# CONSOLIDATED FINANCIAL STATEMENT

OF HYPO TIROL BANK AG
FOR BUSINESS YEAR 2011

# I. CORPORATE REPORT ON BUSINESS DEVELOPMENTS AND THE ECONOMIC SITUATION

## I. 1. HYPO TIROL BANK – OUR STATE BANK

One hundred and eleven years ago, on 1 January 1901, the HYPO BANK AG commenced its business operations. The fundamental reason for establishing a state bank was an overriding concern for the farming community. Failed harvests, outdated agricultural policies, increasing competition from abroad and falling prices, together with outstanding mortgage payments, conspired to bring Tirol's farmers to the very edge of ruin at the end of the nineteenth century. The path which would lead them out of their debt spiral was known to Dr. Carl von Grabmayr, a country lawyer from Merano and the spiritual founding father of the Hypo idea. He dedicated his efforts towards the federal state of Tirol founding a statewide mortgage bank - and his efforts were crowned with success.

## I. 2. REPORT ON THE BRANCHES

A great deal has changed since the bank was originally founded, both in the area of product and service offerings and with regard to its market presence. The HYPO TIROL BANK AG today is a universal bank in the core market of Tirol and continues to be in the 100% ownership of the State of Tirol. From those two pillars, the preeminent mandate is clear: the HYPO TIROL BANK AG is the bank of and for all Tiroleans. The needs and expectations of highly varied groups of customers, from private households to corporate clients, from homebuilders to entrepreneurs, lie at the forefront of our assigned tasks.
In addition to the core market of Tirol, several other economic areas are served through a differentiated repertoire of products and services: South Tirol, Trentino and Verona (Italy) as well as greater Vienna. The Hypo Group includes 20 business centres in Tirol, 2 business centres and 2 consulting centres in South Tirol/Trentino and Verona and one branch office in Vienna.
In order to better reflect and fulfil our regional focus, the bank has terminated its engagements in the Swiss market, per 31 May 2011, and in the south German market, closing its branch in Munich on 30 September 2011.

## I. 3. THE STATE OF THE ECONOMY IN 2011

The year of crisis 2011 was characterized by global catastrophes, political upheavals and, as regards the economy, an emotional roller coaster. On top of this, another factor also burdened the markets inordinately, namely, the European national debt crisis and the concomitant fears about the euro which accompanied it.

### Market review 2011

The year commenced with political protests in North Africa which took the world by surprise. The civil disturbances soon agitated a number of countries in the Near East. In Tunesia, Egypt and Libya, the disturbances effected a change of regime. On the financial markets, these developments resulted, among other things, in rising and heavily fluctuating oil prices.
In March, Japan was struck by a triple-blow catastrophe of historic dimensions: earthquake, tsunami and the nuclear meltdown of Fukushima, under whose consequences the land is still suffering. Many European countries showed themselves to be in good economic condition during the early part of the year, especially Germany and Austria. As of summer, the subject of 'national debt' dominated the headlines. Whereas to begin with, the U.S. was in the crosshairs of public attention, i.e. in debates about raising the public debt ceiling and the subsequent loss of its AAA credit rating by Standard and Poors, as the year unfolded Europe was also drawn into the maelstrom of national debts, which have been rising since the financial crisis of 2008. As a result of the significantly deteriorating confidence on the part of both companies and investors throughout autumn, the European business cycle ran out of steam. The situation in southeastern Europe, more than anything else, intensified, became more and more acute; and the risk premiums for government bonds rose markedly. In spite of a number of political summit meetings, there seemed to be no easy solution to the insecurities of the marketplace. For that reason, the European Central Bank was forced to take more drastic steps to stem the crisis. It lowered the prime lending rates and announced the purchase of government bonds in order to combat the heightened and still escalating risks to the economy.

In 2011, nearly all risk-oriented investment instruments registered losses. In the months of August and September, shares, and even commodities, were especially hard hit by price corrections. Gold, on the other hand, let loose a brilliant performance: its value in euros rose by nearly 14% over the course of the year.

A regional examination of the share markets reveals that nearly all the stock markets closed deep in the red. The U.S. markets were more positive by comparison. This can be attributed most of all to the fact that the American central bank took more rigourous steps to fend off the economic crisis; and that the American markets suffered less from the punishing depreciations of government bonds of southern Europe. It was startling that the Asian and Pacific Rim markets and the emerging economies suffered such a negative price development, after investors in those countries proved to be extremely shy about taking on new risks.

The development on the international financial markets was predestined by the European national debt crisis and the growing concerns about the sluggishness of the global economy. The debt restructuring and second bailout package for Greece stood at center stage. German government bonds and American treasury bonds were in high demand, which led to noticeably lower yields. Ten-year German government bonds intermittently yielded only 1.7% annually. The U.S. bond market manifested similar developments, despite the lowering of its credit rating. On the other side of the fence, in Italy and Spain, Europe's two largest peripheral countries, were drawn ever more into the debt crisis. A dramatic spike in yield premiums was softened only through decisive market interventions on the part of the European Central Bank. In August, the ECB re-initiated its controversial policy to purchase government bonds, thereby slowing the deterioration of the situation on the bond markets of southern Europe. At the same time, the currency watchdogs under the new presidency of Mario Draghi lowered the prime lending rates in November and again in December by 0.25 percent, down to 1.0%. The nervousness emanating from the European bond markets also had a negative effect on higher echelon bonds which pay higher yields, e.g. high-yield and emerging economy bonds.

On the currency markets, the European valuta remained stable, i.e. lost practically none of its value in relation to other major currencies. Only the Japanese yen was able to gain significantly in value against the euro. This demonstrates that the current crisis is actually a crisis of confidence and debt, not of the euro as a currency. In the case of

Swiss francs, an additional factor played a role, namely, that the Swiss National Bank decided on 6 September to maintain, i.e. enforce, a bottom borderline to the euro/Swiss franc exchange rate of at least CHF 1.20 per euro. This put a halt, at least temporarily, to the dramatic rise of the Swiss franc.

### Economic development in our own markets

The economic development in our own market regions was characterized by enormous disparities in business year 2011. Whereas in Austria the economic recovery of the previous year continued, Italy was confronted by a significant weakening of its economy. However, even in Austria the dynamics of the business cycle during the first half of the year were noticeably stronger than in the latter half, when economic growth slowed markedly. For both countries, as in previous years, strong regional differences are clearly evident in the statistics.

### Austria - strong economic growth and decreasing unemployment rate

The Austrian economy was able to continue its upward trend of 2010, and accelerate it even further, with a gross domestic product growth of 3.3%, an even stronger performance than in the previous year. This upward swing had a positive effect on the labour market, leading to a decrease in unemployment, down to 4.1% (using the EU method of calculation). Simultaneously, the economic growth brought a price-driving trend in its wake, giving rise to an inflation rate of 3.2%.

### The state of Tirol - strong GDP growth and low unemployment

The economic development of Tirol evidences a number of parallels to the Austrian national averages. Thus, the year 2011 was a year of recovery for Tirol as well, with a noticeable weakening towards the end of the year. All in all, the economy grew by 3.5%. This growth was accompanied by increased inflation, 3.3%, and by a further reduction of unemployment, down to 2.5% (using the EU method of calculation). Thus, Tirol - together with Styria and Salzburg - once again produced the top growth rates, compared to the other federal states of Austria.

### Italy - weak economic growth and persistently high unemployment

The Italian economy slowed down significantly in 2011, after it had gained a certain dynamic thrust the previous year. Whereas the GDP in 2010 was 1%, growth in 2011 dropped to 0.6%. The factors exercising the greatest influence were the austerity programme of the government and the consumer restraint, as a reflection of the unemployment statistics and threats on the labour market, with unemployment at 8.2% (using the EU method of calculation) still very high. The price pressures were felt palpably; nonetheless, the inflation rate remained at 2.8%, neatly below the 3.0% threshold.

### South Tirol - Continuing economic recovery amidst a good employment situation

Contrary to the rest of Italy, the economy in South Tirol was able to continue its upward trend in 2011. The economy grew by more than 1.0%, the unemployment rate remained at 2.7% (using the EU method of calculation), noticeably below the overall unemployment average of Italy. With regard to prices, there was no difference from the rest of Italy, but the inflation rate of South Tirol at 2.9% was also below the 3.0% threshold.

## I. 4. BUSINESS DEVELOPMENT

### Profit Development

The final months of business year 2011 were characterized partly by drastic developments which were the upshot of a detailed examination of the loan portfolio of our Italian unit. And even though this theme overshadowed the final few months of business year 2011, a more differentiated analysis and evaluation of business development of the corporate group of the HYPO TIROL BANK AG is imperative.

The somewhat one-sided business strategy of the Italian subsidiary, combined with a breed of growth during the years 2003 to 2008 which was solely volume-oriented, prompted the Managing Board of HYPO TIROL BANK AG in Austria to meticulously examine and analyse the credit portfolio of the Hypo Tirol Bank in Italy. The result of this comprehensive, wide ranging investigation was that the risks in the loan portfolio of our Italy affiliate could be identified and thoroughly processed and incorporated into the balance sheet of 2011.

In contradistinction to this development, the restructuring of the HYPO TIROL BANK AG in Austria and its positioning as Tirol's state bank with its focus on the core market of Tirol showed a very positive development in the loan business. This healthy core of the concern is what makes it possible to assume all the risks of the credit portfolio in Italy in the business year 2011 without endangering in any way the substance of HYPO TIROL BANK AG as an independent business enterprise or a corporate group. Furthermore, through processing and cleansing the balance sheet of all risks, the new orientation and restructuring of the overall concern can now be expanded on foundations which are truly solid.

### Balance Sheet Changes

The diminished balance sheet total of business year 2011 reflects by and large the restructuring and new orientation of the Hypo Group. Thus, the reduction of assets can be largely attributed to the diminishing receivables from customers after risk provisions were made.

The following factors led to this reduction:

– The focus on the core market of Tirol and, as a consequence, the reduced volume of receivables outside this geographical region.
– A significant rise in risk provisions for the Italy affiliate in the Hypo Group.

On the liability side of the ledger, the reduction of the balance sheet total is largely the result of diminished securitized payables.

### Capital Resources

Creditable equity capital, in accordance with the banking laws as regards the concern, decreased significantly compared to the previous year, due to the negative balance sheet total in business year 2011. Also the required equity capital diminished noticeably during this period, in connection with the new orientation and business strategy. The equity ratio thus amounted to 10.27% at the cutoff date (previous year: 11.39%) and the core capital ratio amounted to 6.07% (previous year: 7.38%). Despite the difficult circumstances during business year 2011, the corporate group of the HYPO TIROL BANK AG thus fulfils the equity capital requirements as specified by the banking laws.

## I. 5. BUSINESS DEVELOPMENT IN INDIVIDUAL CORPORATE SECTORS

### Private customers

To be the bank of, and for, all the people of Tirol. That is the goal which HYPO TIROL BANK AG set for itself in 2011 to usher it into the future. In accordance with that objective, the focus now lies on optimized and personalized services and on the repertoire of products and services which is designed to fulfil the current needs of the population. Important major pillars are to be found in 'homebuilding' and in 'asset management', which were reflected in the planning of this campaign throughout last year.

**WohnVision.** The 'WohnVision' ('VisionofLiving') loan with upper-ceiling interest limits was the customer favourite among the financing possibilities during 2011. This loan makes it possible for customers to invest with a feeling of security and make hard and fast calculations. In addition to the offer of attractive financing products, the counsel and information we provide to homebuilders and homebuyers also play important roles. Our presence at Innsbruck's Homebuilder's Fair at the end of January as well as other regional events at the WohnVision centres in October provided customers and interested parties the opportunity to obtain all the information they needed.
Beyond that, the HYPO TIROL BANK AG has for a long time been the state homebuilder's bank, managing besides its own business also the mortgages of public building society subsidies as fiduciary custodian of the State of Tirol outside its balance sheet.

**Savings and Investments.** The theme of safe and secure investments continued to be the enduring, major area of concern to the customers of HYPO TIROL BANK AG in 2011. Besides investment classics such as the Tirol Bond, novel products such as the Online Savings Book iStar Fix, strictly tied to market movements, were also presented. The palette of offerings was also expanded to include a Welcome Deposit Account for new customers, and a Deposit Account Check-Up.

**Anniversaries and Customer Care.** Two venue anniversaries were celebrated by HYPO TIROL BANK AG in 2011: the 25th anniversary of Kitzbühel and 30th anniversary of Mayrhofen. On the occasion of these 'birthdays', capital savings books were issued for the customers of the branches. For nearly 20 years now, HYPO TIROL BANK AG has had offices in Seefeld. But since the office space could no longer handle the requirements of counsel and service comfort which are essential, a change of location was decided upon. In mid-September 2011, the new branch office opened its doors. It is a contained, if highly palpable, adaptation of the business headquarters on Bozner Square in Innsbruck. The new headquarters building, which opened in 2008, was redesigned in a more customer-friendly manner in the entrance, self-service and waiting areas. Through these renovations, the direct contact with customers and personal talks with them have been made easier and more pleasant.

**Prospects 2012.** At the end of 2011, customers with deposit accounts received comprehensive information with regard to the coming tax on wealth growth. Our customer advisors will soon receive thorough training and education on this subject. Further, in the course of technical changes to the Internet website of HYPO TIROL BANK AG, a new site will be designed and presented. The focus will be placed on the product and service needs of the various customer groups.

### Corporate Clients

At the three Centres for Corporate Clients in Tirol, the HYPO TIROL BANK AG is strongly represented in its core market. There is another Corporate Client Centre in Vienna. Thanks to the regional presence in the core market of Tirol, the state bank wins kudos for its nearness to customers, its market experience, its expertise and its personal advice. Another important pillar is the overall counsel of customers: the counselling concept known as 'PerLe Plus Business' reflects the liquidity needs, risk limits, investment tendencies and re-investment necessities of corporate clients.

**Added Value.** The evolution of our repertoire of products was again the focal point in 2011. In this spirit, the Added Value Account ('Mehrwertkonto') was introduced. This product is conceived for high yield investment of available financial sums which are accessible at any time, thanks in part to settlement by Hypo Office Banking.

**Regulating company succession.** The handing-on of business responsibilities numbers among the most suspenseful and promising events in the life cycle of any company. It embodies a new start which is every bit as complex and challenging as the original founding of a new enterprise. The key to regulating such a handover successfully lies in early and careful planning, into which all the associates and experts are drawn for consultation. For that reason, the HYPO TIROL BANK AG sponsored an informational evening in October 2011, including a panel discussion on the subject. A comprehensive advice booklet was also presented, in which a variety of expert opinions could be read. For 2012, a continuation of this event for customers and all interested parties is planned at locations in the Upper Inn Valley and the Lower Inn Valley.

**EntrepreneurEnergy.** Due to positive resonance, the seminar cooperations with our networking associate "business-bestseller" were continued successfully during 2011. The core contents of the seminars include important entrepreneurial fields such as strategy, leadership, management and control. They offer strategies for achieving success and optimizing structures which can be implemented individually, supplying at the same time the suitable, necessary tools for realization by entrepreneurs. The outstandingly positive feedback from those who took part in these seminars and from the company consulting experts underscores the great interest and need for this service.

**Prospects 2012.** Apart from the theme of company succession, the repertoire of services and products will remain at center stage in 2012, with a special focus on the private level of companies.

**Hypo Tirol Insurance Brokerage GmbH.** The insurance sector at the HYPO TIROL BANK AG is an independent insurance brokerage. The spectrum of services ranges from mediating to consulting all the way to developing individually tailored insurance products.

**Insurance for physicians.** In 2011, the volume of corporate and professional clients continued to be expanded. In particular, the Hypo Tirol Insurance Brokerage GmbH was able to secure a very good position in the Tirolean market in the area of insurance policies for medical doctors. Because of the now mandatory insurance coverage of medical doctors (since August 2011), the demand for insurance for physicians was huge. Through Hypokrates Liability Insurance for Physicians, Hypo was able to cover this demand quite well.

**Risk Analysis.** The Hypo Tirol Risk Matrix, together with alpS, was further evolved and developed. With this risk analysis instrument, an early-warning system for recognizing risks in companies was created for corporate clients. For customers, this provides the opportunity to devise risk-combatting measures and strategies in plenty of time. The Hypo Tirol Insurance Brokerage GmbH can at the same time fulfil the responsibilities of brokerage law through the Hypo Tirol Risk Matrix by carrying out a comprehensive risk analysis for its clients.

**New Software.** Through the acquisition of the company Dolp & Dolp Gmbh and the migration of its clients to Hypo Tirol Insurance Brokerage Gmbh, our market position was further improved. Above and beyond that, our computer software was renewed, i.e. changed. Through the new brokerage software called "WinMakler", Novum ccServices GmbH and the electronic updating and upgrading by the bestand.at company, a milestone was set for an efficient and effective management of contracts and damages.

**Prospects 2012.** The Hypo Tirol Insurance Brokerage GmbH will continue to make great efforts to expand the insurance services in the customer segments of independent professionals and corporate clients. In this vein, company provisions for the future and the subject of insurance programmes for retirement pensions and medical care will be placed at the forefront.

## Hypo Tirol Bank Italy AG

In the course of restructuring and realigning efforts by the new Managing Board of HYPO TIROL BANK AG in Austria, the loan portfolio of the HYPO TIROL BANK ITALY AG was thoroughly examined and analysed. Against this backdrop, and in connection with the currently very difficult background conditions of the economy, it was necessary to adjust and purge the credit portfolio of the risks which were recognized and assessed.

The HYPO TIROL BANK ITALY AG had losses in business year 2011 which can be attributed to the increased credit provisions. The HYPO TIROL BANK AG in Austria has now endowed its subsidiary HYPO TIROL BANK ITALY AG sufficiently, so that it has the legally required capital equity.

## Treasury

**Treasury Sales - Information Platform.** The enduringly high risk awareness of customers was also reflected in the volume of currency and securities transactions. The target definition for Treasury Sales was thus trimmed to answer the safety needs of customers, in particular through a special selection of short-term, straight-forward securities. In this effort, both the bank's own products and those from a pool of renowned Austrian and German associate banks, together with their new issues, formed a substantial part of the investment repertoire which was turned to.
Apart from that, the objective to fulfil our role as informative center and service provider was pursued. Through regular visits from all the branch office personnel, the staff depened their knowledge of funds and the functionality of the investment tools on offer right on the spot at bank headquarters. More than anything else, the devising of a high quality deposit account analysis tool ("deposit account check-up") as well as a computerized depiction of the overall display of foreign currency loans answered the heightened demand for information and consulting expertise by customers. Ongoing updates on the development of the Hypo bank's own products, securities, etc. as well as instruction courses on derivatives, as well as continuing updates on the state of the economy, rounded out this area of activities.

**Asset Management - implementing new legal requirements.** The focus in 2011 was on the new tax on 'wealth increase', that is, the ways in which we can best support our customers in understanding and dealing with this novel development. The treatment of the subject addressed how to take advantage of leeway areas in the levying of this tax, as well as providing the simplest possible solution for customers in their income tax returns. It turned out that a fund is the ideal instrument, since losses are balanced against gains, thus permitting the opportunity of utilising loss amounts. At the end of September, operative adjustments at Hypo Asset Management were carried out by introducing three funds which were specially concocted for this purpose.
In fund management, the new investment fund law of 2011 had to be heeded and taken into consideration. All informational fund folders were changed correspondingly; a "customer information document" was introduced; and major improvements in fund risk management were brought about. The quality of fund management and the transparency of customers' written materials were thereby improved markedly.

**Managing the bank book (turnover register) - national crisis and interest rate roller coaster.** The capital markets endured a year of fear and insecurity in 2011, possibly the most trying in the entire history of the European Union. Budget deficits and debt limits in Europe were the ongoing and inescapable subject of discussions. The purchasing of government bonds and pfandbrief papers by the European Central Bank became imperative in order to not completely send the financial markets into a tailspin of panic. In the chaos of 2011, the ECB raised the interest rates twice at the beginning of the year by 0.25% to 1.5% in order to get hold of the inflation in the European zone. As it became clear that the economic risks were proving to be far greater than those of inflation, the ECB backpedelled in the latter part of the year in its interest rate settings. This change of paradigm under the aegis of the new president came somewhat as a surprise, since the European Central Bank in earlier years saw inflation as the major danger and addressed it before all others. By the end of the year, there was still no sustainable solution in sight for Grerece.

**Prospects 2012.** With regard to interest rate policies and liquidity allocation by the ECB, no significant changes can be expected in 2012. The effects of shares and natural resources rising in price and pumping up inflation might well jump-start the economy, since the alternatives in the money markets have nearly dried up, due to low interest rates. As concerns the debt crisis, another crisis might indeed bring about greater fluctuations in the market, on the one hand; on the other, a sustainable solution for Greek national debt might indeed calm the markets noticeably, thus rewarding those investors who are willing to take risks.

## Leasing and Real Estate

The sector of leasing and real estate has the know how and the responsibility for leasing and real estate business as well as for the investment holdings management. In detail, this comprises the task areas of managing holdings and the management of the properties we own at Hypo Tirol Bank, either by the bank itself or by property companies. This applies both to our own utilised properties and to properties used by others.

**Management of Real Estate and Investment Holdings.** The use of real estate properties, despite conditions in a difficult market environment, were maintained in stable fashion. HYPO TIROL BANK AG has relinquished indirectly held stakes in real estate companies in Salzburg and in Friedrichshafen amounting to 50%. Further, individual sales transactions relating to office and business units, together with commercial properties, were successfully completed and concluded, thereby significantly reducing our real estate holdings. Overall, a positive contribution to the balance sheet total of 2011 was achieved by the Real Estate and Investment Holdings divisions.

**Prospects 2012.** Derived from the strategic changes at the HYPO TIROL BANK AG, the strategy for the Real Estate and Investment Holdings sectors in 2012 and in successive years is clearly directed at reducing these holdings.

**Hypo Tirol Leasing.** Hypo Tirol Leasing GmbH is a 100% subsidiary of Hypo Tirol Bank AG and has been a contact for custom-designed real estate and movable property leasing solutions for more than 20 years. As a legally independent company, Hypo Tirol Leasing is well positioned in Austria's leasing market, with its focus on real estate leasing and large volume leasing of movable property units. With a small, highly qualified team of experts drawn from our own ranks in the sales division, in association with efficient administration and contract processing, complex financing solutions can be devised, depicted, offered and processed. Apart from standard leasing contracts, the immense expertise of this team and high professionality in the sector of real estate can design highly individual plans which completely accord with the specific needs of customers, both in the areas of business operations and of taxes. In such a way, solutions are devised and honed with the customer which far exceed the customary bounds of financing, and which also take the prospective balance sheet effects of the customer into consideration.

In the sector of classic real estate leasing, fewer large-scale projects were concluded in 2011 than in 2010. The greater part of the financing projects were carried out in the core market of Tirol. In leasing moveable goods, there was significant growth. Thus the overall financing volume registered a decrease of about 30%, but the contracts concluded grew by about 38%. In the main, financing in commercial and service sectors was carried out.
Together with HYPO TIROL BANK AG, custom-designed financing solutions were devised and implemented for customers through a combination of real estate leasing, movable goods leasing and loans.

**Prospects 2012.** The newfound concentration on the core market of Tirol will be continued. The collaboration with corporate clients will be intensified. Particularly in the areas of movable goods leasing, the potential both with existing customers and new customers will be addressed with renewed energy.

### I. 6. EVENTS OF SIGNIFICANCE OCCURRING AFTER THE CUTOFF DATE FOR THIS REPORT

At the end of business year 2011, the State of Tirol as 100% owner of HYPO TIROL BANK AG offered the prospect of an increase of share capital of 230 mil. euros. The details of such a capital increase are currently being negotiated with the EU Commission.

At its meeting in business year 2012, the Supervisory Board of HYPO TIROL BANK AG Austria ordered the Managing Board to analyse the transformation of the HYPO TIROL BANK ITALY AG to an EU branch. A project group was assigned to carry out this analysis.

# II. REPORT ON THE PROSPECTIVE CORPORATE DEVELOPMENT AND RISKS

### II. 1. PROSPECTS FOR THE ECONOMY IN 2012

#### Basic scenario: sagging growth with slight inflation - 55% probability

A number of early indicators, particularly a variety of purchasing order indices, point to an increasing number of European countries slipping into slight recession. This applies in particular to southern Europe. The situation appears to be better in Germany, where unemployment has reached a new record low level; and in Austria, whose exports and private spending are both relatively robust. Nonetheless, the danger of Europe sliding into recession has escalated noticeably over the last few months. The power of this drop of economic thrust will depend in large part on what austerity measures the various nations take in order to staunch the flow of state money into debt. Will they consist mainly of one-sided measures, e.g. raising taxes? Or will they manage to increase their own levels of efficiency and restructure adequately to reduce public expenses in ways which do not actually hamper economic growth? The ongoing discussion about anchoring a 'debt stopper in the constitution is itself an indication of how important the theme has become in the interests of winning back the confidence of the financial markets.
Due to the difficult economic conditions and far from filled order books and manufacturing capacity, inflation may well decrease. The biggest uncertainties for inflation development remain: the oil price and the high amount of liquidity in the market.

#### Core propositions for 2012:

- Strengthening EU integration towards fiscal union, i.e. coordinating finance and budget policies
  - politically, this is long and difficult
  - many hazards of setbacks
  - the euro will survive
- ECB as provider of liquidity ('lender of last resort')
  - Purchasing programme of government bonds puts a ceiling on euro-region's interest rate hikes
- Inflation diminishing, arriving at around 2.0% in euro region
  - weak economy slows price rises
  - high taxes, rising prices for commodities (oil), expanding money supply are all dangers for inflation
- Low interest-rate policy will persist
  - savings are slowly being depleted, since interest is below the inflation rate
- Importance of public debt, both in Europe and in U.S.
  - secure forms of investment are lacking
- Paying down debt and reducing public expenses will continue
  - risk of recession in Europe, weak growth in the U.S.
  - low chances for yields and growth for the next few years
- Growth curve of developing countries is intact
  - currency revaluations possible
- Tendency towards material assets (shares, commodities, real estate) will persist

#### Effects on money markets, currency markets, capital markets

On the money market, the trend towards diminishing interest rates may well continue, after the European Central Bank (ECB) effected two interest rate cuts to 1.0% before the year 2011 came to a close and left the possibility of further interest rate cuts open. We expect the expansionary money policies of the ECB and the current weakness of the economy to hold down inflation expectations of market participants and thus, lend solid support to the bond markets. Due to the persistent aversion to risk on the part of investors, extremely safe bonds, e.g. those of Germany, have remained in high demand in the early months of 2012. At the same time, issuers with poor credit ratings can refinance on the market only at less favourable conditions.

On the currency markets, the euro will probably remain under pressure until more convincing steps towards a solution of Europe's national debt crisis are taken by the EU, i.e. an improved coordination of the finance and budget policies of the various nations. This might lead to the currently high yield premiums receding, particularly in the peripheral countries of Europe. On the other hand, the likelihood is great that the exorbitantly expensive bonds of Germany, with yields of practically zero percent, will be corrected and subsequently attain more attractive yield levels as soon as the 'flight to safety' subsides. This would also have a positive effect on the euro. As a further ramification, the upward pressure on the Swiss franc and Japanese yen should then recede.

### An alternative scenario: a depression – <30 % probability

In this scenario, the growth dampening effects of budget consolidation in many countries proves to be stronger than in the basic scenario, above. Apart from weak demand in the sector of public spending, domestic private spending also decreases. Downgrading of credit ratings and a further loss of confidence on the part of private persons and companies make the situation worse. As a consequence, growth breaks down completely. Due to the non-utilised manufacturing capacity and the increasingly difficult growth conditions, the inflation rate also goes down.
Another case is also imaginable, however, in which commodity prices remain high or even continue to rise. Many countries have raised their taxes and public fees in the process of consolidating their budgets, which could create an impetus for inflation to escalate. In the extreme case, therefore, we could also enter a kind of stagflation in Europe, i.e. decreasing economic growth accompanied by high inflation.

### Another alternative scenario: economic recovery amidst high inflation – <15 % probability

In this second alternative economic scenario for 2012, the point of departure is that the current national debt crisis is softened, i.e. solved, better and more quickly than expected. Subsequently, the confidence of investors and entrepreneurs bounces back and private spending marches in step with it. The developing countries remain an important catalyst in a humming economy, since they support domestic industry. Economic growth starts to rise in strength as of the 2nd quarter of 2012, mirrored in good growth statistics. Increased consumer spending results in the high liquidity in the market finding its way back to the real economy in the form of private spending and higher loan volume. Due to higher demand, the manufacturing capacity also climbs and many companies are in a position to raise their prices. Even a heating up of the conflict between Iran and the West could have an effect, through raising oil prices. Either factor would lead to higher inflation in the euro region of 3.0 to 5.0%.

### Prospects for the economic development in our market regions in 2012

Following a period of recovery in 2011, the forecasts for the year 2012 show a certain mixed quality as regards economic development in our market regions. They foresee a distinct cooling off of the economic growth machine, while inflation also recedes and unemployment increases. Whereas Austria will manifest a dip in growth, even though a certain upward thrust of about 0.8% is anticipated, the economy in Italy will probably recede by about 0.4%. With regard to regional economic performance, current evaluations expect a GDP growth of 0.8 to 1.2% for Tirol; and 0.5% to 1.0% for South Tirol. The labour markets will have to bear the burden of somewhat higher unemployment statistics as a result of the loss in economic dynamism. On the other hand, the pressure to raise prices will diminish markedly, the inflation rate should remain in the area of 2.0%. Due to the high degree of insecurity on economic prospects, the above assessments should be supplemented by a warning by the Economic Research Institute that the current risks of making forecasts at all remain very high; and that most foresee downward trends.

## II. 2. OUR ANTICIPATED CORPORATE DEVELOPMENT

The responsibilities and the challenges which have to be faced and dealt with in the year 2012 connect seamlessly with the last period of 2011 and its concomitant events. The final weeks of the year were characterized by high unpleasant developments in risk provision necessities for the Italy subsidiary and the negative presence of our company in the media which accompanied this development. Last year also contained highly encouraging trends, however, which fill us with optimism and fortitude to head into the year 2012.

After the Managing Board appointment of the HYPO TIROL BANK AG was completed in the summer of 2011, a process of internal restructuring was taken up and a new strategic orientation as state bank of Tirol was launched. We are absolutely certain that we have, through this consequential realignment of our business model to the core market of Tirol, found the right path towards securing a successful future for the HYPO TIROL BANK AG. The first successes which have been registered, e.g. in the sector of financing private homebuilding in Tirol, are already a confirmation of this promising success and an encouragement to continue along this selfsame path with renewed resolve.

Through the approval of capital increase measures of 230 mil. euros at the end of 2011, the State of Tirol as owner of HYPO TIROL BANK AG sent an important signal of clear commitment with regard to the state bank. We perceive in this step, however, not only a significant contribution to strengthen the financial backbone of our company, but rather an advance payment of trust in the Supervisory Board, the Managing Board and the staff of the bank which we, in turn, must now redeem through hard work on the part of all concerned in order to justify that step through future success.

It is only through unconditional dedication, effort and application to the tasks at hand that we will be able to reach our goals as we have conceived them for the year 2012. The requirements have been specified in the new strategic alignment as Tirol's state bank and translated into concrete targets for each business area. The point of departure is the focus of customer business on the core market of Tirol with the aim of winning new private and corporate clients. At the same time, the tying-up of capital to other business areas has been significantly reduced; and with regard to future necessities in connection with Basle III, in addition to capital increase measures by our owner, improving our capital ratio will be our own contribution to success. Against the backdrop of ongoing difficult and insecure economic conditions, we also plan an appropriate risk provision for the loan business in 2012. And apart from that, the strengthening of our commission business and the requirements for reducing our own costs of running the business for each and every area are additional commitments on our part. The subsidiary in Italy is being restructured and a brand new business model is being worked out. All in all, the sum total of these goals which we will strive to achieve in 2012 imply a return to highly positive business results and corresponding interest yields on capital which has been invested.

We are convinced that through the combination of measures which have already been taken and which are planned for the immediate future - from reinforcing our capital endowment by the owner to new strategic alignment towards the core market of Tirol all the way to slimming the structures and optimizing the deployment of our resources - the necessary steps for a sustainably successful future of our state bank have been taken. The process of change which now lies ahead of us is certain to bear difficulties. However, we intend to take up the challenge together and face it, keeping an eye on the ultimate goals. We extend a vote of thanks to our customers for the trust which has been given us thus far and assure all of them that our gaze is directed solely forward; that we will stand by them in the future with our fullest possible engagement as a reliable and trustworthy financial partner.

