HYPO TIROL BANK

Unsere Landesbank

Annual Report 2016

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Men and women are equally important to us. To make contents better readable and understandable, any gender specific phrasing was waived. The mail gender used in the text applies to both genders equally.

Mag. Johannes Haid, Mag. Wilfried Stauder, Johann Peter Hörtnagl and Mag. Alexander Weiß

Dear sir or madam!

We look back at a successful year. Even though, in 2016, we had to witness a phase of low interest rates, we could generate further sustainable growth by systematically focusing on the needs of our clients. We were able to improve all financial key performance indicators that are essential for a bank.
In addition, the rating upgrade by Moody's confirmed our success. The upgrade was the result of all the efforts that had been taken over the past years and the clear minimisation of general risks regarding the Pfandbriefbank (mortgage bank). The completion of the EU aid proceedings, which had started in 2009, unmistakably illustrated that we are moving in the right direction – a direction that is beneficial to all Tyrolean people. As far as our portfolio management is concerned, we received an award by the Citywire independent analysis company based in London. The associated "+rating" is unique in the Tyrol, and on an international level it is only reserved for a few fund managers.

In the past business year, the result generated by Hypo Tirol Bank accounted for EUR 38.3 million. In 2016, the balance sheet total amounted to EUR 7.6 billion. With regard to generating sustainable profit growth, two factors are essential: an increase in net interest income after risk provision and a decrease in administrative expenses. We are particularly proud of the growth that was generated in the core market. Whenever we talk to our fellow Tyrolean people, we realise that they truly confide in us. In the past year, this confidence was illustrated by an increase in the volume of clients. In this respect, the introduction of new account models was a successfully implemented project. These accounts have become very popular with our clients, as they are tailored to the respective user needs. In the course of 10 months about 80% of our clients decided to change their account.

A major step was taken in the field of digitalisation. Our online banking service was extended by several special offers. The new feature called "hypo@home" includes a personal financial manager service, which facilitates money life by providing a number of new functions including the hypo@mobile app for your mobile devices. Wherever you are: at home or on the go. The joint endeavours we made in the past years have been worthwhile: our state bank is standing on strong economic feet. It plays a decisive role in relation to the development of the Tyrol as economic location and living area. Especially in times, which are marked by global conflicts and turmoil, the significance of a regional financial institution becomes clear. Not only do we make our decisions on the spot, we also pay attention to both, the bank's key performance factors and public interest. We are a strong company and consequently a sustainable employer. In cooperation with the data processing centre (Allgemeines Rechenzentrum – ARZ) we safeguard high quality jobs across the Tyrol.

We would like to express our gratitude to those who contributed to this success: our clients, employees and partners. We also would like to thank our owner – the Province of the Tyrol - for the confidence, the service and the perfect cooperation.
We will continue to cooperate in order to ensure a successful future for Hypo Tirol Bank.

Mag. Wilfried Stauder,
Vorsitzender des Aufsichtsrats

Johann Peter Hörtnagl,
Vorstandsvorsitzender

Mag. Johannes Haid, Vorstand

Mag. Alexander Weiß, Vorstand

CONSOLIDATED FINANCIAL REPORT 2016

I. Report on Business Development and Economic Situation

I. 1. Hypo Tirol Bank – Our Federal State Bank

"Together we are strong". This was the basic idea in connection with the foundation of Hypo Tirol Bank AG. It was the time when the Tyrolean famers had to face the biggest challenges in the late 19th century. Back then, the objective of the regional mortgage bank was to help people get back on their feet whenever they had to cope with difficult times and to achieve sustainable success. Since its foundation in 1901, this approach has remained a constant term in the history of Hypo Tirol Bank AG. Even though, the field of tasks has been extended and adapted, the social idea and the commitment for the country and its people have remained the same.
As the bank of the Province of the Tyrol, Hypo Tirol Bank AG has a clear mission: being the bank for all Tyrolean people. This is what the bank focuses on, because the people are the ones who turn the Tyrol into what it Is. For that reason, the people and their personal and economic success must be addressed.
As a Tyrolean traditional bank, Hypo Tirol Bank AG has always been a perfect companion for its clients.

- It is an expert with knowledge of the local economy
- It operates closely to its clients and their daily lining environment.
- It is devoted to the region, its people and their traditions.
- It is highly committed to the economic, social, cultural and scientific concerns and achievements of the country and its people.

I. 2. Report on the Branch Offices

Being a regional bank, Hypo Tyrol Bank AG focuses on the core market that is to say the Tyrol and the South Tyrol. The branch network comprises 20 branch offices located in the district capitals and urban centres of North and East Tyrol. Expert teams working in the field of private banking, liberal professions and public institutions combine their proficiency to support ambitious investors, freelancers and regional authorities alike. All entrepreneurs can find branch offices of Hypo Tyrol Bank AG in Innsbruck, in the Upper and Lower Inn Valley and in East Tyrol. The specialists, who work in the "WohnVision Tirol" centres, act as supra-regional contact persons for all Tyrolean people who would like to make their dream of a privately owned home come true.
In South Tyrol, Hypo Tirol Bank AG operates branch offices in Bolzano, Bressanone and Milan. Apart from that, the Tyrolean state bank is also represented in the Vienna area, with a branch office following a more differentiated customer and product approach.

I. 3. Economic Conditions in 2016

Market Review 2016

The year 2016 was marked by unexpected settings of directions in the field of politics, however, the further development of most capital markets in total turned out to be positive:
Regarding the capital markets, the past year was marked by strong ups and downs – positive market phases often faced strong declines in prices. While the fear for a stronger economic slowdown caused a decline in share prices on stock exchanges in January, three wide ranging settings of political agendas dominated the development of prices during the course of the year. These settings included the UK's referendum to leave the EU on 23 June, the surprising victory of the political newcomer Donald Trump in the US presidential elections on 8 November, and finally the rejection of Prime Minister Renzi's constitutional reforms in Italy on 4 December. All events mentioned above occurred, even though opinion polls carried out by researchers had shown a different outcome. Uncertainties were the main reason, why the reaction on the stock exchanges was more dramatic prior to these events than afterwards.
The economic development in Europe as a whole can be described as rather pleasing. In 2016, the economic performance in the Euro area even increased by respectable +1.6% in comparison to the previous year. Interest rates at record low where the reason why consumers in core Europe enjoyed spending money. In the eurozone peripheral nations a decrease in unemployment was witnessed. Both factors represented an important pillar for industry, trade and commerce. However, fast growing youth unemployment in the periphery countries had a rather repressive effect. In Great Britain the economic slowdown after "Brexit" was not at all as excessive as expected. Even though the inflation rate was very low in the beginning of the year, it recovered steadily until the end of the year, due to growing energy prices and the expansive monetary policy of the European Central Bank.
As far as the most important investment classes are concerned the situation in 2016 was as follows: raw materials with an increase of round +15%, followed by global shares with an increase of +5% passed with distinction. The prices of Euro government bonds had to face clear fluctuations and averagely grew by +1.9%, while cash investment suffered from negative money market interest rates in the Euro area.

US shares faced a strong increase in value while European values showed only weak development:
On one hand, the global development of shares in 2016 was characterised by different regional developments, and on the other hand by high volatility showing both, strong upward trends and sharp falls in prices. Shortly after the beginning of the year, weak economic data regarding China and the associated concern regarding global economic growth caused major uncertainties among market participants. The wide ranging relations with China and other threshold countries were the reason why Europe and Japan were affected the most by the sharp fall in prices. In June, when the majority of the British voters decided to leave the EU, European stock markets were affected negatively once more. However, the North American stock markets presented themselves extremely strong. The result of the US presidential election on 8 November played a major role in this respect. Despite all the prophecies of doom, the prices skyrocketed after the election, because the newly elected US president, Donald Trump, had promised to introduce massive tax reductions and infrastructure investment programmes during his election campaign. Both approaches were supposed to boost the American economic motor and also caused additional impetus for US share prices. For the first time in five years, energy and raw material prices increased and consequently, the stock markets of threshold countries benefited from that growth, as raw materials often represent substantial export goods for these countries.

Bond markets were affected by high price fluctuations; particularly in autumn clear declines in prices were faced due to increasing market yields:
In the beginning of July, the yield of the 10-year German Bond reached an all-time low with -0.19%. This development was caused by the expansive monetary policy followed by several central banks. In the US, FED chair Janet Yellen pursued a very careful and expectant monetary policy and did not further increase the base rate, even though labour market data were positive. In the euro area the exceptional monetary policy measures taken by the European Central Bank (ECB) were in the spotlight. On 10 March, the ECB under president Draghi decided to take several measures in order to achieve a relaxed monetary policy. Apart from lowering the base rate, the current bond-purchasing-programme was extended in two ways. On the one hand, an accumulation of capital to EUR 80 billion (previously EUR 60 billion) per month was implemented, and on the other hand, in addition to government bonds, defined company bonds were bought as well. However, in autumn this interest rate trend came to a halt after an increasing number of positive economic signals from industrialised countries were published and the situation in China began to show stabilisation. The announcement to cut benefits for oil production led to an increase in energy prices and consequently an increase in inflation, above all in the US and Europe. On 14 December the American Central Bank increased the base rate by 0.25% as expected. Thus, the yields drastically increased on the market. The prices of numerous bonds significantly fell in October and November. Throughout the entire year the average value changes of Euro government bonds amounted to +1.86% which reflected a slightly positive development. Higher yields were generated by company bonds and high-yield bonds because investors were searching for higher yields.

