



Prospectus Supplement No. 1

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

(Incorporated as a stock corporation in the Republic of Austria under registered number FN 145586 y)

EUR 150,000,000 Additional Tier 1 Notes Programme

This supplement (the "**Supplement**") constitutes a prospectus supplement pursuant to Article 16 (1) of the Directive 2003/71/EC as amended (the "**Prospectus Directive**") and § 6 (1) of the Austrian Capital Market Act as amended (*Kapitalmarktgesetz*, the "**KMG**") and is supplemental to, and should be read in conjunction with, the prospectus dated 30 March 2016 (the "**Original Prospectus**" or, the "**Prospectus**") relating to the EUR 150,000,000 Additional Tier 1 Notes Programme (the "**Programme**") of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft (the "**Issuer**" or "**Hypo Vorarlberg**").

The Original Prospectus has been approved on 30 March 2016 by the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*, the "**FMA**").

This Supplement has been filed for approval with the FMA in its capacity as competent authority under the KMG on 20 May 2016. This Supplement has been filed with the Wiener Börse, which has admitted the Programme to the "*Amtlicher Handel*" (Official Market) and the "*Geregelter Freiverkehr*" (Second Regulated Market). This Supplement has been published in electronic form on the website of the Issuer under "www.hypovbg.at".

The Issuer has requested the FMA to provide the competent authority in the Federal Republic of Germany with a certificate of approval attesting that this Supplement has been drawn up in accordance with the Prospectus Directive and the KMG.

Terms defined in the Prospectus shall have the same meaning when used in this Supplement.

To the extent that there is any inconsistency between a) any statement in this Supplement or any statement incorporated by reference in the Prospectus by this Supplement and b) any other statement in or incorporated by reference in the Prospectus, the statements mentioned in a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

In accordance with Article 16 of the Prospectus Directive and § 6 KMG, investors who have agreed to subscribe for Notes after the occurrence of the significant new factors described in this Supplement but before the publication of this Supplement have a right to withdraw their acceptances until, and including, 24 May 2016.

This Supplement has been filed with the FMA in its capacity as competent authority under the KMG for approval. The accuracy of the information contained in this Supplement does not fall within the scope of examination by the FMA under applicable Austrian law and the Prospectus Directive. The FMA has examined this Supplement only in respect of its completeness, coherence and comprehensibility pursuant to § 8a (1) KMG.

20 May 2016

No person has been authorised to give any information or to make any representation other than those contained in this Supplement in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer. Neither the delivery of the Prospectus and/or this Supplement nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which the Prospectus has been most recently supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which the Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

*The distribution of this Supplement and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may include Notes in bearer form that are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or to U.S. persons except in certain transactions permitted by U.S. tax regulations and the Securities Act. For a description of certain restrictions on offers and sales of Notes, see "Selling Restrictions" in the Prospectus.*

This Supplement does not constitute an offer of, or an invitation by or on behalf of the Issuer to subscribe for, or purchase, any Notes.

Neither this Supplement nor any financial statements supplied in connection with the Programme or any Notes are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of this Supplement or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Supplement or any financial statements and its purchase of Notes should be based upon any such investigation as it deems necessary.

Significant new factors and/or inaccuracies (as referred to in Article 16 (1) of the Prospectus Directive and § 6 (1) KMG) have arisen which in the Issuer's perception are capable of affecting the assessment of the Notes, and are thus herewith included in the Prospectus as follows:

1. AMENDMENTS TO THE SECTION ENTITLED "RISK FACTORS" COMMENCING ON PAGE 6 OF THE ORIGINAL PROSPECTUS

1.1 On page 6 of the Original Prospectus, the second sentence of the second paragraph after the heading "Risk Factors regarding Hypo Landesbank Vorarlberg" shall be replaced by the following sentence:

"As of 20 May 2016, the ratings assigned to Hypo Vorarlberg by each Rating Agency are as follows:"

1.2 On page 7 of the Original Prospectus, in the table with regard to Moody's ratings the row entitled "Outlook" shall be replaced by the following row:

"Outlook: **Stable**"

1.3 On page 18 of the Original Prospectus, the information of the risk factor entitled "If a member institution of the Pfandbriefstelle fails to meet its obligations towards Pfandbriefstelle and/or the Pfandbriefbank (Österreich) AG or if Pfandbriefbank (Österreich) AG fails to meet its obligations, this could have negative effects on the Issuer's assets, financial position and results of operations" shall be replaced by the following information:

"The Issuer as well as HETA ASSET RESOLUTION AG ("**HETA**"), the wind-down company of the former HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, are member institutions of *Pfandbriefstelle der österreichischen Landes-Hypothekendarbanken* ("**Pfandbriefstelle**"). Pfandbriefstelle is the sole shareholder of Pfandbriefbank (Österreich) AG ("**Pfandbriefbank**"). Pursuant to § 2 (1) of the Pfandbriefstelle-Gesetz (*Bundesgesetz über die Pfandbriefstelle der österreichischen Landes-Hypothekendarbanken*, the "**PfBrStG**"), all member institutions of Pfandbriefstelle are liable jointly and severally for the obligations of Pfandbriefstelle (and thus, also for those of Pfandbriefbank). Most of the Austrian federal provinces (as *Gewährträger* of the member institutions) are also liable jointly and severally for these obligations pursuant to § 2 (2) of the PfBrStG; however only (i) for those which were incurred up to 2 April 2003; as well as for those which were incurred after 2 April 2003 up to (and including) 1 April 2007 if the agreed maturities are no longer than until 30 September 2017.

According to the balance sheet of Pfandbriefbank as of 31 December 2015, as of 26 January 2016 HETA has liabilities in an aggregate amount of approximately EUR 437 million towards Pfandbriefbank for notes which Pfandbriefbank (or originally Pfandbriefstelle) issued as trustee for HETA.

On 1 March 2015, the FMA, in its capacity as the Austrian resolution authority pursuant to the Austrian Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz – "BaSAG"*), initiated the resolution of HETA: In the administrative decision in relation to the challenge procedure (*Vorstellungsbescheid*) of 10 April 2016, the FMA has imposed in confirmation of the administrative decision of 1 March 2015 a temporary moratorium on certain obligations of HETA until 31 May 2016 ("**Moratorium**"). Furthermore, in the administrative decision of 10 April 2016 the FMA ordered the application of the bail-in tool with regard to certain liabilities of HETA ("**bail-in**"): Thus, (i) the nominal value as of 1 March 2015 or the outstanding remaining amount of the liabilities together with interest accrued until 28 February 2015 is immediately

effectively reduced to 0% in case of subordinated liabilities and to 46.02% of the nominal amount in case of unsubordinated liabilities; (ii) the interest payments on the liabilities are cancelled; and (iii) the maturities of the liabilities are amended insofar that they occur with the conclusion of the wind-down process of HETA, but on 31 December 2023 at the latest.

The Moratorium and the bail-in also affected unsubordinated liabilities of HETA towards Pfandbriefbank in the amount of approximately EUR 1.2 billion whereof approximately EUR 800 million become due until 31 May 2016, which does not have to be honoured by HETA due to the Moratorium and which are reduced to 46.02% due to the bail-in. Likewise, there is no claim for coverage for these liabilities of Pfandbriefbank towards HETA and thus, a potential coverage gap of up to EUR 1.2 billion exists.

As Pfandbriefbank acts as trustee, Pfandbriefbank, the member institutions of Pfandbriefstelle and the respective federal provinces (as *Gewährträger* of the member institutions) concluded an agreement (*Vereinbarung über die Erfüllung und Abwicklung der Solidarhaftung gemäß § 2 PfBrStG sowie die Abwicklung von Ausgleichsansprüchen im Innenverhältnis*) ("**Stabilisation Agreement**"). Pursuant to such Stabilisation Agreement the contracting parties advanced on a *pro rata* basis repayments of interest and principal of issuances of Pfandbriefbank in which HETA participated and which are affected by the Moratorium, whereby the payment obligations of Pfandbriefbank towards holders of notes were fully satisfied. Furthermore, all receivables of Pfandbriefbank towards HETA becoming due in future are concurrently assigned in return for payment of the advanced amount to the contracting parties of the Stabilisation Agreement. However, these claims might be valueless because the province of Carinthia is not able to settle these claims. Pursuant to the Stabilisation Agreement approximately EUR 77.5 million are allotted to the Issuer, whereof approximately EUR 49.8 million have been paid as of 20 May 2016. In this regard there is the risk that the other member institutions of Pfandbriefstelle (or *Gewährträger* of the member institutions) do not (or are not able to) pay their allotted amount and thus, the Issuer would have to pay more than currently provided for in the Stabilisation Agreement.