## II. 3. MAJOR RISKS AND UNCERTAINTIES

With regard to explanatory notes on the goals and methods in risk management; and to the overall financial risks at HYPO TIROL BANK AG, we refer readers to the financial risks and risk management sections in the Notes.

## II. 4. REPORT ON MAJOR HALLMARKS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM, WITH PARTICULAR EMPHASIS ON THE PROCESS OF RENDERING ACCOUNTS

### Definitions

The **risk management system** at HYPO TIROL BANK AG includes all activities which help to identify business risks, to analyse them, assess them and set and take measures to combat them.

With regard to the **internal control system** (IKS), risk management gains its support mainly from the methodical evaluation of risks which forms the basis of the internal control system.

By the **internal control and risk management system with regard to the rendering of accounts** is meant: a system so devised and structured that the orderly process, the reliability and the timely availability of internal rendering of accounts, as well as the Financial Statement which must be delivered in accordance with legal regulations to external bodies, is assured with a high degree of security. The process of rendering of accounts is limited not only to regular reporting of interim and end-of-year financial statements, it also comprises orderly bookkeeping records of all relevant data, both of their origin, their processing and their recording in the internal company reports and in the end-of-year financial statement prepared for external bodies.

### Objectives

The Managing Board of HYPO TIROL BANK AG is responsible for the establishment and maintenance of an appropriately equipped and enabled internal control and risk management system.

In the exercise of this responsibility, an IKS coordinator has been installed. The area of responsibilities of this function include the standardisation and systematisation of all existing internal controls and the summarising of individual measures into an overall and unified internal control system. The evaluation of the effectiveness of the internal control system is based on the criteria set down in the published working paper „Internal Control - Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The setting of objectives by the IKS with regards to the rendering of accounts consists of recognizing risks inherent to the process of rendering of accounts and ensuring the orderly generation of an annual financial statement which adheres to, i.e. fulfils all the regulations.

Thus, the IKS which has been established has tasks, directives and guidelines to fulfil which

- regulate the orderly recording of transactions and the keeping of orderly records in order to ensure the correct depiction of business cases
- ensure sufficient security of business cases being depicted and recorded in the required fashion in order to guarantee the compilation of the financial statement in accordance with the respective legal regulations, and
- ensure adequate security with regard to preventing, reducing and discovering errors and irregularities which might have substantial effect on the reporting of data in the financial statement.

The basis of these requirements, directives and guidelines are to be found in the IKS handbook, which provides and outlines a methodical approach for implementing a cross-departmental, unified internal control system. The focus of our internal control system is not primarily concentrated on creating additional controls which are aimed at implementing and maintaining supervisory banking or legal or other internal strictures. Rather, the issue at the center of this process is whether the controls add up to an overall, integrated system. Towards this end, a suitable model of processes, as presented in the IKS handbook, is essential. This process model is based on the international example of five components of the COSO Framework: control environment, risk assessment, control activities, information and communication, supervision.

### Components of the IKS in the process of rendering of accounts

- The framework in which the IKS operates comprises the **control field.** The major instruments of the control field are the regulations of organisational structure and processes which adhere to the separation-of-functions principle and the four-eyes principle. The separation-of-functions and the four-eyes principles are core elements of the internal control system. The reasoning is as follows: placing several sensitive activities in one hand or depending exclusively on self control may be a stimulus to malversation. Through this structure and process, we endeavor to counteract such risks.

  Furthermore, standardised qualification and educational programmes provide staff members with the required levels of professional education and qualification for their given areas of responsibility. The foundations of the control field remain, nonetheless, the integrity and ethical conduct of each and every employee. In particular, the power of setting the right example on the part of managers and executives is accorded very great importance.

- On top of the control field, which forms the basis of the other IKS components, the risk recognition and risk evaluation divisions are built. The point of departure for effective risk assessment is found in our bank's corporate objectives. Pursuant to the overriding goals, the risks which are part and parcel of the selected business model and the processes attendant to it are defined, recorded and processed. The risk evaluation with regard to the strategic aspects of the COSO model is then undertaken annually by the risk management division. Based on this **risk evaluation**, the IKS-relevant processes are defined in our corporate group.

  Our corporate objectives of financial reporting also form the point of departure for effective risk evaluation in the rendering of accounts process. The foremost goal of financial reporting is defined as the purpose to sustain and to inform. The legally fixed principle of communicating as true and accurate a picture as possible of the assets, financial situation and earnings is accorded the uppermost importance.

  In order to minimize the risk of material misstatements in reporting and describing transactions in the rendering of accounts, the following steps have been undertaken:

  – first of all, the risks which should be minimized are identified,
  – control objectives are defined for these risks, which must be covered by the appropriate conrol activities,
  – the results of which are recorded in an area-oriented risk control matrix.

A detailed and comprehensive understanding of the rendering of accounts process is the foundation of identifying major risks. Thus, the process documentation (process flow charts) are accorded top priority as transparent and logical depictions of the various sectors of the rendering of accounts process. The process documentation also clearly regulates the areas of responsibility for each individual step and its interfaces.

The main business processes in the corporate group are the credit business and the bank's own financial investments portfolio. These have thus been defined as IKS-relevant processes. The rendering of accounts process, as another IKS-relevant field, is also the subject of statistical depiction of these business processes. In particular the depiction of the credit business and the inherent risks of the bank's own portfolio are accorded great importance. In accordance with the comments on financial risks and risk management, we define credit risk and market price risk as prime risks in these business processes.

To identify **credit risk**, quantitative and qualitative risk hallmarks already exist and are operative as indicators of early risk recognition. Should downgraded valuations of receivables unleash a part of the early warning system, balance sheet risk provisions are ensured through the coalescing of all IKS components. Among these, for example with regard to structure and process organisation, number the strict separation of credit and market risks; pursuant to risk evaluation, the annual re-definition of risk limits and, ultimately, the ongoing controls to maintain pre-set limits and regulations with regard to decision making. Diverse approaches for cases have been defined by working directives and range from downgraded credit ratings all the way to reflecting loan risk provisions in the accounts corresponding to these working directives, are also integral components of our internal control system.

**Market risk**, i.e. the danger of losses through diminishing prices due to market fluctuations, has gained in significance especially through the financial market crisis. The valuation of securities, based on stock market price curves, has exercised great influence on the development of earnings in recent years. With regard to rendering of accounts processes, it was of central importance to recognize as early as possible any need to devalue investment holdings; this in itself pointed to the immense significance of a well-tuned internal control division in the bank. Yet a precise analysis of the extent of necessary valuation adjustments was itself a great challenge. In this connection, all IKS components make a strong contribution towards minimizing the danger of erroneous valuations in depicting this business branch. Directives for balance sheet entries and valuations are the final instance for identifying and assessing investment holdings.

- **Control activities** have as their objective ensuring that measures which the corporate group takes towards managing and supervising risks and attaining their given business goals are actually implemented. To guarantee their effectiveness, such control activities are integrated directly into the business processes themselves and are depicted in each respective process docimentation and the corresponding risk-control matrix. In addition, the documentation of the controls is itself a major integral element of the IKS. Depending on the time frame of the effects, we distinguish between control activities which aim to prevent errors and those which are intended to uncover errors. Examples of the former are regulations of areas of responsibility or limitations of system intervention in the form of user policies and/or password policies. Examples of the latter include controls of maintenance and agreement/approval.
On the theme of computer/technical equipment and its development in the banking business, we are supported by the General Computing Centre (Allgemeine Rechenzentrum). We also use our own developments, based on state-of-the-art technology, as well as tried and tested standard products. The central host system for day-to-day banking business is the software solution ARCTIS. Standard solutions such as GEOS, SAP, etc. serve as sub-systems. As consolidation software, Cognos Consolidator supports the generating of financial statements. Regulations of access, strict pre-set requirements with regard to data security and automated approval controls are but a few examples our our control measures which are valid and applicable for the entire IT landscape.

- For the effectiveness of IKS, specifically designed and **wide ranging information and communication channels** are used for all important areas of business, permitting staff members to have available all the information they require in order to carry out effective controls. To this end, for purposes of transparency, the IKS Handbook is accessible via Intranet for all employees. What's more, through the explicit depiction of controls in the process documentation, i.e. process flow charts, working directives, etc., for the rendering of accounts, and also for all other risk-relevant and IKS-relevant processes, awareness of the risk control matrices is strengthened and anchored in the minds of all employees. Information channels have been designed in such a way that all relevant information can be distributed in reliable, timely and objective fashion. For internal communication, corresponding procedures and tools have been institutionalised, e.g. Portal News, Intranet, Managing Board E-mails, document distribution via Intranet platforms, as well as internal seminars and training workshops.

  In addition, institutional information channels for reports of the Managing Board provide transparency of our own business dealings and of the risks inherent in ongoing business transactions; and trace the development of the earnings situation. Information is made available to the members of the Managing Board and the Supervisory Board, i.e. business partners, in accordance with specified institutional standards. For the Managing Board, the quarterly reports to the Supervisory Board and the Examination Committee on the development of earnings and risks are a red letter day.

- An additional pre-requisite for the effectiveness of our IKS is the necessity for control measures to function in reliable fashion over the long term. Thus, the IKS of the corporate group is itself continually being watched and tested in order to guarantee the maintenance of the processes and controls as defined and to make the necessary adjustments as they become apparent, i.e. whenever the givens of the field of operations undergo changes. Bank executives play an important part in this connection.

  The **supervision** of the IKS is carried out on a variety of levels. Through organisational regulations within the concern, the supervision of the IKS is assured on the level of process. Managers watch over the actual execution of the controls by making random tests, for example.

  The Managing Board ensures comprehensive company-wide supervision of IKS by creating the requisite structural mechanisms for that purpose, e.g. directives regarding areas of responsibility, and defining suitable information systems, as well as carefully defining the reporting processes, e.g. depiction of control results.

  Further, the bank's internal inspection examines the IKS in the course of its review. This internal examination department has the following responsibilities:

  – independent, unbiased and objective inspections, as well as advisory and supervisory tasks with regard to securing and ensuring the quality of the IKS
  – evaluation of the suitability and effectiveness of the IKS

– proposals for developing it further

In the course of exercising their own responsibilities, the Supervisory Board and the Inspection Committee also regularly inform themselves about the status of IKS, e.g. in revolving discussions with the Managing Board.

### Conclusion

The IKS is not a static system, it has to be altered and adjusted ongoingly to meet the requirements of changing background conditions. The identification of these necessities which arise due to new risks, as well as the continual supervision and assessment of its effectiveness, is viewed as the central task and uppermost priority of the bank.

## III. REPORT ON RESEARCH AND DEVELOPMENT

With regard to research and development in the banking branch, no additional explanatory notes are necessary.

Innsbruck, 5 April 2012

**HYPO TIROL BANK AG**

The Managing Board

Johann Peter Hörtnagl | Dr. Markus Jochum | Mag. Johann Kollreider

# KEY CORPORATE DATA 2011

| in million € | 2011 | 2010 | Change | in % |
|---|---|---|---|---|
| Total assets | 11.170 | 11.710 | -540 | -4,61 |
| Receivable from customers | 6.732 | 7.205 | -473 | -6,56 |
| Primary funds | 2.938 | 2.939 | -1 | -0,03 |
| Certified liabilities | 6.597 | 7.091 | -494 | -6,97 |
| Equity capital acc. to banking laws | 523 | 646 | -123 | -19,04 |
| of which tier 1 | 310 | 419 | -109 | -26,01 |

| in tsd. Euros | 2011 | 2010 | Change | in % |
|---|---|---|---|---|
| Net interest profit | -33.826 | 52.671 | -86.497 | >-100 |
| Commission surplus | 26.307 | 27.209 | -902 | -3,32 |
| Administrative expenses | -86.490 | -84.861 | -1.629 | 1,92 |
| Pre-tax profit from ordinary business operations | -107.291 | 2.145 | -109.436 | >-100 |

| | 2011 | 2010 |
|---|---|---|
| Cost Income Ratio (CIR) | 58,56 % | 54,82 % |
| Equity quota | 10,27 % | 11,39 % |
| Return on equity (ROE) | -24,00 % | 0,48 % |

| Staff | 2011 | 2010 |
|---|---|---|
| Employees, annual average | 674 | 715 |

| Moody's rating | 2011 | 2010 |
|---|---|---|
| Long-term | A2 | A2 |
| Short-term | P - 1 | P - 1 |

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# I. PROFIT AND LOSS ACCOUNT

| Tsd. Euros | Notes | 2011 | 2010 | Change in TEUR | Change in % |
|---|---|---|---|---|---|
| Interest and similar earnings | | 374.085 | 382.279 | -8.194 | -2,1 |
| Interest and similar expenses | | -252.572 | -257.980 | 5.408 | -2,1 |
| **NET INTEREST PROFIT** | **(35),(40)** | **121.513** | **124.299** | **-2.786** | **-2,2** |
| Loan risk provisions | (36),(41) | -155.339 | -71.628 | -83.711 | >100 |
| **NET INTEREST PROFIT AFTER RISK PROVISIONS** | | **-33.826** | **52.671** | **-86.497** | **>-100** |
| Commissions income | | 32.966 | 35.101 | -2.135 | -6,1 |
| Commissions expenses | | -6.659 | -7.892 | 1.233 | -15,6 |
| **Commissions profit** | **(37),(42)** | **26.307** | **27.209** | **-902** | **-3,3** |
| Trading profit | (38),(43) | -419 | 5.275 | -5.694 | >-100 |
| Profit from hedge accounting | (44) | 2.244 | -1.184 | 3.428 | >100 |
| Profit from financial instruments - at fair value through profit or loss | (39),(45) | -3.477 | -3.341 | -136 | 4,1 |
| Profit from other financial instruments | (46) | -13.158 | 3.823 | -16.981 | >-100 |
| Administrative costs | (47) | -86.490 | -84.861 | -1.629 | 1,9 |
| Other operating income | (48) | 21.966 | 24.037 | -2.071 | -8,6 |
| Other operating expenditures | (49) | -23.248 | -20.675 | -2.573 | 12,4 |
| Profit from associated companies | (50) | 2.810 | -809 | 3.619 | >100 |
| **Gross profit** | | **-107.291** | **2.145** | **-109.436** | **>-100** |
| Taxes on income and profits | (51) | 15.690 | -82 | 15.772 | >100 |
| **Net profit** | | **-91.601** | **2.063** | **-93.664** | **>-100** |

*Since the HYPO TIROL BANK AG group is owned in its entirety solely by the Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck, the financial results are to be assigned in entirety to Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck.*

# II. OVERALL EARNINGS ACCOUNT

| Tsd. Euros | 2011 | 2010 | Change in TEUR | Change in % |
|---|---|---|---|---|
| **Consolidated net profit** | **-91.601** | **2.063** | -93.664 | >-100 |
| **Adjustments due to currency conversions** | **0** | **128** | **-128** | **-100** |
| Valuation of financial assets - AFS - recorded in accounting | -6.559 | 6.414 | -12.973 | >-100 |
| Breakdown of valuation results of financial assets AFS - in period account | -10.514 | -4.527 | -5.987 | >100 |
| Breakdown of downgrading results of financial assets AFS - in period account | 5.882 | 4.698 | 1.184 | 25,2 |
| Latent taxes from valuation of financial assets - AFS - recorded in accounting | 2.798 | -1.646 | 4.444 | >100 |
| **Valuation profit from financial assets - AFS** | **-8.393** | **4.939** | **-13.332** | **>-100** |
| **Other comprehensive income** | **-8.393** | **5.067** | **-13.460** | **>-100** |
| **Overall profits** | **-99.994** | **7.130** | **-107.124** | **>-100** |

*See also accounting of changes in equity capital IV.*

*Since the HYPO TIROL BANK AG group is owned in its entirety solely by the Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck, the financial results are to be assigned in entirety to Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck.*

# III. BALANCE SHEET

*Assets*

| Tsd. Euros | Notes | 2011 | 2010 | Change in TEUR | Change in % |
|---|---|---|---|---|---|
| **Cash balance** | (16),(52) | **94.762** | **94.736** | **26** | **0,0** |
| Receivables from financial institutions | (17),(53) | 279.783 | 294.579 | -14.796 | -5,0 |
| Risk provisions | (18),(55) | -1.253 | -1.253 | 0 | 0,0 |
| **Receivables from financial institutions after provisions** | | **278.530** | **293.326** | **-14.796** | **-5,0** |
| Receivables from customers | (17),(54) | 7.038.628 | 7.409.126 | -370.498 | -5,0 |
| Risk provisions | (18),(55) | -306.486 | -204.319 | -102.167 | 50,0 |
| **Receivables from customers after risk provisions** | | **6.732.142** | **7.204.807** | **-472.665** | **-6,6** |
| **Positive market values from derivative hedging instruments** | (11),(56) | **2.469** | **1.692** | **777** | **45,9** |
| **Trading assets and derivatives** | (8),(57) | **751.654** | **636.464** | **115.190** | **18,1** |
| **Financial assets designated at fair value** | (9),(58) | **979.091** | **832.687** | **146.404** | **17,6** |
| **Financial assets - AFS** | (12),(59) | **1.262.250** | **1.231.275** | **30.975** | **2,5** |
| **Financial assets - HTM** | (13),(60) | **627.878** | **923.885** | **-296.007** | **-32,0** |
| **Financial assets - L&R** | (14),(61) | **74.368** | **135.845** | **-61.477** | **-45,3** |
| **Shares on associated companies** | (5),(62) | **36.788** | **39.018** | **-2.230** | **-5,7** |
| **Real estate held as financial investment** | (20),(63) | **148.834** | **157.207** | **-8.373** | **-5,3** |
| **Intangible assets** | (21),(64) | **1.854** | **1.921** | **-67** | **-3,5** |
| **Tangible assets** | (22),(65) | **93.598** | **96.042** | **-2.444** | **-2,5** |
| **Other assets** | (24),(66) | **68.517** | **52.333** | **16.184** | **30,9** |
| **Latent claims for income tax** | (25),(67) | **17.236** | **8.274** | **8.962** | **>100** |
| **TOTAL ASSETS** | | **11.169.971** | **11.709.512** | **-539.541** | **-4,6** |

*Liabilities and Equity Capital*

| Tsd. Euros | Notes | 2011 | 2010 | Change in TEUR | Change in % |
|---|---|---|---|---|---|
| **Payable to financial institutions** | (26),(68) | **604.221** | **649.729** | **-45.508** | **-7,0** |
| **Payable to customers** | (26),(69) | **2.937.628** | **2.938.759** | **-1.131** | **-0,0** |
| **Securitised liabilities** | (26),(70) | **1.773.512** | **1.790.790** | **-17.278** | **-1,0** |
| **Negative market values from derivative hedging instruments** | (11),(71) | **46.299** | **32.222** | **14.077** | **43,7** |
| **Derivatives** | (8),(72) | **227.385** | **174.494** | **52.891** | **30,3** |
| **Financial liabilities designated at fair value** | (9),(73) | **4.973.232** | **5.446.888** | **-473.656** | **-8,7** |
| **Reserves** | (27),(74) | **68.292** | **30.619** | **37.673** | **>100** |
| **Other liabilities** | (28),(75) | **59.851** | **50.653** | **9.198** | **18,2** |
| **Running obligations for income tax** | (25),(76) | **3.432** | **584** | **2.848** | **>100** |
| **Latent obligations for income tax** | (25),(67) | **995** | **11.233** | **-10.238** | **-91,1** |
| **Subordinate and non-core capital** | (29),(77) | **128.044** | **128.466** | **-422** | **-0,3** |
| **Equity** | (IV),(31),(78) | **347.080** | **455.075** | **-107.995** | **-23,7** |
| **TOTAL LIABILITIES** | | **11.169.971** | **11.709.512** | **-539.541** | **-4,6** |

# IV. CHANGES IN EQUITY CAPITAL ACCOUNT

| Tsd. Euros | subscribed capital | capital reserves | available-for-sale reserves | reserves from currency conversion | consolidated profit | total equity |
|---|---|---|---|---|---|---|
| **per 01.01.2010** | **105.800** | **91.233** | **-13.087** | **32** | **266.708** | **450.686** |
| Consolidated profit | 0 | 0 | 0 | 0 | 2.063 | **2.063** |
| Currency conversion | 0 | 0 | 0 | 128 | 0 | **128** |
| Evaluation AFS holdings | 0 | 0 | 4.939 | 0 | 0 | **4.939** |
| **Total profit 2010** | **0** | **0** | **4.939** | **128** | **2.063** | **7.130** |
| Participation capital issued | 3.000 | 0 | 0 | 0 | 0 | **3.000** |
| Dividend payments | 0 | 0 | 0 | 0 | -4.336 | **-4.336** |
| Change in consolidation basis | 0 | 0 | 0 | 0 | -1.405 | **-1.405** |
| **per 31.12.2010** | **108.800** | **91.233** | **-8.148** | **160** | **263.030** | **455.075** |
| | | | | | | |
| **per 01.01.2011** | **108.800** | **91.233** | **-8.148** | **160** | **263.030** | **455.075** |
| Consolidated profit | 0 | 0 | 0 | 0 | -91.601 | **-91.601** |
| Currency conversion | 0 | 0 | 0 | 0 | 0 | **0** |
| Evaluation AFS holdings | 0 | 0 | -8.393 | 0 | 0 | **-8.393** |
| **Total profit 2011** | **0** | **0** | **-8.393** | **0** | **-91.601** | **-99.994** |
| Dividend payments | 0 | 0 | 0 | 0 | -8.203 | **-8.203** |
| Change in consolidation basis | 0 | 0 | 0 | -160 | 362 | **202** |
| **per 31.12.2011** | **108.800** | **91.233** | **-16.541** | **0** | **163.588** | **347.080** |

*For further details with regard to equity capital, please see Note no. 78.*

# V. CASH FLOW ACCOUNT

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Consolidated net profit** | **-91.601** | **2.063** |
| **Items and leadover to cash flow from operating business activity contained in annual report without effect on profit** | | |
| Depreciation/appreciation of property, financial and current assets | 11.266 | 20.669 |
| Allocation/dissolution of reserves and risk provisions | 139.840 | 53.451 |
| Profit from sales of financial and tangible assets | -728 | -10.351 |
| Taxes from income and profit | -15.690 | 82 |
| Correction of interest profit | -118.997 | -124.299 |
| Profits from associated companies | -2.810 | 809 |
| Unrealized foreign currency profits and losses | -2.570 | 533 |
| **Change in assets and liabilities from current operating activities following correction of items without effect on overall profit** | | |
| Receivables from financial institutions | 15.141 | 18.085 |
| Receivables from customers | 330.134 | -229.254 |
| Trading assets, derivative and financial assets at fair value | -295.887 | -399.940 |
| Other assets | -11.144 | -8.701 |
| Payable to financial institutions | -45.561 | -111.655 |
| Payable to customers | 4.474 | -101.240 |
| Securitised payables and financial payables at fair value | -436.690 | -65.016 |
| Negative market values from derivative hedging instruments | 13.661 | 6.895 |
| Derivatives | 75.153 | 23.160 |
| Other liabilities | 12.934 | -8.391 |
| Received interest | 370.113 | 385.651 |
| Paid interest | -253.030 | -255.873 |
| Payments on income tax | -1.600 | -1.600 |
| **Cash flow from current operating activities** | **-303.592** | **-804.795** |
| **Net cash gain from sale / redemption of** | | |
| Financial assets - HTM, AFS, L&R and shareholdings | 539.033 | 1.104.559 |
| Tangible assets, intangible assets, investment properties | 6.324 | 20.415 |
| **Cash outflow from investment in** | | |
| Financial assets - HTM, AFS, L&R and shareholdings | -225.927 | -302.674 |
| Tangible assets, intangible assets, investment properties | -6.823 | -27.363 |
| **Cash flow from investment activities** | **312.607** | **794.937** |
| Profit-affecting changes in subordinate and non-core capital | -786 | -18.039 |
| Dividend payments | -8.203 | -4.336 |
| Issue of participation certificates | 0 | 3.000 |
| **Cash flow from financing activities** | **-8.989** | **-19.375** |
| **Cash balance at close of pre-fiscal period** | **94.736** | **123.969** |
| Cash flow from operating activities | -303.592 | -804.795 |
| Cash flow from investment activities | 312.607 | 794.937 |
| Cash flow from financing activities | -8.989 | -19.375 |
| Effects of changes in currency exchange rates, valuation, consolidation basis | 0 | 128 |
| **Cash balance at close of fiscal period** | **94.762** | **94.736** |

*The payment instrument balance corresponds to cash balance {see Notes (16) and (52)}.*

# VI. APPENDIX (NOTES)

## PRINCIPLES OF RENDERING OF ACCOUNTS

HYPO TIROL BANK AG and its subsidiaries offer their customers a comprehensive range of financial services. Our core businesses include business and private clients and leasing. We also offer a range of services in insurance and real estate. The group's core market is Tyrol, plus northern Italy in the provinces of South Tirol and Trentino. In eastern Austria, the bank is represented by its branch in Vienna.

The bank is a public limited company with its headquarters in Innsbruck and is entered in the corporate register of Innsbruck, Austria (FBN 171611w). The bank's address is Meraner Strasse 8, 6020 Innsbruck.

The HYPO TIROL BANK AG group falls within the scope of consolidation of the Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck. The present consolidated financial statements are included in the consolidated financial statements of Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck.

This consolidated financial statement was produced in accordance with Article 59a of the Austrian banking laws, in conjunction with Art. 245a, section. 1 of the corporate laws of International Financial Reporting Standards as are valid and required in EU countries.

Apart from the condolidated balance sheet and consolidated profit and loss account, the consolidated financial statements also include the equity capital statement, cash flow statement and notes. Segment reports are included in the notes under Section (83).

The reporting currency is the euro (€). All amounts are shown in thousands of euros unless specifically stated otherwise.

## REPORTING AND VALUATION METHODS

### (1) Principles

The consolidated financial statements have been produced using the principle of valuation at historical acquisition or production costs, except that financial instruments in the categories of "Financial Instruments valued at fair value", "Financial instruments available for sale" and all derivative financial instruments are valued at the fair value which can be attributed to them.

The consolidated financial statements have been produced on a going-concern basis. Income and expenditure are demarcated pro rata over time and charged to profits in the period to which they are attributable commercially.

The main reporting and valuation methods used in producing the present consolidated financial statements are presented below. The methods described are employed uniformly and consistently throughout the group unless stated otherwise.

The leadover from the profit of the consolidated profit and loss accounting to the overall consolidated profit with proof of the other profits is made in a special depiction (see part II, Consolidated Profit Accounting).

The cash flow from operating business activities is generated using the indirect method. That means that the consolidated profit is initially purged of all non-relevant-to-payment items, in particular valuations and allocation to reserves. The item "Other Adjustments" largely contains interest and income tax payments during the fiscal year which are shown from operating business activity in the cash flow accounting.

In cash flow from investment activity, payments into and out of the account are depicted whose purpose consists mainly in a long term investment and/or use.

Under "Financing activity", cash flows from subordinate and non-core capital are depicted, apart from equity capital.

### (2) Changes in Rendering of Accounts regulations

Reporting and valuation are conducted in accordance with all the International Financial Reporting Standards current at the cutoff date and during the reporting period and which are required to be used in the EU.

We have omitted applying standards and interpretations early, that is, which do not become effective until 1 January 2012 or later; as well as those which are not mandatory in the EU.

In principle, the concern applies standards as of the moment when they become effective and/or mandatory. An exception to this rule is IAS 24. A revised version of **IAS 24 "Details about relations to closely associated companies and persons"** permits a partial exclusion of reporting obligations for companies which operate under the management, the communal leadership or the major influence of the government. The definition of closely related persons has been changed in order to provide a clear delineation of the personal circle. The revised version takes effect for business years which commence on or after 1 January 2011. The usage of this change was applied earlier for business year 2010 in the Hypo Group. Since the HYPO TIROL BANK AG is in its entirety in the sole ownership of the State of Tirol, certain easements with regard to reporting obligations are applicable for companies which operate under the management, the communal leadership or the major influence of the government, due to its earilier application of this rule. Additional details with regard to closely related persons and companies can be found under Note (81).

**The following standards and changes of standards were applied for the first time in the year 2011:**

Through the change of **IAS 32 "Classification of Stock Option Rights"**, the regulations have been revised to the effect that certain stock option rights, as well as options and option certificates themselves which are in foreign currencies, that is, in a different currency than the business-functional currency in the balance sheet of the issuer upon whose equity capital instruments the rights are to be exercised, are henceforth to be reported as equity capital and no longer as liabilities. The change to IAS 32 took effect in European law in December 2009 and is to be applied to business years which begin after 1 February 2010. Since the Hypo Group issued no such options, this change has no effect on the consolidated financial statement.

In November 2009, the IFRIC published the **IFRIC Interpretation 14 "The limitation of performance-oriented assets, minimum financing rules and the interaction between them"**. The proposed changes aim at correcting an unintentional effect of IFRIC 14, according to which companies under certain circumstances are not permitted to include as assets any advance payment contributions for minimum financing. Following the change, it is now permitted for a company to depict the benefit from such advance payment as an asset in the balance sheet. The change took effect in European law in July 2010 and became compulsorily applicable as of 1 January 2011. This change had no effect on the consolidated financial statement.

Further, the IFRIC published the **IFRIC Interpretation 19 "Paying down financial liabilities with equity capital instruments"** in November 2009. The interpretation contains guidelines on how to handle in the balance sheet the partial or complete paying down, i.e. redemption, of financial liabilities through issuing shares or equity capital instruments of the balancing company to the debtor. The interpretation took effect in European law in July 2010 and became compulsorily applicable as of 1 July 2010. Since the Hypo Group performed no such transactions, nor are any such transactions being planned, IFRIC 19 has no effect on the consolidated financial statement.

In May 2010, the IASB published changes of existing IFRS in the context of its annual improvements project. These changes include both changes of various IFRS which have an effect on the approach, the evaluation and the proof of business incidents; as well as terminological or other corrections. Most of the changes take effect in business years which begin on or after 1 January 2011. The changes were passed by the IASB and took effect in European law in February 2011. The application of these changes had no significant effect on the consolidated financial statement.

**The following new and changed standards have already been published, but are not yet mandatory:**

In December 2010, the IASB published two small changes to **IFRS 1 "Initial application of International Financial Reporting Standards (IFRSs)"**. The first change replaces the censures of the fixed time of change "1 January 2004" with "time of change to IFRS". The second change provides application guidelines of how to proceed in reporting statements which conform to IFRS when a company was not able to adhere to IFRS rules for a certain period of time because its business-functional currency was subject to heavy fluctuation in the exchange rate and/or high inflation. Both changes took effect as of 1 July 2011. Since the changes have not yet taken effect in European law, however, the corresponding application is not yet foreseen. These changes have no effect on the consolidated financial statement.

The changes in **IFRS 7 - "Compulsory reporting of transfer of financial assets"**, together with IFRS 7.42A to 42H, which replace IFRS 7.13, lead to wide ranging expansion of details with regard to write-offs of financial assets in financial reporting.
Details on transferred financial assets which are not written off in their entirety are to be supplemented by an overview of the accompanying fair value of the assets and the liabilities attendant on them, as well as by additional qualitative details regarding the transactions. Furthermore, the changes in IFRS 7 also require qualitative and quantitative details about financial assets which are written off entirely, but for which the financial engagement continues. The changes in IFRS 7 are to be applied to business years which begin on or after 1 July 2011. The application of these standards will not lead to any adjustments, but rather merely to additional informational details in the Notes, insofar as such assets and liabilities are held by the Hypo Group.

In November 2009, the IASB published **IFRS 9 "Financial Instruments"** which provided a first step in the project to replace IAS 39 "Financial Instruments: Approach and Evaluation". With IFRS 9, new rules for classifying and assessing financial assets which fall under the applicability of IAS 39 are introduced. According to this, all financial assets are classified on the basis of the given business model of a company for controlling its financial assets and the characteristics of payment flow of the respective financial assets. In accordance with this, a financial asset is evaluated at contining cost of acquisition if the goal of the business model of the respective company foresees holding the financial assets, thereby bringing about contracted payment flow and fulfilling the contracted terms of the financial assets which exclusively depict redemptions and interest payments. A financial asset which does not fulfil both criteria is subsequently evaluated at fair value. IFRS 9, in the meantime, has itself been replaced by a revised version **IFRS 9 R**. The revised version was published in October 2010 by IASB. The revised standard supplements recently devised rules for classifying and assessing financial liabilities. IFRS 9 R takes effect for business years which begin on or after 1 January 2013. IFRS 9 R was passed by the IASB, but has not taken effect in European law. The Hypo Group is currently examining the potential effects of implementing this change on the consolidated financial statement.