The weakness of the Euro and the massive devaluation of the British Pound after "Brexit":
The instable political situation in Europe and the aggressive monetary policy pursued by the European Central Bank left their marks on international currency markets. In the past year, the European single currency showed a rather weak development. Since the Japanese Yen and the Swiss Franc are considered to be "safe haven" currencies, they were able to take a rather strong position. As far as the US Dollar is concerned, the past year showed a clear dichotomy. In the first half of the year, the green-back tended to be weak, because the US Federal Reserve's base rate hike had taken longer than anticipated. In the beginning of December the time had finally come. Already months before that, the gap regarding interest rates in the US and the euro area had widened, which resulted in the appreciation of the US Dollar in the second half of the year.

Economic Development in our market areas – Review 2016

Austria – respectable economic growth and positive effects resulting from tax reform:
In 2016, the Austrian economy developed quite positively and reached an annual change accounting for +1.5%. Compared to the euro are, the weak period that had lasted for the past two years could be compensated. Especially, in the fourth quarter of 2016, the growth of domestic economic performance developed absolutely positive. The economic barometer for the retail sector, which was established on behalf of the trade association, showed a noticeable upwards trend. In 2016, the questioned retailers achieved a turnover growth of nearly +2.0%. In total, the consumption situation in Austria improved significantly. The savings rate of Austrian households was very low. In return, consumer spending was rather high, which resulted from the positive effects due to the tax reform and the historically low interest rates. However, the enduring weakness regarding investments is everything but pleasing. From 2000 to 2014, the net investment rate in Austria declined by 60%. In addition to that, two third of new investment projects referred to replacement investment. The increasing unemployment rate of 2015 continued to rise to 6% in the year 2016 (according to EU evaluation criteria). It is quite surprising that according to data provided by Statistik Austria, the average number of vacancies in the previous year amounted to 72,800 – this has been the highest value since 2011. This can be explained by the fact that the work force offer also increased due to the influx of population.

Province of the Tyrol – pleasing situation, a successful year for the tourism industry
For the Tyrol only a mixed image can be projected. Industrial production and the export sector developed better than in Austria as a whole. In addition, in 2016, the Tyrolean trade industry showed an increase. The Tyrolean tourism industry in particular witnessed an utterly successful year. With approximately 47.6 million overnight stays the value of the previous year was exceeded by round 2 million and thus, overnight stays in the Tyrol reached a new high in 2016.
The situation on the labour market can also be described as very satisfying. With a predicted number of 338,000 employed people (an increase of 6,000 people compared to the previous year) and 21,457 registered unemployed people, the unemployment rate in the Tyrol at the balance sheet data (31 December 2016) amounted to 6.0% (December 2015: 6.5 %). This shows that unemployment in our province again decreased and at the same time the number of employed people who are subject to social insurance contribution further increased to the largest extent in comparison to other provinces.

Italy – poor economic growth and problems concerning the financial sector
2016 was a turbulent year for Italy. The first part of the year was marked by the problems regarding the Italian financial sector, in particular the high volume of non-performing loans with an estimated amount of EUR 360 billion. In April, Italian financial institutions, the Ministry of Finance and the central bank agreed on establishing a mutual assistance fund called Atlante. The purpose of this institution was to take over bad loans from Italian financial institutions. By the end of the year, the headlines were shaped by the rescue attempt concerning the Monte dei Paschi di Siena credit institution. Finally, on 4 December the constitutional reform, proposed by Prime Minster Renzi failed, and consequently Renzi resigned. Against this background, the economic development in our southern neighbouring country was rather weak. In this context, the high debt level and the massive production costs in Italy played a decisive role.

South Tyrol – decent economic development
In 2016, economic growth in the South Tyrol might have accounted for +1.3%. Consequently, the development in this region can be described as satisfying. According to data provided by the economic research institute of the Bolzano Chamber of Commerce, the profit situation in 2016 was satisfactory for 84% of the entrepreneurs, with a further increase being anticipated for the forthcoming year.

I. 4. Business Development

Company Key Figures

	2016	2015 adjusted	Change in %
Balance sheet total in kEUR	7,632,172	7,501,810	+1.74
Receivables from clients in kEUR	5,213,594	5,289,691	-1.44
Liabilities to clients in kEUR	3,474,076	2,898,761	+19.85
Liabilities evidenced by certificate in kEUR	1,636,815	1,112,690	+47.10
Equity according to CRR in kEUR	566,910	562,130	+0.85
of which Tier 1 in kEUR	504,703	480,033	+5.14
Net interest income after risk provision in kEUR	104,284	69,898	+49.19
Net commission income in kEUR	26,338	26,980	-2.38
Administrative expenses in kEUR	74,041	79,561	-6.94
Operative result prior to change of own credit risk in kEUR	38,262	20,243	+89.01
Core capital ratio in %	13.70	12.21	+1.49
Equity ratio in %	15.38	14.30	+1.08
Return on Equity (IFRS) in %	6.85	4.03	+2.82
Return on Equity (IFRS) in % (without stability fee, deposit insurance and resolution fund)	10.95	6.34	+4.61
Cost-Income-Ratio (IFRS) in %	70.53	65.90	+4.63
Cost-Income-Ratio (IFRS) in % (without stability fee, deposit insurance and resolution fund)	63.94	60.13	+3.81
Number of employees according to capacities	519	513	+1.17

Balance Sheet Development

In the past business year, the balance sheet total amounted to EUR 7.6 billion. It was 1.74% above the balance sheet total of the previous year (2015: EUR 7.5 billion) and therefore, nearly remained consistent. The essential single balance sheet items illustrate the following situation:

Receivables from credit institutions
On 31 December 2016, receivables from credit institutions amounted to EUR 207.1 million (2015: EUR 100.9 million), thus, they increased by EUR 106.2 million compared to the previous year.

Receivables from resolution unit of former credit institution
Since an agreement was reached with the creditors, receivables from HETA ASSET RESOLUTION AG, which were illustrated separately in the previous year, in the amount of EUR 63.0 million, were entirely derecognized in October 2016.

Receivables from clients
At the balance sheet date, receivables from clients amounted to EUR 5,213.6 million (2015: EUR 5,289.7 million). The volume of receivables decreased by EUR 76.1 million; this was caused by a reduction of receivables from clients in Italy.

Financial assets – AFS
At the balance sheet date, financial assets available for sale amounted to EUR 812.0 million (2015: EUR 663.5 million. They increased by EUR 148.5 million, which was primarily caused by an increase in bonds of other issuers.

Financial Assets – HTM
Financial assets held to maturity decreased by EUR 41.6 million with the decline referring to all types of business. On 31 December 2016, the accounting value amounted to EUR 35.3 million (2015: EUR 76.9 million.

Liabilities to credit institutions
At the balance sheet date, liabilities to credit institutions decreased by EUR 437.6 million to EUR 182.0 million (2015: EUR 619.7 million). This decline primarily resulted from the reduction of lendings from the Austrian National Bank.

Liabilities to clients
The sum of savings deposits including fixed-term passbook savings in 2016 showed an increase of EUR 84.1 million. Time deposits decreased by EUR 18.7 million, whereas giro accounts increased by EUR 509.9 million. Thus, in total liabilities to clients increased by EUR 575.3 million to EUR 3,474.1 million (2015: EUR 2,898.8 million).

Liabilities evidenced by certificate
Liabilities evidenced by certificate primarily increased to EUR 1,636.8 million (2015: EUR 1,112.7 million), due to issues in the amount of EUR 605.9 million and liquidations in the amount of EUR 87.8 million.

Liabilities evidenced by certificate – designated at fair value
The item liabilities evidenced by certificate – designated at fair value included issues in the amount of EUR 128.5 million and liquidations in the amount of EUR 598.1 million. At the balance sheet date, liabilities evidenced by certificate – designated at fair value accounted for EUR 1,430.5 million (2015: 1,910.0 million.

Details regarding derivative financial instruments
Herewith we refer to the details in the consolidated financial statements note (9) “Trading Assets and Derivatives”. Further illustrations regarding the portfolios are specified in the following notes:
(60) Positive market values from derivative hedging instruments
(61) Trading assets and derivatives
(76) Negative market values from derivative hedging instruments
(77) Derivatives

Capital Resources

On the basis of regulation (EUR) no. 575/2013 (Capital Requirements Regulations – CRR) and the directive regarding the access to operations of financial institutions (Capital Requirements Directive 4 – CRD IV), consolidated capital resources and consolidated prudential capital requirements shall be determined in accordance with the IFRS but according to prudential consolidation circles. Within Hypo Tirol Bank AG, the supervisory consolidation circle corresponds to the consolidations circle according to IFRS.

