.2012
Hypo Immobilien Investment GmbH, Dornbirn	100.00%	31.12.2012
Hypo Immobilien & Leasing GmbH, Dornbirn	100.00%	31.12.2012
HIL Mobilienleasing GmbH & Co KG, Dornbirn (formerly HIL Mobilien GmbH)	100.00%	31.12.2012
HIL Beteiligungs GmbH, Dornbirn	100.00%	31.12.2012
HIL Immobilien GmbH, Dornbirn	100,00%	31.12.2012
HIL ALPHA Mobilienverwaltung GmbH, Dornbirn	100.00%	31.12.2012
HIL BETA Mobilienverwaltung GmbH, Dornbirn	100.00%	31.12.2012
HIL EPSILON Mobilienleasing GmbH, Dornbirn	100.00%	31.12.2012
HIL Car Fleet GmbH, Dornbirn	100.00%	31.12.2012
HIL Real Estate alpha GmbH, Dornbirn	100.00%	31.12.2012
HIL Real Estate Austria Holding, Dornbirn	100.00%	31.12.2012
HIL Real Estate International Holding GmbH, Dornbirn	100.00%	31.12.2012
"Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100.00%	31.12.2012
Inprox Praha Michle – Hypo SüdLeasing s.r.o., CZ-Prague	100.00%	31.12.2012
Inprox Praha Letnany – Hypo SüdLeasing s.r.o., CZ-Prague	100.00%	31.12.2012
Inprox GY – Hypo SüdLeasing Kft., HU-Budapest	100.00%	31.12.2012
Inprox BP XX – Hypo SüdLeasing Kft., HU-Budapest	100.00%	31.12.2012
HSL Logisztika Hungary Kft., HU-Budapest	100.00%	31.12.2012
"HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2012
"POSEIDON" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2012
Hypo Immobilien Cinemabetriebs GmbH, Dornbirn	100.00%	31.12.2012
Edeltraut Lampe GmbH & Co KG, Dornbirn	100.00%	31.12.2012
D. TSCHERNE Gesellschaft m.b.H., Vienna	100.00%	31.12.2012
HSL-Lindner Traktorenleasing GmbH, Dornbirn	76.00%	31.12.2012

b) Companies consolidated in the consolidated financial statements according to the equity method:

Company name, place in '000 EUR	Percentage of capital	Equity	Total assets	Liabilities	Sales revenues
HTV KAPPA Immobilienleasing GmbH, Dornbirn	50.00%	2	28,652	28,650	20
Silvretta-Center Leasing GmbH, Bregenz	50.00%	675	5,117	4,442	451
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz	43.29%	70,228	113,159	42,931	1,077
MASTERINVEST Kapitalanlage GmbH, Vienna	37.50%	4,201	7,063	2,862	64
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33%	280	1,119	839	–9
VKL II Grundverwertungsgesellschaft m.b.H., Dornbirn	33.33%	959	1,922	963	20
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33.33%	4,999	5,014	15	96
VKL IV Leasinggesellschaft mbH, Dornbirn	33.33%	3,078	19,169	16,091	206
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	33.33%	–75	8,501	8,576	69
"Seestadt Bregenz" Besitz- und Verwaltungsgesellschaft mbH, Bregenz	20.00%	1,533	8,857	7,324	293

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 2012. The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG were prepared as at 30 September 2012 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.

MANAGING 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, 22 March 2013

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The members of the Managing Board

Michael Grahammer
CEO, 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 2012, 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 2012 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 2012 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 2012 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 2012.