In December 2011, the IASB published changes to **IAS 32 "Balancing financial assets and financial liabilities"**. The rules on balancing financial instruments remain unchanged, by and large. Only the application guidelines in IAS 32 "Financial Instruments: Reporting" were clarified. Apart from that, additional rules regarding the providing of details in IFRS 7 'Financial Instruments: Details for offset financial instruments' were introduced. For instruments subject to global accounting agreements, the so-called Master Netting Arrangements, or similar guidelines, future details will be necessary, even if the underlying instruments are not offset in the balance sheet. The changes take effect in business years which begin on or after 1 January 2014. The application is then exercised retroactively. The changes have been passed by the IASB, but still must take effect in European law through the approval of the EU. The Hypo Group is currently examining the potential effects of implementing this change on the consolidated financial statement.

In June 2011, the IASB published changes in **IAS 19 "Employee Benefits" ("IAS 19 R")**. The permissible limit of all changes of cash value of pension obligations and Fair Value of plan assets (including the corridor approach which is not used by the Hypo Group) is no longer possible. Apart from that, IAS 19 R requires a net interest approach which will replace the anticipated profit from planned assets and expands the publication obligations for performance-defined plans. The changes take effect in business years which begin on or after 1 January 2013. Earlier use is permissible The changes have been passed by the IASB, but still must take effect in European law through the approval of the EU. The Hypo Group is currently examining the potential effects of implementing this change on the consolidated financial statement.

In June 2011, the IASB published changes in **IAS 1 "Presentation of Financial Statements".** The changes foresee that the items under Other Comprehensive Income thereafter are grouped in terms of whether this item will in future be able to be reassigned into the profit and loss accounting or not. In addition, it was confirmed that it will continue to be permissible to report the parts of Other Income as individual or as two separate items. The changes take effect in business years which begin on or after 1 July 2012. Earlier use is permissible. The changes have been passed by the IASB, but still must take effect in European law through the approval of the EU. The Hypo Group is currently examining the potential effects of implementing this change on the consolidated financial statement.

**IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28**
In May 2011 the IASB published IFRS 10 "Consolidated Financial Statements", IFRS 11 "Communal Arrangements", IFRS 12 "Details on shareholdings in other companies", a revised version of IAS 27 "Consolidated and Single Company Financial Statements", which was changed as a result of IFRS 10, but retains unchanged the already existing rules as regards single company financial statements; and a revised version of IAS 28 "Associated Companies", which was adjusted correspondingly, due to the publication of IFRS 10 and IFRS 11.

**IFRS 10 "Consolidated Financial Statements"** replaces IAS 27 "Consolidated and Single Company Financial Statements" and SIC-12 "Consolidation - Special Purpose Company" and creates a standardized definition for the term of running such a company which is to be applied to all companies, including the previously analysed special purpose companies under SIC-12. An investor runs a company holding if he is exposed to both varying return flow from the connection with this investment holding; and if the investor has the possibility to influence such return flow through managment of the company. The management, i.e. direction, must be determined on the basis of all current details and circumstances; moreover it must be examined and analysed whenever such details and circumstances change.

**IFRS 11 "Communal Arrangements"** replaces IAS 31 "Joint Venture" and SIC-13 "Jointly-controlled Entities - Non-monetary Contributions by Venturers". IFRS 11 now distinguishes between two types of communal arrangements ("communal activities and communal companies") by means of distinguishing between the rights and obligations contained in the arrangement in order to delineate between these two types. The right of choice regarding ratio consolidation as regards communal companies which was valid until now (and which is not applied by the Hypo Group) was cancelled. Applying the equity method is now mandatory.

**IFRS 12 "Details on shareholdings in other companies"** sets the objectives of reporting rules with regard to all details about the type, attendant risks and financial effects of shareholdings in subsidiaries, associated companies and communal arrangements, as well as to non-consolidated structural units. IFRS 12 requires, in comparison to IAS 27 and SIC-12, more comprehensive details and supplies instructions about what minimum information must be provided in order to fulfil the objectives which are set.

All standards take effect in business years which begin on or after 1 January 2013. Earlier use is permissible, if all standards are applied simultaneously. Companies can, however, also apply individual obligations earlier in their consolidated financial statements without needing to apply IFRS 12 in its entirety. All these standards have been passed by the IASB, but still must take effect in European law through the approval of the EU. The Hypo Group is currently examining the potential effects of implementing this change on the consolidated financial statement.

In May 2011, the IASB published **IFRS 13 "Evaluation of Fair Value",** which draws together the rules on ascertaining fair value within the definitions of the IFRS. IFRS 13 changes the definition of Fair Value and supplies instructions about how fair value is to be attained, insofar as another IFRS prescribes fair value evaluation. IFRS 13 takes effect in business yeasrs which begin on or after 1 January 2013. Earlier use is permissible. IFRS 13 has been passed by the IASB, but still must take effect in European law through the approval of the EU. The Hypo Group is currently examining the potential effects of implementing this change on the consolidated financial statement.

## (3) Estimates and judgments by the Managing Board

In the course of generating a Financial Statement, the Managing Board must make estimates and certain assumptions which influence the inclusion in the balance sheet for the period of reporting, the proof of profits and costs and the information in the Appendix. Major estimates and assumptions on future developments which might, from inherent uncertainties, lead to a material change in the inclusion in the balance sheet in the following fiscal year are: assessing the sustainability of financial assets, ascertaining the fair value, valuing reserves and the inclusion and valuation of latent income taxes. The methods with regard to such estimates, subjective judgments and assumptions are shown below. The depiction of the parameters used and the uncertainties in detail is explained in the notes on each respective balance sheet item.

The assumptions are founded on premises which are based on the latest available knowledge and information. With regard to expected future business developments, the conditions at the time of the Financial Statement as well as realistic prognoses of future developments of the global and branch-specific environment form the basis. Developments which deviate from these assumptions and changes in general background conditions which lie beyond the sphere of influence of management may cause the ultimate sums to deviate from the estimates originally made.

Information on stress tests can be found in the Notes on financial risks and risk management (see pp. 54-59)

### A) Loan risk provisions

With regard to correction of individual items, a devaluation adjustment based on cash values of future expected cash flows is calculated when objective evidence {see Notes (18)} exists. In estimating anticipated cash flows, assumptions with regard to the amount and the time of future payments have to be made. This is equally valid for valuation corrections to portfolio items. These assumptions, together with estimates and judgments of indicators which lead to loan risk provisions, are based on concrete past experiences in the loan business and are regularly controlled and, when necessary, revised in order to minimize any possible divergencies between loan risk provisions and actual loan defaults.

The amount and the development of loan risk provisions are explained in Note (55).

### B) Depreciation of financial assets available for sale (AFS)

A depreciation is undertaken if the fair value which is supplied has materially or lastingly diminished below the costs of acquisition {see Notes (12)}. In case of a depreciation, the AFS reserves are adjusted in the AFS holdings by the amount of the depreciation and the sum is reflected in the profit and loss accounting. The estimate of the importance of a depreciation is based on assumptions. Pre-defined thresholds with regard to changed valuations of the fair value which is supplied as well as with regard to the element of time serve as points of departure, i.e. reference points in assessing the extent of a significant or an enduring devaluation (see Note {12}).

A depiction of the book values of financial assets - AFS and the valuation adjustments can be found in Note (59).

### C) Determining fair value with valuation techniques

For financial instruments which are not quoted on active markets, the valuation is made on the basis of recognized and customary finance-mathematical methods, such as the cash value method or other suitable valuation methods (option price models) {see Notes (7)}. These valuation models are materially influenced by the underlying assumptions. The fair value which is supplied should thus be seen as a random estimate.

The market values and the book values of financial instruments are clarified in Note (79), fair value of financial instruments.

### D) Reserves

Reserves are provided for uncertain liabilities towards third parties in the amount of the expected claim {see Notes (27)}. The sum recorded as a reserve portrays the best possible estimate of the required costs to fulfil such an obligation.

A detailed depiction of book values of reserves and their development can be found in Note (74).

### E) Latent income taxes

The valuation of latent tax obligations and latent tax claims reflects the tax consequences which result from the way which the concern expects to realize the book value of assets or fulfil its obligations by the cutoff date of the balance sheet. Such expectations are based on the best possible estimates.

The use of active latent taxes depends on the possibility, within the context of the given tax laws, of earning enough income to be taxable. In estimating the likelihood of future usefulness of active latent taxes, factors such as past earnings and tax strategies should be used. If the actual results deviate from these estimates or if these estimates have to be adjusted to future periods, the active latent taxes must be devalued in profit-affecting manner.

Quantitative details on latent income taxes are depicted in Note (65), Latent Tax Claims and Obligations.

## (4) Consolidation Principles

If the concern exercises a prevailing influence over subsidiaries, such subsidiaries are depicted in the consolidated financial statement in the process of full consolidation. The concern exercises a prevailing influence over the subsidiary if it can determine the financial and business policies of the subsidiary. As a rule, this is assumed to be the case when there is a direct or indirect capital participation amounting to more than half of the voting rights. The existence of potential voting rights which can currently be exercised or converted is taken into consideration in the course of the examination as to whether the concern prevails in influence over another company.

Subsidiaries acquired are reported by the acquisition method as of the time they were first consolidated, all the subsidiaries' assets and liabilities being valued at their attributable fair value at the time it was acquired or when a controlling influence was achieved. Any differences arising out of setting the acquisition costs against the assets and liabilities valued at their attributable fair value is capitalised as goodwill. The book value of goodwill is reviewed at least once annually to verify that it has retained its value, or even during the year if there are indications it has lost in value. If it is found to have lost value, extraordinary depreciation is applied.

By and large, however, subsidiaries are not purchased, but rather newly established. For these newly established subsidiaries, IFRS 3 has no application. In case a subsidiary is founded, the individual assets and liabilities are balanced at acquisition cost.

During this fiscal year, Berger Truck Service Verwaltungs GmbH, Innsbruck, was drawn into the consolidated financial statement for the first time. This is a newly established company. Hypo-Rent Stanser Grundverwertungs-Gesellschaft has been spun off.

Intra-group receivables and liabilities and income, expenditures and intermediate results arising out of intra-group financial and service business are eliminated as part of conslidating liabilities and profits.

The cutoff date for the consolidated bank accounts is the same as the cutoff date for all the companies included in the consolidated financial statements.

## (5) Shares in related companies

A related company is a company over which the concern exercises a major , but no predominant influence over the financial and business policies. A major influence is assumed when the concern holds between 20% and 50% of the voting rights.

Associated companies are valued using the equity method and shown separately in the balance sheet and profit and loss account. Associated companies are those that the group does not control but in which it holds more than 20% of the shares. Shares are valued at the cost of acquisition when they are first included in the consolidated financial statements. When they are valued subsequently, their book value is extrapolated by the share of their profits or changes in equity capital accruing to the group. Insofar as an associated company uses different balancing and/or valuation methods, suitable adjustments to the IFRS consolidated data is effected through a secondary account. The cutoff date for the balance sheet of all associated companies corresponds to the cutoff date for the balance sheet of the mother company. Due to the insignificance of the transactions with associated companies, there was no elimination of interim profits. No other profits resulted from associated companies.

In the Profit and Loss Accounts, the share of the concern in the success of the related company is depicted and separately recorded.

A full accounting of the subsidiaries and related companies which have been drawn into our consolidated financial statement can be found in the Notes under point no. VII., Shareholdings. In this listing are four companies in which the concern holds a share of 75%. Since, due to contractural agreements with these companies, there is no prevailing influence exercised, these shareholdings are depicted according to the equity method in the consolidated financial statement.

## (6) Currency conversion

The consolidated financial statement is depicted in euros, the functioning and operative currency of all companies belonging to the group.

All companies included in the consolidated financial statement report the results in euros as of 2011.

Pecuniary assets and liablities denominated in foreign currencies are converted at the European Central Bank's spot rate for the balance sheet cutoff date.

Non-monetary items are converted in accordance with the valuation standards of their respective category. Non-monetary items which are recorded at their historic acquisition costs are converted at the rate on the day of acquisition. Non-monetary items supplied at the fair value are converted in analogous fashion to monetary items at the current rate at the cutoff date for the balance sheet. Income and expenditure are converted at the rate on that date which they affected profits.

### Financial Instruments

All financial assets and liabilities, including all derivative financial instruments, are recorded in the balance sheet valued as at their trading date and ordered into the valuation categories below. The balance sheet items largely correspond to the valuation categories of financial instruments. Thus, the explanations of the valuation categories are found in the corresponding balance sheet items. An exception to this, for example, are the receivables from and payables to customers. In these balance sheet items, the receivables and payables which are voluntarily valued at the fair value are also recorded. The inclusion of financial assets and liabilities occurs at their trading date. The following valuation is oriented to the given category.

Information on stress tests of financial instruments can be found in the Notes on financial risks and risk management (see pp. 54-59).

## (7) Fair Value

The fair value is defined as the price at which an asset or a liability can can change hands among experts and contractually willing partners or at which an obligation can be fulfilled. The fair value of financial instruments traded in active markets is determined based on the price quotation. An active market exists when prices for a financial instrument are regularly available from stock exchanges, brokerages or price agencies and when continual transactions take place at these prices; thus, the prices are representative for transactions between third parties unknown to one another. Indicators for an active market can be extrapolated in the corporate group by a judgment of the market liquidity and the transaction frequency. If such indicators are not evident, the market is considered inactive.

The financial instruments whose fair value in the corporate group is based on quoted market prices are: securities traded on stock exchanges and liquid government and corporate bonds.

If prices on active markets are not available, the fair value is based on valuation procedures. If there are recent, actual transactions for this very financial instrument, these transaction prices serve as indicators for the fair value which must be ascertained. If no transactions of identical financial instruments exist, the transaction prices of more or less identical financial instruments are used. In case of complex and highly individual products, extrapolating transaction prices of comparable financial instruments is not possible, so that valuation models based on observable market data must be used. In the corporate group, the fair value of financial instruments is calculated with fixed determinable payments based on the discounted cash flow method or for financial instruments with optional components, on the basis of option price models.

Insofar as the fair value is ascertained using the discounted cash flow method, the payments are discounted at the applicable market interest rate (actual swap curve) for the remaining time. In the corporate group, cash values are determined by discounting the cash flows for linear derivatives, e.g. interest rate swaps, cross currency swaps, forward rate agreements, and non-publicly noted bonds or bonds with very low liquidity.

For financial instruments with optional components, the Black/Scholes model (plain vanilla OTS options on interest rates and currencies) is used to calculate fair value. Complex financial instruments are valued with the Hull White model.

In some cases, the fair value of financial instruments cannot be calculated either through market prices nor on the basis of valuation models which are themselves based on observable market data. For such financial instruments, it must be ascertained with parameters from other relevant information sources or must be estimated with suitably corresponding assumptions. During the financial crisis and the inactive markets which resulted from it, relatively significant changes in spreads were identified for which externally available prices were not indicative of a fair value calculation. For such financial assets and liabilities, the fair value was determined based on a modified discounted cash flow method. The discount interest rate which underlies this method was ascertained on the basis of current swap curves and historic spreads reflecting an interim creditworthiness downgrade, based in turn on external rating downgrades. Further, for calculating the fair value, recovery rates based on current studies of reputable rating agencies were used. This category has largely illiquid asset-backed securities in the corporate group.

For further information on fair value of financial instruments, see Notes (79).

## (8) Trading liabilities and Derivatives

Securities acquired for trading purposes and all derivatives, insofar as they are not used for hedge accounting, are shown in this item. The valuation of trading liabilities and derivatives is at fair value.

The valuation and loss of all financial assets in this category are recorded in the profit and loss account. Interest and dividend earnings are shown in the interest profits.

## (9) Financial assets and liabilities designated at fair value

Financial instruments in this category are divided into those held for trading and those that are valued at their attributable fair value irrevocably at the time they are acquired. These are financial instruments which are related to another financial instrument, which is designated at fair value, as a hedging instrument and are accounted for as one single unit in the corporate accounts, thus have no hedge accounting applied to them {see Notes (11)}. In order to avoid an accounting mismatch, these financial instruments are voluntarily valued at fair value.

Financial assets and liabilities with embedded derivatives are also valued voluntarily at their attributable fair value.

The results of valuation and loss are recorded in the trading profits. Interest and dividend earnings are shown in the interest profits.

## (10) Embedded Derivatives

Embedded derivatives are those which are part of an original financial instrument and which are inseparably linked to it. In the group's case, these are essentially loans at indexed rates and, to a minor degree, stock loans (loans with a right to redemption in shares).

Embedded derivatives are separated from their original financial instruments and reported and valued separatedly as derivatives in their own right at fair value if:

- the financial characteristics and risks of the embedded derivative are not closely linked to the financial characteristics and risks of the basic contract, and
- an independent instrument in its own right with the same terms as the embedded derivative would meet the definition of a derivative, and
- the structured financial instrument is not valued with effect on profits at its attributable fair value.

At the balance sheet cutoff date, all financial instruments with embedded derivatives were valued at their attributable fair value.

## (11) Hedge Accounting

The corporate group uses derivatives as a hedge against the attributable fair value of financial assets and liabilities. Hedging instruments may cover one or more similar underlying transactions. The only underlying transactions the group has are AFS category securities insofar as these involve fixed-rate assets. Only rate swaps are designated as hedges.

Hedges are recorded at the time they are devised and established. The documentation covers mainly the identity of the underlying transaction and hedge and the nature of the risk being hedged against. This method is also used to determine how effective hedging transactions are.

Hedges are reviewed to see how effective they are when they are first set up and subsequently, each month following. For the present purposes, 'effectiveness' is taken to mean the relationship between the change in attributable fair value arising out of the underlying transaction being hedged and how the attributable fair value of the hedging derivative itself has changed. The group only reports hedges as such if they are expected to be highly effective over their entire term.

Hedging is deemed to be highly effective if the ratio of the changes in value of the underlying transaction and the hedge is between 0.8 and 1.25. If hedges cease to be highly effective, they are dissolved.

Derivatives used for hedging purposes are shown at their attributable fair value as prevailing market values from derivative hedges. The changes in valuation are included in the profit and loss account with effect on profits as net hedging income/expenditure. The non-effective component of the change in valuation is shown in trading profits. For the underlying transaction, the changes in attributable fair value arising from the risk being hedged are recorded in the balance sheet and are valued as a balance of the hedged risk based on the underlying changes in market value of the hedging instruments and of the basic business transaction.

## (12) Financial Assets - Available for Sale (AFS)

The Available for Sale category covers all non-derivative financial instruments that are not already assigned to the categories designated at Fair Value, HTM, L&R. The group puts equity capital securities and investment fund certificates in this category as a general rule.

Financial instruments available for sale are valued at their attributable fair value. The valuation results are recorded under equity capital in AFS reserves without affecting profits, adjusted for latent tax.

Should their value decrease, either materially or lastingly, the AFS reserves are adjusted by the value lost and the amount recorded in the profit and loss account under earnings from financial assets. The amount of devaluation is the difference between acquisition costs and the current fair value.

For foreign capital instruments, a devaluation is seen to have an effect on the overall financial statement if there is objective evidence which permit the expectation of negative effects on future payment flow from the financial instrument. Only creditworthiness-induced decrease of fair value can be assigned. Objective evidence for such devaluation are, for example, major financial difficulties of the debtor, default or delay of interest or redemption payments, likely insolvency proceedings or other renovative/restructuring measures of the debtor. If the market value drops by at least 20% of the acquisition costs, this is considered an indicator of creditworthiness-induced decrease of fair value; and to be objective evidence of devaluation in the concern, which must then be analysed.

For equity capital instruments, the assessment of a devaluation is oriented, in the main, to a significant or sustained decrease of market value below acquisition costs. If the market value drops by at least 10% of the acquisition costs, this is seen for equity capital instruments as an indicator of devaluation and it must then be examined in the concern as to whether there is objective evidence indicating that the expenses for the equity capital instrument may not be returned. A significant and sustained decrease is always assumed if the market value in the course of one business years lies at least 20% below acquisition costs or over the course of 2 years at least 10% below acquisition costs.

A recovery of value of such devaluations affecting net income is balanced in 'Income from Financial Instruments' in the case of foreign capital instruments. For equity capital instruments, the value recovery is balanced under 'Equity Capital in the AFS Reserves'.

If financial assets are disposed of, the cumulative valuation earnings as reported under equity capital are dissolved and included in the profit and loss account under financial asset earnings.

Interest and dividend income are shown under net interest income/ expenditure.

## (13) Financial Assets - Held to Maturity (HTM)

This category contains non-derivative financial assets listed on an active market with fixed or determinable payments and fixed terms that are acquired with the intention and ability to hold them until they mature.

The fixed-rate securities shown are valued at extrapolated acquisitioin cost. Should their acquisition costs differ from their redemption value, the difference is absorbed or credited with effect on profits pro rata over time. Should an identifiable event occur which suggests that future cash flow expected from an instrument will be reduced, it is written down by the difference between its book value and the cash value of the future cash flow expected, discounted at the appropriate rate.

Effects on profits from valuing and selling financial instruments are shown under profits on financial assets. Interest is shown under net interest income/expenditure.

## (14) Financial assets - Loans and Receivables (L&R)

This category is used for all non-derivative financial instruments with fixed, determinable payments, for which there is no active market, irrespective of whether those financial instruments are original or acquired in the secondary market. An active market is said to exist for a financial instrument if the group has prices for that instrument regularly from markets, brokers or pricing agencies, there are ongoing transactions at those prices and those prices are, therefore, representative of transactions between third parties unknown to one another.

Loans and receivables are valued at extrapolated acquisition cost. If they lose value {see Notes (18) Loan Risk Provisions}, the costs of acquiring them are adjusted, with effect on profits.

Demarcated interest is booked to net interest income/expenditure with effect on profits. Premiums/discounts are spread over their term with effect on profits and included under net interest income/expenditure.

## (15) Other Liabilities

This category covers financial liabilities not valued voluntarily with effect on profits at their attributable fair value. These are valued at extrapolated acquisition costs. Premiums/discounts are booked to net interest income/expenditure with effect on profits over their maturity by the effective rate of return method.

## (16) Cash and at bank

Cash and at bank as it appears in the cash flow statement is equal to the 'cash reserves' item in the balance sheet, and consists of cash balances and credit balances with central banks. The balance sums at Central Banks are attributed to the minimum reserve which must be held as balances at the Austrian National Bank in accordance with Central Bank Directives. The minimum reserves are counted by us as stock of instruments of payment, since in the interpretation of the Austrian National Bank, the minimum reserves can serve as fundament for current payment transations.

## (17) Receivables from financial institutions and customers

This balance sheet item covers loans issued, sub-divided into receivables from financial institutions or from customers, depending on who they were issued to. At the time they are received, receivables are classified as loans and receivables or as receivables valued voluntarily at their attributable fair value. Writedowns are shown openly as provision for risks.

## (18) Loan Risk Provisions

We respond to the particular risks involved in banking by making valuation adjustments accordingly. We divide provision for risks into individual, global valuation adjustments and portfolio valuation adjustments. We make provision for risks involved in off-balance sheet loans by making provisions.

We use individual valuation adjustments following consistent standards within the group to cover the solvency risks involved in receivables from customers and financial institutions. Significant receivables to the value in excess of TEUR 100 are reviewed annually to see if they have lost value. Individual loans must be adjusted if observable events have occurred which suggest that not all interest and capital redemption liabilities can be met on time. Such events may include:

- Deferring or waiving the borrower's payment obligations;
- Initiation of foreclosure;
- Late payments;
- Impending insolvency or over-indebtedness;
- Application for insolvency protection, or their being opened;
- Failure of rescue measures.

To what extent values must be adjusted depends on the difference between the outstanding receivables, included accrued interest, and the cash value of the payments that are expected to be received on that receivable, allowing for valuable collateral. This is calculated at the contractually agreed interest rate.

Insignificant receivables up to a value of TEUR 100 are covered by making a lump sum individual valuation adjustment based on default probabilities obtained from historical time series.

The unwinding (cash value effect) is shown in the P&L account not as a change to the valuation adjustment but as interest income.

We also make provision for credit risks that have already arisen but are undetectable as yet by way of portfolio valuation adjustments, based on default probabilities differentiated by rating classes.

Details on the likelihood of irrecoverability of loans according to rating classes and based on stress tests can be found in the explanation on financial risks and on risk management (see pp. 54-59).

Insofar as doubts with regard to the recoverability of a receivable exist, they are reflected in the formation of risk provision, In case further payments cannot be expected, a receivable is classified as irrecoverable. An irrecoverable, already value-adjusted receivable is deleted from the accounts through means of using risk provision. If no individual value adjustment exists for such a receivable, it is written down with direct effect on profits. Payments on receivables already written down are recorded in the period statement.

## (19) True pension business (repo business) and securities loans

True pension transactions are combinations of cash purchases or sales of securities while at the same time selling to or buying from the same counterparty on a futures basis. Securities held on a repurchase basis in repo transactions (cash sales) continue to be reported and valued as securities stocks in the consolidated financial statements. The inflow of liquidity from repo business is shown as a liability to financial institutions or customers in the balance sheet, depending on who the counterparty is. Interest payments agreed are recorded as interest costs on maturity.

## (20) Real estate held as financial investment

Real estate which is held as a financial investment, that is, real estate which is held long term with a view to obtaining rental income and/or increasing its value is shown here, and is valued at extrapolated acquisition cost. Rental income is included under other operating income. Should real estate property be differently used, i.e. the property no longer used for the bank's own business activities, but rather rented out, this real estate is then transferred from Tangible Assets to Real Estate Held as Financial Investment.

Real estate held as a financial investment is written down on a straight line basis over its expected working life. This depreciation is included under other operating income.

The customary expected working life in the current and in the previous fiscal year is as follows:

| Expected working life in | Years |
|---|---|
| Buildings | 25-50 |

At the cutoff date for every balance sheet, any possible indicators of depreciation are examined. For the current fiscal year, no such indicators were identified.

Insofar as there are indications of a depreciation, the realizable sum is ascertained and compared with the book value. The realizable sum is the higher of the two amounts designated at fair value after deduction of sale costs and depreciation.

Determining the fair value for all real estate held as financial investments is based on annually updated valuations by internal bank experts who have been court-approved, certified and sworn in.
Determining the fair value for pieces of property, i.e. land, is carried out through comparable valuations based on actual sales prices in the same time and geographical vicinity. In cases for which such comparative values are not available in sufficient amounts, the land value is derived from the possible uses and burdens of the land in a 'residual value' analytical process.
In the case of land on which buildings stand, they are rental objects. Ascertaining the value is accomplished in income-process models based on actual rental income, insofar these conform to market customs and are sustainably assured. For empty buildings, values are gained from the market through comparable rental income which is then used as a fictitious value.
The fair value is derived from the income of these analytical-comparative processes against the backdrop of the relevant market situation, and adjusted appropriately.
The basis for the valuations which are selected are examinations in the property register, ongoing observation of the market, regular verification with real estate brokers, building contractors and property administrators, as well as data from the company's own real estate management and experience, as well as market data which is available.
The capitalisation interest rate is derived based on relevant market literature, published real estate evaluations from the Austrian Association of Real Estate Experts, taking into consideration the relevant market situation, the factors which apply to the location of the property and the characteristics of the property.

## (21) Intangible Assets

"Intangible Assets" covers software, license rights and customer stock acquired. All intangible assets have a limited life expectancy.

These assets are valued at their acquisition cost less scheduled depreciation, based on their expected working life.

Commercial working life for the current and also the previous year is as follows:

| Normal commercial working life | Years |
|---|---|
| Major projects, e.g. ARZ software, GEOS, SAP | 8 |
| Other software and license rights | 4 |
| Customer stock | 7 |

At the cutoff date for each balance sheet, it is examined whether there is any basis for a valuation adjustment. For the current business year, no such basis could be identified.

Insofar as there is a basis for valuation adjustment, the adjustment is calculated corresponding to the explanations on adjustments for real estate held as financial investments (see Note {20}).

## (22) Tangible Assets

Tangible assets are valued at acquisition/production cost less scheduled depreciation.

Scheduled depreciation is applied on a straight line basis over the asset's estimated working life, technical aging and legal and contractual limitations.

The normal commercial working life is taken to be as follows:

| Normal commercial working life | Years |
|---|---|
| Buildings | 25-50 |
| Works and office equipment | 5-10 |
| Construction work in leased business premises | 15 |
| IT hardware | 3-5 |

At the cutoff date for each balance sheet, any possible indicators of depreciation are examined. For the current fiscal year, no such indicators were identified.

## (23) Leasing

Leasing transactions are assessed on the basis of how the financial risks and opportunities in the assets leased are divided between lessor and lessee.

Leasing transactions are divided into financial and operating leasing. With financial leasing, all the risks and opportunities associated with the property pass to the lessee, which also shows the assets leased in its accounts. At present, as lessor, the group offers financial leasing only. If the assets leased are attributable to the lessor, on the other hand, that is operating leasing.

The corporate group currently offers as lessor both financing leasing with regard to the rental of real estate; and operating leasing for rental real estate held as finance investments.

The leasing relationships in which the corporate group is the lessee are of subordinate importance in the corporate group.

Sale-and-leaseback transactions were not carried out by the concern.

**Financial leasing:**
Lessor: the lessor shows the leasing receivables under receivables at their net investment (cash) value. Interest income is obtained based on a constant return which also includes the outstanding net investment value. Interest income from such transactions is shown under net interest income/expenditure.

**Operating leasing:**
Lessor: assets leased which are attributable to the lessor are shown under tangible assets and valued using the principles as described there. Leasing profits are recorded in linear fashion via the contractual maturity times.

## (24) Other Assets

“Other Assets” includes mainly sales tax receivables from the Italian state from acquiring leasing properties and receivables other than from banking business.

Other assets also include land and buildings which borrowers originally used as collateral and which are now to be realised in disposing of impaired commitments (rescue acquisitions). These assets are shown as ‘assets held for disposal’. Income and expenditure here are shown as income or expenditure on assets held for disposal under other operating income.

## (25) Current and Latent Taxes

Current income tax claims and obligations are valued at the current tax rates at which payments to or refunds by the tax authorities are expected to be made. Payables from running income taxes are depicted, due to their insignificance in the concern, under the item “Other assets”. As regards the tax payables on Other assets, this largely consists of consumer taxes. The running income tax obligations are depicted separately on the liability side of the accounting ledger. Please see Note (76) for details.

Latent income tax claims and obligations derive from temporary differences between how assets and obligations are valued in the IFRS accounts and how they are valued for tax purposes. They are based on the tax rate expected to apply when they are settled. For further details, please see Note (67).

Active latent taxes are assumed if there are sufficient passive latent taxes within the same tax unit or it is sufficiently likely that taxable profits will arise within the same tax unit in the future. This also applies to setting active latent taxes against losses brought forward for tax purposes.

Payable and receivable latent taxes are set off against each other insofar as such accounting of actual tax claims being offset against actual tax debts is permissible and the latent taxes are claimed/due the selfsame tax authority.

Actual profit-based tax costs are shown in the consolidated profit and loss account under „Taxes on earnings“. This heading also includes the effects of creating or dissolved latent taxes, unless they refer to items which are valued on a profit-neutral basis, in which case they are created or dissolved on a profit-neutral basis against the AFS reserves through depiction under other profits.

## (26) Liabilities

All liabilities to financial institutions are classified as “Other Liabilities”. Liabilities to customers and also securitised liabilities are classified either under “Other Liabilities” or as “Designated at Fair Value”.

## (27) Reserves

Provisions for social capital cover reserves for pensions, severance payments, length of service awards and occupational and incapacity risks. These provisions are valued by the collective expectation method.

HYPO TIROL BANK AG has 25 pensioners and survivors who are entitled to final salary bank pensions. Active staff are no longer entitled to bank pensions. Staff who joined the company before 31.12.2002 may be entitled to severance payments under certain conditions, especially if they retire. Severance payment provisions are made to cover these claims. For staff who joined the company after 31.12.2002, monthly contributions are made to a staff pension fund.