Eligible equity in accordance with CRR/CRD IV increased by EUR 4.8 million in comparison to the previous year; in consideration of all deductions items it accounted for EUR 566.9 million (2015: EUR 562.1 million) on 31 December 2016. Within this period required equity decreased by EUR 19.6 million. At the balance sheet date, the equity ratio amounted to 15.38% (2015: 14.30%) and thus increased by 1. 08% in comparison to the previous year. Consequently, Hypo Tirol Bank AG fulfils all corporate group requirements regarding equity as stated in CRR/CRD IV. Equity surplus accounted for EUR 272.1 million (2015: EUR 247.7 million).

At the balance sheet date, core capital (Tier I) accounted for EUR 504.7 million (2015: EUR 480.0 million). Supplementary equity (Tier II) in consideration of deduction items according to section 66 (own shares supplementary capital) amounted to EUR 62.2 million (2015: EUR 82.1 million). At the balance sheet date, the core capital ratio accounted for 13.70% (2015: 12.21%).

Achievements

In the past business year, Hypo Tirol Bank AG once again pursued the determined strategy to focus on the Tyrolean core market (North-, East and South Tyrol) and Vienna and also to cut risk positions. By doing so, it was possible to clearly reduce risk provision, which is also reflected by the positive business development.

Net interest income after risk provision
In the past business year, net interest income after risk provision increased by EUR 34.4 million to EUR 104.3 million (2015: EUR 69.9 million). In this context, the decrease of net interest income by EUR 10.7 million to EUR 85.6 million (2015: EUR 96.3 million) was compensated by income from credit risk provision in the amount of 18.7 million (2015: EUR -26.4 million). This complies with the strategy to minimize risk positions.

Trading result
In comparison to the previous year, trading result increased by EUR 1.3 million to EUR 0.1 million (2015: EUR -1.2 million). In this context, the positive results from currency related transactions compensated the losses from interest related transactions by far.

Administrative expenses
Administrative expenses in 2016 amounted to EUR 74.0 million (2015: EUR 79.6 million). The reduction in the amount of EUR 5.6 million primarily resulted from a decline in personnel expenses; this complies with the strategy to optimise the utilisation of personnel capacities.

Operative result (prior to change of own credit risk)
From the business year 2016 on, Hypo Tirol Bank AG started to make use of the optional right in accordance with IFRS 9.7.1.2, which was incorporated into EU law in November 2016, to illustrate changes of own credit risk directly in “other result”. Thus, operative result prior to changes of own credit risk (2016) corresponds to the result prior to taxation. Operative result (prior to changes of own credit risk) in the past business year amounted to EUR 38.3 million (2015: EUR 20.2 million). After the deduction of tax on income and profit accounting for EUR 11.8 million (2015: EUR 9.6 million) the result after taxation amounted to EUR 26.5 million (2015: EUR 57.6 million; including income from change of own credit risk accounting for EUR 47.0 million).

I. 5. Business Development in Single Business Sectors

Private Clients

It is the overall objective of Hypo Tirol Bank AG to be a financial institution for all Tyrolean people. The products offered by the federal state bank were designed in correspondence with this objective. In this context, special emphasis is put on a personal relationship between client and consultant. When it comes to fulfilling needs of everyday life and reaching personal goals, three aspects are of utmost importance: competence, experience and security. By providing a perfectly established network of branches with 20 local offices we can guarantee nationwide consulting service in the best possible way. In addition, the “on-site” infrastructure is completed by the provision of online services. The online sector is increasingly becoming important and thus, the online products are modernized and adapted to the latest standards on a regular basis. Consequently, clients are offered the possibility to manage their financial transactions regardless of time and place while our experts have more time for personal consultations.
The subjects “investment”, “homebuilding” and “provision” represent substantial areas in the banking business. In times of low interest rates, rising real estate prices and instable pension scheme systems these subjects are a major concern for most people. Hypo Tirol Bank AG and its consultants are experts in terms of asset development and asset preservation. A wide ranging product offer – comprising savings and investment products with fixed or variable interest rates and different terms - guarantees a solution tailored to the individual situation, personal opportunities and personal goals of each client. By providing professional support, the experts of Hypo Tirol Bank AG will set up a detailed savings plan or manages a professional portfolio in order to achieve the best possible results for their clients.
Throughout the country, Hypo Tirol Bank AG has always been the financial institution that especially focuses on homebuilding, and in the past years it has even established itself as the ultimate expert in this sector. In addition to the bank’s own transactions, it also operates as a trustee for the Province of the Tyrol and manages the loans of public housing subsidies outside its own balance sheets. Therefore, financing private homebuilding is a significant aspect. In this context, full service is the measure of all things, because on the way to your new home, you need all the support you can get. The first question that should be addressed is “How much can I afford?” Based on the answer, individually determined financing plans are established including supplementary information regarding subsidies. The clients of the federal state bank receive everything they need, because homebuilding is one of the most important projects in life.
Nowadays, it is essential to plan on the long run. For that reason, provision plays an important role in the field of customer service. This field does not only comprise risk provision, but also the wide ranging subject of future provision. Nevertheless, it is not about insurance alone: experts provide a balanced mix of savings and investment products, liquidity plans and risk provision instruments. By doing so, they support their clients in finding the appropriate solution.

Economic Forecast 2017
In 2017, we will further focus on investment and homebuilding. Emphasis will also be put on sales and communication which will allow us to reach the company goals in compliance with annual planning. Investment in the private client sector will be boosted by revising consulting standards and by employing the specialists from the private banking sector who will offer additional consul-

ting service. In the field of private homebuilding, the WohnVision Centres of Hypo Tirol Bank AG have already become well known throughout the Tyrol. In this context the goal for 2017 is to remain competitive by offering market conform conditions and products that meet the requirements; consequently we can guarantee high price enforcement.

Private Banking and Free Professions

The clientele comprises wealthy private clients and freelancers, with the main focus being put on physicians, lawyers, tax accountants and public accountants. Close cooperation with the specialists from the corporate client and securities sector is essential in this respect.

Asset management in all its facets
Private banking is more than just gaining profit via investment. It means to take on anticipatory responsibility. Individuality is a major issue in this respect – not only with regard to consulting, also in terms of finding appropriate product solutions. It takes time, expertise and market knowledge to find the ideal investment strategy. The Hypo Tirol Bank AG's specialists are always up to date as far as the development of financial markets is concerned. The investment strategy is continuously adapted to current market developments and the client's objectives, and the client in return is regularly informed about asset development. Apart from that, it goes without saying that current tax conditions are always considered as well.

Financial expertise provided for doctors and liberal professionals
From the first step of becoming self-employed, all Hypo Tirol Bank AG experts are reliable companions and manage all banking-related issues. In particular with regard to complex financing requirements, our consultants have gained major experience and will develop comprehensive financing plans. They support their clients by providing demand orientated solutions for each stage of life.

Economic Forecast 2017
The private banking department will be restructured and reorganised. The new alignment includes the following measures: designing a new product range, implementing a powerful supra-regional sales organisation and strengthening the Hypo Tirol Bank AG trade mark as investment bank. By doing so, potentials in the branch offices shall be established and consequently potential clients shall be acquired. The implementation of a target group oriented communication strategy shall serve Hypo Tirol Bank AG to establish itself as an expert in the field of sophisticated investment.

Corporate Clients

Hypo Tirol Bank AG is a partner of the Tyrolean economy. According to its assignment, it takes on responsibility for the Tyrol as a business location. In this context, it focuses on small and medium-sized enterprises (SME) that are operating in the core market. These companies represent the pillars of wealth in the Tyrol. By means of closely cooperating with domestic real estate developers for many years, Hypo Tirol Bank AG has made a major contribution to the creation of new living space for the people living in our country.
The staff members working in the corporate client sector are experts on financing strategies, liquidity management, and sophisticated investment. They join their clients from the foundation of a company to the successful transfer of business. This kind of expertise allows Hypo Tirol Bank AG to support Tyrolean companies to seize their opportunities in the best possible way in order be competitive on regional and international level alike.
Hypo Tirol Bank AG provides sufficient liquidity for domestic companies and their future oriented investment projects. In this way, it was possible to constantly increase financial volumes over the past years. It goes without saying that the bank focuses on long term success in this respect. As an independent regional credit institution with a clearly defined market area, Hypo Tirol Bank AG is well informed about market developments and other market participants, and thus, can anticipate chances and risks appropriately.

Economic Forecast 2017
The objective is to further increase the market share of SMEs. Therefore, a structured acquis ion process is needed, which shall be implemented by the efficient use of internal and external networks. The allocation of SME-investment shall remain the same like in the previous years. Close networking between the sectors private banking and insurance broking shall help to manage the private sphere of existing clients in a better way.