Furthermore, the Moratorium and the bail-in affect an unsubordinated promissory note loan (*Schuldscheindarlehen*) in an aggregate principal amount of EUR 30 million granted to HETA by the Issuer.

As of 20 May 2016, the Issuer has made corresponding provisions for its receivables towards HETA and a value adjustment in the amount of EUR 15 million for its receivables from the promissory note loan (*Schuldscheindarlehen*). With regard to the provision of liquidity to Pfandbriefbank, the Issuer established a provision / specific value adjustment amounting to EUR 38.75 million. The enforceability of any compensation claims, in particular towards HETA and the federal province of Carinthia are fraught with high (legal) uncertainty.

In addition, as a result of the bail-in in the case of HETA the liabilities of HETA towards its creditors were reduced indeed. However, on the one hand the rights of the creditors of HETA towards, *inter alia*, joint debtors of HETA (as the Issuer) remain unaffected pursuant to § 95 (3) BaSAG, on the other hand HETA is similarly exempted towards its compensation claimants. Thus, the Issuer has no compensation claim against HETA.

All of the above could have material adverse effects on the Issuer's assets, financial position and results of operations."

1.4 The information of the risk factor entitled "The Notes may be subject to write down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption)." commencing on page 28 of the Original Prospectus shall be replaced by the following information:

"On 12 June 2014, the Bank Recovery and Resolution Directive (*BRRD*) was published. The stated aim of the *BRRD* is to provide relevant resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses.

The BaSAG implementing *BRRD* entered into force on 1 January 2015.

The powers provided to such resolution authorities (in Austria, the FMA) include write-down and conversion powers which may be used prior to or on entry into resolution to ensure that, *inter alia*, relevant capital instruments fully absorb losses at the point of non-viability (defined below) of the issuing institution and/or the group. The relevant resolution authority may also apply the bail-in tool in resolution with the objective of restoring the capital of the failing institution to enable it to continue to operate as a going concern. Accordingly, resolution authorities will be required to order the write-down of such capital instruments on a permanent basis, or convert them into Common Equity Tier 1 items ("**CET 1**") (such as ordinary shares or other instruments of ownership), at the point of non-viability and before any resolution tool other than the bail-in tool is made use of (statutory loss absorption). Resolution authorities shall exercise the write-down or conversion in relation to statutory loss absorption in a way that results in: (i) CET 1 items being reduced first in proportion to the relevant losses; and (ii) thereafter, if CET 1 is not sufficient to cover the relevant losses, the principal amount of Additional Tier 1 instruments ("**AT 1**") (such as the Notes) being reduced or converted to cover the relevant losses and recapitalise the entity; and (iii) thereafter, if CET 1 and AT 1 are not sufficient, the principal amount of Tier 2 instruments ("**Tier 2**") being reduced or converted; and in case of a bail-in tool also: (iv) thereafter, if CET 1, AT 1 and Tier 2 are not sufficient to cover the relevant losses and recapitalise the entity, other subordinated debt (in accordance with the hierarchy of claims in the normal insolvency proceedings); and (v) if still insufficient, the rest of eligible liabilities including certain senior debt (in accordance with the hierarchy of claims in the normal insolvency proceedings) being reduced down to zero on a permanent basis or converted. When the bail-in tool is applied for the purpose of restoring the capital of the institution, write-down or conversion of non-equity instruments into CET 1 items is to be made in the same order.

As a safeguard, no creditor shall by use of the bail-in tool be in a worse position than it would be in ordinary insolvency proceedings (the "no creditor worse off principle").