Bregenz, March 2013

Chairman of the Supervisory Board
Kurt Rupp

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 January 1, 2012 to December 31, 2012. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2012, 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 December 31, 2012, 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 (IFRSs) 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 (ISAs), 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 December 31, 2012 and of its financial performance and its cash flows for the fiscal year from January 1, 2012 to December 31, 2012 in accordance with the International Financial Reporting Standards (IFRSs) 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, 22 March 2013

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 Coporate Customers Branch Office
Stephan Sausgruber
Branch Office Head,
Bregenz Coporate Customers

Rainer Terwart
Key Account Manager

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
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 Sales Private Customers

Karl-Heinz Rossmann
Head of Sales Corporate Customers

Roland Rupprechter
Head of Asset Management

Emmerich Schneider
Head of Participation Administration

Markus Seeger
Head of Group Risk Controlling

BRANCH OFFICES

Bregenz Vorkloster
Heldendankstrasse 33
Udo Seidl, Branch Office Manager

Bludenz
Am Postplatz 2
Christian Vonach, Branch Office Head and Head of Corporate Customers
Walter Hartmann, Branch Office Manager Private Customers
Christoph Gebhard, Head of Private Banking

Dornbirn
Rathausplatz 6
Richard Karlinger, Branch Office Head and Head of Corporate Customers
Egon Gunz, Branch Office Manager Private Customers and Head of Private Banking

Dornbirn Messepark
Messestrasse 2
Stephan Spies, Branch Office Manager

Egg
Wälderpark, HNr. 940
Stefan Ritter, Branch Office Manager

Feldkirch
Neustadt 23
Jochen Egger, 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
Anja Schmidt, 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

Mittelberg
Walserstrasse 362
Josef Wirth, Branch Office Manager

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 Office Manager Private Customers
Sabine Mach, Head of Private Banking
Lothar Mayer, Head of Financing
Alexander Leschenko, Head of CEE-Desk

Mobile Sales Unit, Austria
Lothar Mayer

hypodirekt.at
Branch Office (Online)
Björn Haid, Branch Manager

REGIONAL HEAD OFFICE

St. Gallen, Switzerland
Bankgasse 1
Dieter Wildauer,
Regional Manager Switzerland
Roger Baumann, Head of Back Office

SUBSIDIARIES IN AUSTRIA

Hypo Immobilien & Leasing GmbH
Dornbirn
Poststrasse 11
Wolfgang Bösch, Managing Director
Peter Scholz, Managing Director

Hypo Informatikgesellschaft m.b.H.
Bregenz
St.-Anna-Strasse 1
Johann Berchtold, Managing Director
Egon Helbok, Managing Director

Hypo Versicherungsmakler GmbH
Dornbirn
Poststrasse 11
Manfred Bösch, Managing Director and Management Spokesman
Christoph Brunner, Managing Director

SUBSIDIARIES IN ITALY

Hypo Vorarlberg Leasing AG
Bolzano
Galileo-Galilei-Strasse 10 H
Como
Via F.lli Rosselli 14
Treviso
Vicolo Paolo Veronese 6
Michael Meyer, Managing Director

Hypo Vorarlberg Immo Italia GmbH
Bolzano
Galileo-Galilei-Strasse 10 H
Alexander Ploner, Managing Director