Public Institutions

The partnership with public- and government-related institutions has developed over time, and it has become the mission of the federal state bank to foster this partnership. The staff members working in the public institution department are experts on handling the specific requirements of this clientele and they score due to the provision of on-site customer service.
Since its foundation in 1901, the Tyrolean state bank has been a substantial partner regarding the implementation of numerous public and non-profit housing projects. It supports local authorities and their investment projects by offering an individually designed product portfolio. Since every project also includes the expansion of infrastructure and the creation of new living space, all Tyrolean people benefit from that cooperation.
As far as professional liquidity management is concerned, the consultants support their clients by compensating liquidity shortages and investing financial resources. Interest- and currency management tools are decisive factors for secure budget planning. In terms of optimizing the transaction of payments, our consultants also find individual solutions for the respective requirements of their clients. Moreover, direct access to the accounting programme and a transparent cost structure help to save resources, time and money.

Economic Forecast 2017
The powerful department plays an important role concerning the profit on ordinary activities. In 2017, we want to achieve the same result. By continuously intensifying customer relations, the number of invitations to an offer shall be increased. Furthermore, the experts shall use their network to open new doors for the private banking sector and the corporate and private client sector.

Hypo Tirol Versicherungsmakler GmbH – Insurance Broking Company

The insurance company concentrates on the segment of liberal professions and corporate clients as well as on sophisticated private clients. Therefore, the close cooperation with the respective internal sales units is self-evident. In this way, Hypo Tirol Bank AG can offer its clients comprehensive financial service under one roof. At the same time, existing profit potentials within the Hypo Tirol Group can be managed in optimum manner.
Being an independent insurance broker, Hypo Tirol Versicherung

is closely linked to other Austrian insurance companies and thus, guarantees its clients flexible and tailor made solutions; either by broking or developing products. A comprehensive and structured risk analysis serves as the basis for ideal insurance protection. In this context, the brokers of Hypo Tirol Bank AG entirely evaluate risk potentials. All possibilities are examined – even products beyond the insurance business. The result is the establishment of a comprehensive and individual risk management concept, which corresponds to the client's individual prerequisites and possibilities

Economic Forecast 2017
The experts working in the insurance broking company act as contact persons for the consultants in the branch offices and provide assistance in relation to investment business. This shall help to increase insurance income in the retail segment with focus being put on personal insurance. In addition, we want to collaborate with our cooperation partners in order to further develop the variety of products on a regular basis.
After the relaunch of the website in 2017, the insurance broking company shall also get a new internet appearance. In ties context, we will clearly concentrate on the implementation of customer oriented tools and services.

Italian Branch Office

In Italy, Hypo Bank Tirol is operated as an EU-branch office. Due to the reintegration into the parent company, the offices located in Bolzano, Bressanone and Merano are operated as mere sales units. The entire transaction service is managed by North Tyrol. According to the market assignment, Italy concentrates on sophisticated investment, private housing and the financing of SMEs. The objective is to acquire new and moderate business transactions. For that reason, business activities in the financing sector focus on the South Tyrolean market only.
The investment products offered by Hypo Tirol Bank AG are marketed by the South Tyrolean branch offices, a network of freelance consultants and 11 partner banks located in Northern Italy. In this way, clients can benefit from the proximity to the Austrian financial centre in the best possible way.

Economic Forecast 2017
In 2017, main emphasis will be put on the expansion of investment volumes. By offering appealing asset management products and by increasing the number of consultants, the commission result in the securities sector shall be increased. In this context, a standardised consulting service process and a downsized, efficient and attractive product range for private clients shall help to reach that goal.

Vienna

In the capital of Austria, Hypo Tirol Bank AG is represented by one branch office, which acts as a specialist bank in the Vienna banking area. The product and service range is more or less the same like in the core market. However, the strategic business areas relates to sophisticated investment as well as to private and public housing, rather than to the classic retail business. In addition, the segment of liberal professions is also covered by highly qualitative consulting experts.

Hypo Immobilien Betriebs GmbH (real estate company)

Hypo Immobilien Betriebs GmbH was founded in 2013. It is a 100% subsidiary of Hypo Tirol Bank AG and is responsible for the entire leasing and real estate business. The scope of task comprises the handling of approvals and the management of the of the Hypo Tirol Group property, which is held by the financial institution itself and by other property companies. The utilisation of property can be kept on steadily high level.
The staff members are in charge of property, which is used by the Group itself and property used by outside parties. They act as qualified contact persons who will find tailored solutions in the field of real estate and leasing. Clients benefit from the economic knowledge, the fiscal experience and the real estate expertise, in particular in relation to the implementation of complex financing projects.

Economic Forecast 2017
Based on the sales made over the past years, the existing real estate portfolio has reached a very satisfactory size which shall be maintained in the future. Basically, it is not intended to acquire new property, except for real estate investment that is made due to business political interest.
As a result of the current market situation, the focus in leasing business will be put on movable assets – primarily the financing of utility vehicles. In this sector, the largest volume growth is planned.

Treasury

Asset-Management
Financial markets had to face a year that can be best described as a roller coaster ride. Positive market phases were confronted with sharp falls in prices several times. Even though it was not anticipated, the stock market finally developed in positive manner. In the past year, it was proven once more that pursuing a flexible investment strategy is one of the secrets to success.
In the context of Hypo asset management, active share quota control and the wide range of shares paid off. Investment in raw materials, company bonds or government bonds in USD resulted in great performance contributions. The quality in the context of fund management offered by Hypo Tirol Bank AG was honoured twice; first, by means of the popular Citywire Award and second by mentioning the Hypo Tirol Bank AG fund management in the fund manager ranking published by Forbes Magazine.

Bank Book Control
The development of capital market refinancing was substantially marked by the outcome regarding the HETA dispute. In the beginning of February, confidence in Austrian issuers suffered severely, and thus, intensive investor's work was required, in order to successfully place the EUR 500 million benchmark bond by mortgage. The situation started to improve when it became clear that another exchange offer that had been made to the creditors of HETA was accepted by majority vote. With regard to the following Moody's upgrade this result and the positive economic development were essential for Hypo Tirol Bank AG. In the private placement sector, refinancing – covered and uncovered – developed positively due to numerous investment requirements. Since Hypo Tirol Bank AG pursed a conservative philosophy in the field of the bank's own investment, it was more or less resistant to the turbulent market situation (Brexit, rise of interest rates, banking crisis in Italy, etc.).

Treasury Sales
Even though the past year was a rough one for investors, the experts of Hypo Tirol Bank AG used a smart positioning strategy and finally succeeded in generating a positive return with a moderate fluctuation range for the clients of Hypo asset management. By doing so, the number of asset management agreements and the volume of clients could be increased.
The bond issues of Hypo Tirol Bank AG remained to be very

popular. The sales in retail business amounted to more than EUR 120 million and thus increased by round 20% in comparison to the previous year. Sales support approaches in the investment sector were completely renewed: in the context of "Hypo Portfolio" the appropriate investment form is elaborated, with special attention being given to the individual situation of the client. The investment volume regarding institutional clients who are provided direct service could be increased substantially. Subsequent to the upgraded rating, dynamics took its course and the average investment volume grew by more than EUR 200 million.

Economic Forecast 2017
In 2017, and the years to come, the geopolitical environment and the measures taken by the European Central Bank could have strong impact on the development of the capital market. The uncertainties referring to the development of the central banks' purchasing programmes and the measures they will take to provide liquidity are crucial influencing factors in this respect. Moreover, the development of the (key) interest rate in connection with the accelerated inflation might also play an important role concerning this matter. Depending on the level of return, long-term oriented investors show different kinds of behaviour: Because of increased returns, shares, which have shown an upwards trend due to lacking alternatives, might become a bit more unattractive.

II. Report on anticipated corporate developments and risks

II. 1. Economic Prospect 2017

Outlook 1st half-year 2017

Basic economic scenario: Economic growth develops positively, however, there are high political risks, and deflation is off the table.

In the beginning of 2017, the prospect regarding global economy looked quite promising, but in fact there are many political issues that must be considered. Real global economic growth might amount to +3%. In this context, the strong anti-globalization tendencies will play an important role. On 20 January, the new and not uncontroversial US President, Donald Trump, took office and in the forth-coming weeks and months we will see, how many of the promises he had made during his election campaign, will be implemented with the support of the Congress. As far as the US economy is concerned, a positive development is anticipated on the basis of the planned tax reductions and investment projects. The majority of the growth-friendly effects will probably become visible in 2018. In Europe, primarily consumption and high national expenses will become a substantial driving force for economic development. On the political stage, the result of the elections in the Netherlands and in France will be in the centre of attention in the near future. In addition, Brexit negotiations are expected to begin in March. In the context of the present basic scenario, we expect a realistic growth rate of +1.5% in the euro area in 2017. Inflation is currently increasing. In the first quarter, further increase (towards +2%) can be expected. The core ratio (price increase without energy and food) will probably be +1%. This means that deflation is off the table; however, a broad and massive inflation rate growth is also not very likely to happen from today's view.