For the purposes of statutory loss absorption, the point of non-viability is the point at which the following conditions are met:

1. the competent authority or the resolution authority determines that the institution is failing or likely to fail, i.e.:
 - (a) the conditions for the withdrawal of the authorisation by the competent authority are met or there are objective elements to support a determination that this will be the case in the near future, including but not limited to because the institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds;
 - (b) the assets of the institution are or there are objective elements to support a determination that the assets of the institution will, in the near future, be less than its liabilities;

- (c) the institution is or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due;
 - (d) extraordinary public financial support is required except when the extraordinary public financial support takes certain forms in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability; and
- 2. having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by an institutional protection scheme, or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments taken in respect of the institution, would prevent the failure of the institution within a reasonable timeframe; and
- 3. in case of the application of the bail-in tool, a resolution action is necessary in the public interest; or
- 4. in case of exercising the power to write down or conversion of capital instruments, a group shall be deemed to be failing or likely to fail where the group infringes, or there are objective elements to support a determination that the group, in the near future, will infringe, its consolidated prudential requirements in a way that would justify action by the competent authority including but not limited to because the group has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds.

Any write-down or conversion of all or part of the principal amount of any instrument, including accrued but unpaid interest in respect thereof, in accordance with the bail-in tool or the write-down and conversion powers would not constitute an event of default under the terms of the relevant instruments (including the Notes). Consequently, any amounts so written down or converted would be irrevocably lost and the holders of such instruments would cease to have any claims thereunder, regardless whether or not the institution's financial position is restored.

The resolution authorities may also amend or alter the maturity of certain instruments or the amount of interest payable under such instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

Hence, the Notes may be subject to write-down or conversion into CET 1 upon the occurrence of the relevant trigger event, which may result in Holders losing some or all of their investment in the Notes. According to the sequence of write-down and conversion under the BRRD and the BaSAG, the Notes would be subject to any such measure before instruments having a lesser degree of subordination, including Tier 2 instruments would be affected. The exercise of any such power is highly unpredictable and any suggestion or anticipation of such exercise could materially adversely affect the market price of the Notes.

Apart from potentially being subject to resolution tools and powers as set out above, the Issuer may also be subject to national insolvency proceedings."

2. AMENDMENTS TO THE SECTION ENTITLED "VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT AS ISSUER" COMMENCING ON PAGE 112 OF THE ORIGINAL PROSPECTUS

2.1 At the end of the subsection "Statutory Auditors" on page 112 of the Original Prospectus the following paragraph shall be added:

"Ernst & Young has audited by Mag. Andrea Stippl and Mag. Wolfgang Tobisch as auditors Hypo Landesbank Vorarlberg's consolidated annual financial statements as of and for the fiscal year ending 31 December 2015 pursuant to the banking and company law provisions applicable in accordance with the IFRS and pursuant to § 59a BWG and has issued an unqualified auditor's report thereon. However, the auditor's report with respect to the consolidated annual financial statements of Hypo Landesbank Vorarlberg as of and for the financial year ended 31 December 2015 contains the following explanatory paragraph (English translation of the German language original wording): "Without qualifying the audit opinion, we refer to the Managing Board's commentary under point 55 in the Notes regarding developments in connection with Pfandbriefbank (Österreich) AG and HETA ASSET RESOLUTION AG.""

2.2 On page 112 of the Original Prospectus, in the subsection entitled "Information about the Issuer - Legal Name, Registration, Date of Incorporation" the first sentence of the last paragraph shall be replaced by the following sentence:

"According to its consolidated annual financial statements as of 31 December 2015, the Issuer has total assets of EUR 13,902.4 million and a cost income ratio on a consolidated basis of 45.34% as of 31 December 2015 and 49.42% as of 31 December 2014."

2.3 On page 113 of the Original Prospectus, in the subsection entitled "Business Overview - Main categories of products sold and/or services offered" the information contained in this subsection shall be replaced by the following information:

"Corporate bank in Vorarlberg"

Corporate services represent an important pillar of the Issuer's activities. Being an universal bank, Hypo Vorarlberg offers its corporate customers traditional banking products as well as other bank-related services such as leasing, real-estate services, and insurances through its subsidiaries. The range of financing portfolio products offered by Hypo Vorarlberg also includes equity financing as well as advice and support in connection with subsidy programmes and institutions.

Hypo Vorarlberg's lending volume to corporate customers as of 31 December 2015 (shown as loans and advances to corporate customers as shown in the respective consolidated annual financial statements) amounted to EUR 5,282.2 million (31 December 2014: EUR 5,240.7 million).