Staff are entitled to one month's pay as a long-service award after 25 years of service and two months pay after 35 years of service.

The cash value of social capital is calculated based on a number of actuarial assumptions, as follows:

- theoretical interest rate in Austria 4.75% (2010: 4.5%)
- annual valorisations, collective agreement and career salary increases 2.5% (2010: 2.5%) in making provisions for severance payments, long-service awards and occupational incapacity for employment risks
- turnover rates as per own table (whereby turnover probabilities of 13% in first year of servise up to 0% in 15th year of service are reflected).
- annual valorisations 1.5% (2010: 1.5%) in the case of pension reserves
- table values AVÖ 2008-P (generational tables for salaried staff, allowing for an increase as values are no longer current)

Changes to provisions for social capital are charged to profits in the profit and loss account.

No provisions are required for contribution-based pension schemes. The contributions agreed to a pension scheme for contribution-based schemes are recorded as ongoing costs; there are no other liabilities involved.

Other provisions for contingent liabilities towards third parties are made if there is a reliably assessable obligation towards third parties in fact or law. Provision is made at the value which would have to be paid on a reasonable consideration to meet the liability on the balance sheet date.

## (28) Other Liabilities

"Other Liabilities" are mainly liabilities not arising out of banking business, i.e. largely payables of goods and services to customers.

## (29) Subordinate and Non-Core Capital

This heading shows subordinate capital for purposes of Art. 23, sect. 8 of the banking laws and non-core capital for purposes of Art. 23, sect. 7 of the banking laws.

## (30) Trustee Business

Assets and liabilities which the group holds in its own name but for another's account are not included in the balance sheet. Payments due under these transactions are shown as commission income in the profit and loss account.

## (31) Equity Capital

Equity capital consists of the capital provided to the bank (subscribed capital plus capital reserves) plus earned capital (profit reserves, reserves from currency conversion and reserves formed on a profit-neutral basis from valuation to IAS 39 plus consolidated profits and earnings brought forward). The available-for-sale provisions cover changes in valuation of the AFS stock not affecting profits, allowing for latent tax.

Subscribed capital consists of 2,400,000 registered shares of EUR 7.50 each and hence amounts to EUR 18,000,000.00, as well as an increase in share capital amounting to EUR 32,000,000.00 from business funds in 2009. Further, participation certificates in the amount of EUR 58,800,000.00 were issued. A dividend for the participations certificates will be paid if the annual profit of the prior business year is covered by the annual financial statement of the HYPO TIROL BANK AG.

## (32) Financial Guarantees

A financial guarantee is a contract under which the guarantor is bound to make certain payments compensating the beneficiary for losses incurred because a given debtor fails to meet their payment obligations under the original or amended terms of a debt instrument in time.

Obligations under financial guarantees are recorded as soon as the guarantor becomes party to the contract, that is, when it assumes the guarantee. They are valued in the first instance at their fair value at the time they are recorded. After that, the bank's liabilities are then valued at whichever is the higher of the initial valuation less straight line depreciation by which the guarantee provisions are spread over the term of the financial guarantee and obtained with effect on profits and provision for risk if they are taken up.

## (33) Summing up financial assets and liabilities

Financial assets and liabilities are summed up, i.e. netted, and the balance shown in the balance sheet if we have an enforceable right to net the amounts against our business partner and transactions are settled on a net basis or liabilities are settled at the same time as assets are realised.

## (34) Adjustments of financial assets and liabilites

The deletion of financial assets and liabilities is considered when the contractually agreed claims and cash flows from the financial asset have been eliminated or transferred. Further, the deletion of a financial asset is considered when the concern has assumed the obligation to pay the cash flows from the asset to a third party, when certain given conditions are met.

The above-mentioned assets are deleted from the financial statement if all major risks and opportunities which are associated with the ownership of such asset have been transferred.

In case of transactions for which all major risks and opportunities associated with ownership of the financial asset have neither been retained nor transferred, the concern deletes the transferred asset value from the statement, if the power of doing so has been assigned.

A financial liability is deleted from the financial statement if the obligation connected to it has been paid or suspended, as in the case of due-date maturity.

The concern enters transactions in which the assets recorded in the balance sheet are transferred, but all major risks and opportunities connected with these assets are retained. In the concern, transactions of this type are exclusively share repurchase business (see Note {19} and Note {86})

# EXPLANATIONS OF THE PROFIT AND LOSS ACCOUNT

Profits and the expenditures which are connected to them are recorded whenever it is likely that the business utility will accrue to the concern and the amount of the profits can be ascertained with a certain degree of certainty. This concept is applied to the major profit-generating activities of the concern as follows:

## (35) Net interest income

Interest income is demarcated by the effective rate of return method and is only recorded if it is sufficiently likely that the amounts will accrue to the company and they can be calculated reliably. Income which mainly represents payment for the use of capital (interest-similar income) is booked to net interest income. This heading also includes income from holdings. Interest expenditure is shown in the same way as interest income.

Dividends are booked when they become due in law.

## (36) Risk Provisions

This covers transfers to valuation adjustments and provisions and/earnings from dissolving valuation adjustments and provisions and income subsequently received on receivables that were written off in connection with the loan business.

## (37) Net Commission Profits

Net commission profits comprise the balance from revenues and expenditures in the service business. This includes, before all else, revenues and expenses for services from payment transactions, from share business, from loan and leasing businesses and from currency, foreign currency and precious metals business, as well as other service businesses. Net commission profits and expenditures are delineated for each given period and then recorded, after the specific services have been performed to completion.

## (38) Trading Profit

Trading profit shows the valuation results for the Held for Trading and Designated at Fair Value categories. Interest and dividend income from financial assets and liabilities in these valuation categories are shown under net interest income. It also includes income from securities trading.

## (39) Income from Financial Instruments - at fair value through profit or loss

In the Income from Financial Insgruments - at fair value through profit or loss, the evaluated income from categories 'designated at fair value' as well as the evaluated income from bank book derivatives are recorded. The interest and dividend income from the financial assets and obligations in this evaluation category are reported under interest profits. Further, the income from trading with securities is also reported.

# NOTES ON PROFIT AND LOSS ACCOUNT

## (40) Net interest income

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Interest and similar earnings from receivables from financial institutions | 5.024 | 3.314 |
| Interest and similar earnings from receivables from customers | 166.986 | 141.988 |
| Interest and similar earnings from debentures | 97.876 | 103.057 |
| Interest and similar earnings from leasing receivables | 18.336 | 15.255 |
| Interest earnings from derivatives | 82.395 | 115.089 |
| Earnings from shares and other non-fixed interest rate securities | 786 | 1.037 |
| Earnings from holdings from associated, non-consolidated companies | 565 | 614 |
| Other earnings from holdings | 2.117 | 1.925 |
| **Interest and similar expenses** | **374.085** | **382.279** |
| Interest and similar expenses for payable to financial institutions | -6.391 | -5.038 |
| Interest and similar expenses for payable to customers | -52.062 | -46.654 |
| Interest and similar expenses for securitised liabilities | -186.332 | -197.643 |
| Interest and similar expenses for subordinate/non-core capital | -7.787 | -8.645 |
| **Interest and similar expenses** | **-252.572** | **-257.980** |
| **Net interest income** | **121.513** | **124.299** |

Net interest income broken down by valuation categories for financial assets and liabilities as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Commercial assets and derivatives | 287.462 | 281.882 |
| Financial assets - designated at Fair Value | 33.697 | 29.081 |
| Financial assets - HTM | 21.431 | 30.476 |
| Financial assets - AFS | 32.376 | 32.417 |
| Credits and receivables | 204.186 | 175.168 |
| **Net earnings** | **579.152** | **549.024** |
| Derivatives | -205.067 | -166.745 |
| Financial liabilities - designated at Fair Value | -155.487 | -176.877 |
| Securitised liabilities | -97.085 | -81.103 |
| Interest paid | -457.639 | -424.725 |
| **Net interest income** | **121.513** | **124.299** |

The net interest income for financial assets which are not valued at Fair Value amount to TEUR 228,299 (2010: TEUR 208,183). The corresponding interest expenditure for financial liabilities amounts to TEUR 97,085 (2010: TEUR 81,103 ).

The interest from devalued assets amounts to TEUR 9,408 (2010: TEUR 9,295).

## (41) Loan Risk Provisions

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Assignments to allowances | -148.329 | -88.601 |
| Dissolutions of allowances | 23.452 | 19.548 |
| Direct writedowns of receivables | -231 | -163 |
| Earnings from entry of written receivables | 585 | 632 |
| Assignments of reserves | -34.610 | -3.892 |
| Dissolutions of reserves | 3.794 | 848 |
| **Loan Risk Provisions** | **-155.339** | **-71.628** |

All profit-affecting items for loan risk provisions are allowances for receivables from customers {see Notes (54)}

The loss on the credit business isthe result of directly writing down receivables, income from receivables that were written off plus take-up of provisions made. In 2011, this loss was TEUR 22,245 (2010: TEUR 20,487).

## (42) Net commission profits

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Commission earnings from credit/leasing business | 4.231 | 4.946 |
| Commission earnings from securities business | 14.452 | 16.504 |
| Commission earnings from current account and money transfer business | 10.127 | 8.744 |
| Commission earnings from other services | 4.156 | 4.907 |
| **Commission earnings** | **32.966** | **35.101** |
| Commission expenses from credit/leasing business | -575 | -1.007 |
| Commission expenses from securities business | -3.334 | -3.887 |
| Commission expenses from current account and money transfer business | -1.584 | -1.795 |
| Commission expenses from other services | -1.166 | -1.203 |
| **Commission expenses** | **-6.659** | **-7.892** |
| **Commission profit** | **26.307** | **27.209** |

In Net commission profits are profits from trustee business amounting to TEUR 274 (2010: TEUR 272). The commissions expenditures contain expenses from turstee business in the amount of TEUR 18 (2010: TEUR 22).

## (43) Trading profit

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Business based on intrinsic values | -113 | 253 |
| Business based on currency values | 3.014 | 1.590 |
| Interest-based business | -3.320 | 3.432 |
| **Trading earnings, narrowly defined** | **-419** | **5.275** |

## (44) Net Hedging Profits

Net hedging results shows the valuationresults from effective hedging for hedge accounting purposes.

These results are made up as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Profit from secured hedged items | 11.579 | -1.293 |
| Profit from derivatives used as hedge accounting | -9.335 | 109 |
| **Profit from hedge accounting** | **2.244** | **-1.184** |

## (45) Income from Financial Instruments - at fair value through profit or loss

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Realised profits from financial instruments designated at fair value | -98.984 | -178.434 |
| Currency based derivatives | 95.507 | 175.093 |
| **Income from financial instruments - at fair value through profit or loss** | **-3.477** | **-3.341** |

The profit from financial instruments, broken down into valuation categories, includes the following:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Receivables from customers | 7.943 | 466 |
| Financial assets - designated at fair value | 35.109 | 8.202 |
| Payables to customers | -30.165 | -24.576 |
| Financial liabilities - designated at fair value | -111.871 | -162.526 |
| **Evaluated income for financial instruments 'designated at fair value'** | **-98.984** | **-178.434** |

## (46) Income from other financial instruments

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Realised profits from outward movements | 5.257 | 17.735 |
| Realised losses from outward movements | -4.919 | -4.951 |
| Depreciated values of financial instruments and holdings | -13.722 | -8.961 |
| **Financial instrument investment profits** | **-13.158** | **3.823** |

The profit from financial instruments, broken down into valuation categories, comprises the following:

| in Tsd. € | 2011 | 2010 |
|---|---|---|
| Profit/Loss from financial assets - AFS | -883 | 13.876 |
| Profit-affecting valuation changes via AFS provisions of financial assets - AFS | 1.065 | -5.819 |
| Devaluations of financial assets - AFS | -5.881 | -4.698 |
| Profit/Loss from holdings and other | -1.306 | -137 |
| Devaluations of holdings | -4.082 | -839 |
| **Profit from financial assets - AFS** | **-11.087** | **2.383** |
| Profit/Loss from financial assets - HTM | 2.598 | 3.291 |
| Devaluations of financial assets - HTM | -2.501 | -528 |
| **Profit from financial assets - HTM** | **97** | **2.763** |
| Profit/Loss from financial assets - L&R | -911 | 1.573 |
| Devaluations of financial assets - L&R | -1.257 | -2.896 |
| **Profit from financial assets - L&R** | **-2.168** | **-1.323** |
| **Profit from financial instruments** | **-13.158** | **3.823** |

The income from repurchase of our own bank issues amounts to TEUR -1,220 (2010: TEUR -2,296).

## (47) Administrative Costs

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Personnel expenses | -52.424 | -53.762 |
| Material expenses | -26.812 | -24.887 |
| Writedowns on tangible assets andintangible assets | -7.254 | -6.212 |
| **Administrative expenses** | **-86.490** | **-84.861** |

### *Personnel costs*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Salaries and wages | -38.531 | -38.543 |
| Legally prescribed social expenses | -10.205 | -10.251 |
| Voluntary social expenses | -1.109 | -1.034 |
| Expenses for old age provisions | -1.937 | -1.974 |
| Expenses for severance payments and pensions | -642 | -1.960 |
| **Personnel expenses** | **-52.424** | **-53.762** |

Severance payments and pension costs also include payments to company staff pension funds amounting to TEUR 164 (2010: TEUR 154).

### *Material costs*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Buildings expenses | -4.514 | -4.643 |
| Computer systems expenses | -5.876 | -6.307 |
| Communications expenses | -1.376 | -1.513 |
| Personnel development expenses | -863 | -848 |
| Advertising and representation expenses | -3.923 | -4.211 |
| Legal and consulting expenses | -6.785 | -2.903 |
| Costs for legal structures | -1.623 | -1.221 |
| Other expenses on tangibles | -1.852 | -3.241 |
| **Material expenses** | **-26.812** | **-24.887** |

Contained in the costs for legal and advisory expenses and/or costs for legal structures are expenses for auditors in the amount of TEUR 202 (2010: 168 ). The expenses for auditors are broken down into expenses (costs for legal structures) for examination of individual financial statements and the consolidated financial statement in the amount of TEUR 193 (2010: 164 ) and for expenses for other confirmation expertises in the amount of TEUR 9 (2010: TEUR 4).

### *Depreciation on tangible and intangible fixed assets*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Machinery and equipment | -3.809 | -2.890 |
| Real estate | -2.563 | -2.277 |
| Intangible assets | -882 | -1.045 |
| **Writedowns of real estate and tangible assets** | **-7.254** | **-6.212** |

## (48) Other operating income

Other operating income includes the following:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Earnings from leasing business | 4.790 | 6.992 |
| Profits from real estate divestitures | 918 | 1.160 |
| Rental earnings from investment properties | 10.883 | 10.692 |
| Earnings from assets held for sale | 161 | 3.594 |
| Other earnings | 5.214 | 1.599 |
| **Other operating income** | **21.966** | **24.037** |

## (49) Other operating expenses

Other operating expenses include the following:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Expenses from leasing business | -4.954 | -4.665 |
| Losses from real estate divestitures | -532 | -3.421 |
| Writedowns in connection with properties held as financial investments | -4.519 | -5.497 |
| Expenses in connection with properties held as financial investments | -4.366 | -4.456 |
| those connected with rented properties | -4.323 | -4.439 |
| those not connected with rented real estate | -43 | -17 |
| Expenses in connection with assets held for sale | -482 | -2.127 |
| Operational liability cases | -65 | -251 |
| Other expenses | -8.330 | -258 |
| **Other operating expenses** | **-23.248** | **-20.675** |

The Austrian 'stability tax' which was introduced in 2011 is included in 'Other operating expenses.

## (50) Profit from associated companies

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Profit from associated companies** | **2.810** | **-809** |

## (51) Taxes on income and profits

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Running tax claims | -1.272 | -1.624 |
| Latent taxes | 16.962 | 1.542 |
| **Taxes on income and earnings** | **15.690** | **-82** |

Current taxes are based on the taxable profits in this fiscal year at the local tax rates applicable to each group company. The overview below shows how theoretical taxes on earnings and those shown relate to each other. The applicable corporate tax for Austrian companies amounts to 25 percent. This tax rate underlies the following leadover account. The leadover depicts the connection between the calculated and the recorded income taxes.

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Earnings before taxes | -107.291 | 2.146 |
| Applicable tax rate | 25% | 25% |
| **Calculable taxes on earnings** | **26.823** | **-537** |
| Tax effects | | |
| from tax-free earnings on holdings | 1.347 | 407 |
| from investment privileges | -21 | -16 |
| from other tax-free earnings | 0 | 5 |
| from previous years | 842 | 134 |
| from business or corporate value adjustments | 43 | 273 |
| from pre-payments | 0 | 78 |
| from deviating tax rates abroad | 1.821 | 349 |
| from other non-deductible expenses | -14.862 | -1.308 |
| from other discrepancies | -303 | 533 |
| **Disclosed taxes on earnings** | **15.690** | **-82** |

The amount of latent taxes in the amount of TEUR 16,962 of the current year and the latent taxes from the previous year in the amount of TEUR 1,542 result in their entirety from temporary divergencies or the elimination of such.

# NOTES ON THE BALANCE SHEET

## (52) Cash Reserves

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Cash balance | 24.765 | 24.351 |
| Credit balance at central banks | 69.997 | 70.385 |
| **Cash reserves** | **94.762** | **94.736** |

Of the credit balances with central banks, TEUR 69,997 (2010: TEUR 70,385 ) are designated minimum reserves required by ECB laws.

## (53) Receivables from financial institutions

Receivables from financial institutions come under "Loans and Receivables" and are valuated at extrapolated acquisition cost.

### *Receivables from financial institutions by transactiontypes*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Interbank accounts | 78.104 | 39.530 |
| Money market business | 79.989 | 100.890 |
| Loans to banks | 121.035 | 153.468 |
| Other receivables | 655 | 691 |
| **Receivable from financial institutions** | **279.783** | **294.579** |

### *Receivables from financial institutions by region*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Austria** | **164.410** | **213.490** |
| **Other countries** | **115.373** | **81.089** |
| Germany | 55.405 | 23.312 |
| Italy | 28.877 | 29.406 |
| Other countries, inc. CEE | 31.091 | 28.371 |
| **Receivable from financial institutions** | **279.783** | **294.579** |

### *Receivables from financial institutions by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| callable daily | 27.073 | 104.125 |
| up to 3 months | 31.045 | 56.407 |
| 3 months - 1 year | 166.684 | 59.974 |
| 1 - 5 years | 3.932 | 59.646 |
| more than 5 years | 51.049 | 14.427 |
| **Receivable from financial institutions** | **279.783** | **294.579** |

## (54) Receivables from customers

Receivables from customers, at TEUR 652,948 (2010: TEUR 679,108 ) are put under "financial assets valued effective on profits designated at fair value". Other receivables, at TEUR 6,386,490 (2010: TEUR 6,730,018 ) come under "Loans and Receivables".

### *Receivables from customers by transaction type (before risk provisions)*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Current account area | 953.654 | 1.193.542 |
| Cash | 146.203 | 137.632 |
| Credits | 3.163.699 | 3.482.003 |
| Draft credits | 56 | 332 |
| Communal covering loan | 959.691 | 903.766 |
| Coverd loan | 572.444 | 495.759 |
| Other loan | 395.202 | 252.704 |
| Leasing receivables | 773.366 | 813.616 |
| Other receivables | 74.313 | 129.772 |
| **Receivable from customers** | **7.038.628** | **7.409.126** |

## Receivables from customers by region

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Austria** | **5.139.478** | **5.257.501** |
| **Other countries** | **1.899.150** | **2.151.625** |
| Germany | 522.138 | 658.800 |
| Italy | 1.243.475 | 1.340.818 |
| Other countries, inc. CEE | 133.537 | 152.007 |
| **Receivable from customers** | **7.038.628** | **7.409.126** |

## Receivables from customers by maturity

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| callable daily | 451.721 | 816.868 |
| up to 3 months | 511.212 | 447.891 |
| 3 months - 1 year | 337.521 | 294.130 |
| 1 - 5 years | 2.203.310 | 2.062.782 |
| more than 5 years | 3.534.864 | 3.787.455 |
| **Receivable from customers** | **7.038.628** | **7.409.126** |

## Receivables from customers by sector

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Public sector | 905.587 | 918.742 |
| Corporate customers | 5.039.234 | 5.242.360 |
| Private households | 1.071.791 | 1.163.313 |
| Other | 22.016 | 84.711 |
| **Receivable from customers** | **7.038.628** | **7.409.126** |

## Gross and net investments in leasing

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Gross investment value | 933.847 | 975.675 |
| Unrealised earnings | -160.481 | -162.059 |
| **Net investment value** | **773.366** | **813.616** |
| **Non-guaranteed remaining value** | **158.506** | **157.208** |
| **Accumulated value adjustments** | **-31.905** | **-10.290** |

The accumulated revaluations in the leasing business are shown in the item risk provisions on receivables from customers.

In the current business year, no contingency payments are recorded as expenses.

## Net investment in leasing by maturity

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 18.026 | 23.223 |
| 3 months - 1 year | 42.931 | 43.446 |
| 1 - 5 years | 286.720 | 272.772 |
| more than 5 years | 425.689 | 474.175 |
| **Leasing receivables** | **773.366** | **813.616** |

### *Gross investment in leasing by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 23.396 | 18.725 |
| 3 months - 1 year | 58.388 | 55.551 |
| 1 - 5 years | 359.716 | 338.361 |
| more than 5 years | 492.347 | 563.038 |
| **Leasing receivables** | **933.847** | **975.675** |

Minimum leasing payments from uncallable operating leasing contracts as a leasing fee were not collected.

## (55) Risk provisions on receivables from financial institutes and customers

### *Changes in risk provisions on receivables from financial institutions*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| per 1 January | -1.253 | -1.253 |
| Assignment | 0 | 0 |
| **Provision for risk on receivables from financial institutions** | **-1.253** | **-1.253** |

### *Changes in provision for risk for receivables from customers*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| per 1 January | -204.319 | -155.127 |
| Currency differences | 113 | -1.095 |
| Use | 22.597 | 20.956 |
| Dissolution | 23.452 | 19.548 |
| Assignment | -148.329 | -88.601 |
| **Provision for risk on receivables from customers** | **-306.486** | **-204.319** |

### *Provision for risk on receivables from customers by region*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Austria** | **-120.137** | **-103.031** |
| **Other countries** | **-186.349** | **-101.288** |
| Germany | -37.174 | -36.791 |
| Italy | -148.381 | -63.890 |
| Other countries, inc. CEE | -794 | -607 |
| **Provision for risk on receivables from customers** | **-306.486** | **-204.319** |

### *Changes in risk provisions for receivables from customers*

| Tsd. Euros | per 1.1 | currency conversion | use | dissolution | assignment | 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Credit risks - EWB | -134.658 | -1.078 | 18.644 | 17.260 | -84.471 | **-184.303** |
| Credit risks - package EWB | -15.738 | 3.848 | 2.312 | 1.447 | -3.440 | **-11.571** |
| Package precautions (portfolio) | -4.731 | -3.865 | 0 | 841 | -690 | **-8.445** |
| **Total** | **-155.127** | **-1.095** | **20.956** | **19.548** | **-88.601** | **-204.319** |
| **2011** | | | | | | |
| Credit risks - EWB | -184.303 | 116 | 19.377 | 21.189 | -134.143 | -277.764 |
| Credit risks - package EWB | -11.571 | -3 | 3.220 | 2.114 | -5.196 | -11.436 |
| Package precautions (portfolio) | -8.445 | 0 | 0 | 149 | -8.990 | -17.286 |
| **Total** | **-204.319** | **113** | **22.597** | **23.452** | **-148.329** | **-306.486** |

*Changes in provision for risk for receivables from customers by sector*

| Tsd. Euros | per 1.1 | currency conversion | use | dissolution | assignment | 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Corporate customers | -137.639 | -797 | 18.739 | 15.917 | -78.501 | **-182.281** |
| Private households | -16.926 | -298 | 2.217 | 3.303 | -9.857 | **-21.561** |
| Other | -562 | 0 | 0 | 328 | -243 | **-477** |
| **Total** | **-155.127** | **-1.095** | **20.956** | **19.548** | **-88.601** | **-204.319** |
| **2011** | | | | | | |
| Corporate customers | -182.281 | 32 | 19.457 | 20.997 | -141.972 | -283.767 |
| Private households | -21.561 | 81 | 3.027 | 2.289 | -6.328 | -22.492 |
| Other | -477 | 0 | 113 | 166 | -28 | -226 |
| **Total** | **-204.319** | **113** | **22.597** | **23.452** | **-148.329** | **-306.486** |

The unwinding of TEUR 228 (2010: TEUR 151) was covered by risk costs under interest income in the P&L account.

Allowing for provision for risks, receivables from financial institutions and for customers break down as follows:

| | Receivables from customers | | Receivables from financial institutions | |
|---|---|---|---|---|
| Tsd. Euros | 2011 | 2010 | 2011 | 2010 |
| Non-individually revalued receivables | 6.217.930 | 6.795.576 | 277.283 | 292.079 |
| Overdue, but not value-adjusted receivables | 69.324 | 19.596 | 0 | 0 |
| Individually revalued receivables | 751.374 | 593.954 | 2.500 | 2.500 |
| Risk provision | -306.486 | -204.319 | -1.253 | -1.253 |
| **Receivables** | **6.732.142** | **7.204.807** | **278.530** | **293.326** |

Receivables for which individual valuation adjustments were made are receivables for which individual valuation adjustments and a blanket individual adjustment were made.

The quality of the loans for the receivables form financial institutions and receivables from customers for which no individual valuation adjustments were made may be gathered from our internal rating categories as follows:

| | Receivables from customers | | Receivables from financial institutions | |
|---|---|---|---|---|
| Tsd. Euros | 2011 | 2010 | 2011 | 2010 |
| Outstanding creditworthiness (ratings 1A-2B) | 1.547.240 | 1.541.968 | 140.765 | 66.905 |
| Very good creditworthiness (ratings 2C-2E) | 1.520.987 | 1.571.208 | 60.378 | 74.397 |
| Good creditworthiness (ratings 3A-3B) | 1.301.380 | 1.683.110 | 13.804 | 24.097 |
| Medium creditworthiness (ratings 3C-3E) | 1.381.929 | 1.507.576 | 58.811 | 123.180 |
| Weak creditworthiness (ratings 4A-4B) | 246.743 | 262.069 | 25 | 0 |
| Very weak creditworthiness (ratings 4C-4E) | 219.651 | 229.645 | 3.500 | 3.500 |
| **Non-individually revalued receivables** | **6.217.930** | **6.795.576** | **277.283** | **292.079** |

Once payments are ninety days in arrears, we allocate receivables to our internal rating category 5A, i.e. "Receivables which are overdue but for which no valuation adjustment has been made". Should receivables be written down because they are overdue, they are put under individual valuation adjustments.
The sum of overdue receivables in rating level 5A amount to TEUR 19,596 (2009: TEUR 35,482).

Analysing the receivables overdue in the fiscal year 2011, we find as follows:

| | Receivables from customers | |
|---|---|---|
| Tsd. Euros | 2011 | 2010 |
| 3 - 6 months | 20.448 | 19.231 |
| 6 months - 1 year | 20.303 | 359 |
| over 1 year | 28.573 | 6 |
| **Overdue, but not revalued receivables** | **69.324** | **19.596** |

Receivables with a payment delay of less than 90 days, i.e. with payment delay of one day to three months, are not assigned to this category and came to TEUR 57,201 (2010: TEUR 74,371) in the year of reporting.

If customers are unsound, and hence need writing down, this is reflected in our "Default" ratings, which is divided into categories 5B-5E. Ratings 5B to 5E run from commitments which start off at risk, though deferrals or withholding payments because customers are on the verge of becoming insolvent or over-indebted through to potential bad debts because insolvency proceedings have been opened.

The receivables for which individual valuation adjustments were required in the fiscal year 2011 were as follows:

| | Receivables from customers | | Receivables from financial institutions | |
|---|---|---|---|---|
| **Tsd. Euros** | **2011** | **2010** | **2011** | **2010** |
| Rating level 5B | 431.143 | 322.357 | 0 | 0 |
| Rating level 5C | 151.531 | 221.852 | 0 | 0 |
| Rating level 5D | 99.553 | 49.718 | 2.500 | 2.500 |
| Rating level 5E | 69.147 | 27 | 0 | 0 |
| Individually revalued receivables | 751.374 | 593.954 | 2.500 | 2.500 |
| Risk provisions | -306.486 | -204.319 | -1.253 | -1.253 |
| **Net book value of individually revalued receivables** | **444.888** | **389.635** | **1.247** | **1.247** |

In order to ensure the risk provisions shown in the tables with the items in the balance sheet, the revaluations were depicted on portfolio level (lump sum provisions) in the line "risk provisions". Since the revaluation is formed on portfolio level for losses which have already occurred but have not yet been recognized, it must be reflected that the corresponding receivables are not contained in the individual receivables. This unclarity has been accepted for reasons of simplicity.

We take steps to reduce risks through demanding collateral in particular. The main forms of collateral used are mortgages, guarantees and other assets.

Attributable security - valued in accordance with regulatory law principles - reduce the default risks on receivables which are overdue but not written down and those which are written down individually as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Securities for overdue, but non-individually revalued receivables | 47.272 | 13.362 |
| Securities for individually revalued receivables | 403.025 | 356.404 |

## (56) Positive market value of derivative hedging instruments

The only hedging instruments used are rate swaps.

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Positive values from allocated effective fair value hedges | 2.469 | 1.692 |

Basic transactions in this corporate group are only fixed rate securities in the category AFS. The book value of the securitised basic business on 31.12.2011 amounted to TEUR 28.695 (2010: TEUR 17,115).

## (57) Trading Assets and Derivatives

### *Trading assets by transaction type*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Share certificates | 160 | 137 |
| Positive market values from derivatives | 626.178 | 507.616 |
| Interest deferral of commercial assets | 125.316 | 128.711 |
| **Trading assets** | **751.654** | **636.464** |

*Trading assets by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 10.732 | 33.273 |
| 3 months - 1 year | 92.869 | 14.470 |
| 1 - 5 years | 222.216 | 171.484 |
| more than 5 years | 425.677 | 417.100 |
| uncallable | 160 | 137 |
| **Trading assets** | **751.654** | **636.464** |

*Derivate*

| | Nominal | | Positive market value | | Negative market value | |
|---|---|---|---|---|---|---|
| Tsd. Euros | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Derivatives held for trading** | | | | | | |
| FX-forward contracts | 221.314 | 651.979 | 1.729 | 27.700 | 834 | 471 |
| **Currency derivatives** | **238.008** | **651.979** | **1.781** | **27.700** | **837** | **471** |
| Interest swaps | 10.115.692 | 10.971.944 | 614.467 | 467.586 | 167.095 | 117.482 |
| Interest options | 60.000 | 0 | 1 | 0 | 0 | 0 |
| Forward contracts | 1.217.657 | 1.534.585 | 9.350 | 12.330 | 2.331 | 3.096 |
| Futures | 265.000 | 0 | 321 | 0 | 36 | 0 |
| **Interest derivatives** | **11.658.349** | **12.506.529** | **624.139** | **479.916** | **169.462** | **120.578** |
| Credit default swaps | 34.000 | 51.920 | 250 | 0 | 2.459 | 2.890 |
| Options | 0 | 0 | 8 | 0 | 0 | 0 |
| **Net asset value dependent derivatives** | **34.000** | **51.920** | **258** | **0** | **2.459** | **2.890** |
| **Trading assets** | **11.930.357** | **13.210.428** | **626.178** | **507.616** | **172.758** | **123.939** |

The default risks on trading assets can be assessed using our internal rating system. Trading assets are rated inclusive of their interest demarcation. Our internal ratings correspond to the rating categories as stated in Notes (55) and which are used below for assessing the default risks for all financial assets and liabilities in standard fashion. "Top creditworthiness" is a sub-category of rating class "Outstanding creditworthiness" and corresponds to rating levels 1A to 1E.