Consequences for Investment Policy
In 2017, fiscal policy in industrialised countries will gain importance, whereas the large central banks' monetary policy is projected to loose significance. In the light of clearly negative money market interest rates in many countries, the repertoire of geopolitical measures seems to be practically depleted worldwide. In spite of two to three anticipated base rate increases, the driving force for market development in the USA will probably be the new president's tax and investment policy.
For that reason we believe that income opportunities in relation to long-term bonds will be confronted with high price risks.
Even though the European Central Bank has prolonged its bond purchasing program until the end of 2017, the volume only accounts for EUR 60 billion, as opposed to the previous amount of EUR 80 billion per month. Therefore, after the latest yield increase and in case of respectable economic data, price setbacks must be expected. We consider convertible and corporate bonds to be an appealing alternative to government bonds and collateralized bonds. As for risk aware investors, we also consider emerging market bonds to be of interest. The currently high level of interest rates regarding this market segment and the possibility to generate currency gain make these bonds attractive. Furthermore, we see a positive value development regarding inflation-linked bonds, which currently benefit from rising inflation.
Equity investments will probably benefit from the investors' search for investment alternatives that generate higher yields. From the historical perspective, shares, which represent the participation in a company, developed rather pleasingly in an environment with respectable economic growth and moderately increasing inflation. In case of high yield boosts, the attractiveness of shares would suffer. After 2016, which was characterised by growing corporate profits, further growth is predicted for 2017, with such projections having price supporting effects. Nevertheless, we are well aware of the latent (political) risks and also anticipate short-term price setbacks.
Raw materials are considered to be an appealing asset class and in terms of risk spreading they signify an interesting portfolio addition. Gold represents a useful risk hedging instrument. Energy prices may remain well supported, due to production curs agreed

on during the OPEC meeting held in Vienna. In our opinion, the development of the US Dollar can also be described as positive. It will benefit from further base rate increases in the USA. Anyway, dropping below parity with the Euro seems to be too optimistic.

Economic development in our market areas in 2017
The economic atmosphere in relation to Austria improved significantly after the turn of the year. On the one hand, this resulted from an upswing in the indurstry and on the other hand from positive effects caused by the tax reform. Consequently, the tax reduction will probably continue to have a positive impact on consumption until mid-2017. Domestic demand will therefore remain the country's determining economic pillar for 2017.
Increasing inflation and the high unemployment rate could have negative effects on economic growth. After an increase of +1.5%, GDP growth in 2017 will amount to +1.4% and thus be a little bit lower. The development of raw material prices and the clearly increasing rentals will be the reason why inflation in Austria might reach the two percent mark in the first half of 2017. In the course of the year, an increase in the consumer price index of +1.6% is expected.
In the light of the current geopolitical situation, the Tyrolean economy presented itself in perfectly good shape in the beginning of 2017. An extraordinarily high business climate index indicates a stable growth period for the Tyrolean economy.
As far as Italy is concerned, the situation will remain to be challenging in 2017. Even though a new government under Paolo Gentiloni took office after Prime Minister Renzi had resigned in November, early elections could take place in 2017. In addition, the current restructuring of the banking sector represents a stress factor. For 2017, a GDP-growth rate of + 0.9% is expected. The inflation rate is anticipated to increase to + 1% (2016: -0.1%).
Just like in the previous year, the situation in the South Tyrol will develop better than in Italy as a whole. Increasing turnovers will have positive impact on employment. Companies expect an increase in the number of employees.

II. 2. Anticipated Corporate Development

In compliance with the corporate strategy and planning guidelines in relation to the 2017 business year, controlled growth including the following cornerstones was defined for Hypo Tirol Bank AG.

- Focus on the core market: Tyrol, South Tyrol and Vienna
- Strengthening customer relations
- Reducing capital commitment
- Reducing credit risk in Italy
- Cutting costs

Net commission income shall be increased by 3% in 2017. This result will be achieved by increasing the volume and consequently commission income from securities business, by augmenting commission from payment transactions and by lowering commission expenses. In addition, trading results are also predicted to be slightly positive in 2017 – as far as financial assets are concerned, a decline is expected in comparison to the previous year, because there won't be any non-recurring effects from participations. In 2017, net interest income is expected to be regressive, because refinancing costs will primarily increase due to the maturity of debenture bonds with contingent liability on the part of the Province of the Tyrol. With regard to administration expenses, the strategy to save costs and optimize operation processes will be further pursued. In general, the consistent cost management increasingly shows some positive effects, which will lead to a further decline in material expenses.
In order to be well prepared to face future challenges, in 2017, investments regarding the refurbishment of branch offices, the upgrade of self-service systems and the improvement of IT infrastructure will be made, which will lead to a rise in depreciation of internally used assets. Due to the one-off payment of the 2016 stability fee, a clearly improved operative result can be expected for 2017; because the current stability fee will decrease by more can EUR 5 million. Based on the maturity of debenture bonds in the forthcoming year, the volume of customer deposits will decline according to plan. As far as the volume of receivables in the Austrian market is concerned – particularly in the Tyrol core market – a moderate rise is intended. Whereas, in Italy, which Is located outside the South Tyrol core market, the volume of receivables will further be reduced on a continuous basis. This will lead to the fact, that risk provision will be rather moderate in 2017.

II. 3. Major Risks and Uncertainties

Financial Risks and Risk Management

Risk Management
Hypo Tirol Bank AG considers appropriate risk management an essential success factor for the sustainable and positive development of the company. It corresponds to the requirements of ICAAP (Internal Capital Adequacy Assessment Process) as well as ILAAP (Internal Liquidity Adequacy Assessment Process). The risk management process, which refers to the entire group, is defined as a specialized, systematic and steady business process including the following stages:

- Identification
- Evaluation
- Monitoring
- Active controlling
- Internal reporting system

The objective of internal risk management processes is to safeguard appropriate risk capacity which corresponds to the risk appetite. In this context, the following major risks are considered:

Risks
Credit risk incl. CCR
Market risk Interest rate risk, Price risk, Foreign currency risk, Credit value adjustment, Alternative Investments, Credit spread risk
Liquidity risk
Macroeconomic risk From credit risk incl. risk reducing measures, Market risk, Liquidity risk
Operational risk
Risk from other assets
Risk capital from participating interest relevant to the group strategy
Risk buffer Model risk & quality of data, Concentration risk

The overall risk within Hypo Tirol Bank AG, which is composed of identified major risks, is defined as the total of single risks and is compared with risk capacity (available financial resources). The limits for single risks and risk capacity are determined by the Managing Board and monitored on a monthly basis. In terms of active risk control, with appropriate measures being taken if applicable.

Credit risk and counter party credit risk

Definition
Hypo Tirol Bank AG defines credit risks as default risks arising out of non-securitized receivables and securitised receivables from third parties. The risks comprise receivables for Hypo Tirol Bank, which will not be paid as stated in the terms of the contract, i.e. amount, time. Credit risks may also result from specific forms of product design or from the application of measures to minimize credit risks. In the context of quantifying credit risk, counter party credit risk (CCR) is also considered.

Credit risk control
Credit risks (default risks) are controlled by credit risk management, which assesses the financial recovery and operation of the non-performing loans portfolio.

Division of the portfolio by creditworthiness
The evaluation of our debtors' creditworthiness is essential for controlling credit risk. For that reason, the creditworthiness of our clients is continuously monitored and the composition of the portfolio is evaluated on a quarterly basis. More than 2/3 of the volume of receivables can be assigned to the upper creditworthiness segment with outstanding creditworthiness and good creditworthiness. The proportion in these rating groups has slightly increased compared to the previous year [see note (59)] – risk provision in relation to receivables from credit institutions and clients – in which credit quality is illustrated by means of internal rating classes.

Non-performing loans could be further decreased by managing the portfolio in consistent, sustainable and active manner; therefore, the non-performing loans ratio developed positively in comparison to the previous year.

Division of the portfolio by branches
Hypo Tirol Bank AG remains to be strongly represented in the “industrial construction companies” branch and in the “tourism industry”. In these branches we provide the best of our knowledge. Based on the large concentrations in these sectors, the respective segments are especially monitored via risk indicators – see illustration “receivables from clients by business type” note (58) and the development of risk provision in relation to receivables from clients by business type note (59).

Division of the portfolio by market regions
In the fiscal year 2016, Hypo Tirol Bank AG continued to focus on the core market that is to say the Tyrol, the South Tyrol and Vienna. By doing so, it succeeded in maintaining the high level of 2015 in the Tyrol core market and in reducing further risk positions outside the defined core market. The development is illustrated under note (59) risk provision in relation to receivables from clients by region.

Foreign currency proportion – receivables from clients
In 2016, foreign currency volume was further reduced. Due to the specifications defined in our foreign currency strategies, no new transactions in foreign currency with private clients or to a very restricted extent with corporate clients is intended. Top priority is given to the further and consistent reduction of foreign currency volume. The illustration of foreign currency volumes divided by balance sheet item can be found under note (90).