IMPRINT

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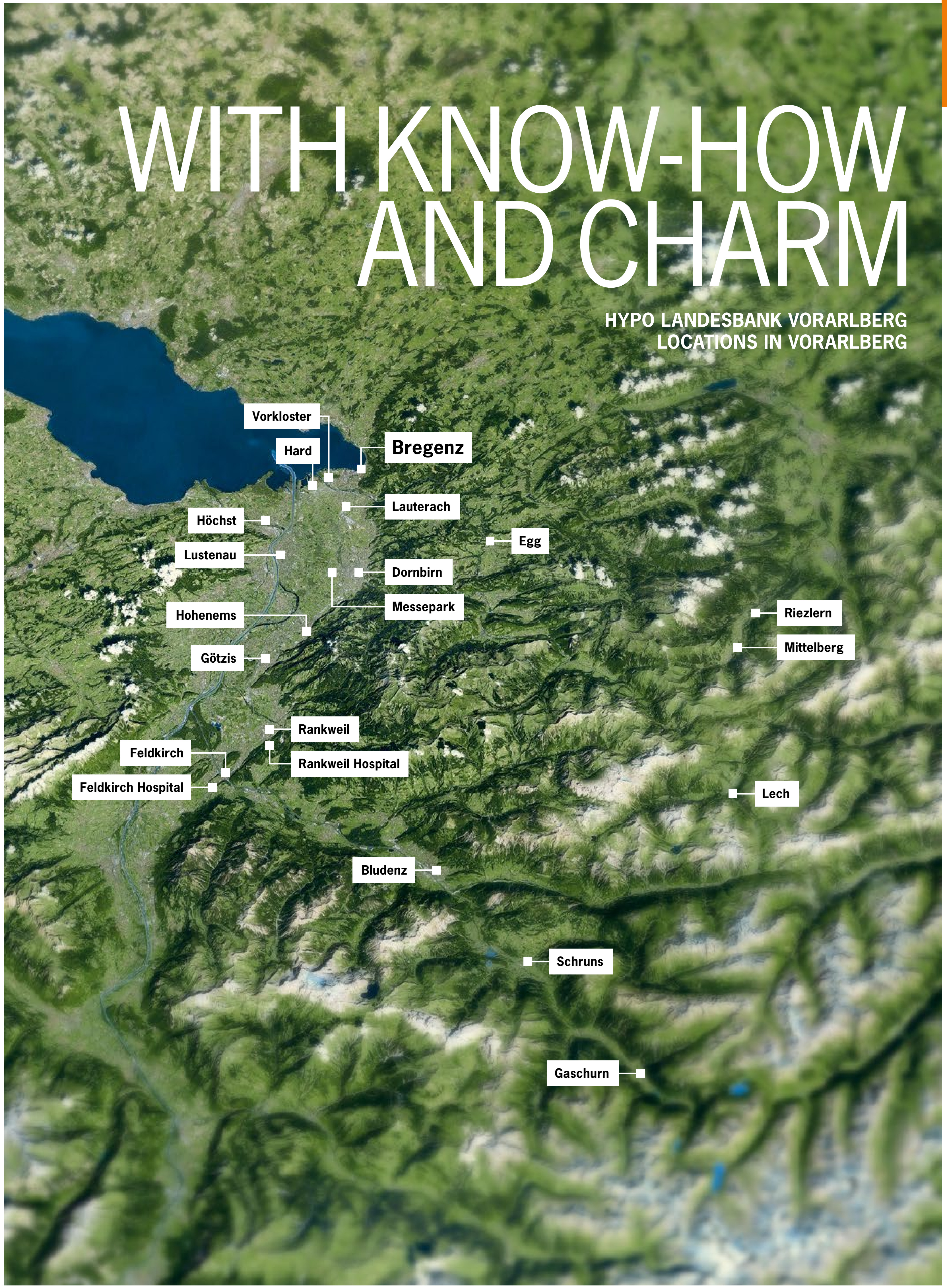
Global Investment Performance Standards (GIPS®) on page 39:
The centralised portfolio management of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft having registered offices in Bregenz qualifies as a firm within the meaning of the Global Investment Performance Standards (GIPS®). The firm comprises all asset management mandates of private and institutional customers that are managed in the context of the bank's centralised investment process. It does not include decentralised organisational units and other units of the group that operate independently. The firm is in compliance with the GIPS®. For a list of all composites along with a detailed description, please contact
Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft at:
T +43 (0) 50 414-1281 or e-mail us gips@hypovbg.at