*2011*

| Tsd. Euros | for commercial purpose | Derivates | commercial assets |
|---|---|---|---|
| Outstanding creditworthiness | 56 | 657.490 | 657.546 |
| Excellent creditworthiness | 0 | 61.307 | 61.307 |
| Very good creditworthiness | 104 | 28.316 | 28.420 |
| Good creditworthiness | 0 | 2.607 | 2.607 |
| Medium creditworthiness | 0 | 1.509 | 1.509 |
| Weak creditworthiness | 0 | 255 | 255 |
| **Total amount** | **160** | **751.494** | **751.654** |

*2010*

| Tsd. Euros | for commercial purpose | Derivates | commercial assets |
|---|---|---|---|
| Outstanding creditworthiness | 14 | 610.544 | **610.558** |
| Excellent creditworthiness | 0 | 21.470 | **21.470** |
| Very good creditworthiness | 123 | 1.139 | **1.262** |
| Good creditworthiness | 0 | 1.347 | **1.347** |
| Medium creditworthiness | 0 | 1.741 | **1.741** |
| Weak creditworthiness | 0 | 86 | **86** |
| **Total amount** | **137** | **636.327** | **636.464** |

## (58) Financial assets - designated at Fair Value

### *Financial assets designated at fair value according to sector*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Debentures of public issuers | 290.029 | 171.869 |
| Deentures of other issuers | 670.308 | 643.256 |
| Interest deferral of trading assets | 18.754 | 17.562 |
| **Financial assets - designated at fair value** | **979.091** | **832.687** |

### *Financial assets - designated at fair value, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 30.852 | 5.106 |
| 3 months - 1 year | 15.878 | 55.353 |
| 1 - 5 years | 409.688 | 337.772 |
| more than 5 years | 522.673 | 434.456 |
| **Trading assets** | **979.091** | **832.687** |

The default risk of financial assets designated at fair value, assessed via our internal rating categories, manifests the following picture:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Outstanding creditworthiness | 936.393 | 795.990 |
| Excellent creditworthiness | 0 | 1.047 |
| Very good creditworthiness | 27.938 | 23.609 |
| Good creditworthiness | 14.760 | 12.041 |
| **Total amount** | **979.091** | **832.687** |

## (59) Financial assets - AFS

Financial holdings and shares in associated companies are shown at extrapolated acquisition cost.

### *Financial assets - AFS, according to sector*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| AFS debentures of public issuers | 307.580 | 224.316 |
| AFS debentures of other issuers | 822.115 | 867.473 |
| AFS shares | 3.893 | 7.135 |
| AFS other shareholder rights | 32.481 | 41.396 |
| Interest deferral of AFS holdings | 14.468 | 11.971 |
| Holdings - other companies | 60.631 | 60.837 |
| Shares in associated companies | 21.082 | 18.147 |
| **Financial assets - AFS** | **1.262.250** | **1.231.275** |

### *Financial assets - AFS, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 41.797 | 75.772 |
| 3 months - 1 year | 148.250 | 128.126 |
| 1 - 5 years | 643.511 | 600.321 |
| more than 5 years | 309.578 | 298.491 |
| uncallable | 119.114 | 128.565 |
| **Financial assets - AFS** | **1.262.250** | **1.231.275** |

The recorded changes in AFS reserves in the income for this period and other income are depicted under II. Overall Income Accounting.

In the completed business year, depreciations of AFS category securities to the amount of TEUR 5,881 (2010: TEUR 4,698) were reallocated from the AFS reserves into the Profit and Loss Accounting. The development of devaluations for financial assets AFS which were reflected in the Profit and Loss Accounting results in the following picture:

| Tsd. Euros | Depreciation per 1.1 | Currency diversion | Entries in fiscal year | Conversion/ Consolida-tion | Divestitures in fiscal year | Depreciation per 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Debentures of other issuers | -852 | 0 | -668 | 0 | 0 | **-1.520** |
| Shares | -5.006 | 0 | -291 | 0 | 2.669 | **-2.628** |
| Investment certificiates | -1.964 | 0 | -3.739 | 0 | 948 | **-4.755** |
| Holdings of other companies | -5.338 | 0 | -839 | 0 | 0 | **-6.177** |
| Shares in associated companies | -2.252 | 0 | 0 | 0 | 0 | **-2.252** |
| **Financial assets - AFS** | **-15.412** | **0** | **-5.537** | **0** | **3.617** | **-17.332** |
| **2011** | | | | | | |
| Debentures of other issuers | -1.520 | 0 | -1.070 | 0 | 226 | -2.364 |
| Shares | -2.628 | 0 | -725 | 0 | 1.873 | -1.480 |
| Investment certificiates | -4.755 | 0 | -4.086 | 0 | 1.067 | -7.774 |
| Holdings of other companies | -6.177 | 0 | -3.982 | 0 | 0 | -10.159 |
| Shares in associated companies | -2.252 | 0 | -100 | 0 | 0 | -2.352 |
| **Financial assets - AFS** | **-17.332** | **0** | **-9.963** | **0** | **3.166** | **-24.129** |

The default risk of financial assets AFS, is assessed by our internal rating analysts. The breakdown of the AFS holdings according to these rating levels manifests the following picture:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Outstanding creditworthiness | 1.073.292 | 1.028.942 |
| Excellent creditworthiness | 6.029 | 16.121 |
| Very good creditworthiness | 55.722 | 89.840 |
| Good creditworthiness | 36.472 | 4.253 |
| Medium creditworthiness | 3.704 | 11.335 |
| Weak creditworthiness | 5.318 | 1.800 |
| Holdings - in other companies | 60.631 | 60.837 |
| Shares in associated companies | 21.082 | 18.147 |
| **Total amount** | **1.262.250** | **1.231.275** |

## (60) Financial assets - HTM

### *Financial assets - HTM, according to sector*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| HTM Debentures of public issuers | 139.884 | 255.656 |
| HTM Debentures of other issuers | 477.940 | 653.189 |
| Interest limitations on HTM items | 10.054 | 15.040 |
| **Financial assets - HTM** | **627.878** | **923.885** |

### *Financial assets - HTM, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| callable daily | 400 | 400 |
| up to 3 months | 78.442 | 93.319 |
| 3 months - 1 year | 102.927 | 107.730 |
| 1 - 5 years | 403.771 | 604.291 |
| more than 5 years | 42.338 | 118.145 |
| **Financial assets - HTM** | **627.878** | **923.885** |

In the year of reporting, sales of HTM investments in insignificant amounts were undertaken, so that the regulations with regard to "Tainting Rules" were not applicable.

In the year of reporting, depreciations in the category AFS in the amount of TEUR 2,501 (2010: TEUR 528) from HTM provisions were shown in profit-affecting ways. The changes in depreciations are as follows:

| Tsd. Euros | Depreciation per 1.1 | Currency diversion | Entries in fiscal year | Conversion/ Consolida-tion | Divestitures in fiscal year | Depreciation per 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Debentures of public issuers | -371 | 0 | -89 | 0 | 371 | **-89** |
| Debentures of other issuers | -18.131 | 0 | -439 | 0 | 4.413 | **-14.157** |
| **Financial assets - HTM** | **-18.502** | **0** | **-528** | **0** | **4.784** | **-14.246** |
| **2011** | | | | | | |
| Debentures of public issuers | -89 | 0 | -2.008 | 0 | 0 | -2.097 |
| Debentures of other issuers | -14.157 | 0 | -493 | 0 | 12.462 | -2.188 |
| **Financial assets - HTM** | **-14.246** | **0** | **-2.501** | **0** | **12.462** | **-4.285** |

In terms of depreciation, which are shown in profit-affecting fashion in the profits from financial investments, financial assets in the HTM category can be broken down as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| HTM financial investments not value-adjusted | 610.355 | 910.035 |
| HTM financial investments value-adjusted | 21.808 | 28.096 |
| Depreciation | -4.285 | -14.246 |
| **Financial assets - HTM** | **627.878** | **923.885** |

The default risks in financial assets - HTM, using our internal rating system for assets shown as financial assets, are as follows.

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Best creditworthiness | 537.307 | 853.855 |
| Outstanding creditworthiness | 16.435 | 20.990 |
| Very good creditworthiness | 53.352 | 35.002 |
| Good creditworthiness | 11.326 | 1.932 |
| Medium creditworthiness | 6.789 | 8.706 |
| Very weak creditworthiness | 400 | 3.400 |
| **Total amount** | **627.878** | **923.885** |

## (61) Financial assets - L&R

### *Financial assets - L&R, according to sector*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| L&R debentures | 74.106 | 135.452 |
| Interest deferral of L&R investments | 262 | 393 |
| **Financial assets - L&R** | **74.368** | **135.845** |

### *Financial assets - L&R, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 0 | 32.554 |
| 1 - 5 years | 20.717 | 18.898 |
| more than 5 years | 53.651 | 84.393 |
| **Financial assets - L&R** | **74.368** | **135.845** |

In the year of reporting, depreciations for securities in the category “Loans & Receivables” in the amount of TEUR 1,257(2010: TEUR 2,896 ) were reflected in profit-affecting fashion. The changes in depreciation are as follows:

| Tsd. Euros | Depreciation per 1.1 | Currency diversion | Entries in fiscal year | Conversion/ Consolidation | Divestitures in fiscal year | Depreciation per 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Debentures | -6.172 | 0 | -2.896 | 0 | 3.306 | **-5.762** |
| **Financial assets - L&R** | **-6.172** | **0** | **-2.896** | **0** | **3.306** | **-5.762** |
| **2011** | | | | | | |
| Debentures | -5.762 | 0 | -1.257 | 0 | 682 | -6.337 |
| **Financial assets - L&R** | **-5.762** | **0** | **-1.257** | **0** | **682** | **-6.337** |

In terms of depreciation, which are shown in profit-affecting fashion in the profits from financial investments, financial assets in the L&R category can be broken down as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| L&R financial investments not value-adjusted | 47.947 | 106.619 |
| L&R financial investments value-adjusted | 32.758 | 34.988 |
| Depreciation L&R | -6.337 | -5.762 |
| **Financial assets - L&R** | **74.368** | **135.845** |

The default risks in financial assets - L&R, using our internal rating system for assets shown as financial assets, are as follows.

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Best creditworthiness | 50.613 | 117.240 |
| Outstanding creditworthiness | 2.242 | 5.076 |
| Very good creditworthiness | 5.591 | 4.653 |
| Good creditworthiness | 2.176 | 2.296 |
| Medium creditworthiness | 7.944 | 6.068 |
| Weak creditworthiness | 5.802 | 512 |
| **Total amount** | **74.368** | **135.845** |

## (62) Shares in associated companies

Shares in associated companies are valued by the equity valuation method according to IAS 28.

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Shares in associated companies** | **36.788** | **39.018** |

For details of associated companies for the purposes of IFRS 28.37, please see Sec. VII.

## (63) Real Estate held as a financial investment

### *Changes in historical acquisition costs and comparative book values*

| Tsd. Euros | Acquisition value per 1.1 | Currency diversion | Entries in fiscal year | Conversion/Consolidation | Divestitures in fiscal year | Acquisition value per 31.12 | Book value per 31.12 | Book value per 01.01 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Land without buildings | 16.633 | 0 | 0 | 0 | -2.635 | **13.998** | 13.518 | 16.274 |
| Land/buildings rented out - land share | 26.595 | 0 | 314 | 0 | -952 | **25.957** | 25.943 | 26.595 |
| Land/buildings rented out - building share | 171.456 | 0 | 1.640 | 4.046 | -3.634 | **173.508** | 116.992 | 118.934 |
| Equipment and machinery rented out | 1.149 | 0 | 86 | 3 | -57 | **1.181** | 446 | 456 |
| Areas under construction | 263 | 0 | 4.100 | -4.049 | -6 | **308** | 308 | 263 |
| **Investment properties** | **216.096** | **0** | **6.140** | **0** | **-7.284** | **214.952** | **157.207** | **162.522** |
| **2011** | | | | | | | | |
| Land without buildings | 13.998 | 0 | 0 | 0 | -3.491 | 10.507 | 10.148 | 13.518 |
| Land/buildings rented out - land share | 25.957 | 0 | 59 | 0 | -378 | 25.638 | 25.638 | 25.943 |
| Land/buildings rented out - building share | 173.508 | 0 | 748 | 449 | -2.553 | 172.152 | 112.534 | 116.992 |
| Equipment and machinery rented out | 1.181 | 0 | 60 | 42 | 0 | 1.283 | 446 | 446 |
| Areas under construction | 308 | 0 | 542 | -530 | -252 | 68 | 68 | 308 |
| **Investment properties** | **214.952** | **0** | **1.409** | **-39** | **-6.674** | **209.648** | **148.834** | **157.207** |

### *Changes in cumulative depreciation*

| Tsd. Euros | Deprecation per 1.1 | Currency diversion | Entries in fiscal year | Conversion/ Consolida-tion | Divestitures in fiscal year | Deprecation per 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Land without buildings | -359 | 0 | -121 | 0 | 0 | **-480** |
| Land/buildings rented out - land share | 0 | 0 | -14 | 0 | 0 | **-14** |
| Land/buildings rented out - building share | -52.522 | 0 | -5.269 | 0 | 1.275 | **-56.516** |
| Equipment and machinery rented out | -693 | 0 | -93 | 0 | 51 | **-735** |
| Areas under construction | 0 | 0 | 0 | 0 | 0 | **0** |
| **Investment properties** | **-53.574** | **0** | **-5.497** | **0** | **1.326** | **-57.745** |
| **2011** | | | | | | |
| Land without buildings | -480 | 0 | 0 | 0 | 121 | -359 |
| Land/buildings rented out - land share | -14 | 0 | 0 | 0 | 14 | 0 |
| Land/buildings rented out - building share | -56.516 | 0 | -4.417 | 39 | 1.276 | -59.618 |
| Equipment and machinery rented out | -735 | 0 | -102 | 0 | 0 | -837 |
| Areas under construction | 0 | 0 | 0 | 0 | 0 | 0 |
| **Investment properties** | **-57.745** | **0** | **-4.519** | **39** | **1.411** | **-60.814** |

The additions during the business year resulted overall from smaller investments in parts of buildings which were rented out.

Where real estate is held as a financial investment, we agreed to provide works and office equipment as an ancillary service, so these assets are included here, too.

At the cutoff date for reporting, there are neither contractual obligations to purchase or generate financial investments in the form of real estate, nor substantial obligations with regard to repairs, maintenance or improvements.

The fair value of real estate held as financial investments per 31.12.2011 was TEUR 158,683 (2010: TEUR 161,617). Fair values are based on internal market valuations per balance sheet cutoff date.

## (64) Intangible assets

### *Changes to historical acquisition costs and comparative book value*

| Tsd. Euros | Acquisi-tion value per 1.1 | Currency diversion | Entries in fiscal year | Conver-sion/Con-solidation | Divesti-tures in fiscal year | Acquisi-tion value per 31.12 | Book value per 31.12 | Book value per 01.01 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Intangible assets - clientele | 1.024 | 0 | 77 | 0 | 0 | **1.101** | 528 | 603 |
| Software | 12.517 | 0 | 830 | 0 | -86 | **13.261** | 1.393 | 1.456 |
| **Intangible assets** | **13.541** | **0** | **907** | **0** | **-86** | **14.362** | **1.921** | **2.059** |
| **2011** | | | | | | | | |
| Intangible assets - clientele | 1.101 | 0 | 392 | 28 | 0 | 1.521 | 731 | 528 |
| Software | 13.261 | 0 | 426 | -28 | -20 | 13.639 | 1.123 | 1.393 |
| **Intangible assets** | **14.362** | **0** | **818** | **0** | **-20** | **15.160** | **1.854** | **1.921** |

*Entwicklung der kumulierten Abschreibung*

| Tsd. Euros | Deprecation per 1.1 | Currency diversion | Entries in fiscal year | Conversion/ Consolida-tion | Divestitures in fiscal year | Deprecation per 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Intangible assets - clientele | -421 | 0 | -152 | 0 | 0 | **-573** |
| Software | -11.061 | 0 | -893 | 0 | 86 | **-11.868** |
| **Intangible assets** | **-11.482** | **0** | **-1.045** | **0** | **86** | **-12.441** |
| **2011** | | | | | | |
| Intangible assets - clientele | -573 | 0 | -217 | 0 | 0 | -790 |
| Software | -11.868 | 0 | -665 | 0 | 17 | -12.516 |
| **Intangible assets** | **-12.441** | **0** | **-882** | **0** | **17** | **-13.306** |

The entries to intangible assets are for software in the amount of TEUR 830 indicate various software solutions which were acquired in the year of reporting by HYPO TIROL BANK AG in particular.

At the cutoff date for reporting, there are neither contractual obligations to purchase or generate financial investments in the form of real estate, nor substantial obligations with regard to repairs, maintenance or improvements.

## (65) Tangible assets

*Changes to historical acquisition costs and comparative book value*

| Tsd. Euros | Acquisi-tion value per 1.1 | Currency diversion | Entries in fiscal year | Conver-sion/Con-solidation | Divesti-tures in fiscal year | Acquisi-tion value per 31.12 | Book value per 31.12 | Book value per 01.01 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Land without buildings | 98 | 0 | 0 | 0 | 0 | **98** | 98 | 98 |
| Land/buildings in bank use - land share | 10.384 | 0 | 4.317 | 0 | 0 | **14.701** | 14.701 | 10.384 |
| Land/buildings in bank use - building share | 92.019 | 0 | 12.582 | 0 | -9.111 | **95.490** | 67.143 | 65.949 |
| Equipment and machinery | 42.000 | 0 | 3.146 | 0 | -922 | **44.224** | 13.823 | 13.932 |
| Areas under construction | 7.258 | 0 | 271 | 0 | -7.252 | **277** | 277 | 7.258 |
| **Tangible assets** | **151.759** | **0** | **20.316** | **0** | **-17.285** | **154.790** | **96.042** | **97.621** |
| **2011** | | | | | | | | |
| Land without buildings | 98 | 0 | 0 | 0 | 0 | 98 | 98 | 98 |
| Land/buildings in bank use - land share | 14.701 | 0 | 0 | 0 | 0 | 14.701 | 14.701 | 14.701 |
| Land/buildings in bank use - building share | 95.490 | 0 | 2.536 | 235 | -3.754 | 94.507 | 66.923 | 67.143 |
| Equipment and machinery | 44.224 | 0 | 2.043 | -1.048 | -2.234 | 42.985 | 11.801 | 13.823 |
| Areas under construction | 277 | 0 | 18 | -220 | 0 | 75 | 75 | 277 |
| **Tangible assets** | **154.790** | **0** | **4.597** | **-1.033** | **-5.988** | **152.366** | **93.598** | **96.042** |

The entries of Areas under construction are largely the result of the reactivation of an administrative building of the HYPO TIROL BANK AG. The additions in operating and business equipment result overall in smaller investments in the corresponding business goods at the concern.

At the cutoff date for reporting, there are neither contractual obligations to purchase or generate financial investments in the form of real estate, nor substantial obligations with regard to repairs, maintenance or improvements.

*Changes to cumulative depreciation*

| Tsd. Euros | Deprecation per 1.1 | Currency diversion | Entries in fiscal year | Conversion/ Consolida-tion | Divestitures in fiscal year | Deprecation per 31.12 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Land/buildings in bank use - building share | -26.070 | 0 | -2.277 | 0 | 0 | **-28.347** |
| Equipment and machinery | -28.068 | -11 | -2.890 | 0 | 568 | **-30.401** |
| Areas under construction | 0 | 0 | 0 | 0 | 0 | **0** |
| **Tangible assets** | **-54.138** | **-11** | **-5.167** | **0** | **568** | **-58.748** |
| **2011** | | | | | | |
| Land/buildings in bank use - building share | -28.347 | 0 | -2.563 | -14 | 3.340 | -27.584 |
| Equipment and machinery | -30.401 | 0 | -3.809 | 1.047 | 1.979 | -31.184 |
| Areas under construction | 0 | 0 | 0 | 0 | 0 | 0 |
| **Tangible assets** | **-58.748** | **0** | **-6.372** | **1.033** | **5.319** | **-58.768** |

## (66) Other assets

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Real estate | 437 | 1.094 |
| Assets held for sale | 2.485 | 6.188 |
| Tax receivables | 24.517 | 21.754 |
| Accounting deferral items | 886 | 1.574 |
| Other | 40.192 | 21.723 |
| **Other assets** | **68.517** | **52.333** |

Other assets in 2011 comprised TEUR 31,589 on goods and services (2010: TEUR 18,677).

The tax receivables are mainly ongoing netting of consumption taxes and capitalised corporation tax prepayments to the value of TEUR 21,207 (2010: TEUR 19,076) for fiscal years for which no assessment has been made as yet.

With regard to assets held as security for non-performing loans, these are real estate properties whose sale by means of free-sale is intended.

The assets held as security for non-performing loans amounting to TEUR 2,485 (2010: TEUR 6,188) have a maturity of longer than 12 months.

## (67) Latent income tax claims and tax obligations

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Evaluation of secured receivables and payables to customers at fair value and evaluation of risk provisions | 26.365 | 20.404 |
| Evaluation of derivatives at fair value | 109.962 | 100.997 |
| Evaluation of financial assets designated at fair value and AFS at fair value | 159.224 | 118.912 |
| Evaluation of financial assets HTM and L&R according to effective interest method | 184 | 279 |
| Application of evaluation method at first consolidation and application of various writedown rates for investment real estate and tangible assets | 1.769 | 1.284 |
| Evaluation of securitized obligations and financial debentures designated at fair value | 32.068 | 22.376 |
| Evaluation of reserves | 724 | 332 |
| **Latent tax claims** | **330.296** | **264.584** |
| Evaluation of secured receivables and payables to customers at fair value and evaluation of risk provisions | 17.303 | 15.658 |
| Evaluation of derivatives at fair value | 209.311 | 180.008 |
| Evaluation of financial assets designated at fair value and AFS at fair value | 17.353 | 8.586 |
| Evaluation of financial assets HTM and L&R according to effective interest method | 49 | 52 |
| Application of evaluation method at first consolidation and application of various writedown rates for investment real estate and tangible assets | 950 | 794 |
| Evaluation of securitized obligations and financial debentures designated at fair value | 67.259 | 62.390 |
| Evaluation of reserves | 1.830 | 55 |
| **Latent tax obligations** | **314.055** | **267.543** |
| **Balance of latent tax claims and latent tax obligations** | **16.241** | **-2.959** |

The changes in accounted latent tax claims and obligations are as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Latent tax claims | 330.296 | 264.584 |
| Offseting | -313.060 | -256.310 |
| **Balance of latent tax claims** | **17.236** | **8.274** |

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Latent tax obligations | 314.055 | 267.543 |
| Offseting | -313.060 | -256.310 |
| **Balance of latent tax obligations** | **995** | **11.233** |

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Latent tax claims | 17.236 | 8.274 |
| Latent tax obligations | 995 | 11.233 |
| **Latent tax claims and obligations, balance** | **16.241** | **-2.959** |

The changes in accounted latent income tax claims and obligations are as follows:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Stand 01.01.** | **-2.959** | **-4.074** |
| Latent taxes reflected in the P&L account | 16.962 | 1.542 |
| Profit-neutral latent taxes from valuation of financial assets - AFS | | |
| Changes in valuation at fair value | 1.080 | -1.604 |
| Profit-affecting reclassification in P&L account | 1.158 | -43 |
| Change in group | 0 | 1.220 |
| **per 31.12** | **16.241** | **-2.959** |

In the latent tax claims from financial instruments, there are no latent tax claims associated with Available for Sale inventory recorded in business year 2011 and business year 2010.

Latent taxes from losses moved forward amounting to TEUR 202 were activated in business year 2011. Otherwise there are no activated latent taxes on losses moved forward in the concern.

Latent tax claims amounting to TEUR 20,118 (previous year: TEUR 0) were not activated.

## (68) Liabilities to financial institutions

### *Liabilities to financial institutions, according to transaction type*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Interbank accounts | 468.286 | 400.316 |
| Money market business | 116.933 | 230.425 |
| Trustee liabiities | 18.540 | 18.579 |
| Other liabilities | 462 | 409 |
| **Liabilities to financial institutions** | **604.221** | **649.729** |

### *Liabilities to financial institutions, according to region*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Austria** | **98.330** | **131.966** |
| **Other countries** | **505.891** | **517.763** |
| Germany | 192.340 | 193.130 |
| Italy | 142 | 117 |
| Other countries, inc. CEE | 313.409 | 324.516 |
| **Liabilities to financial institutions** | **604.221** | **649.729** |

### *Liabilities to financial institutions, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| callable daily | 464.529 | 397.479 |
| up to 3 months | 9.118 | 122.625 |
| 3 months - 1 year | 5.809 | 2.799 |
| 1 - 5 years | 20.000 | 20.000 |
| more than 5 years | 104.765 | 106.826 |
| **Liabilities to financial institutions** | **604.221** | **649.729** |

## (69) Payables to customers

Payables to customers in the amount of TEUR 1,024,161 (2010: TEUR 1,001,520) are classified as 'financial liabilities valued with effect on profits at attributable fair value'. The remaining liabilities of TEUR 1,913,467 (2010: TEUR 1,937,239) are classified as 'other liabilities'.

### *Payables to customers by transaction type*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Current accounts | 817.030 | 783.841 |
| Forward contracts | 1.081.952 | 1.049.815 |
| Other deposits | 29.647 | 28.471 |
| Savings accounts | 614.785 | 662.596 |
| Capital savings books | 394.214 | 414.036 |
| **Liabilities to customers** | **2.937.628** | **2.938.759** |

### *Payables to customers by region*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Austria** | **1.961.843** | **1.962.886** |
| **Other countries** | **975.785** | **975.873** |
| Germany | 838.292 | 812.500 |
| Italy | 54.307 | 70.974 |
| Other countries, inc. CEE | 83.186 | 92.399 |
| **Liabilities to customers** | **2.937.628** | **2.938.759** |

*Liabilities to customers, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| callable daily | 923.689 | 807.780 |
| up to 3 months | 632.083 | 181.145 |
| 3 months - 1 year | 407.506 | 479.110 |
| 1 - 5 years | 191.544 | 499.961 |
| more than 5 years | 782.806 | 970.763 |
| **Liabilities to customers** | **2.937.628** | **2.938.759** |

*Liabilities to customers by sector*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Public sector | 120.851 | 296.745 |
| Corporate customers | 1.141.067 | 1.033.954 |
| Private households | 1.412.864 | 1.524.884 |
| Other | 262.846 | 83.176 |
| **Liabilities to customers** | **2.937.628** | **2.938.759** |

## (70) Securitised Liabilities

In November 2000, HYPO TIROL BANK AG underwrote an internationally recognized framework contract led by Deutsche Bank with a banking group acting as dealers, setting up a debt issuance program worth EUR 2 bn. As the volume of issues soared, this framework was increased to EUR 6.5 bn in June 2006. This program involves issuing bonds on the Luxemburg stock market or on any exchange agreed with the issuer.

The securitised liabilities are valued at extrapolated acquisition cost.

*Verbriefte Verbindlichkeiten nach Geschäftsarten*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Pfandbrief debentures | 45.792 | 45.754 |
| Communal debentures | 30.114 | 30.114 |
| Cash obligations | 20.107 | 34.678 |
| Bonds | 1.427.087 | 1.425.559 |
| Building society bank bonds | 144.281 | 148.784 |
| Bonds of the pfandbrief section | 100.000 | 100.000 |
| Deposit certificates | 0 | 1.125 |
| Interest deferrals | 6.131 | 4.776 |
| **Securitised liabilities** | **1.773.512** | **1.790.790** |

*Changes to securitised liabilities*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| per 1.1 | 1.790.790 | 1.993.336 |
| New | 29.284 | 141.610 |
| Repayments | -48.400 | -345.444 |
| Currency changes | 489 | 1.087 |
| Interest deferral changes | 1.349 | 201 |
| **Securitised liabilities** | **1.773.512** | **1.790.790** |

*Securitised liabilities, according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| callable daily | 384 | 387 |
| up to 3 months | 48.414 | 26.576 |
| 3 months - 1 year | 260.479 | 9.129 |
| 1 - 5 years | 438.714 | 523.226 |
| more than 5 years | 1.025.521 | 1.231.472 |
| **Securitised liabilities** | **1.773.512** | **1.790.790** |

The liability maturity structure means that group's liquidity is adequately protected for the coming years.

## (71) Negative market values from derivative hedging instruments

The only hedging instruments used are rate swaps.

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Negative market values from derivative hedging instruments | 46.299 | 32.222 |

Basic business in the corporate group comprise solely fixed interest rate securities in the AFS category. The book value of securitised basic business as of 31.12.2011 amounts to TEUR 28,695 (2010: TEUR 17,115).

## (72) Derivatives

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Negative market values from derivative financial instruments | 172.758 | 123.939 |
| Interest deferrals | 54.627 | 50.555 |
| **Derivatives** | **227.385** | **174.494** |

*Derivatives by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 12.224 | 1.628 |
| 3 months - 1 year | 16.662 | 6.234 |
| 1 - 5 years | 60.774 | 49.611 |
| more than 5 years | 137.725 | 117.021 |
| **Derivatives** | **227.385** | **174.494** |

## (73) Financial liabilities designated at fair value

*Financial liabilities designated at Fair Value by transaction type*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Pfandbrief debentures | 185.842 | 138.429 |
| Communal debentures | 182.575 | 151.396 |
| Cash obligations | 52.825 | 29.204 |
| Bonds | 3.535.322 | 3.899.690 |
| Building society bank bonds | 248.831 | 239.656 |
| Bonds of the pfandbrief section | 541.963 | 756.597 |
| Subordinate liabilities | 120.383 | 118.968 |
| Non-core capital | 27.237 | 28.152 |
| Interest deferrals | 78.254 | 2.414 |
| **Financial liabilities designated at fair value** | **4.973.232** | **5.446.888** |

The repayment amount of financial liabilities designated at fair value amounts to TEUR 4,919,451 (2010: TEUR 5,393,450 ) which results in a difference between book value and repayment sum of TEUR 53,781 (2010: TEUR 53,438).

### *Changes to financial liabilities designated at fair value*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| per 1.1 | 5.446.888 | 5.325.034 |
| New | 154.488 | 191.811 |
| Repayments | -782.542 | -578.344 |
| Currency changes | 49.068 | 349.753 |
| Interest deferral changes | -6.541 | -3.892 |
| Financial liabilities designated at fair value | 111.871 | 162.526 |
| **Finanzielle Verbindlichkeiten - designated at Fair Value** | **4.973.232** | **5.446.888** |

### *Changes to financial liabilities designated at fair value according to maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 59.273 | 271.266 |
| 3 months - 1 year | 612.903 | 323.238 |
| 1 - 5 years | 1.956.959 | 1.459.455 |
| more than 5 years | 2.344.097 | 3.392.929 |
| **Financial liabilities designated at fair value** | **4.973.232** | **5.446.888** |

## (74) Provisions

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Provision for severance payments | 9.658 | 9.323 |
| Pension provision | 6.365 | 6.860 |
| Length-of-service provision | 1.406 | 1.264 |
| Loan risk provisions | 38.750 | 7.910 |
| Other provisions | 12.113 | 5.262 |
| **Provisions** | **68.292** | **30.619** |

### *Changes in provisions for pensions, severance and length-of-service*

| Tsd. Euros | Severance provision | Pension provision | Length-of-service provision |
|---|---|---|---|
| **2010** | | | |
| per 1.1 | 8.548 | 6.691 | 1.103 |
| Service period expenses | 406 | 0 | 72 |
| Interest expenses | 428 | 315 | 54 |
| Payments | -738 | -830 | -35 |
| Actuarial profits/losses | 679 | 684 | 70 |
| of which, empirical adjustments | -72 | 432 | 10 |
| **per 31.12** | **9.323** | **6.860** | **1.264** |
| **2011** | | | |
| per 1.1 | 9.323 | 6.860 | 1.264 |
| Service period expenses | 744 | 0 | 78 |
| Interest expenses | 411 | 291 | 55 |
| Payments | -578 | -690 | -65 |
| Actuarial profits/losses | -242 | -96 | 74 |
| of which, empirical adjustments | 58 | 22 | 107 |
| **per 31.12** | **9.658** | **6.365** | **1.406** |

### *Changes in provisions for pensions, severance and length-of-service in the last five years*

| Tsd. Euros | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Severance provision | 9.658 | 9.323 | 8.548 | 8.277 | 8.429 |
| Pension provision | 6.365 | 6.860 | 6.691 | 6.415 | 6.839 |
| Anniversary payment provision | 1.406 | 1.264 | 1.103 | 954 | 887 |

Changes in actuarial profits and losses included in empirical adjustments of teh last three years result in the following picture:

| Tsd. Euros | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Severance provision** | **9.658** | **9.323** | **8.548** |
| Actuarial profit/loss | -242 | 679 | 359 |
| of which empirical adjustments | 58 | -72 | -393 |
| **Pension provision** | **6.365** | **6.860** | **6.691** |
| Actuarial profit/loss | -96 | 684 | 686 |
| of which empirical adjustments | 22 | 432 | 330 |
| **Anniversary payment provision** | **1.406** | **1.264** | **1.103** |
| Actuarial profit/loss | 74 | 70 | 115 |
| of which empirical adjustments | 107 | 10 | 36 |

The book value for provisions for pensions, severance pay and length-of-service correspond to the cash values for long-term personnel obligations. The results from creation and elimination of provisions for pensions, severance pay and length-of-service payments are depicted in personnel expenses. Equally so, the actuarial profits and losses are recorded directly in the period financial statement.