Development of repayment vehicle loans
The strategy of Hypo Tirol Bank AG to continuously reduce the portfolio of repayment vehicle loans will be further pursued. In other words, no new capital building repayment vehicle loans or transfers to loans with regular payments where applicable will be granted. The concerned clients and their account managers will be regularly informed about the situation regarding their repayment vehicle loans and appropriate measures will be taken, if necessary.

Development of the Nostro securities portfolio
In 2016, Nostro securities were also reduced by EUR 100 million. In consideration of Basel III, new investments are primarily made in highly liquid assets. For further information regarding the development of Nostro securities (divided by evaluation criteria) please see notes (62), (63), (64) and (65).

Collateral
Real estate collateral represents the most important type of collateral within Hypo Tirol Bank AG. It is evaluated in compliance with the defined corporate standards and used in accordance with the existing catalogue in order to secure credit exposures. A respective monitoring process, which is carried out by an independent institution, was established to ensure recoverability. The high quality of mortgage cover funds is also reflected by the external rating (Aa2 according to Moody's).

Risk provision policy

Risk provision includes the setup of risk provision in the balance sheet, with the explanations under note (19) being applied. The single components are assessed regarding their recoverability. In case impairments are detected, specific allowances in the corresponding amounts are made.
In order to identify risk potentials in credit business at an early stage, an early warning procedure is required to detect risks. In this way, countermeasures can be taken as soon as possible. Based on qualitative and quantitative risk criteria, the bank has developed indicators, defined as early warning system, which allow premature identification of risks.

Risk provision policy also includes the managing of overdue receivables. For further details see note (59) analysis of receivables – overdue – no allowance.

In addition, credits with contractual adaptations which shall be understood as forbearance measures (concessions in relation to credit terms in order to prevent impairment) regarding an active risk provision policy. Such concessions for clients suffering financial difficulties are illustrated under note (59).

Non-Performing Loans (NPL)
Within Hypo Tirol Bank AG non-performing loans include loans in default in the supervisory category of receivables and restructuring and operating cases. Due to the events that occurred in Italy in the past years, Hypo Tirol Bank AG has a high NPL-ratio within the corporate group. In 2016, the consistent management of the portfolio allowed strong reduction. At the key date (31 December 2015), the NPL rate amounted to 9.8% (corporate group without

IT 3.7 % and IT 44.7 %.). At the key date (31 December 2016) it amounted to 7.6% (corporate group without IT 2.4% and IT 42.7%). The further continuous reduction is one of the major objectives for Hypo Tirol Bank AG.

Market risk and interest rate risk

Definition
Hypo Tirol Bank AG describes market risk as the danger of losses which result from changes in market prices. Market risks are divided in interest rate risk, price risk, and foreign currency risk. Other risks, which are included in market risk within Hypo Tirol Bank AG, are alternative investment risk credit spread risk and credit value adjustment (CVA).
Interest risk covers Interest rate refixing risk, base risk, option risk and interest curve risk.
Note: key risk figures referring to market risk are evaluated for the Hypo Tirol Bank AG Group. In compliance with the established risk strategy, subsidiaries are not entitled to take market risks. This strategy is implemented by means of an appropriate refinancing concept. Therefore, the corporate group provides the same market risk figures like the bank.

Market risk control
Market risk control is managed by the treasury department. In this context special attention is given to a balanced asset/liability management in consideration of the resulting impact on the financial statement in accordance with the Austrian Commercial Code and IFRS.
Especially regarding interest rate risk, a risk report is evaluated beyond the evaluation perspective (net interest income, NII).

Liquidity risk

Definition
Insolvency risk is the risk that current or future payments cannot be made or made in full, or in a timely manner or cannot be made without having to suffer unacceptably high losses. Liquidity risk distinguishes between short-term liquidity risk (up to one year) and long-term refinancing risk (more than one year).

Liquidity risk control
Within Hypo Tirol Bank AG short-term liquidity risk is quantified and monitored on the basis of the key figures of liquidity coverage potential and the supervisory key figures of liquidity coverage ratio. The LCR outlook is integrated into liquidity risk management as an early warning instrument. In addition, LCR, liquidity buffer and liquidity sensitive products are monitored on a daily basis by means of the liquidity risk data board. Refinancing risk is quantified via structural liquidity risk and the supervisory key figure of net stable funding ratio (NSERG) and monitored via a refinancing monitoring system. Within Hypo Tirol Bank AG, liquidity control is managed by the treasury department.

Operational Risk

Definition
Within Hypo Tirol Bank AG operational risk is defined as the risk of loss caused by the inappropriateness or failure of internal procedures, individuals, systems or external events. Strategic risks and reputation risks including legal risks are not included.

Operational risk control
The following instruments are employed to control operational risks:

- Organisational structure
- Damage date base
- Risk inventories (self-assessment)
- OP-risk learning programme

The use of these tools ensures a comprehensive control of operational risks within Hypo Tirol Bank AG. In addition, the following methods are applied to minimise operational risks:

- Internal control systems
- Clearly documented internal guidelines (“instructions“)
- Allocation and limitation of decision making competences
- Separation of functions (“four eyes principle“) for essential risk-relevant processes
- Continuous assurance and improvement of employee’s skills in the context of vocational education and training (human resource development)
- Employment of modern technologies
- Risk insurance

Real Estate and Participation Risk

Definition
Real estate risk within Hypo Tirol Tank AG is the risk that prices of real estate change and consequently lead to a negative result in the profit and loss account (risk of vacancies, loss of rent, and deterioration of profit/cost relation). The risk in relation to property participation is added to real estate risk (“at equity”). Participation risk within Hypo Tirol Bank AG is the risk of loss resulting from financing by mans of equity capital (private equity) and/or borrowed capital (in connection with credit risk). In addition, Hypo Tirol Bank AG also includes the risk of loss resulting from market-evaluated participations (listed shares) and their price changes (in connection with market risk).

Excessive Debt Risk

Definition
In accordance with CRR section 429, the debt quota is defined as the quotient from the measured quantity of capital of an institution and its overall risk position quantity, whereas the measured quantity of capital represents core capital.

Debt quota control
The debt quota is automatically evaluated on the basis of CRR section 429 in the general data processing centre. In the context of the financial statements, control is carried out via the analysis of different scenarios.

Macro-economic Risk

Definition
Macro-economic risks are loss potentials resulting from exposure against macro-economic risk factors. Risk factors are i.e. unemployment rate, GDP development, etc., and their respective impact on different business sectors of the bank. Hypo Tirol Bank AG assumes that risks from macro-economic environment are substantially reflected in the following:

- Currency risk
- Possibility of default on the part of the clients
- Recoverability of credit collaterals
- Market volatilities

In order to determine risk values for macro-economic risks, these parameters are stressed and additional unexpected losses are calculated in the context of this scenario.

Risk from other assets

Definition
Risks from other assets are values that do not have substantial influence on the amount of the assets in the balance sheet and that

cannot be assigned to any other balance sheet item. Any change or default imposes a risk for Hypo Tirol Bank AG. They include accruals and deferrals of derivatives prepaid liability fees, deposits for leasing objects.

Risk Management Organisation

The managing board determines the overall risk strategy, the specified risk appetite, the risk limits and the risk manual of Hypo Tirol Bank AG, which documents on the risk management process. Hence, the strategy is concluded by the supervisory board. The managing board informs the supervisory board and the risk committee of the corporate group's risk situation in appropriate manner. Within the corporate management board the chairman who is responsible for business transactions takes the responsibility for the further development of risk management and takes the leading position in the context of strategic risk management. Strategic risk management (SRM) shall report to the corporate Managing Board.
The risk management executive department is responsible for the development and the continuous improvement process of risk management systems. It identifies, qualifies, monitors and controls major risks and risk covering potential. In addition, proposals regarding risk and portfolio control are made and monitoring is conducted on the basis of defined internal reports (risk positions, limits, and events). In the event that limits are exceeded the executive department has the obligation to provide the respective information in a timely manner (ad-hoc report) and to propose counteracting measures accordingly. While risk management in production units is basically performed on the single item level SRM deals with risk management on portfolio level.
The central internal committee, which is responsible for active bank-wide management, organises the bank-wide management meeting on a monthly basis. The members of this committee are the general managing board, the head of the treasury department, the head of the accounting & controlling department, the deputy head of the accounting & controlling department, the head of the audit executive department as well as the head of the strategic risk management executive department.
The supervisory board, respectively its subcommittee (risk committee) is responsible for the regular monitoring of the corporate management and the evaluation of the risk management system operated by Hypo Tirol Bank AG.