Residential real estate bank

The lending volume to private customers as of 31 December 2015 (shown as loans and advances to private customers as shown in the respective consolidated annual financial statements) has been increased by 6% compared to 31 December 2014. It amounted to EUR 1,887 million as of 31 December 2015. The Issuer will further focus on this traditional important pillar and offers special products like *"Hypo-Lebenswert-Kredit"* (a financing product in particular for seniors after retirement to

maintain their living standard) and "*Hypo-Klima-Kredit*" (supports energy saving investments).

Private Banking

The Issuer operates separate private banking centres in all large branch offices in Vorarlberg, Graz, Wels, and Vienna. Hypo Vorarlberg plans to continue expanding the top segment in the investment business (i.e. wealth management). In this regard, the wealth management teams in Vorarlberg and Vienna have already been expanded.

Asset Management

As of 31 December 2015, assets under management of Hypo Vorarlberg totalled EUR 895.0 million (31 December 2014: EUR 804.2 million). Hypo Vorarlberg's Asset Management is well-positioned in Vorarlberg.

At the end of the year 2015, Hypo Vorarlberg acted as a custodian for 63 investment funds. The fund service division's core competence is to act as depositary for Austrian investment funds.

Apart from its custodian role for investment funds, Hypo Vorarlberg also supports foreign fund providers acting as a tax representative and paying agent in the Republic of Austria. In 2015, Hypo Vorarlberg administered 117 foreign tranches and classes of fund in its role as paying agent. In its role as a tax representative responsible for calculating and reporting dividend-equivalent income and capital gains, in 2015 the unit administered 403 mandates in total.

Significant new products and/or activities

Thanks to the introduction of the international "GIPS®¹⁰"-Standard (Global Investment Performance Standards) in Private Banking in 2005, Hypo Vorarlberg is able to offer comparable performance results. The quality standard and the transparency toward the Issuer's customers resulting from Global Investment Performance Standards was audited and attested by PricewaterhouseCoopers in March 2015 as of 31 December 2014."

- 2.4 In the subsection entitled "Management, Supervisory Boards and Annual Meeting of Shareholders" on page 118 of the Original Prospectus, after the table relating to the Management Board the following paragraph shall be inserted:**

"On 6 April 2016 the chairman of the Issuer's management board, Dr Michael Grammer, announced to early terminate his management contract until year end 2016 at the latest and to resign as the Issuer's chairman of the management board."

- 2.5 In the subsection entitled "Selected Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses - Selected Historical Financial Information" commencing on page 121 of the Original Prospectus the third sentence of the first paragraph shall be replaced by the following sentence:**

"Furthermore, the tables show selected historical financial information of the Issuer as of and for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 extracted or derived from the audited consolidated annual financial

statements of the Issuer as of and for the financial years ended 31 December 2014 and 31 December 2015 (including comparative financial information for the prior year)."

- 2.6 At the end of the subsection entitled "Selected Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses - *Selected Historical Financial Information*" on page 123 of the Original Prospectus the following table shall be inserted:

"in '000 EUR	31.12.2015	31.12.2014	Change in '000 EUR	Change in %
Total assets	13,902,411	14,185,492	-283,081	-2.0
Loans and advances to customers (L&R)	9,061,358	8,954,412	106,946	1.2
Amounts owed to customers (LAC)	4,995,818	4,662,797	333,021	7.1
Liabilities evidenced by certificates (LAC)	2,402,602	2,313,778	88,824	3.8
Capital resources in accordance with CRR	1,164,758	1,091,473	73,285	6.7
thereof core capital / Tier 1 capital	874,848	807,813	67,035	8.3
Total capital ratio in accordance with CRR	14.87%	13.27%	1.60%	12.1

in '000 EUR	31.12.2015	31.12.2014	Change in '000 EUR	Change in %
Net interest income after loan loss provisions	160,646	95,719	64,927	67.8
Net fee and commission income	36,566	35,624	942	2.6
Net trading result	1,020	30,664	-29,624	-96.7
Administrative expenses	-92,462	-92,101	-361	0.4
Operating result before change in own credit risk	102,910	54,278	48,632	89.6
Earnings before taxes	121,146	53,979	67,167	>100.0

Key figures	31.12.2015	31.12.2014	Change absolute	Change in %
Cost/Income ratio (CIR)	45.34%	49.42%	-4.09%	-8.3
Return on Equity (ROE)	11.67%	6.45%	5.22%	81.1

Average number of Employees	729	723	6	0.8"
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2.7 In the subsection entitled "Significant Change in the Issuer's Financial or Trading Position" on page 123 of the Original Prospectus the paragraph shall be replaced by the following paragraph:

"There have been no significant changes in the financial or trading positions of the Issuer since 31 December 2015."