### *Other provisions*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Other personnel reserves | 268 | 705 |
| Provisions for legal actions | 103 | 427 |
| Provisions for liabilities | 269 | 1.762 |
| Remaining other provisions | 11.473 | 2.368 |
| **Other provisions** | **12.113** | **5.262** |

Other personnel provisions include provsions for incapacity for work and survivors' entitlements of TEUR 113 (2010: TEUR 126).

The provisions for the loan business contain, e.g., reserves for guarantees and liabilities as well as other obligations resulting from the granting of loans which are uncertain as regards their maturity or amount. The rise in business year 2011 can be attributed to the credit default in connection with Hypo Tirol Bank Italia S.p.A., Bolzano.

In the other provisions, TEUR 11,845 (2010: TEUR 4,557) are included which will presumably become due during the year 2012.

*Changes to provisions*

| Tsd. Euros | per 1.1 | Currency conversion | Entries | Use | Debit | Other changes | per 31.12 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| Provision for severance payments | 8.548 | 0 | 834 | -738 | 0 | 679 | **9.323** |
| Pension provision | 6.691 | 0 | 315 | -830 | 0 | 684 | **6.860** |
| Length-of-service provision | 1.103 | 0 | 126 | -35 | 0 | 70 | **1.264** |
| Loan risk provisions | 5.673 | 0 | 3.233 | -343 | -653 | 0 | **7.910** |
| Other provisions | 4.345 | 0 | 3.895 | -2.720 | -207 | -51 | **5.262** |
| **Provisions** | **26.360** | **0** | **8.403** | **-4.666** | **-860** | **1.382** | **30.619** |
| **2011** | | | | | | | |
| Provision for severance payments | 9.323 | 0 | 843 | -437 | -67 | -4 | 9.658 |
| Pension provision | 6.860 | 0 | 0 | 0 | -495 | 0 | 6.365 |
| Length-of-service provision | 1.264 | 0 | 133 | -65 | 0 | 74 | 1.406 |
| Loan risk provisions | 7.910 | 0 | 33.458 | -91 | -2.527 | 0 | 38.750 |
| Other provisions | 5.262 | 0 | 11.257 | -2.811 | -1.521 | -74 | 12.113 |
| **Provisions** | **30.619** | **0** | **45.691** | **-3.404** | **-4.610** | **-4** | **68.292** |

## (75) Other liabilities

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| To associated, not consolidated companies | 9.365 | 538 |
| For other deliveries and services | 50.268 | 49.727 |
| Accounting deferrals | 218 | 388 |
| **Other liabilities** | **59.851** | **50.653** |

All Other Liabilities have a remaining maturity of less than 12 months.

## (76) Current income tax obligations

Current income tax obligations concern by and large obligations from not yet paid corporate taxes.

## (77) Subordinate and Non-core Capital

*Subordinate and non-core capital by transaction type*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Subordinate capital | 71.000 | 71.000 |
| Non-core capital | 56.596 | 56.854 |
| Interest deferral | 448 | 612 |
| **Subordinate and non-core capital** | **128.044** | **128.466** |

*Changes to subordinate and non-core capital*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| per 1.1 | 128.466 | 128.775 |
| Repayments | -428 | -330 |
| Changes in interest deferral | -164 | 21 |
| **Subordinate and non-core capital** | **128.044** | **128.466** |

*Changes to subordinate and non-core capital by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| 1 -5 years | 14.328 | 2.407 |
| more than 5 years | 113.716 | 126.059 |
| **Subordinate and non-core capital** | **128.044** | **128.466** |

## (78) Equity Capital

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Equity capital | 50.000 | 50.000 |
| Participation capital | 58.800 | 58.800 |
| **Subscribed capital** | **108.800** | **108.800** |
| Locked reserves | 91.233 | 91.233 |
| **Capital reserves** | **91.233** | **91.233** |
| Legally required profit reserves | 5.000 | 5.000 |
| Liability reserves acc. to Art. 23, sec.6 of banking laws | 60.007 | 103.007 |
| Difference from capital consolidation | 6.540 | 6.540 |
| Other profit reserves | 86.686 | 134.856 |
| **Profit reserves** | **158.233** | **249.403** |
| Available for sale reserves | -16.541 | -8.148 |
| Reserves for currency conversion | 0 | 160 |
| Effects from initial use | 5.251 | 5.251 |
| Consolidated profit | 104 | 8.376 |
| **Equity capital** | **347.080** | **455.075** |

**Capital reserves**
The capital reerves shown are the result of converting the HYPO TIROL BANK to a publicly noted company (AG).

**Profit reserves**
Profit reserves are divided into statutory reserves, liability reserves under Art. 23, sec. 6 of the banking laws and other reserves. Both statutory and liability reserves are mandatory under national law. Further, the difference sums from capital consolidation are reported in the profit reserves.

## (79) Fair values of financial instruments

| Valuation Tsd. Euros | at ongoing acquisition costs | | | | at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Valuation categories: | L&R Other Liabilities | | HTM | | commercial | | fair value option | | AFS | |
| | Book value | Fair Value | Book value | Fair Value | Book value | Fair Value | Book value | Fair Value | Book value | Fair Value |
| **ASSETS 2011** | | | | | | | | | | |
| Cash reserves | 94.762 | 94.762 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivable from FI | 279.783 | 279.783 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivable from customers | 6.385.680 | 6.410.444 | 0 | 0 | 0 | 0 | 652.948 | 652.948 | 0 | 0 |
| Risk provision | -307.739 | -307.739 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging instruments | 0 | 0 | 0 | 0 | 2.469 | 2.469 | 0 | 0 | 0 | 0 |
| Trading assets | 0 | 0 | 0 | 0 | 751.654 | 751.654 | 0 | 0 | 0 | 0 |
| Financial investments | | | | | | | | | | |
| -designated at fair value | 0 | 0 | 0 | 0 | 0 | 0 | 979.091 | 979.091 | 0 | 0 |
| - AFS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.262.250 | 1.262.250 |
| - HTM | 0 | 0 | 627.878 | 615.902 | 0 | 0 | 0 | 0 | 0 | 0 |
| - L&R | 74.368 | 59.029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **LIABILITIES 2011** | | | | | | | | | | |
| Payable to financial institutions | 604.221 | 604.221 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Payable to customers | 1.913.467 | 1.913.467 | 0 | 0 | 0 | 0 | 1.024.161 | 1.024.161 | 0 | 0 |
| Certified liabilities | 1.773.512 | 1.946.274 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging instruments | 0 | 0 | 0 | 0 | 46.299 | 46.299 | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 227.385 | 227.385 | 0 | 0 | 0 | 0 |
| Financial liabilities | | | | | | | | | | |
| - designated at fair value | 0 | 0 | 0 | 0 | 0 | 0 | 4.973.232 | 4.973.232 | 0 | 0 |
| Subordinate and non-core capital | 128.044 | 138.255 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| Valuation Tsd. Euros | at ongoing acquisition costs | | | | at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Valuation categories: | L&R Other Liabilities | | HTM | | commercial | | fair value option | | AFS | |
| | Book value | Fair Value | Book value | Fair Value | Book value | Fair Value | Book value | Fair Value | Book value | Fair Value |
| **ASSETS 2010** | | | | | | | | | | |
| Cash reserves | 94.736 | 94.736 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivable from FI | 294.579 | 294.579 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivable from customers | 6.730.018 | 6.795.325 | 0 | 0 | 0 | 0 | 679.108 | 679.108 | 0 | 0 |
| Risk provision | -205.572 | -205.572 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging instruments | 0 | 0 | 0 | 0 | 1.692 | 1.692 | 0 | 0 | 0 | 0 |
| Trading assets | 0 | 0 | 0 | 0 | 636.464 | 636.464 | 0 | 0 | 0 | 0 |
| Financial investments | | | | | | | | | | |
| -designated at fair value | 0 | 0 | 0 | 0 | 0 | 0 | 832.687 | 832.687 | 0 | 0 |
| - AFS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.231.275 | 1.231.275 |
| - HTM | 0 | 0 | 923.885 | 913.351 | 0 | 0 | 0 | 0 | 0 | 0 |
| - L&R | 135.845 | 118.045 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **LIABILITIES 2010** | | | | | | | | | | |
| Payable to financial institutions | 649.729 | 649.729 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Payable to customers | 1.937.239 | 1.937.239 | 0 | 0 | 0 | 0 | 1.001.520 | 1.001.520 | 0 | 0 |
| Certified liabilities | 1.790.790 | 1.993.350 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hedging instruments | 0 | 0 | 0 | 0 | 32.222 | 32.222 | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 174.494 | 174.494 | 0 | 0 | 0 | 0 |
| Financial liabilities | | | | | | | | | | |
| - designated at fair value | 0 | 0 | 0 | 0 | 0 | 0 | 5.446.888 | 5.446.888 | 0 | 0 |
| Subordinate and non-core capital | 128.466 | 140.831 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

The fair value of guarantees and securities, and irrevocable credit granted, is equal to their book value at any time. This is shown under (87) Contingent liabilities and credit risks.

The following table shows to what extent the fair value of financial instruments which are valued at fair value are ascertained directly through noted market prices on an active market or through a certain valuation procedure.

| Tsd. Euros | Quoted prices on active market | Valuation procedure based on market data | Valuation procedure not based on market data | Book value |
|---|---|---|---|---|
| **ASSETS 2011** | | | | |
| Receivable from customers - designated at fair value | 0 | 652.948 | 0 | **652.948** |
| Hedging instruments with positive market value | 0 | 2.469 | 0 | **2.469** |
| Trading assets and derivatives | 160 | 751.494 | 0 | **751.654** |
| Financial assets - designated at fair value | 10.594 | 968.497 | 0 | **979.091** |
| Financial assets - AFS | 1.262.250 | 0 | 0 | **1.262.250** |
| **LIABILITIES 2011** | | | | |
| Payable to customers - designated at fair value | 0 | 1.024.161 | 0 | **1.024.161** |
| Hedging instruments with negative market value | 0 | 46.299 | 0 | **46.299** |
| Derivatives | 0 | 227.385 | 0 | **227.385** |
| Financial liabilities - designated at fair value | 0 | 4.973.232 | 0 | **4.973.232** |

| Tsd. Euros | Quoted prices on active market | Valuation procedure based on market data | Valuation procedure not based on market data | Book value |
|---|---|---|---|---|
| **ASSETS 2010** | | | | |
| Receivable from customers - designated at fair value | 0 | 679.108 | 0 | **679.108** |
| Hedging instruments with positive market value | 0 | 1.692 | 0 | **1.692** |
| Trading assets and derivatives | 137 | 636.327 | 0 | **636.464** |
| Financial assets - designated at fair value | 13.818 | 818.869 | 0 | **832.687** |
| Financial assets - AFS | 1.073.555 | 146.385 | 11.335 | **1.231.275** |
| **LIABILITIES 2010** | | | | |
| Payable to customers - designated at fair value | 0 | 1.001.520 | 0 | **1.001.520** |
| Hedging instruments with negative market value | 0 | 32.222 | 0 | **32.222** |
| Derivatives | 0 | 174.494 | 0 | **174.494** |
| Financial liabilities - designated at fair value | 0 | 5.446.888 | 0 | **5.446.888** |

For market data of fair value based on discounted cash flow methods and for financial instruments with optional components, the Black/Scholes model is applied.

For valuation not based on market data, some fund shares were valuated. For the valuation, the ABS purchased from the funds were arrived at with current prevailing risk premiums in accordance with the respective rating class, e.g. AA, through historic accumulated default probabilities. This is followed by the cash flow of the ABS with respectively raised current risk premiums (spread) with interest for the anticipated maturity. In business year 2011, these fund shares were evaluated at the notated market prices.

There were no significant transfers between the level "Quoted market prices in active markets" and "Valuation procedures based on market data" in fiscal year 2011.

Financial instruments whose fair value is not determined based on market data, have changed as follows:

| Tsd. Euros | Financial assets AFS shares |
|---|---|
| **per 1.1** | **15.521** |
| Repayments | -324 |
| Changed interest deferral | -4 |
| Net profits reflected in AFS reserves | -31 |
| Reclassified, i.e. removed from level 3 of valuation hierarchy | -3.827 |
| **per 31.12** | **11.335** |

| Tsd. Euros | Financial assets AFS shares |
|---|---|
| **per 1.1** | **11.335** |
| Sales | -1.915 |
| New allotment into or out of level 3 of evaluation hierarchy | -9.420 |
| **per 31.12** | **0** |

For financial assets and liabilities which are voluntarily valued at fair value, the following profit or loss, which is shown in the trading profits, result:

The creditworthiness-induced fair value change to financial assets of the period amounts to TEUR -17,666 (2010: TEUR -5,016). Since designation, the cumulative creditworthiness-induced change amounts to TEUR -24,540 (2010: TEUR -6,874).

The creditworthiness-induced fair value change to financial liabilities of the period amounts to TEUR 16,344 (2010: TEUR -1,874). All in all, the cumulative creditworthiness-induced change since designation amounts to TEUR 51,744 (2010: TEUR 35,400).

The determination of creditworthiness-induced change is made via a difference calculation. With calculation models, the change in fair value determined by market risk is deducted from the overall change of fair value.

## (80) Maximum Default Risk

The maximum default risk is presented by showing the book values of financial assets after correcting for valuation adjustments:

*2011*

| Tsd. Euros | credits and receivables | foreign capital instruments, category commercial assets, financial investments and derivatives | equity capital instruments category trading assets and financial investments | book value |
|---|---|---|---|---|
| **Receivable from financial inst.** | **278.530** | **0** | **0** | **278.530** |
| **Receivable from customers** | **6.732.142** | **0** | **0** | **6.732.142** |
| - at cost | 6.079.194 | 0 | 0 | 6.079.194 |
| - at fair value | 652.948 | 0 | 0 | 652.948 |
| **Hedging instruments** | **0** | **2.469** | **0** | **2.469** |
| **Trading assets** | **0** | **751.494** | **160** | **751.654** |
| - for commercial purposes | 0 | 0 | 160 | 160 |
| - derivatives | 0 | 751.494 | 0 | 751.494 |
| **Financial assets** | **0** | **2.825.500** | **118.087** | **2.943.587** |
| - designated at FV | 0 | 979.091 | 0 | 979.091 |
| - AFS | 0 | 1.144.163 | 118.087 | 1.262.250 |
| - HTM | 0 | 627.878 | 0 | 627.878 |
| - Loans & receivables | 0 | 74.368 | 0 | 74.368 |

*2010*

| Tsd. Euros | credits and receivables | foreign capital instruments, category commercial assets, financial investments and derivatives | equity capital instruments category trading assets and financial investments | book value |
|---|---|---|---|---|
| **Receivable from financial inst.** | **293.326** | **0** | **0** | **293.326** |
| **Receivable from customers** | **7.204.807** | **0** | **0** | **7.204.807** |
| - at cost | 6.525.699 | 0 | 0 | 6.525.699 |
| - at fair value | 679.108 | 0 | 0 | 679.108 |
| **Hedging instruments** | **0** | **1.692** | **0** | **1.692** |
| **Trading assets** | **0** | **636.327** | **137** | **636.464** |
| - for commercial purposes | 0 | 0 | 137 | 137 |
| - derivatives | 0 | 636.327 | 0 | 636.327 |
| **Financial assets** | **0** | **2.996.177** | **127.515** | **3.123.692** |
| - designated at FV | 0 | 832.687 | 0 | 832.687 |
| - AFS | 0 | 1.103.760 | 127.515 | 1.231.275 |
| - HTM | 0 | 923.885 | 0 | 923.885 |
| - Loans & receivables | 0 | 135.845 | 0 | 135.845 |

The maximum default risk on loans granted and financial guarantees at the cutoff date for the balance sheet was TEUR 866,237 (2010: TEUR 1,048,728).

Risks can be reduced, especially by demanding collateral, mainly by way of mortgages, guarantees and other assets.

Allowable securities, valued from legal supervision standpoints, reduced the default risk to the following extent:

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| **Receivable from customers** | **2.979.521** | **3.036.394** |
| - at cost | 2.979.521 | 3.036.394 |
| **Derivatives** | **422.210** | **366.200** |

## (81) Closely related individuals and companies

The term 'closely related individuals and companies' comprises:

- the Managing Board and the Supervisory Board of HYPO TIROL BANK AG and their immediate families
- Directors of consolidated subsidiaries and their immediate families
- Lawful representatives and members of supervisory bodies of the main shareholders involved
- Subsidiaries and other companies in which HYPO TIROL BANK AG has holdings
- The State of Tyrol and/or Landes-Hypothekenbank Tirol Anteils-verwaltung.

Transactions with closely related companies and individuals form part of the ordinary course of business, and are conducted on prevailing market terms and conditions. The extent of these transactions is shown below.
Until the State of Tyrol ceases to be bear liability in 2017, it is paid liability commission TEUR 727 annually which is recorded under administrative costs.

HYPO TIROL BANK AG administers the residential construction support loans behalf of the State of Tyrol. The company also finances the State of Tyrol on prevailing market terms. These amounts are not shown spearately, as the margins on these business dealings are not recorded separately in the system and this information cannot be obtained within a reasonable amount of time or at reasonable expense.

Advances and loans to directors, managers of companies included in the scope of consolidation and supervisory boards stood at TEUR 576 on the cutoff date for the balance sheet (2010: TEUR 526).

Active drawings by directors of the parent company stood at TEUR 577 (2010: TEUR 876). The severance payments for active Managing Board members amounted to TEUR 230. Pension costs for active Managing Board members do not exist. The active salary payments refer in their entirety to the running salary payments and thus, are short term due performance costs. Other categories of compensation in accordance with IAS 24.17 do not apply to Managing Board members.

The bank's pension costs for ex-directors and their survivors, less ASVG payments, this fiscal year were TEUR 521 (2010: TEUR 512).

Supervisory board payments in 2011 were TEUR 58 (2010: TEUR 63).

Business relations with consolidated companies are being eliminated in the course of debt consolidation, thus are not depicted as 'business with closely related companies'. The amounts depicted as 'holdings' are of business relations with closely related companies. Customary bank business with companies within the state's circle of influence are only contained in the payables from customers to an insubstantial extent.

The outstanding balances and the volume of business relations in the current year of reporting with closely related companies are depicted in the following tables:

### *Payable from customers*

| | Holdings | | Related parties | |
|---|---|---|---|---|
| **in Tsd. €** | **2011** | **2010** | **2011** | **2010** |
| Amount 01.01 | 170.098 | 120.907 | 426.363 | 333.285 |
| Loans granted during year | 34.245 | 45.572 | 87.981 | 85.500 |
| Repayment of payables from loan business | -53.421 | -44 | -77.096 | -4.074 |
| Balance of repayments, interest obligations and exchange rate alterations of existing loans | -6.658 | 3.663 | -41.027 | 11.652 |
| **Amount 31.12** | **144.264** | **170.098** | **396.221** | **426.363** |
| **Other loan-risk transactions** | | | | |
| Assumption of liability | **7.195** | **7.977** | **0** | **0** |

For the outstanding balances on 31.12.2011 with closely related individuals and companies, security amounting to TEUR 47,015 (2010: TEUR 57,134) were held. There were no advances made.

### *Financial assets - designated at fair value*

| in Tsd. € | Related parties 2011 | Related parties 2010 |
|---|---|---|
| per 1.1 | 8.571 | 9.450 |
| Repayments | -917 | -878 |
| **per 31.12** | **7.654** | **8.572** |

### *Payable to customers*

| | Holdings | | Related parties | |
|---|---|---|---|---|
| in Tsd. € | 2011 | 2010 | 2011 | 2010 |
| per 01.01 | 4.154 | 2.414 | 62.448 | 73.690 |
| New | 66 | 470 | 16.636 | 4.274 |
| Repayments | -1.105 | -54 | -857 | -211 |
| Balance of repayments, interest obligations and exchange rate alterations of existing loans | 2.947 | 1.324 | 13.072 | -15.307 |
| **per 31.12** | **6.062** | **4.154** | **91.299** | **62.446** |

Valuation adjustments for doubtful claims made upon closely related individuals and companies were not effected. Also, in the current business year of reporting, no expenditures for doubtful or non-performing claims on closely related individuals or companies were recorded.

## (82) Assets made over as security

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Covering stock for pfandbrief and communal debentures | 1.315.821 | 1.476.815 |
| Financial investments | 17.164 | 471.338 |
| **Assets used as collateral** | **1.332.985** | **1.948.153** |

Assets used as collateral are reported under Actuarial reserves fund for pfandbrief and communal debentures and as ward money. The terms of using these assets as collateral must be designed in such as way that they adhere to the legal rules pertaining to bank law and pfandbrief law.

## *(83) Segment-by-segment reporting*

The HYPO TIROL BANK AG group's segment-by-segment reporting is structured as follows:

**Private customers:**
This segment covers the results of the private client and self-employed business in different segments of the market and private banking business. It also includes the outcome of dealings with business and public sector clients where dealt with at branches.

**Corporate clients:**
This segment reflects the results from commercial client business in our various markets and our insurance business. This segment also includes dealings with public sector clients whom we deal with via our business centres.

**Treasury:**
This segment comprises financial assets, trading assets and liabilities, derivatives and issue business. It also covers business dealings with institutional clients and fund management operations. For 2011, net income from financial assets includes TEUR 9,639 of impairments on financial assets (2010: TEUR 8,961). In the secondary reporting format, the Treasury segment is shown closed under 'Austria'. For detailed information on how our securities portfolio is made up in geographical terms, see section (88) of the Notes.

**Leasing and real estate:**
This segment covers our subsidiaries in the field of leasing, plus the activities of our real estate and holdings business units and results from associated companies reported by the equity method.

**Corporate Centre**
This segment is used for income and expenditure that cannot be classified elsewhere. Internal suport unit costs were attributed to the other segments insofar as it was possible to establish how they were broken down.

Compared to segment reporting according to IAS 14 until now, the new depiction according to IFRS 8 contains the following changes:

Administrative expenses contain the writedowns to our own investment assets in the amount of TEUR 7,254 (2010: TEUR 6,212). The income taxes in 2011 amounted to TEUR 15,690 (2010: TEUR -82).

In accordance with the approach of the bank management, the reported segments of the business sectors correspond to the internal profit and loss accounting. Beyond that, using the the busines model of HYPO TIROL BANK AG, there is no basis for any additional geographical breakdown of the segment results. Apart from business activities for private customers and corporate clients in Austria, Italy is already being reported as a separate segment; Germany, due to the withdrawal of HYPO TIROL BANK AG from this market region, is now of only subordinate importance and is for that reason included in the segment corporate clients.

## *Reporting by Operating Segments*

### *2011*

| Tsd. Euros | Private clients | Corporate clients | Treasury | Leasing/ Real estate | Austria | Italy | Corporate Center | Sum of segments |
|---|---|---|---|---|---|---|---|---|
| Net interest profit | 35.966 | 40.616 | 22.287 | 4.799 | 103.668 | 18.496 | -651 | **121.513** |
| Loan risk provisions | -5.348 | -28.154 | 0 | -1.065 | -34.567 | -120.776 | 4 | **-155.339** |
| Commision surplus | 14.408 | 5.571 | 949 | 33 | 20.961 | 4.732 | 614 | **26.307** |
| Trading profits | 0 | 0 | -1.769 | -50 | -1.819 | 167 | 0 | **-1.652** |
| Profits from financial instruments | 0 | 0 | -9.180 | -237 | -9.417 | -3.704 | -37 | **-13.158** |
| Administrative expenses | -37.591 | -18.651 | -5.660 | -4.162 | -66.064 | -18.152 | -2.274 | **-86.490** |
| Other profits from operations | 2.205 | 79 | 0 | 17.753 | 20.037 | 1.929 | 0 | **21.966** |
| Other expenses from operations | -250 | -150 | 0 | -14.686 | -15.086 | -2.642 | -5.520 | **-23.248** |
| Profit from associated companies | 0 | 0 | 0 | 2.810 | 2.810 | 0 | 0 | **2.810** |
| **Profit before taxes** | **9.390** | **-689** | **6.627** | **5.195** | **20.523** | **-119.950** | **-7.864** | **-107.291** |
| Segment assets | 1.539.576 | 3.381.539 | 4.096.161 | 733.229 | 9.750.505 | 1.115.728 | 303.738 | **11.169.971** |
| Segment debts an equity capital | 1.514.000 | 640.629 | 8.656.571 | 51.367 | 10.862.567 | 121.996 | 185.408 | **11.169.971** |
| Risk-weighted assets | 894.788 | 2.108.177 | 650.275 | 511.534 | 4.164.774 | 808.227 | 125.461 | **5.098.462** |

### *2010*

| Tsd. Euros | Private clients | Corporate clients | Treasury | Leasing/ Real estate | Austria | Italy | Corporate Center | Sum of segments |
|---|---|---|---|---|---|---|---|---|
| Net interest profit | 30.592 | 40.208 | 28.287 | 6.602 | 105.689 | 19.085 | -475 | **124.299** |
| Loan risk provisions | -10.279 | -32.773 | 0 | 5 | -43.047 | -28.552 | -29 | **-71.628** |
| Commision surplus | 16.162 | 6.902 | 370 | -24 | 23.410 | 4.697 | -898 | **27.209** |
| Trading profits | -71 | 0 | 657 | -406 | 180 | 570 | 0 | **750** |
| Profits from financial instruments | 0 | -184 | 2.930 | 1.142 | 3.888 | 0 | -65 | **3.823** |
| Administrative expenses | -36.195 | -18.491 | -5.641 | -4.737 | -65.064 | -15.972 | -3.825 | **-84.861** |
| Other profits from operations | 2.139 | 77 | 0 | 19.641 | 21.857 | 1.553 | 627 | **24.037** |
| Other expenses from operations | -262 | -76 | 0 | -17.789 | -18.127 | -1.553 | -995 | **-20.675** |
| Profit from associated companies | 0 | 0 | 0 | -809 | -809 | 0 | 0 | **-809** |
| **Profit before taxes** | **2.086** | **-4.337** | **26.603** | **3.625** | **27.977** | **-20.172** | **-5.660** | **2.145** |
| Segment assets | 1.557.219 | 3.662.558 | 4.176.056 | 802.285 | 10.198.118 | 1.294.888 | 216.506 | **11.709.512** |
| Segment debts an equity capital | 1.613.374 | 641.125 | 9.117.378 | 55.043 | 11.426.920 | 160.140 | 122.452 | **11.709.512** |
| Risk-weighted assets | 926.893 | 2.324.350 | 686.663 | 494.482 | 4.432.388 | 1.037.451 | 200.498 | **5.670.337** |

## (84) FX volumes and foreign drawings

| Tsd. Euros | EUR | USD | CHF | JPY | Other | Total |
|---|---|---|---|---|---|---|
| **Assets 2011** | | | | | | |
| Cash reserves | 93.853 | 353 | 352 | 8 | 196 | 94.762 |
| Receivable from financial institutions | 177.652 | 5.013 | 90.412 | 2.553 | 4.153 | 279.783 |
| Risk provision for receivables from financial institutions | -1.253 | 0 | 0 | 0 | 0 | -1.253 |
| Receivable from customers | 5.687.805 | 81.416 | 1.139.431 | 108.805 | 21.171 | 7.038.628 |
| Risk provision for receivables from customers | -289.359 | -14 | -15.754 | -1.316 | -43 | -306.486 |
| Positive market value from derivatives | 2.469 | 0 | 0 | 0 | 0 | 2.469 |
| Trading assets and derivatives | 586.221 | 16.652 | 147.707 | 923 | 151 | 751.654 |
| Financial assets | | | | | | |
| - designated at Fair Value | 948.372 | 8.405 | 22.314 | 0 | 0 | 979.091 |
| - AFS | 1.258.889 | 1.994 | 505 | 0 | 862 | 1.262.250 |
| - HTM | 619.838 | 3.853 | 4.187 | 0 | 0 | 627.878 |
| - L&R | 71.069 | 0 | 0 | 0 | 3.299 | 74.368 |
| Shares in associated companies | 36.788 | 0 | 0 | 0 | 0 | 36.788 |
| Investment properties | 148.834 | 0 | 0 | 0 | 0 | 148.834 |
| Intangible assets | 1.854 | 0 | 0 | 0 | 0 | 1.854 |
| Tangible assets | 93.598 | 0 | 0 | 0 | 0 | 93.598 |
| Other assets | 68.517 | 0 | 0 | 0 | 0 | 68.517 |
| Latent tax claims | 17.236 | 0 | 0 | 0 | 0 | 17.236 |
| **Sum Assets** | **9.522.383** | **117.672** | **1.389.154** | **110.973** | **29.789** | **11.169.971** |
| **Liabilities and Equity Capital 2011** | | | | | | |
| Payable to financial institutions | 594.410 | 1.860 | 375 | 2.996 | 4.580 | 604.221 |
| Payable to customers | 2.842.508 | 13.361 | 4.765 | 73.451 | 3.543 | 2.937.628 |
| Securitised liabilities | 1.758.043 | 15.469 | 0 | 0 | 0 | 1.773.512 |
| Negative market values from derivatives | 46.299 | 0 | 0 | 0 | 0 | 46.299 |
| Derivatives | 205.328 | 7.857 | 4.390 | 9.808 | 2 | 227.385 |
| Financial liabilities | | | | | | |
| - designated at fair value | 2.609.628 | 78.439 | 1.856.191 | 428.974 | 0 | 4.973.232 |
| Reserves | 68.292 | 0 | 0 | 0 | 0 | 68.292 |
| Other liabilities | 59.851 | 0 | 0 | 0 | 0 | 59.851 |
| Running income tax liabilities | 3.432 | 0 | 0 | 0 | 0 | 3.432 |
| Latent tax obligations | 995 | 0 | 0 | 0 | 0 | 995 |
| Subordinate and non-core capital | 128.044 | 0 | 0 | 0 | 0 | 128.044 |
| Equity capital | 347.080 | 0 | 0 | 0 | 0 | 347.080 |
| **Sum Liabilities and Equity Capital** | **8.663.910** | **116.986** | **1.865.721** | **515.229** | **8.125** | **11.169.971** |

| Tsd. Euros | EUR | USD | CHF | JPY | Other | Total |
|---|---|---|---|---|---|---|
| **Assets 2010** | | | | | | |
| Cash reserves | 94.033 | 238 | 201 | 9 | 255 | 94.736 |
| Receivable from financial institutions | 105.615 | 9.422 | 168.251 | 9.023 | 2.268 | 294.579 |
| Risk provision for receivables from financial institutions | -1.253 | 0 | 0 | 0 | 0 | -1.253 |
| Receivable from customers | 5.996.685 | 51.734 | 1.227.625 | 112.062 | 21.020 | 7.409.126 |
| Risk provision for receivables from customers | -188.419 | -8 | -10.933 | -4.937 | -22 | -204.319 |
| Positive market value from derivatives | 1.692 | 0 | 0 | 0 | 0 | 1.692 |
| Trading assets and derivatives | 517.533 | 15.251 | 98.863 | 4.508 | 309 | 636.464 |
| Financial assets | | | | | | |
| - designated at Fair Value | 803.621 | 7.870 | 21.196 | 0 | 0 | 832.687 |
| - AFS | 1.226.138 | 3.286 | 896 | 208 | 747 | 1.231.275 |
| - HTM | 908.915 | 3.724 | 11.246 | 0 | 0 | 923.885 |
| - L&R | 131.243 | 1.285 | 0 | 0 | 3.317 | 135.845 |
| Shares in associated companies | 39.018 | 0 | 0 | 0 | 0 | 39.018 |
| Investment properties | 157.207 | 0 | 0 | 0 | 0 | 157.207 |
| Intangible assets | 1.921 | 0 | 0 | 0 | 0 | 1.921 |
| Tangible assets | 96.040 | 0 | 2 | 0 | 0 | 96.042 |
| Other assets | 52.311 | 0 | 22 | 0 | 0 | 52.333 |
| Latent tax claims | 8.274 | 0 | 0 | 0 | 0 | 8.274 |
| **Sum Assets** | **9.950.574** | **92.802** | **1.517.369** | **120.873** | **27.894** | **11.709.512** |
| **Liabilities and Equity Capital 2010** | | | | | | |
| Payable to financial institutions | 578.459 | 421 | 65.744 | 19 | 5.086 | 649.729 |
| Payable to customers | 2.840.756 | 11.224 | 2.085 | 82.847 | 1.847 | 2.938.759 |
| Securitised liabilities | 1.775.764 | 14.976 | 0 | 0 | 50 | 1.790.790 |
| Negative market values from derivatives | 32.222 | 0 | 0 | 0 | 0 | 32.222 |
| Derivatives | 149.386 | 6.553 | 7.239 | 11.316 | 0 | 174.494 |
| Financial liabilities | | | | | | |
| - designated at fair value | 2.548.776 | 78.307 | 2.180.262 | 639.543 | 0 | 5.446.888 |
| Reserves | 30.619 | 0 | 0 | 0 | 0 | 30.619 |
| Other liabilities | 50.632 | 0 | 21 | 0 | 0 | 50.653 |
| Running income tax liabilities | 584 | 0 | 0 | 0 | 0 | 584 |
| Latent tax obligations | 11.233 | 0 | 0 | 0 | 0 | 11.233 |
| Subordinate and non-core capital | 128.466 | 0 | 0 | 0 | 0 | 128.466 |
| Equity capital | 454.232 | 0 | 843 | 0 | 0 | 455.075 |
| **Sum Liabilities and Equity Capital** | **8.601.129** | **111.481** | **2.256.194** | **733.725** | **6.983** | **11.709.512** |

The difference between assets and liabilities in the individual currencies does not represent the banking group's FX position for the purposes of Art. 26 of the banking laws. Open FX positions are hedged using derivative financial instruments such as currency and cross-currency swaps; but these hedges are shown at their market value, not their nominal value, in the IFRS accounts.
The balance from the currency account was TEUR 3,756 (2010: TEUR 2,368). Of this, TEUR 3,743 (2010: TEUR 1,590) was recorded in profit-affecting fashion in the P+L account, together with other profits of TEUR 13 (2010: TEUR 946). The cumulative balance of equity capital amounted to TEUR 370 (2010: TEUR 383).