This monitoring process is safeguarded by the following reports:

- Risk report - corporate group
- Risk report - Italy
- Special subjects concerning the audit committee
- Report within the audit committee via strategic risk management representatives

Procedure for quantifying risks and risk cover potentials

Typo of risk/parameter	Going concern view	Liquidation view
Confidence level	95%	99,9%
Period of observation	1 year	1 year
Credit risk: classic credit risk	Modell strongly complies with IRB approach of CRR	Modell strongly complies with IRB approach of CRR
Credit risk: counter party credit risk	Values of liquidation view are scaled to confidence level	Risk value from pillar I for CCR and CVA
Marktrisiko: Zinsänderungsrisiko Wertpapierkursrisiko Fremdwährungsrisiko	Historical value at risk	Historical value at risk
Market risk: Credit spread risk	Historical value at risk by using key figures	Historical value at risk by using key figures
Market risk: Alternative risk	Simulation	Simulation
Liquidity risk	Increased refinancing under spread shock	Increased refinancing under spread shock
Macroeconomic risk	Stress tests on components of credit, market and liquidity risk	Stress tests on components of credit, market and liquidity risk
Operational risk	Values of liquidation view are scaled to confidence level	Risk values from pillar I (base indicator approach)
Risk from other assets	Values of liquidation view are scaled to confidence level	Risk values from pillar I (risk weight approach)
Risk capital from corporate participation	Mixed approaches: IRB approach, risk weight approach	Mixed approaches: IRB approach, risk weight approach
Risk buffer Modell risk & data quality Concentration risk	Historical empirical data, simulations, minimum value	Historical empirical data, simulations, minimum value

Risk Report

Risk capacity
The quantification of risks and risk cover potentials is carried out on the basis of the going concern view and the liquidation view. Monthly reports are presented in the bank-wide management meeting.

Going concern view

Economic capital in %	2016-12-31	2015-12-31
Credit risk	17.3 %	20.2 %
Market risk	15.7 %	13.9 %
Liquidity risk	5.1 %	7.8 %
Macro-economic risk	3.7 %	2.1 %
Operational risk	4.5 %	4.5 %
Risk from other assets	3.8 %	5.0 %
Risk capital from corporate participation	1.3 %	1.7 %
Risk buffer for non-evaluated risks and model weaknesses	2.7 %	2.8 %
Economic risk total	54.1 %	58.1 %
Risk cover potential	**100.0 %**	**100.0 %**
Available cover assets	**45.9 %**	**41.9 %**

Liquidation view

Economic capital in %	2016-12-31	2015-12-31
Credit risk	31.5 %	36.0 %
Market risk	13.7 %	16.0 %
Liquidity risk	3.8 %	6.0 %
Macro-economic risk	8.0 %	4.8 %
Operational risk	3.3 %	3.4 %
Risk from other assets	2.9 %	3.8 %
Risk capital from corporate participation	2.5 %	3.6 %
Risk buffer for non-evaluated risks and model weaknesses	2.7 %	3.7 %
Economic risk total	68.4 %	77.2 %
Risk cover potential	**100.0 %**	**100.0 %**
Available cover assets	**31.6 %**	**22.8 %**

Short-term Liquidity Risk
Short-term liquidity risk is quantified and monitored within one day (intraday liquidity) but also via the daily liquidity dashboard.

Stress Test Results
The analyses relating to ordinary business activities are complemented by stress tests, sensitivity analyses and reverse stress tests. The results of bank-wide stress tests are reported to the supervisory board and to the members of the risk committee.

Ad-hoc-Report
As far as special issues are concerned or in case separate reports are required for particular developments, the reports are established by the strategic risk management department and thus made available for decision-makers.

Particular developments in 2016 and forecast for 2017

An important point in 2016 – not only for Hypo Tirol Bank AG – was the agreement made between the Carinthia compensation fund and the creditors of HETA Asset Resolution AG in the beginning of October. Hypo Tirol Bank AG accepted the offer in relation to a zero coupon bond. Consequently, all receivables from HETA Asset Resolution AG could be cancelled from the books and the major part of risk provision could be dissolved.

The successful placement of a benchmark issue, a ranking upgrade by an external rating agency, the positive completion of EU trustee proceedings and the encouraging development of the NPL quota perfectly demonstrate the very successful development of Hypo Tirol Bank AG in 2016.
In 2017, special emphasis will be put on the preparation process in relation to increasing capital and liquidity requirements and on liquidity control, especially in view of the maturity of issues. In addition, top priority will be given to the continuous improvement of data quality.

II. 4. Report on the major characteristics of the internal control and risk management system, in particular with regard to the preparation of the financial statement

Definitions

The risk management system managed within the corporate group includes all activities which help to identify, analyse and evaluate business risks and to take appropriate measures accordingly to prevent such risks from affecting the company in a negative way.
With regard to the internal control system (ICS), risk management is mainly employed in the context of methodical risk evaluation, which forms the basis for the internal control system.
The internal control system represents all principles, procedures and measures which contribute to protect the assets of the company, to guarantee proper preparation of the financial statement and to ensure compliance with all legal provisions.
Hypo Tirol Bank AG describes the internal control and risk management system concerning the preparation of financial statements as a system that was designed to guarantee the proper, reliable and timely preparation of internal and external financial statements in accordance with all legal provisions. In this context, the process of preparing financial statements is not limited to regular reporting of interim and end-of-year financial statements, it also comprises orderly bookkeeping records of all relevant data regarding their origin, their processing and their adopting in the internal company reports and in the end-of-year external financial statement.

Objectives

The Managing Board of Hypo Tirol Bank AG is responsible for the establishment and maintenance of an appropriately equipped internal control and risk management system.
In the course of exercising this responsibility, an ICS coordinator has been appointed. The area of responsibilities of this function comprises the standardisation and systematisation of all existing internal control systems and the summary of individual measures and the subsequent transfer to an overall and unified internal control system. The evaluation of the effectiveness of the internal control system is based on the criteria specified in the working paper „Internal Control - Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
The purpose of the ICS in relation to the preparation of financial statements is to recognise risks inherent to the process and to properly prepare an annual financial statement in compliance with all regulations by employing a control system.
Thus, the established ICS contains specifications, directives and guidelines which

- regulate the orderly recording of transactions and the keeping of orderly records in order to ensure the correct interpretation of business cases,
- ensure sufficient security so that business cases can be recorded as required in order to guarantee the preparation of the financial statement in accordance with the respective legal provisions, and
- ensure sufficient security with regard to preventing, reducing and discovering errors and irregularities which might have substantial effect on the financial reports.

The ICS manual, which shall be understood as methodical approach for implementing a cross-department, unified internal control system, serves as the basis for these requirements, directives and guidelines. Our internal control system does not primarily focus on the establishment of additional controls which aim at implementing and maintaining legal or other internal requirements or requirements relating to the supervision of banks. The major issue in this respect is, whether the controls as a whole can build a system. To accomplish that, an appropriate process model is required, which is explained in the ICS manual. This process model is based on the international example of five components of the COSO Framework: control environment, risk assessment, control activities, information, communication and monitoring.

Components of the ICS in the context of the preparation of the financial statement

The control environment serves as the framework in which the ICS can be operated. The major instruments of the control environment are regulations of structural and operational processes which adhere to the separation-of-functions principle and the four-eye principle. The separation-of-functions and the four-eye principles represent core elements of the internal control system. Placing several sensitive activities in one hand or depending exclusively on self-control may be a stimulus to abstraction. The structural and operational organisation helps Hypo Tirol Bank AG to counteract such risks.
Furthermore, standardised qualification and training programmes held for staff members guarantee that the qualification level which is required for the respective position is guaranteed. The foundations of the control environment, however, are laid by

integrity and the Code of Ethics and Conduct of each and every employee. In particular, the power of setting the right example on the part of managers and executives of Hypo Tirol Bank AG is of utmost importance in this context.
Risk recognition and risk assessment are both built on the control environment, which forms the basis for other IKS components. The point of origin 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, the processes are defined and recorded. Risk assessment with regard to the strategic dimensions of the COSO model is conducted by the risk management department on an annual basis. According to such risk assessment IKS-relevant processes are defined within Hypo Tirol Bank AG.
With regard to efficient risk assessment in the context of preparing the financial statements, our corporate objectives in relation to financial reporting serve as the starting point. The foremost goal of financial reporting is the process of preserving and informing. The legally fixed principle of communicating a true and fair view of the assets, the financial position and the profit situation is given top priority in this respect.

In order to minimize the risk of substantial misstatements in describing transactions in the process of preparing financial statements, the following steps have been taken:

- first of all, the risks which should be minimized have been identified,
- control objectives, which must be covered by the appropriate control activities, have been defined for such risks, and
- the resulting outcome has been recorded in a sectorial risk control matrix.