2.8 In the subsection entitled "Recent Developments and Outlook - Pfandbriefstelle / Pfandbriefbank – HETA" on page 124 of the Original Prospectus the information contained therein shall be replaced by the following information:

"On 1 March 2015, the FMA, in its capacity as the Austrian resolution authority pursuant to the Austrian Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz* – "**BaSAG**"), initiated the resolution of HETA: In the administrative decision in relation to the challenge procedure (*Vorstellungsbescheid*) of 10 April 2016, the FMA has imposed in confirmation of the administrative decision of 1 March 2015 a temporary moratorium on certain obligations of HETA until 31 May 2016 ("**Moratorium**"). Furthermore, in the administrative decision of 10 April 2016 the FMA ordered the application of the bail-in tool with regard to certain liabilities of HETA ("**bail-in**"): Thus, (i) the nominal value as of 1 March 2015 or the outstanding remaining amount of the liabilities together with interest accrued until 28 February 2015 is immediately effectively reduced to 0% in case of subordinated liabilities and to 46.02% of the nominal amount in case of unsubordinated liabilities; (ii) the interest payments on the liabilities are cancelled; and (iii) the maturities of the liabilities are amended insofar that they occur with the conclusion of the wind-down process of HETA, but on 31 December 2023 at the latest.

The Moratorium and the bail-in also affected unsubordinated liabilities of HETA towards Pfandbriefbank in the amount of approximately EUR 1.2 billion whereof approximately EUR 800 million become due until 31 May 2016, which does not have to be honoured by HETA due to the Moratorium and which are reduced to 46.02% due to the bail-in. Likewise, there is no claim for coverage for these liabilities of Pfandbriefbank towards HETA and thus, a potential coverage gap of up to EUR 1.2 billion exists.

As Pfandbriefbank acts as trustee, Pfandbriefbank, the member institutions of Pfandbriefstelle and the respective federal provinces (as *Gewährträger* of the member institutions) concluded an agreement (*Vereinbarung über die Erfüllung und Abwicklung der Solidarhaftung gemäß § 2 PfBrStG sowie die Abwicklung von Ausgleichsansprüchen im Innenverhältnis*) ("**Stabilisation Agreement**"). Pursuant to such Stabilisation Agreement the contracting parties advanced on a *pro rata* basis repayments of interest and principal of issuances of Pfandbriefbank in which HETA participated and which are affected by the Moratorium, whereby the payment obligations of Pfandbriefbank towards holders of notes were fully satisfied. Furthermore, all receivables of Pfandbriefbank towards HETA becoming due in future are concurrently assigned in return for payment of the advanced amount to the contracting parties of the Stabilisation Agreement. However, these claims might be valueless because the province of Carinthia is not able to settle these claims. Pursuant to the Stabilisation Agreement approximately EUR 77.5 million are allotted to the Issuer, whereof approximately EUR 49.8 million have been paid as of 20 May 2016.

On 18 May 2016, the Austrian Finance Minister announced to have executed a Memorandum of Understanding ("**MoU**") with certain HETA-creditors with the following

key terms: It is intended that the Kärntner Ausgleichszahlungs-Fonds ("KAF") will submit a new public offer which, as in January 2016, will be based on § 2a FinStaG. As consideration the HETA-creditors will receive a cash payment of 75% for senior HETA-debt instruments and 30% for subordinate HETA-debt instruments. Alternatively, the HETA creditors will be offered a zero coupon bond of the KAF with a term of about 13.5 years, in respect of which HETA-creditors will be allowed to subscribe in a ratio (nominal amount of HETA debt as of 1 March 2015 including interest accrued until then: nominal amount of the zero coupon bond) of 1:1 the zero coupon bond, and subordinate creditors in a ratio of 2:1. The zero coupon bond of the KAF will be backed by a guarantee of the Federation. In addition, there will be a stabilization of the zero coupon bond after the expiry of a holding period during the term of 180 days.