The total of all open FX positions at 31.12.2011 was TEUR 1,893 (2010: TEUR 1,215).

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Foreign assets | 3.593.661 | 4.320.775 |
| Foreign liabilities | 6.298.482 | 6.864.034 |

## (85) Subordinate Assets

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Receivable from financial institutions | 3.500 | 3.500 |
| Debentures | 4.862 | 12.053 |
| **Subordinate Assets** | **8.362** | **15.553** |

## (86) Trustee Business

### *Trustee Assets*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Receivable from customers | 16.677 | 18.585 |
| **Assets on trust** | **16.677** | **18.585** |

### *Trustee Liabilities*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Verbindlichkeiten gegenüber Kreditinstitute | 18.540 | 18.581 |
| Verbindlichkeiten gegenüber Kunden | 3 | 4 |
| **Treuhandverbindlichkeiten** | **18.543** | **18.585** |

The trustee business shown is export finance and/or funding via the ERP funding program under which HYPO TIROL BANK AG has assumed the default liability towards those institutions and has therefore included the assets and liabilities concerned in its accounts in financial terms.

## (87) Contingent liabilities and credit risks

### *Contingent liabilities*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Payable from guarantees | 131.873 | 135.044 |
| Other contingent liabilities | 55.875 | 52.297 |
| **Contingent liabilities** | **187.748** | **187.341** |

### *Contingent liabilities by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| up to 3 months | 1.446 | 2.393 |
| 3 months - 1 year | 12.795 | 15.634 |
| 1 - 5 years | 87.959 | 71.002 |
| more than 5 years | 85.548 | 98.312 |
| **Contingent liabilities** | **187.748** | **187.341** |

### *Credit risks acc. to Art. 51, sec. 14 of banking laws*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Other credit risks | 866.237 | 1.048.728 |
| **Credit risks** | **866.237** | **1.048.728** |

### *Credit risks by maturity*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| 3 months - 1 year | 439.729 | 668.260 |
| 1 - 5 years | 426.508 | 380.468 |
| **Credit risks** | **866.237** | **1.048.728** |

These credit risks include loans which have been granted but which customers have not yet taken up; this is mainly promissory notes in the loan business, but also unused credit lines.

## (88) Breakdown of financial instruments by issuer nationality

The following breakdown of financial instruments by issuer nationality is in book value.

| | Available for Sale | | Loans & Receivables | | Held to Maturity | |
|---|---|---|---|---|---|---|
| Tsd. Euros | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Austria | 559.621 | 473.722 | 3.634 | 33.635 | 91.038 | 154.471 |
| Germany | 189.300 | 191.659 | 3.000 | 3.000 | 123.730 | 193.554 |
| Italy | 12.836 | 12.732 | 2.440 | 5.243 | 30.424 | 47.802 |
| Spain | 25.911 | 38.669 | 6.948 | 7.539 | 93.557 | 106.347 |
| Netherlands | 78.326 | 72.458 | 12.988 | 23.003 | 35.251 | 40.346 |
| Great Britain | 11.192 | 15.720 | 5.644 | 6.665 | 35.918 | 46.719 |
| France | 81.764 | 90.134 | 2.486 | 3.523 | 39.557 | 50.618 |
| Finland | 24.736 | 23.229 | 0 | 0 | 14.982 | 17.957 |
| Ireland | 1.894 | 20.820 | 21.690 | 29.206 | 16.544 | 35.806 |
| Portugal | 5.931 | 6.770 | 1.238 | 1.410 | 2.922 | 22.957 |
| Sweden | 46.862 | 30.912 | 0 | 0 | 3.999 | 3.999 |
| Remaining EU states | 66.237 | 69.111 | 5.184 | 10.485 | 48.402 | 67.239 |
| Remaining Europe | 24.370 | 25.738 | 8.855 | 10.477 | 18.797 | 31.592 |
| Outside Europe | 37.090 | 68.647 | 0 | 1.266 | 62.702 | 89.438 |

## (89) True repurchase business

The fiscal year ended saw assets being transferred as part of true repurchase business. The book value of the securities put in repurchase which are shown under financial assets as held to maturity was TEUR 65,230. The inflow of liquidity from this repurchase business is shown under liabilities to financial institutions.

## (90) Personnel

### *Staff resources*

| | 2011 | 2010 |
|---|---|---|
| Employees full time | 587 | 635 |
| Employees part time | 82 | 75 |
| Apprentices | 5 | 5 |
| **Personnel, annual average** | **674** | **715** |

## (91) Events after the balance sheet cutoff date

There have not been any particular events of note worth reporting betgween the end of the fiscal year and when the consolidated financial statements were produced. With regard to other events, we refer to the corporate report.

## (92) Consolidated equity funds and banking regulation equity requirements

Details about capital control can be found in the notes on financial risks and risk management on pages 54-55.

The tables below show what the HYPO BANK AG's equity requirements were under Art. 30 of the banking laws at the end of the 2011 and 2010 fiscal years, and how the consolidated equity funds were made up as of 31.12.2011 and 31.12.2010 respectively:

### *Consolidated equity acc. to Art. 23 in conjunction with Art. 24 of banking laws*

| Tsd. Euros | 2011 | 2010 |
|---|---|---|
| Paid in capital | 108.800 | 108.800 |
| Capital reserves | 80.332 | 80.332 |
| Revenue reserves | 44.719 | 112.962 |
| Liability reserves | 60.007 | 103.007 |
| Consolidation acc. to Art. 24, sec. 2 of banking laws | 17.507 | 15.533 |
| Intangible financial assets | -1.854 | -1.921 |
| **Core capital (tier 1 capital)** | **309.511** | **418.713** |
| Non-core capital | 79.743 | 80.927 |
| Subordinate capital | 135.163 | 147.348 |
| **Non-core capital (tier 2 capital)** | **214.906** | **228.275** |
| **Deductions** | **-973** | **-973** |
| **Calculable equity capital (tier 2 + tier 2 minus deductions)** | **523.444** | **646.015** |
| **Basis for calculation from risk-weighted assets** | **4.813.875** | **5.397.436** |
| Core capital quota | 6,07% | 7,38% |
| Equity quota | 10,27% | 11,39% |
| Equity requirement for risk-weighted assets | 385.110 | 431.795 |
| Equity requirement for operational risk | 22.767 | 21.832 |
| **Total equity requirement** | **407.877** | **453.627** |

### *Consolidated equity requirement acc. to Art. 22 of banking laws*

| Tsd. Euros<br>Receivable categories | weighted values | equity requirement |
|---|---|---|
| Receivables from central governments | 5.000 | 400 |
| Receivables from regional bodies | 7.776 | 622 |
| Receivables from administrative establishments | 3.089 | 247 |
| Receivables at high risk | 16.020 | 1.282 |
| Receivables from institutes | 210.791 | 16.863 |
| Receivables from corporate bodies | 2.083.828 | 166.706 |
| Retail receivables | 471.145 | 37.692 |
| Receivables secured with property | 1.192.754 | 95.420 |
| Delinquencies | 238.322 | 19.066 |
| Receivables in the form of covered debentures | 88.798 | 7.104 |
| Securitisation items | 124.467 | 9.957 |
| Receivables in the form of investment fund units | 24.124 | 1.930 |
| Other items | 347.760 | 27.821 |
| **Risk-weighted assets** | **4.813.874** | **385.110** |
| Equity requirement for operational risk | | 22.767 |
| **Total equity requirement** | | **407.877** |

## Risk management

### Introduction

The HYPO TIROL BANK AG group sees risk management as a division of the working business process, identifying, assessing, monitoring and managing risks at group level.

Appropriate quality risk management is seen as an essential success factor in the company's consistently successful growth. It thus corresponds to the requirements of the ICAAP (Internal Capital Adequacy Assessment Process).

In business year 2011 a new method of scoring conduct for private customers was introduced. Otherwise, there were no changes of methodology to the calculations used in the risk report in 2010, except in the calculation of liquidity statistics. Scenarios were extended and refined in ongoing fashion. There were also changes in the definitions of risk reports.

## Principles and Organisation

### Active Risk management

We promote and engage in active risk management: our risk management department, in the course of running processes, makes sure of the identification, valuation, control and supervision of risks. Further, regularly carried out check-ups ensure quality management.
The foundations of our risk management programme at the bank is the strict separation of market and market developments. The risk management functions are assigned to the board member responsible for risk management. Risk Controlling at the bank is developed and carried out by the staff responsible for risk management in the concern.

The internal revision supervises all operative and business transactions at the bank, the appropriateness and the effectiveness of the measures taken by the concern's risk management department as well as the internal control systems. This department reports directly to the managing board.

### Appropriateness

The risk management department operation is effected in such a way that the size of the bank and the risk taken remain in strictly measured proportion to one another.

- For the major risk types, we strive towards risk management on a level which compares to institutions of comparable size and structure. That means that we utilise complex measuring methods, e.g. value at risk method, for our major risks.
- Risk distribution and ICAAP are oriented towards target-organised goals for a going concern.
- Our personnel and tangible equipment as well as our technically organised appointments correspond both in quality and in quantity to the operative requirements, to the business activities, to the strategies and to the risk situation of the bank.

### Current situation

The risk management department is seen as a continually transforming process which ongoingly adapts to the current situation and the givens of the moment.

- We re-work the overall risk strategy and its methods annually.
- Through ongoing training and education, we ensure that a level of quality in our staff is maintained which corresponds to the present state of developments.
- Documention are record keeping are continually adapted.

### Transparency

The risk management department is conducted within the bank in ways which can be clearly followed.

- The overall risk strategy is communicated in the bank channels and also to the supervisory board, as well as to the control committee and discussed in its details with all these units.
- Risk limits are re-worked annually, making risks transparent and comparable. This enables us to control and navigate risks more actively.
- The managing board is continually informed with regard to the current and systematized reporting by the risk management department of the concern and the current risk developments. This reporting comprises both a platform for written reports and regular committee meetings on the theme of risk management. The core of this organisation was laid out in the „Concern Risk Committee" guidelines, which belongs to the Managing Board and all responsible members of the team responsible for risk management.

### Cost effectiveness

We engage only in business which is cost effective.

- Our risk control processes are embedded in an integrated system targeting profit and risk management (Overall Bank Control).
- With regard to use of risk instruments, we strive towards overall solutions and develop special instruments only for those cases where the cost/benefit ratio makes it appear sensible.

### Risk Willingness

When the risk situation is not transparent or methodical doubts arise, we lean towards prudence:

- We only enter into business which we thoroughly understand and can (technically) value. That means, we engage principally only in those fields in which we have the requisite expertise to judge the specific risks involved. Entering new sectors of business or dealing with new products requires previous and sufficient analysis of the business-specific risks involved which in the process „New products" regulates new markets for us.
- Businesses which we enter are described in Product Handbooks.
- Apart from the primary economic creditworthiness of borrowers, a wide ranging set of collateral is strived for.
- Exception: Customers from the business sector with good business connections who can be accompanied.
- We enter only those risks which we can also afford. Beyond that, we do not use our entire risk coverage sums for the risks we engage in and maintain provisions and reserves for extraordinary scenarios which might arise and not measured risks.
- Secondary terms, in particular those pertaining to the overview board, are underpinned with a security buffer zone.
- We see not only events which are more or less probable, but also take into consideration utterly extraordinary possibilities („stress tests").
- The risk management department is organised in such a way that conflicts of interest, both of personal and of organisation types, can be utterly avoided.

## Risk distribution

The overall risk strategy is reviewed annually by the Managing Board, together with the risk management team. In business year 2011, our risk strategy was heavily revised and given a new orientation. The overall risk strategy consists of a qualitative part, in which fundamentals of risk management are established, i.e. principles, risk management and control processes, organisation, etc. and a quantitative part which defines the communication and understanding of risk-bearing capability and the limits both of such capability and of risk concentration.

Risk limits are ongoingly inspected by the risk management team, supervised and communicated through reporting organs to the Managing Board using the so-called red-yellow-green light system. When a yellow light is triggered, i.e. the early warning step, the authorititave persons decide upon the measures to be taken in order to return to the green zone. This result is reported to the Managing Board. If a red light is triggered, i.e. when pre-defined limits are transgressed, the Managing Board themselves decide upon the measures to be taken.

We manage our risks via calculating our financial capital each month as part of our risk viability analysis. The Managing Board decides on overall risk strategy, which indluced allocating our risk coverage potential between the different kinds of risks. This governs the extent to which we are prepared to bear risks. Every quarter, we calculate the risk coverage assets we can call upon to cover losses: this tells us to what extent we can take on risks as part of our business policy.

The capital the group can use to take on risks is its equity funds, which consist of tier 1 and tier 2 capital; we also include some of our latent reserves when calculating our risk coverage assets {see Notes (92)}
We manage our equity by putting limits on our core capital and equity ration, on the one hand, and on the ratio of core capital and non-core equity on the other.
Our risk viability analysis compares the financial capital we need to meet unexpected losses with our risk coverage assets: the difference constitutes our equity reserves. It serves to protect our creditors, and is also essential for a good rating.

## Risk viabilitiy

In calculating the financial capital required to meet our cridit risks, we follow the IRB approach in Basle II, the main criteria being exposure, security and debtor ratings. We calculate how much financial capital we need to cover market risks using the value at risk method, and the financial capital required for operational risks using the basic indicator method. Real estate risks and Holdings risks are classified in accordance with their risk substance and a risk weighting between 25.0% and 390.0% is derived.

The value at risk parameter permits us to compare and aggregate risks of different kinds. At the same time, the Managing Board has set the upper loss limit for assuming all typical business risks by limiting it to the risk coverage assets.

Unless other references are specifically made, these are statistics based on our internal Managing Board information.

In our risk viability analysis, we calculate the group's risks to a level of confidence of 99.9% and a holding period of one year. As holding period for market risk, 22 days were selected, since risk is regularly supervised and can be counteracted immediately.
The risk coverage assets brings together allowable consolidated equity capital in acc. with Art. 23, sec. 14 of the banking laws; undisclosed reserves are not taken into consideration {see Notes (87)}

| Economic capital Tsd. Euros | 31.12.2011 | in % | 31.12.2010 | in % | level of confidence | holding period |
|---|---|---|---|---|---|---|
| Credit risk | 219.357 | 41,91 | 251.790 | 39,21 | 99,90 % | 250 |
| Market risk | 33.445 | 6,39 | 27.857 | 4,34 | 99,90 % | 22 |
| Operational risk | 22.767 | 4,35 | 20.480 | 3,19 | 99,90 % | 250 |
| Real estate risk | 9.008 | 1,72 | 6.447 | 1,00 | 99,90 % | 250 |
| Holdings risk | 6.134 | 1,17 | 5.301 | 0,83 | 99,90 % | 250 |
| Economic risk overall | 290.711 | 55,54 | 311.876 | 49,41 | | |
| **Risk coverage assets** | **523.444** | **100,00** | **642.156** | **100,00** | | |
| **Risk buffer** | **232.733** | **44,46** | **330.280** | **51,53** | | |

The large decrease in risk coverage mass resulted from the large losses in Italy.
The credit risks of the corporate group receded in the year of reporting. This is attributable to the reduction of asset volume and to enhanced collateral. With regard to market risk tended in a sideways development. The interest change risk - including in market risk - was further reduced systematically. The exchange rate risk remained more or less unchanged.

From the vantage point of the concern, the Vollbank Italy, the transparency principle has been selected. Thus, the loan risks of individual customer claims is depicted and the participation risk remains unreflected.

Besides the risk viability from the point of view of liquidity, the vantage point of the Going Concern is also calculated at HYPO TIROL BANK AG. In this case, the continuation even under negative scenarios, is examined. Possibilities in three different variants are drawn into the calculations (80%, 90%, 99%) and tested as to whether the risk coverage sums are sufficient. In the year 2010, the continuation of the bank was shown to be viable in all these tested scenarios.

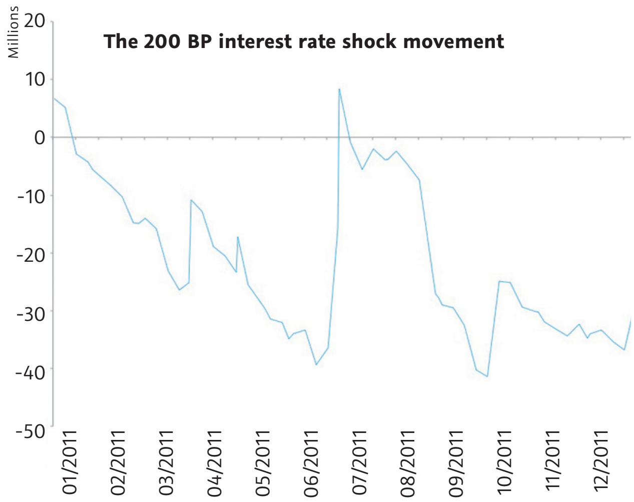
## Stress tests

The term “stress test” is the overall term for all those methods which are used to examine and test the individual potential of endangerment to a bank. In particular, stress tests are intended to be applied to „normal“ market situations, e.g. value at risk and to complete, i.e. supplement them and shore up their weak points.

**200 base points of Interest Rate Shock**
For the cash value of the corporate group, the change is calculated on the basis movements of 200 base points upwards or downwards in the interest rate curve. The overall cash value change under the 2010 shock hovered around a mean value of EUR 4.7 mil., a maximum value of EUR 22.7 mil. and a minimum value of EUR -17 mil. During

the former part of the year, the risk values tended to stagnate. As of the middle of the year 2010, the risk level had decreased drastically, reaching a low point by the end of the year. The reason for this was, among other things, reduction of the remaining maturity from our own portfolio, as well as the consequential securing of the interest rate risk in purchasing new securities and shares.
Thus, the result of this stress test for the whole fiscal year turned out to be well below the threshold set by banking regulations at 20.0% of equity capital.

| Tsd. Euros | 31.12.2011 | 31.12.2010 |
|---|---|---|
| 200 BP interest rate shock | -27.972 | -16.788 |
| Average over year | -21.079 | 4.696 |
| Maximum over year | 8.352 | 22.739 |
| Minimum over year | -41.419 | -16.951 |




Besides the 200 base point interest shock, we also consider other rate scenarios, such as the rate curve inverting and bulging out.

### Analysis of market risk scenarios

HYPO TIROL BANK AG simulates market risks for the group as a whole and considers them in the light of certain scenarios. The impact on the profit and loss account and on equity capital is as follows:

| Tsd. Euros | impact on P+L |
|---|---|
| Rate change risk (+40 BP shift) | 642 |
| Rate change risk (equities down 10%) | 1.299 |
| Credit spread widens | 3.412 |
| FX risks | 882 |

### Stress Test for Loan Risks

In connection with loan risks, we carry out two different types of stress tests. On the one hand, we examine whether the following secnarios have an effect on profits (EGT) and on the core capital ratio:

- Price plunge in real estate and, thus, reduction of real estate collateral
- Rising evaluation of foreign currencies against the euro
- Sinking creditworthiness structure of our loan debtors

These scenarios are view individually and also in combination. The stress tests which are carried out resulted in the recognition that the EGT effect in our risk viability can be borne. Further, initial tests with inverse stress tests were careried out in order to test which changes the bank reacts particularly intensely to.
The second type of stress test in loan business treats risks from large-scale engagements. The point of departure is that at least one loan in our portfolio with high amount and high risk will default. The test shows that a major risk exists here. The stress test is carried out each quarter-year and measures have been taken to reduce this risk.

### Stress test for real estate

This stress test considers and analyzes how falling real estate prices of HYPO TIROL BANK AG properties would affect profits (EGT) and our core capital ratio.
A price drop of 35% of all real estate would affect the core capital ratio of HYPO TIROL BANK AG by only 35 base points. From the stress tests we have conducted, we can say that we can absorb the risks which a fall in property prices would have on our EGT (current results).

## Loan risk

Loan risk is the major risk of the bank.

### Definition

By loan risk, we mean the risk of default of non-securitzed receivables and certified receivables (securities and shares) on the part of a third party. The risks consists of such receivables not being able to perform as foreseen in the terms of the loan contract, i.e. amount, time. This can result from developments withing the purview of the contractual partners as well as from general developments which affect a large number of contractual partners. In equal measure, loan risks can also result from special forms of the loan product design or from the application of minimizing loan risks.

### Managing credit risk

The methods we use in measuring and assessing credit risks are as follows:
- Expected loss ('standard risk costs')
  Expected losses are calculated using a standard risk cost model. From our internal ratings, we calculate standard risk costs, using default probabilities and allowing for unsecured components and maturity, calculating future P&L risks based on experiential values from the past.
- Unforeseen losses (financial capital) - capital erosion.

Unforeseen losses are quantified using the cridit value at risk (CVaR) on the total portfolio for a year ahead and a confidence level of 99.9%. The group's credit value at risk is based on a model which in turn is based on the basic IRB approach, and takes a few assumptions from the standard approach, creating a risk-sensitive method for detecting credit risks. These are calculated on a quarterly basis and delivered to the management to enable it to manage the business.

On the one hand, the overall credit risk is limited; on the other, there are limits for individual concentration risks. By 'concentration risks' we mean the potential adverse consequences that could arise from concentrations of or interactions between risk factors or different kinds or risks, such as the risk from loans to the same counterparty, a group of associated counterparties or to counterparties from the same area or industry, or to counterparties offering the same goods and services, from using credit risk reduction methods and in particular from major credit risks.

To limit potential adverse effects that might arise out of concentrations of or interactions between similar and different risk factors and types of risk, we monitor our portfolio, limit individual variables and assess these on a quarterly basis, using the criteria below:

**Breaking down portfolio by solvency**
An evaluation of creditworthiness is a major factor in managing credit risk. For that reason, the solvency of our customers is continually supervised and the portfolio is inspected in its composition each quarter. The lower solvency segment, in addition, is equipped with a risk indicator which is itself ongoingly watched. Nearly 2/3 of our volume have been alloted outstanding or very good creditworthiness. Thus, the percentagle in these rating groups compared to the previous year has remained constant{see Notes (55)}.

The NPL ratio has significantly deteriorated, most of all through the high default in our bank in Italy.

**Breaking down portfolio by business sector**
A further part of credit risk management at Hypo Tirol Bank is the sub-division according to business sector. A large part lies in the sector of professional construction companies and tourism. In order to avoid an inordinately large concentration in these sectors, both are supervised by means of a risk indicator {see Notes (54)}.

**Breaking down portfolio into market region**
In 2011 in the context of the Honing our Strategy project, the market region and the business sector were re-defined. The core market comprises North and East Tyrol, where the Hypo Tirol Bank AG is active as a full bank. In the supplementary market regions of greater Vienna, South Tirol, Trentino and Verona, as well as in greater Munich, we offer a selective range of products and services.
The risk indicators have been adapted to these new market region definitions. What business comes from what market region is carefully monitored {see Notes (54)}.

**FX component, receivables from customers**
The foreign currency component of receivables from customers was continuingly reduced through 2011. The Hypo Tirol Bank does not make any new transactions with private customers in foreign currencies, only with certain select corporate customers. Through ongoing redemptions, the foreign currency component is being further reduced {see Notes (54)}.

**Movements in repayment vehicle loans**
The group monitors its repayment vehicle risks based on the rules laid down by national regulatory authorities. The monitoring focuses on individual clients. Clients and their advisors are informed constantly how their repayment vehicle loans stand at any given time, and action taken accordingly if it appears necessary.

With fund values falling, the shortfall in repayment vehicle loans has increased. Short-term finance in particular was analysed closely, discussions held with clients and action taken accordingly.

**Credit Default Swaps and Financial Guarantees**
CDS and financial guarantees are managed via absolute portfolio limits and solvency limits.

### Loan Risk Provisions

Making provision for risks means making provisions in the accounts, reviewing individual loan receivables to see if they retain their value. If we find they have lost value, we apply individual valuation adjustments accordingly {see Notes (55)}.
To identify potential risks in credit business early on, we need procedures to detect risks at an early stage, so we can take timely countermeasures. With this in mind, the group has deveoped indicators to identify risks promptly, based on quantitative and qualitative risk factors. The Hypo Tirol Bank AG group's provision for risks policy also includes managing overdue receivables (90 days in arrears).
The likelihood of default of Hypo Tirol Bank customers is in the rating class 1 between 0.01% and 0.05%; in rating class 2 between 0.07% and 0.35%; in rating class 3 between 0.53% and 2.7%; and in rating class 4 between 4.05% and 20.50%.
For purposes of calculating adjustments in portfolio value, receivables from customers are multiplied by the corresponding likelihood of default and shortened appropriately for the time span between the occurrence of the loan risk event and the actual risk arising.

## Market price risks

### Definition

Market price risks mean the danger of losses to HYPO TIROL BANK AG resulting from changes in market prices.
Risk statistics for market risk are calculated for the HYPO TIROL BANK AG concern. Since the risk strategy provides for subsidiaries assuming no market risk, and this stricture is also implemented through appropriate refinancing, we assume that risk statistics for the concern are also valid for the bank.

### Management of Market Risks

Market price risks are calculated in principle by the value at risk method with historical simulation, using other special risk assessment methodsfor alternative risks and holding risks. The value at risk represents how much value a position could potentially lose in cash terms by the time it is secured or realised at a given probability.
This is measured by calculating a daily market value at risk, using the parameters below:

- historical period over which simulations are run: 250 trading days
- holding period: one trading day
- confidence level: 99%

Risk values are scaled up to a holding period of one month for management purposes.

The quality of the value at risk model used is assured by retroactive-testing, which also includes FX risks, comparing the value at risk values for the last 250 trading days with how values have actually changed.

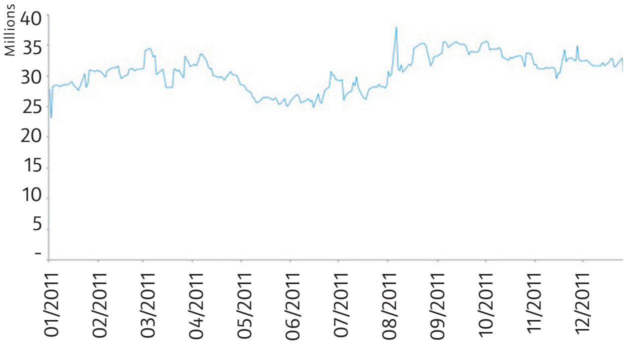
If there are too many 'strays' (actual loss greater than loss forecast by value-at-risk method), the value at risk model is adjusted using the Basle red-yellow-green light approach.
At year's end, 31.12.2010, the strays analysed did not indicate the value-at-risk approach needed to be adjusted using the factor from the Basle red-yellow-green light approach or the model used in calculating value at risk revised.

The graphics below show how the market risk has developed in historical terms:

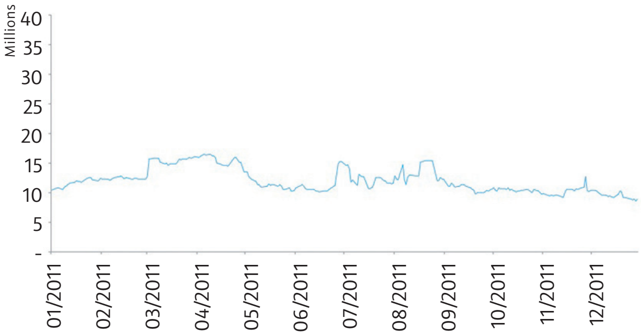
| Tsd. Euros | 2011 Year end | 2011 Average | 2011 Minimum | 2011 Maximum | 2010 Year end | 2010 Average | 2010 Minimum | 2010 Maximum |
|---|---|---|---|---|---|---|---|---|
| Rate change risk | 8.911 | 12.027 | 8.565 | 16.441 | 10.331 | 11.709 | 7.762 | 17.376 |
| FX risk | 21.188 | 14.752 | 7.402 | 22.110 | 12.311 | 9.088 | 3.726 | 15.515 |
| Security price risk | 3.133 | 3.617 | 2.009 | 7.261 | 4.747 | 3.808 | 1.851 | 5.913 |
| Alternative risk | 213 | 268 | 213 | 469 | 469 | 560 | 432 | 608 |
| **Market risk** | **33.446** | **30.664** | **23.111** | **37.835** | **27.857** | **25.165** | **17.416** | **29.529** |

'Alternative Risk' means the market price risks arising out of hedge fund positions.

**Changes in market risk**

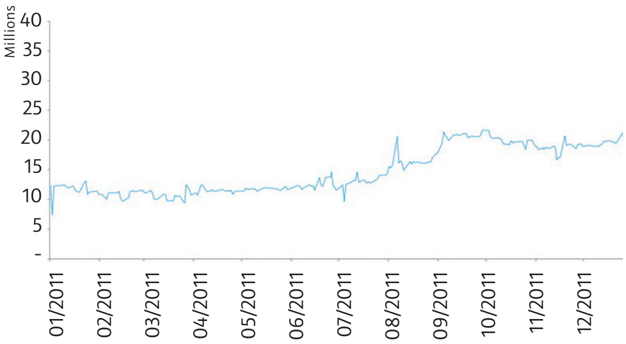



**Changes in interest risk**

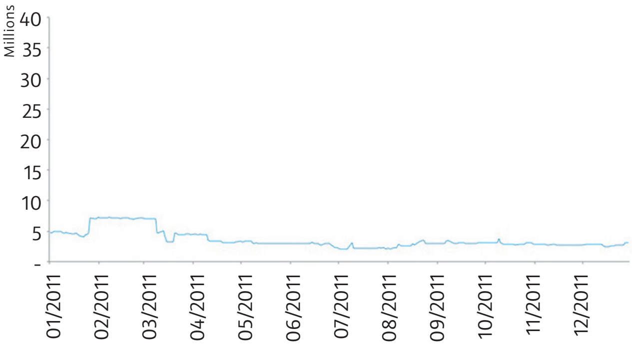



Interest risk is synonymous with risk of interest rate changes. By interest risk we mean the danger that the achieveable interest income will not be obtained, due to interest rate changes which take place.
Through consequentially hedging interest risks for all new business, the interest risk - value at risk has stagnated, by and large.