For more information on GIPS® please contact us at gips@hypovbg.at

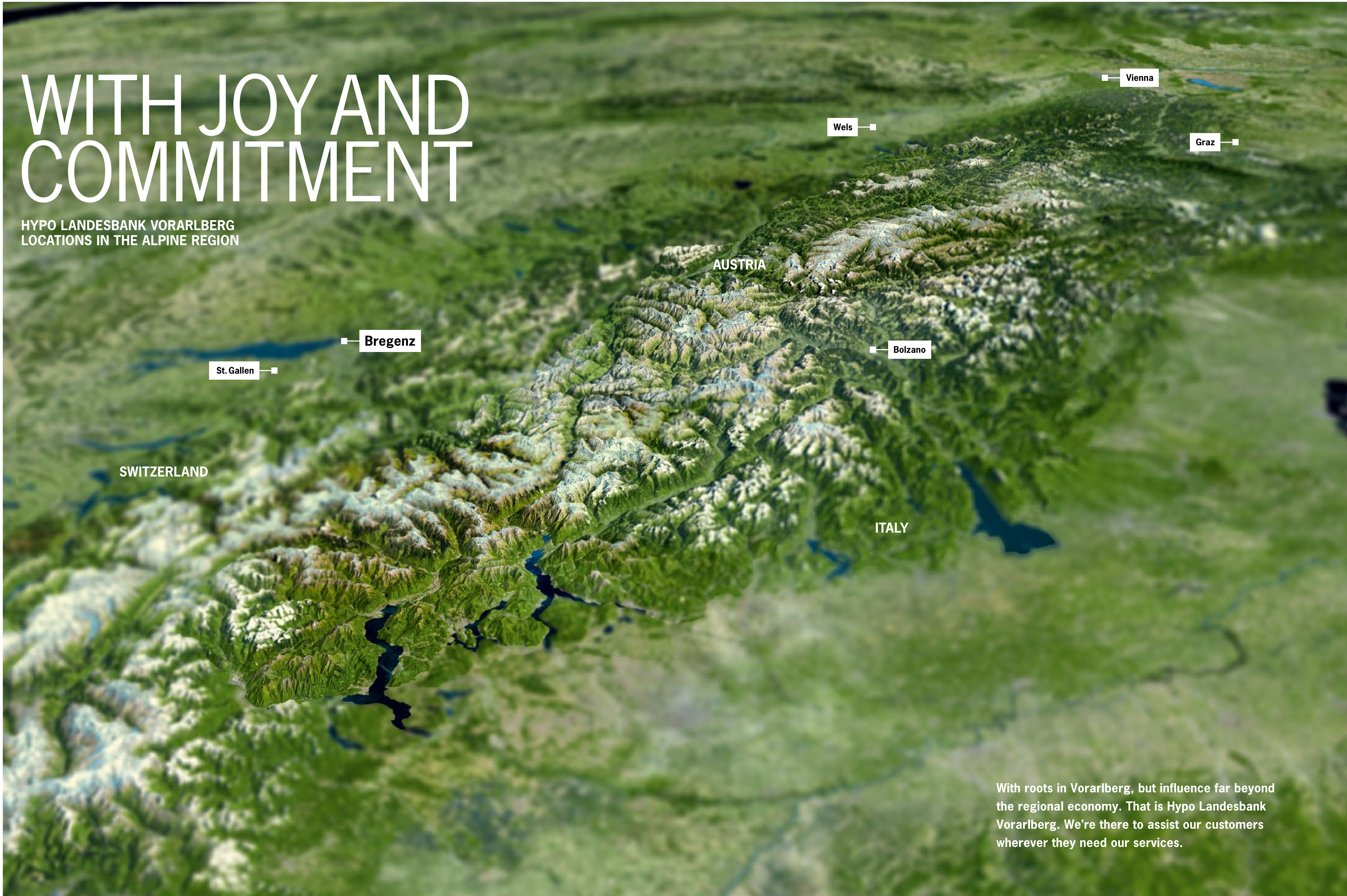
WITH KNOW-HOW AND CHARM

HYPO LANDESBANK VORARLBERG LOCATIONS IN VORARLBERG



WITH JOY AND COMMITMENT

HYPO LANDESBANK VORARLBERG LOCATIONS IN THE ALPINE REGION



With roots in Vorarlberg, but influence far beyond the regional economy. That is Hypo Landesbank Vorarlberg. We're there to assist our customers wherever they need our services.

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