There are some material steps still to be implemented before the offer by the KAF can be made (such as sufficient binding support undertakings, certain statutory requirements, EU Commission's examination of the offer for state aid). The tender offer is expected to be published as of the beginning of September 2016 with completion expected in mid October 2016.

Furthermore, the Moratorium and the bail-in affect an unsubordinated promissory note loan (*Schuldscheindarlehen*) in an aggregate principal amount of EUR 30 million granted to HETA by the Issuer.

As of 20 May 2016, the Issuer has made corresponding provisions for its receivables towards HETA and a value adjustment in the amount of EUR 15 million for its receivables from the promissory note loan (*Schuldscheindarlehen*). With regard to the provision of liquidity to Pfandbriefbank, the Issuer established a provision / specific value adjustment amounting to EUR 38.75 million. The enforceability of any compensation claims, in particular towards HETA and the federal province of Carinthia are fraught with high (legal) uncertainty."

2.9 At the end of the subsection entitled "Recent Developments and Outlook – Effects on the rating of the Issuer" on page 125 of the Original Prospectus the following paragraph shall be added:

"On 25 April 2016, Moody's confirmed the Issuer's ratings and changed the rating outlook of Hypo Vorarlberg from negative to stable."

2.10 In the subsection entitled "Recent Developments and Outlook - Trends" commencing on page 125 of the Original Prospectus (i) the sixth sentence of the third paragraph shall be replaced by the following sentence and (ii) the sixth paragraph shall be replaced by the following paragraph:

(i)

"In the administrative decision of 10 April 2016 the FMA ordered the application of the bail-in tool with regard to certain liabilities of HETA (bail-in), which triggers the liability of the Federal Province of Carinthia."

(ii)

"Save as disclosed above, there has been no material adverse change in the prospects of the Issuer since the date of its last published audited consolidated annual financial statements as of 31 December 2015."

- 2.11 In the subsection entitled "Documents on Display" on page 126 of the Original Prospectus the list item numbered "2)" shall be replaced by the following list item:

"2) the consolidated annual financial statements for the fiscal years ending on 31 December 2013, 31 December 2014 and 31 December 2015;"

3. **AMENDMENTS TO THE SECTION ENTITLED "DOCUMENTS INCORPORATED BY REFERENCE" COMMENCING ON PAGE 139 OF THE ORIGINAL PROSPECTUS**

- 3.1 On page 139 of the Original Prospectus after the third bullet point relating to the Consolidated Interim Financial Statements for the nine-month period of 2015 the following bullet point shall be added:

"

- Consolidated Annual Financial Statements 2015 (German Version) included in the Annual Report 2015 of Hypo Vorarlberg

(https://www.hypovbg.at/fileadmin/Hypovbg/Content/Ihre_Landesbank/Hypo_Landesbank_Vorarlberg/Investor_Relations/Finanzkennzahlen/Geschaeftsberichte/2015/Gescha__ftsbericht_2015.pdf)"

- 3.2 On page 140 of the Original Prospectus in the right column of the table after the information with regard to Consolidated Annual Financial Statements 2014 the following information shall be added:

"Consolidated Annual Financial Statements 2015 (German Version) of Hypo Vorarlberg included in the Annual Report 2015

Statement of Comprehensive Income
(*Gesamtergebnisrechnung*) for the period 1 January to 31 December 2015 (page 58)

Balance sheet (*Bilanz*) dated 31 December 2015
(page 59)

Statement of changes in shareholders' equity
(*Eigenkapitalveränderungsrechnung*) (page 60)

Cash flow statement (*Geldflussrechnung*) (page 61)

Notes (*Erläuterungen/Notes*) (pages 62-134)

Auditor's report (*Bestätigungsvermerk*)⁽¹⁾ (pages 144-145)"

RESPONSIBILITY STATEMENT

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, with its registered office at Hypo-Passage 1, A-6900 Bregenz, the Republic of Austria, is solely responsible for the information given in this Supplement and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft
as Issuer pursuant to § 8 KMG

Bregenz, 20 May 2016

DR. MICHAEL GRAHAMMER

as collectively authorised chairman of the management board (*Vorsitzender des Vorstandes*)

MAG. FLORIAN GORBACH, MSC

as collectively authorised signatory (*Prokurist*)