**Changes in foreign exchange risk**




**Changes in security price risk**




Open FX positions were hedged, as there was nothing specific for them defined in the strategy. This means the FX value at risk was due in practice to the FX risks of future FX cash flows from interest payments. Most of the FX value at risk lies in the currency value at risk in CHF, which has also increased, as the CHF exchange rate has become more volatile. By setting a bottom borderline for the Euro/CHF exchange rate of 1.20, the Swiss National Bank has reduced the volatility, thereby making a risk reduction expected in 2012.

By security price risks on asset values, we mean the risk of the prices of shares and unit trust holdings fluctuating. As well as value at risk, these risks are limited by putting limits on the volumes of sub-portfolios, such as pension funds, equities, ABS, etc. Security price risks are not a major risk, and moved sideways at a low level during 2011.

## Liquidity risk

### Definition

This term comprises the default risk and the timely repayment risk.

Default risk is the risk that current or future payment obligations cannot be fully met, or met in timely fashion or not met without having to suffer unaccaptably high losses. It comprises the risk that in case of a liquidity crisis, there are no - or not sufficient - refinancing funds or only at higher market rates (refinancing risk) and that assets can be sold only at high disagio on the market (market liquidity risk).

The deadline transformation risk is the risk that a loss can arise due to a change in the bank's own refinancing curve (spread risk) from liquidity deadline transformation within a pre-defined period of time at a certain level of confidence.

### Liquidity risk management

The main ways the group seeks to reduce liquidity risks are as follows:

- Holding sufficient liquid stocks by way of our own securities portfolio and interbank receivables
- Cultivating our own rating to ensure our issue viability and refinancing lines
- Ensuring our borrowers are spread widely enough by using individual borrower limits on credit risks
- Achieving diversification with financiers through:
  - cultivating relationships with a broad range of money trading counterparties
  - strengthening our market share in the retail market
  - supporting institutional clients via our Treasury Sales department
  - using a broad band width of arrangers when placing MTN issues

We measure liquidity risks through:

- Liquidity tie-up balance
- Liquidity ratio
- Liquidity at risk

Measuring how long it would take to realize assets and obligations (liabilities) and allowing for existing and potential outflows is thus extremely important, and is used on a regular basis.
By comparing when receivables and liabilities mature (after tied-up capital), we can assess our liquidity position and manage our liquidity risks (future and call-off risks).

### Changes to liquidity ratio 2011

The liquidity ratio is the ratio of liquid assets to liquid liabilities. Such statistics have long been in use at HYPO TIROL BANK AG. In 2011, the calculation method was fundamentally re-worked and now sets out statistics which are reported by our bank each week to the Austrian Cental Bank. The advantage is that not only contractually-based payments, but also anticipated cash flow, e.g. outflow of savings accounts, anticipated grantings of loans, can also be taken into consideration.

This covers liquidity flows within three months, assuming conservative scenarios for uncertain liquidity flows for risk purposes. The liquidity ratio as of 31.12.2011 was 5.4: thus, the group's liquidity position may be descirbed as comfortable.

| Liquidity ratio | 2011 | 2010 |
|---|---|---|
| Year end | 5,4 | 3,1 |
| Average | 4,0 | 3,6 |

### Maturity structure of payables based on non-discounted payment flows

| in Tsd. € | under 3 months | 3 months - 1 year | 1 -5 years | over 5 years |
|---|---|---|---|---|
| Liquidities | 1.124.813 | 1.097.204 | 3.841.976 | 4.743.537 |
| Derivatives | 284.080 | 420.399 | 586.737 | 601.964 |

**Liquidity at Risk**
In order to calculate the risk of unexpected outflow in money trading, the corresponding data are recorded daily. These serve as a basis for calculating Liquidity at Risk. In business year 2011, Liquidity at Risk was calculated for the first time. As of 2012, Liquidity at Risk will serve to define a cash reserve which is intended to intercept and absorb short-term, unexpected money outflow.

## Quality Management of Hypo Group Data

The year 2011 was a very constructive and positive one for the quality management of the Hypo Group data. On the one hand, in the context of the most recent Austrian National Bank examination as we were given the themes which we already observe month after month, we received positive feedback; and on the other, we were able to expand the spectrum of our control instruments revolving around the theme of collateral. The current situation of real estate towards fulfilling the requirements corresponding to solvency regulations and financial collateral were in the foreground. Deposit accounts and life insurance policies were the focal point. At the same time, a task platform in the core system was established in collaboration with other departments, in the course of which the cornerstone for a comfortable, ongoing and uniform processing was laid. For the year 2012, we have set the objective of analysing the tools, applications and deployment areas on the them of credit rating; of reducing the complexity and providing a continuous control of the correct application of said tools, particularly heightening the precision and forecasting quality through adjustments of the tools which are being used.

## Special Developments in 2011, Prospects for 2012

The year 2011 was highly unusual and challenging for HYPO TIROL BANK AG from the risk point of view. The risk situation of our subsidiary in Italy gave rise to enormous insecurity. It became evident that the credit risk of this subsidiary bank was far higher than had previously been assumed. The decision was made to carry out a special credit examination and analysis for Italy. By the end of March 2012, the greater part of the portfolio will have been investigated and the anticipated losses will be clear. Apart from the recorded depreciations in business year 2011 (see Segment Reports) the entire year of 2012 will be occupied with working over and repairing our Italian portfolio.
A change in the Managing Board and a change in the organisational structure also took place in 2011, which will make consequent changes in the risk reporting of the bank necessary.
In addition, the theme of liquidity management has been worked on. A Liquidity at Risk model has been developed.
The focal point of business year 2011 was our rating systems. A backtesting was carried out, corresponding analyses were made and measures were taken. In 2011 the self-developed, automated inventory scoring of private customers at HYPO TIROL BANK AG was introduced and established.
During the year 2012, a rating handbook will be composed and published in order to improve the wide ranging applications and areas of usage of rating tools. The development of early warning systems will also be at center stage of our efforts in 2012, in order to recognize approaching risks at the earliest possible moment.
The theme Basle III occupied us already during 2011 and will leave a strong impression on 2012 as well, particularly in risk management. The HYPO BANK TIROL AG will work on this theme through an internal project in order to implement the corresponding rules internally by the time of their official introduction on 1 January 2013.

## (93) Principles of Austrian law

Under Art. 59a of the banking laws in conjunction with Art. 245a, sec. 1 of the UGB (corporate) laws, consolidated financial statements which have to be produced under Art. 59 of the banking laws must adhere to IFRS standards, whose use is required in EU countries. Under Art. 59a of the banking laws, the details under Art. 64, sect. 1, lines 1-15 and sect. 2 of the banking laws and Art. 245a, sect. 1 and 3 of the UGB laws must be included in the consolidated financial statements.

A full list of the group's holdings can be found in section VII (Holdings).

## (94) Dividends and retrospective amendments

HYPO TIROL BANK AG can pay dividends up to the value of the profits as reported in the (individual) accounts under the banking laws and/or UGB laws of a reported balance of TEUR 81 (2010: TEUR 8,273). In the completed business year a dividend of TEUR 8,203 (2010: TEUR 4,336) was paid.

The annual lacking income in business year 2011 amounted to TEUR 111.233 (2010: profit of TEUR 12,726). After dissolving reserves of TEUR 111,243 (2010: allocated to reserves TEUR 4,512) and adding the profit advant of TEUR 71 (2010: TEUR 60), this results in a utilisable balance sheet profit of TEUR 81 (2010: TEUR 8,274).

The Managing Board of HYPO TIROL BANK AG gave its consent on 5 April, 2012 to the present consolidated financial statements being published.

## (95) Securities structure under banking law

The table below shows securities structured according to Art. 64, sec. 1, lines 10 and Z11 of the banking laws as of 31.12.2011:

| | not public quoted | | publicly quoted | | total | |
|---|---|---|---|---|---|---|
| **Tsd. Euros** | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| Debentures and other fixed interest securities | 116.574 | 61.853 | 1.112.598 | 1.011.769 | 1.229.172 | 1.073.622 |
| Shares and other non-fixed intereest securities | 7.721 | 12.060 | 12.368 | 16.665 | 20.089 | 28.725 |
| Holdings | 17.642 | 19.454 | 2.703 | 2.703 | 20.345 | 22.157 |
| Shares in associated companies | 150.035 | 154.714 | 0 | 0 | 150.035 | 154.714 |
| Financial investments | 68.873 | 64.242 | 2.032.952 | 2.310.328 | 2.101.825 | 2.374.570 |
| **Total securities according to banking law** | **360.845** | **312.323** | **3.160.621** | **3.341.465** | **3.521.466** | **3.653.788** |

The difference in securities which are classified as financial assets acc. to Art. 56, sec. 2 of the banking laws is TEUR 1,059 (2010: TEUR 1,456) and acc. to Art. 56, sec.3 of the banking laws TEUR 1,613 (2010: TEUR 2,560). Forecast redemptions in 2012 are TEUR 466,309 (2011: TEUR 516,033). Non-core and subordinate capital in equity assets is TEUR 33,104 (2010: 31,088).

In the coming year, securitised liabilities at a nominal value of TEUR 957,017 (2010: TEUR 637,380) will mature and become due.

## (96) Informational duty

Comprehensive information on the organisational structure, on risk management and on the risk capital situation in accordance with sec. 26 and 26a of the banking laws in connection with the regulation of the Finance Supervisory Commission on executing banking laws with regard to informational duties on the part of credit institutes are published on the website of the Hypo Tirol Bank AG.

At the address www.hypotirol.com/Unternehmen/Recht&Sicherheit under th sub-section entitled "Offenlegung § 26 BWG", the information can be downloaded.

## EXECUTIVE BODIES

| Members of the Supervisory Board | | | |
|---|---|---|---|
| **Chairman** | Mag. Wilfried STAUDER, | Innsbruck | |
| **1st Deputy Chairman** | Dr. Jürgen BODENSEER, | Innsbruck | |
| **2nd Deputy Chairman** | Dr. Toni EBNER, | Aldein | |
| **Other members** | | | |
| | Mag. Eva BEIHAMMER, | Schwaz | |
| | Dr. Christoph SWAROVSKI, | Wattens | |
| | Mag. Bernd GUGGENBERGER, | Innsbruck | |
| | Dr. Ida HINTERMÜLLER, | Innsbruck | |
| | Mag. Franz MAIR, | Münster | |
| Delegates of the Works Council | | | |
| | Dr. Heinrich LECHNER, Chairman of Works Council | Innsbruck | |
| | Andreas PEINTNER, | Ellbögen | |
| | Peter PICHLER, | Innsbruck | |
| | Ingrid WALCH, | Inzing | |

| Members of the Managing Board | | | |
|---|---|---|---|
| **Chairman** | Dr. Markus JOCHUM, | Innsbruck | |
| **Managing board member** | Johann Peter HÖRTNAGL, | Trins | |
| **Managing board member** | Mag. Johann KOLLREIDER, | Innsbruck | since 1 July 2011 |

| Representatives of the Supervisory Commission | | |
|---|---|---|
| **State commimssioner** | MMag. Paul SCHIEDER | Wien |
| **Deputy state commimssioner** | Amtsdirektor Josef DORFINGER | Wien |

| Trustees | | |
|---|---|---|
| **Trustees acc. to Pfandbrief laws** | Dr. Klaus-Dieter GOSCH | Innsbruck |
| **Deputy Trustee acc. to Pfandbrief laws** | Amtsdirektor Hannes EGERER | Wien |

# VII. SHAREHOLDINGS

*Companies that were fully consolidated in the consolidated financial statements:*

| Business name, town | Percentage of capital | Date of completion |
|---|---|---|
| HYPO TIROL LEASING GMBH, Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Gebäudeleasing 1987 Gesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Immobilienverwaltungs-Gesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Projekterrichtungs-Gesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Liegenschaftsanlage-Gesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent II Grundverwertung GmbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Sole Grundverwertungs-GmbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo-Tirol Mobilienleasing Gesellschaft m.b.H., Innbruck | 100,00 | 31.12.11 |
| Beteiligungs-und Finanzierungsgesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Grundverwertung GmbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo Tirol Versicherungsmakler GmbH, Innsbruck | 100,00 | 31.12.11 |
| HYPO TIROL INVEST GmbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo Tirol Leasing Wiener Betriebsansiedlungen GmbH, Innsbruck | 100,00 | 31.12.11 |
| Liegenschaftstreuhand GmbH, Innsbruck | 100,00 | 31.12.11 |
| L2 Errichtungs- und Vermietungsgesellschaft mbH, Innsbruck | 100,00 | 31.12.11 |
| Autopark Grundverwertungs GmbH, Innsbruck | 100,00 | 31.12.11 |
| CYTA-Errichtungs- und Management GmbH, Völs | 100,00 | 31.12.11 |
| CYTA-Errichtungs- und Management GmbH & CO KG, Völs | 100,00 | 31.12.11 |
| Alpen Immobilieninvest AG, Innsbruck | 100,00 | 31.12.11 |
| HTL Projektholding GmbH, Innsbruck | 100,00 | 31.12.11 |
| HTL Deutschland GmbH, München | 100,00 | 31.12.11 |
| ERFOLG Liegenschaftsvermietungs GmbH, Innsbruck | 100,00 | 31.12.11 |
| VBC 3 Errichtungs GmbH, Wien | 100,00 | 31.12.11 |
| Dienstleistungszentrum Kramsach Betriebsgesellschaft mbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo Tirol Bank Italia S.p.A., Bozen | 100,00 | 31.12.11 |
| Tirol Immobilien und Beteiligungs GmbH (IBG), Bozen | 100,00 | 31.12.11 |
| Hypo Tirol Swiss AG, Zürich | deconsolidated 2011 | |
| Hebbel Projektentwicklung Gesellschaft mbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo-Rent Betriebsansiedlungsgesellschaft m.b.H., Innsbruck | 100,00 | 31.12.11 |
| Aaron Kantor AT 1 GmbH, Innsbruck | 100,00 | 31.12.11 |
| Hypo Tirol Beteiligungs GmbH, Innsbruck | 100,00 | 31.12.11 |
| Berger Truck Service Verwaltungs GmbH, Innsbruck | 100,00 | 31.12.11 |

*Companies consolidated according to the Equity Method in the Consolidated Financial Statement:*

| Business name, town | Percentage of capital | Equity capital in Tsd. Euros | Date of completion |
|---|---|---|---|
| Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck | 33,33 | 1.370 | 31.12.11 |
| TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | -112 | 31.12.11 |
| TKL III Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | 739 | 31.12.11 |
| TKL IV Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | 120 | 31.12.11 |
| TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | 1.703 | 31.12.11 |
| TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | 760 | 31.12.11 |
| TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | -509 | 31.12.11 |
| TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck | 33,33 | -1.045 | 31.12.11 |
| Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck | 33,33 | -1.293 | 31.12.11 |
| Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck | 50,00 | -954 | 31.12.11 |
| Seilbahnleasing GmbH, Innsbruck | 33,33 | 59 | 31.12.11 |
| Competence Park Investment Verwaltungs GmbH, Friedrichshafen | 50,00 | 25 | 31.12.11 |
| Competence Park Investment Verwaltungs GmbH & Co. KG, Friedrichshafen | 50,00 | 5.955 | 31.12.11 |
| SEE.STATT Investment Verwaltungs-GmbH, Friedrichshafen | 50,00 | sold 2011 | |
| SEE.STATT Investment Verwaltungs-GmbH & Co. KG, Friedrichshafen | 50,00 | sold 2011 | |
| C ZWEI Investment GmbH, Innsbruck | 50,00 | Acquistion 100 % | |
| MC EINS Investment GmbH, Wien | 50,00 | 1.624 | 31.12.11 |
| MC ZWEI Investment GmbH, Wien | 50,00 | 726 | 31.12.11 |
| CS EINS Investment GmbH, Innsbruck | 50,00 | sold 2011 | |
| CS DREI Investment GmbH, Innsbruck | 50,00 | sold 2011 | |
| CS VIER Investment GmbH, Innsbruck | 50,00 | sold 2011 | |
| CS FÜNF Investment GmbH, Innsbruck | 50,00 | sold 2011 | |
| MS 14 Investment GmbH, Friedrichshafen | 50,00 | 31 | 31.12.11 |
| MS 14 Investment GmbH & Co. KG, Friedrichshafen | 50,00 | 2.287 | 31.12.11 |
| HTV KAPPA Immobilienleasing GmbH, Dornbirn | 50,00 | 0 | 31.12.2011 new |
| Projektentwicklungsges.m.b.H., Innsbruck | 75,00 | 3.360 | 31.12.11 |
| BIZ Business- und Innovationszentrum St.Pölten GmbH, St. Pölten | 75,00 | 861 | 31.12.11 |
| GTZ Gründer- und Technologiezentrum Wels GMBH, Wels | 75,00 | 3.499 | 31.12.11 |
| Bürocenter-Wienzeile GmbH, Wien | 75,00 | 194 | 31.12.11 |

*Data in accordance with IAS 28:37:*

| Business name, town | Total assets in Tsd. € | Liabilities in Tsd. € | Revenues in Tsd. € | Profit in Tsd. € |
|---|---|---|---|---|
| Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck | 6.710 | 5.340 | 392 | 183 |
| TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck | 1.761 | 1.873 | 62 | 1 |
| TKL III Grundverwertungsgesellschaft m.b.H., Innsbruck | 2.665 | 1.926 | 109 | 3.056 |
| TKL IV Grundverwertungsgesellschaft m.b.H., Innsbruck | 888 | 768 | 183 | 81 |
| TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck | 16.546 | 14.843 | 1.040 | 96 |
| TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck | 23.105 | 22.345 | 638 | -139 |
| TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck | 19.920 | 20.429 | 1.272 | 398 |
| TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck | 103.379 | 104.424 | 4.781 | 518 |
| Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck | 18.951 | 20.244 | 929 | 61 |
| Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck | 24.362 | 25.316 | 2.218 | 144 |
| Seilbahnleasing GmbH, Innsbruck | 27.714 | 27.655 | 4.209 | 33 |
| Competence Park Investment Verwaltungs GmbH, Friedrichshafen | 26 | 1 | 1 | 0 |
| Competence Park Investment Verwaltungs GmbH & Co. KG, Friedrichshafen | 24.326 | 18.371 | 1.550 | 250 |
| MC EINS Investment GmbH, Wien | 7.732 | 6.108 | 63 | -112 |
| MC ZWEI Investment GmbH, Wien | 6.833 | 6.107 | 34 | -135 |
| MS 14 Investment GmbH, Friedrichshafen | 32 | 1 | 9 | 7 |
| MS 14 Investment GmbH & Co. KG, Friedrichshafen | 13.040 | 10.753 | 994 | 336 |
| HTV KAPPA Immobilienleasing GmbH, Dornbirn | 12.412 | 12.412 | 11 | -7 |
| Projektentwicklungsges.m.b.H., Innsbruck | 27.903 | 24.543 | 3.831 | 779 |
| BIZ Business- und Innovationszentrum St.Pölten GmbH, St. Pölten | 3.280 | 2.419 | 542 | 68 |
| GTZ Gründer- und Technologiezentrum Wels GMBH, Wels | 16.753 | 13.254 | 2.269 | 297 |
| Bürocenter-Wienzeile GmbH, Wien | 19.254 | 19.060 | 1.803 | 25 |

*Companies not included in the Consolidated Financial Statement:*

| Business name, town | Percentage of capital | Equity capital in Tsd. Euros | Result Tsd. Euros | Date of completion |
|---|---|---|---|---|
| HTI Immobilienverwaltungs-GmbH, Innsbruck | 100,00 | startup 2011 | | |
| HTW Holding GmbH, Innsbruck | 100,00 | startup 2011 | | |
| Landhaus-Parkgaragen Gesellschaft m.b.H., Innsbruck | 100,00 | 85 | 5 | 31.12.10 |
| Landhaus-Parkgaragen Gesellschaft m.b.H. & Co. KG, Innsbruck | 100,00 | 15.811 | 615 | 31.12.10 |
| C ZWEI Investment GmbH, Innsbruck | 100,00 | 1.124 | -410 | 31.12.10 |
| HYPO Gastro GmbH, Innsbruck | 100,00 | 24 | -66 | 31.12.10 |
| HT Immobilien Investment GmbH, Innsbruck | 100,00 | 1.089 | 64 | 31.12.10 |
| Kramsacher Betriebsansiedlungsgesellschaft m.b.H., Innsbruck | 100,00 | 20 | -16 | 31.12.10 |
| ARZ Hypo-Holding GmbH, Innsbruck | 99,09 | 345 | 0 | 31.12.10 |
| HPS Standortservice GmbH, Innsbruck | 50,00 | 166 | 48 | 31.12.10 |
| Tyrol Equity AG, Innsbruck | 33,33 | 7.553 | -176 | 31.12.10 |
| Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck | 33,30 | 9.798 | -380 | 31.12.10 |
| ARZ Allgemeines Rechenzentrum GmbH, Innsbruck | 32,70 | 8.453 | 69 | 31.12.10 |
| Lantech Innovationszentrum GesmbH, Landeck | 32,73 | 413 | 94 | 31.12.10 |
| REB II Beteiligungs AG, Wien | 25,64 | 647 | -247 | 31.12.10 |
| „Wohnungseigentum“, Tiroler gemeinnützige Wohnbaugesellschaft m.b.H., Innsbruck | 24,33 | 52.084 | 124 | 31.12.10 |
| GHS Immobilien AG, Wien | 22,69 | 105.880 | 2.665 | 31.12.10 |
| HYPO EQUITY-Unternehmensbeteiligungen AG, Bregenz | 21,78 | 46.336 | 9.541 | 30.09.11 |
| Global Private Equity IV Holding AG, Wien | 18,74 | 4.518 | 951 | 31.12.10 |
| Tiroler gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H. (TIGEWOSI), Innsbruck | 17,45 | 63.888 | 3.684 | 31.12.10 |
| Masterinvest Kapitalanlage-Gesellschaft m.b.H., Wien | 12,50 | 3.909 | 311 | 31.12.10 |
| Hypo-Wohnbaubank Aktiengesellschaft, Wien | 12,50 | 5.612 | 70 | 31.12.10 |
| Hypo-Banken-Holding Gesellschaft m.b.H., Wien | 12,50 | 14.493 | 1.153 | 31.12.10 |
| Rathaus Passage GmbH, Innsbruck | 11,23 | 20.684 | 1.902 | 31.12.10 |
| HP IT-Solutions Gesellschaft m.b.H., Innsbruck | 11,11 | 96 | 0 | 31.12.10 |
| Hypo-Haftungs-Gesellschaft m.b.H., Wien | 11,05 | 29 | 0 | 31.12.10 |
| Merkur Bank KGaA, München | 8,75 | 34.887 | 931 | 31.12.10 |
| Logistikzentrum Hallbergmoos GmbH, München | 6,00 | 973 | 164 | 30.09.10 |
| Logistikzentrum Forchheim GmbH, München | 6,00 | 524 | 452 | 30.09.10 |
| Pflegeheim Wolfratshausen Grundstücks GmbH, München | 6,00 | 3.486 | 136 | 30.09.10 |
| PensPlan Invest SGR Spa/AG, Bozen | 4,44 | 9.547 | 60 | 31.12.10 |
| Innsbrucker Stadtmarketing GesmbH, Innsbruck | 3,00 | 231 | 36 | 31.12.10 |
| Lienzer-Bergbahnen-Aktiengesellschaft, Lienz | 1,85 | 12.833 | -1.225 | 31.12.10 |
| Bergbahnen Rosshütte – Seefeld – Tirol – Reith AG, Seefeld | 1,62 | -2.261 | -1.122 | 31.12.10 |
| VBV-Betriebliche Altersvorsorge Aktiengesellschaft, Wien | 1,28 | 50.302 | 3.859 | 31.12.10 |
| AAA – Air Alps Aviation Alpenländisches Flugunternehmen Ges.m.b.H., Innsbruck | 0,28 | -2.908 | -1.060 | 31.12.10 |
| GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination GmbH, Wien | 0,20 | 2.909 | 714 | 31.12.10 |
| Allgemeine Bausparkasse registrierte Genossenschaft mit beschränkter Haftung, Wien | 0,04 | 92.771 | 2.258 | 31.12.10 |

HYPO TIROL
BANK AG
THE MANAGING
BOARD

Innsbruck, 5 April 2012

Johann Peter Hörtnagl | Dr. Markus Jochum | Mag. Johann Kollreider

# STATEMENT OF APPROVAL

## AUDITOR'S REPORT OF THE GROUP FINANCIAL STATEMENT

We have audited the consolidated financial statement of the HYPO TIROL BANK AG, Innsbruck for the fiscal year from 1 January to 31 December 2011. This consolidated financial statement comprises the corporate group balance sheet as of the cutoff date of 31 December 2011, a separate profit and loss accounting, the consolidated profit account, the consolidated capital flow accounting and the accounting of changes in the corporate group's equity capital for the business year which ended on 31 December 2011, as well as an appendix.

### Responsibility of the legal representatives of the company for financial statement

and for the group's accounting department
The legal representatives of the company are responsible for the substance of this consolidated fi-nancial statement which in accordance with International Financial Reporting Standards (IFRS) as applied in the countries of the European Union, and corresponding to the supplementary banking and corporate regulations of the Austrian Banking Act, presents as true and accurate a picture as is possible of the assets, finances and profits of the corporate group. This responsibility includes: presentation, realization and maintenance of an internal control system insofar as this is of significa-nce for generating a Consolidated Financial Statement and presenting as true and accurate a picture of the assets, finance and earnings situation as is possible, so that it is free any any significant errors or misleading depictions, regardless whether as a result of intended or unintended errors; the selection and application of suitable balance sheet and evaluation methods; undertaking valuations which appear objective and appropriate in reflecting the given framework conditions.

### Responsibility of the auditor and description of type and range of the legally required auditor's report

It is our responsibility to present a judgment based on our examination of this Consolidated Financial Statement. We have conducted our audit in accordance with the auditing standards generally applied in Austria, as well as the principles of orderly auditing. These standards require that we perform the audit in accordance with the customary regulations and standards of this profession; that we both plan and perform the audit so as to obtain reasonable assurance about whether the Consolidated Financial Statement is free of material misstatement.

An audit consists of carrying out examinations to obtain proven evidence with regard to earnings and other recorded balance sheet entries in the Consolidated Financial Statement. The selection of exa-minations lies in the discretionary judgment of the auditor, taking into consideration the assessment of risk of any material misstatements, whether from intended or unintended errors. In evaluating that risk, the auditor takes into consideration the internal control system insofar as this is of significance for generating a Consolidated Financial Statement and presenting as true and accurate a picture of the assets, finance and earnings situation as is possible, in order to determine the necessary scope of auditing inspections, giving due consideration to all the background conditions; not, however, to come to any judgment with regard to the effectiveness of the corporate groups internal control sys-tem. The examination also includes an assessment of the appropriateness of the balancing and va-luating methods which were used; of the major valuations which are legally required; as well as an overall judgment of the quality of the message of the Consolidated Financial Statement.

We are of the opinion that we have by this means obtained sufficient and suitable proofs, so that our examination provides a secure basis for the judgment which we have been asked to render.

### Judgment of examination

Our audit has led to no objections, exceptions or reservations. In accordance with the facts obtained from this audit, the Consolidated Financial Statement corresponds in our judgment with all legal requirements and gives as true and accurate a picture as is possible of the assets and financial situati-on of the group as of 31 December 2011, as well as of the corporate group's earnings situation and money movements for the fiscal year from 1 January to 31 December 2011, in accord with the Inter-national Financial Reporting Standards as applied in the countries of the European Union.

## COMMENTARY ON THE GROUP REPORT

The Group Report must also be examined and assessed in accordance with legal requirements, with regard to its general agreement in the major statements and whether or not they could evoke an incorrect picture of the corporate situation. The auditor's report must also contain a statement about whether the Group Report is essentially in keeping with the Consolidated Financial Statement and in accordance with Art. 243a, Sec. 2 of corporate laws.

In our judgment, the Group Report is consistent and in accordance with the Consolidated Financial Statement and in accordance with Art. 243a, Sect. 2 of corporate laws.

Vienna, 5 April 2012

**Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.**

Mag. Ernst Schönhuber
Auditor

Dr. Elisabeth Glaser
Auditor

# DECLARATION OF THE LEGAL REPRESENTATIVES

We confirm to the best of our knowledge and belief that the Consolidated Financial Statement drawn up in compliance with the applicable accounting standards represents a true and fair view of the assets, financial and earnings situation of the group, that the Consolidate Annual Report depicts a true and fair view of events, business performance and situation of the corporate group in such a way that a correct and accurate picture of the assets, financial and earnings situation of the group emerges and that the Consolidated Annual Report described the principal risks and uncertainties to which the group is exposed.

We confirm to the best of our knowledge and belief that the parent company's Annual Financial Statement drawn up in compliance with the applicable accounting standards represents a correct and accurate view of the assets, financial and earnings situation of the company, that the Annual Report depicts a true and fair view of events, business performance and situation of the company in such a way that a true and fair view of the assets, financial and earnings situation emerges and the the Annual Report describes the principal risks and uncertainties to which the company is exposed.

Innsbruck, 5 April 2012

**The Managing Board**

Johann Peter Hörtnagl

Dr. Markus Jochum

Mag. Johann Kollreider

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board monitored the business activities of the Managing Board through the fiscal year 2010 and advised in depth and updated repeatedly on the development of the company and all important business activities, based on both the regular reports and the special memoranda prepared by the Managing Board. The Chairman of the Supervisory Board was also kept up to date on all pertinent matters by the Managing Board and by the person in charge of the Internal Inspection and Control.

## SUPERVISORY BOARD MEETINGS

In fiscal year 2010, a total of five ordinary Supervisory Board meetings were convened at which fundamental issues of business policy were raised and discussed. Any individual business cases which required statutory approval by the Supervisory Board were dealt with and discussed with the Managing Board.

## SUPERVISORY BOARD COMMITTEES

The Supervisory Board appointed four committees from its members.

The Credit Committee is concerned with mortgages, loans, and large-scale investments. During fiscal year 2011, the Credit Committee met for five ordinary and two extraordinary meetings.

Under Art. 63a, sec. 4 of banking laws, the Audit Committee is responsible for the auditing and preparation of the Annual Financial Statement, the efficacy of the internal control system, the internal revision system and the risk management saystem of the company, as well as the audit and preparation of the Consolidated Financial Statement and the Consolidated Annual Report. During fiscal year 2011, the Audit Committee met four times.

The committee for handling all matters pertaining to the Managing Board, which oversees and regulates all relations between the company and members of the Managing Board except appointments or recall of appointments or granting share options of the bank, did not meet in business year 2011.

In the context of the events pertaining to Hypo Bank Italia AG, a „Special Italy Committee“ was formed by the Supervisory Board which has reported weekly on the progress of work analysis and loan investigation in Italy as of December 2011.
Above and beyond that, a Compensation Committee was also formed at the Supervisory Board meeting of 12 December 2011. This committee is responsible for all compensation matters as foreseen in Sec. 39 b and c of the banking laws, excluding compensation to the Managing Board.

## ANNUAL FINANCIAL STATEMENT

The Annual Financial Statement and the Annual Report as of 31.12.2011 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. As no objections or corrections were proposed, the stamp of approval was granted without any limitations or reservations.

The final audit of the Annual Financial Statement and Consolidated Financial Statement for 2011 was carried out by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna in accordance with International Financial Reporting Standards (IFRS) on 31 December 2011.

Following the final audit by the Supervisory Board and the Audit Committee of the Annual Financial Statement and Consolidated Financial Statement for 2011, the appendix, the Annual Report for the Annual Financial Statement and Consolidated Financial Statement and the profits distribution proposal, there are no grounds for objection or correction. The Supervisory Board approves the enclosed proposal for earnings distribution, approves the Annual Financial Statement submitted by the Managing Board, which has been prepared in accordance with Art. 96, section 4 of the shareholding laws; and acknowledges the Consolidated Financial Statement.

Innsbruck, 30 April 2012

**The Supervisory Board**

Mag. Wilfried Stauder

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