A detailed understanding of the process of preparing financial statements is the foundation for identifying major risks. For that reason, process documentation (process flow charts) in form of transparent and logical illustration of various sequences of the preparation of financial statements is of utmost importance. Apart from that, process documentation clearly regulates the areas of responsibility for each individual step and its interfaces and illustrates all employed (critical) systems in a transparent manner.
A business process of Hypo Tirol Bank AG can be described as ICS-relevant if it has direct, immediate and substantial impact on financial reporting, the assets of Hypo Tirol Bank AG or the compliance with legal provisions. In this respect, special emphasis is put on loan business and the bank's financial investments portfolio. Consequently, these activities have been defined as ICS-relevant processes. The process of preparing financial statements, which is another ICS-relevant process, is responsible for the numerical illustration of these business processes. In particular, the presentation of inherent risks in connection with the loan business and the bank's own portfolio is of special importance. In accordance with the statements relating to financial risks and risk management, we define loan risk, market price risk and liquidity risk as primary risks in these business processes.
The purpose of control activities is to ensure the actual implementation of measures taken by Hypo Tirol Bank AG in order to control risks and to reach the business goals. For effectiveness purposes, such control activities are directly integrated into business processes and illustrated in the respective process documentation and the corresponding risk-control matrix. In addition, the documentation of controls is an essential part of the ICS. Depending on the timing, we distinguish between error avoiding and error detecting control activities. Control activities avoiding errors are e.g. competence defining regulations or limited access to the system in the form of user policies and password policies. Error detecting controls are e.g. compliance and adjustment controls.
Regarding the computerised processing of our business activities we are supported by the General Computing Centre (ARZ - Allgemeines Rechenzentrum). In this connection, we employ our own developments, based on state-of-the-art technology, as well as tried and tested standard products. ARC-TIS software solution is the central host system, which is used for the daily banking business. Standard solutions such as GEOS, SAP, etc. serve as subsystems. Cognos Consolidator (consolidation software) supports the preparation of financial statements. In addition, access regulations, strict data security specifications and automatic adjustment controls are just a few examples for our control measures which are applied in the entire IT landscape of Hypo Tirol Bank AG.
In order to use the ICS efficiently, specific and wide ranging information and communication channels have been designed for all important business areas, so that staff members are supplied with adequate information which is necessary to carry out the required controls. In this context and for transparency reasons, the ICS manual is accessible for all employees via Intranet. In particular, the explicit illustrations of controls in the process documentation (process flow charts, working directives, etc.), for the preparation of financial statements - and also for all other risk-relevant and ICS-relevant processes – and in the risk control matrices creates awareness in the minds of all involved employees.
Information channels have been designed in such a way that all relevant information can be distributed in reliable, timely and objective manner. For internal communication, corresponding procedures and tools have been institutionalised, such as Portal News, Intranet, Managing Board e-mails, document distribution via Intranet platforms, as well as internal seminars and training workshops.
Moreover, institutional information channels in the context of management reports help to make business activities and their corresponding inherent risks transparent and demonstrate the development of earnings. Members of the Managing and Supervisory Board or shareholders are provided with information in compliance with institutional standards. The Managing Board has the obligation to submit quarterly prepared reports on profit and risk situations to the Supervisory Board and the Auditing Committee.
An additional prerequisite for the effectiveness of our ICS is to maintain the functioning of the control measures on the long run. Thus, the ICS of the corporate group is regularly monitored in order to guarantee the compliance with the defined processes and controls and to make adjustments as applicable, whenever the circumstances or the environment are subject to changes. In this context, executive managers play an important role.
The monitoring of the ICS is carried out on various levels. On the process level, the monitoring of the ICS and the annual review is guaranteed by means of organisational regulations within the company. Managers monitor the actual execution of the controls by making random tests.
The Managing Board ensures a comprehensive company-wide monitoring of the ICS by defining the necessary structural mechanisms (assigning responsibilities, creating suitable information systems, etc.) and reporting processes, e.g. the illustration of

control results. In addition, the ICS coordinator prepares an annual report on ICS-relevant processes, review results and planned measures to further develop the ICS.
Furthermore, the bank's internal audit controls the ICS in the course of its review. This internal audit has the following responsibilities:

- Independent and objective audits, as well as consulting and supervisory tasks with regard to the quality assurance of the ICS
- Evaluation of the qualification and efficiency of the ICS
- Suggestions regarding further development

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

III. Sustainability Report

Hypo Tirol Bank AG is well aware of its responsibility to the clients in this respect. The bank for all Tyrolean people takes on the responsibility for its own actions in terms of economic, egologic and social sustainability. Nevertheless, it never loses sight of the Tyrol being an economic area and living environment.

Economic Sustainability

It is of utmost importance for the Managing Board to safeguard profitability rather than the short-term maximisation of profit. Hypo Tirol Bank AG is a symbol for long-term success. The degree of the success generated is as important as the way that was used to accomplish that goal. Therefore, compliance guidelines are implemented in a strictly manner and employees are regularly trained in terms of money laundering provisions. Operative management is based on strategic planning processes, which are carried down to the departments by means of qualitative and quantitative objectives and consequently transferred into employee goals.
Strategic risk management also plays an important role when it comes to making business-related decisions – whether in relation to product development or the granting of credits or investments. Risk management is not only about minimizing risks, it is also about recognising potential threats that are evaluated in the general context and managed an active manner.
The strong capital recourses of Hypo Tirol Bank AG provide a certain degree of security, not only for the credit institution, but also for its clients, because Hypo Tirol Bank AG stands for sound and long-term success in the client sector as well. The promise is clearly defined: competence, experience and security in relation to money related business transactions. Being a regional bank means that clients can be sure that their capital stays in the determined target market, where it invested only in order to generate long-term economic and personal success – primarily in the sector of SMEs and the financing of homebuilding projects. Apart from that, all Tyrolean people benefit from the sustainable economic success of Hypo Tirol Bank AG, as it is return to the country by means of dividends and consequently it is given back to the people.

Ecological Sustainability

Hypo Tirol Bank AG is committed to operate in an ecologically sustainable way and employs all potentials that are available for a service orientated company, primarily in the field of movable assets. Therefore, the vehicle fleet has been reduced to a minimum over the past few years. Alternatively, company bicycles are offered, but also tickets for public transport, mainly in urban centres, but also company bicycles. The possibility of video meetings also allowed a reduction in the number of business trips. As far as the remaining company vehicles are concerned, it is ensured that they are equipped with the most modern and environmentally friendly technologies.
With regard to the property portfolio, restructuring and modernising processes are carried out in order to optimise energy consumption.
While managing the daily banking operations, all employees are required to localise potentials for an economical use of resources, which might lead to the reduction of CO^2 emissions. This will have two-fold benefits on the long run: the positive effects will not only relate to the environment but also to material expenses. A very good example in this respect is that economic and ecological sustainability are closely connected. This is an important subject for our employees, which is reflected by the numerous statements send to the operative management.

Social Sustainability

“Together we are strong” – this was not only the motto for the foundation of Hypo Tirol Bank AG, even today it still is an important slogan. And so, it goes without saying that social responsibility is one of the major tasks of Hypo Tyrol Bank AG. This is reflected by various sponsoring commitments in the field of research, development, arts, culture and social sponsoring. In addition, Hypo Tirol Bank AG also acted as a pioneer when it enabled those, who are socially deprived or in need, to open an account. The projects called “new start and refugee account” made a major contribution to facilitating daily life for people facing difficult situations. In the meantime, legal provisions were established and they were replaced by payment accounts with basic functions.
Based on the close cooperation with local Tyrolean authorities and public institutions as well as non-profit property developers, Hypo Tirol Bank AG makes a significant contribution to the realisation of non-profit projects and the creation of affordable living space.
As a well-known employer and educational institution, Hypo Tirol Bank AG offers its employees appropriate conditions and space to foster personal and professional development. In this respect, the works council is the voice of the staff and communicates with the management. As a universally operating bank, Hypo Tirol Bank AG sets a great value upon providing a consistent value added process. For that reason, steady employment is preferred and outsourcing is only approved in accordance with strict economic and social criteria.

Development Potentials

The credit institution puts great emphasis on the targeted and continuous professional training and the personal development of its employees, because it creates staff loyalty and clients benefit from motivated employees. Therefore, respective individual programs are offered by the bank itself and in cooperation with selected partners. Appraisal interviews are conducted on a regular basis in order to find potentials and implement them in line with personal goals. Hypo Tirol Bank AG also offers the possibility of educational leave; in addition, employees can also make use of personal coaching programmes, which are very useful, especially in case of reorientation or new orientation, re-entry or in order to solve conflict situations. Moreover, the bank applies the principle that vacancies are preferably filled with in-house employees in order to support those staff members who want to change their job.

Job, Leisure Time and Family

Basically, Hypo Tirol Bank AG offers flexible working time models in order to allow its employees to combine professional and personal interests and consequently achieve a well-adjusted work-life-balance. In cooperation with the Province of the Tyrol and Tirol Kliniken hospital, the regional state bank operates a day care facility to make it easier for parents to return to working life.

Corporate Benefits

As far as health is concerned, Hypo Tirol Bank AG provides its employees a wide range of opportunities, in particular, preventive medical check-ups, financial support for vaccination ns and specialist lectures. In this respect, it closely cooperates with the company doctor, who offers regular consolation hours within the premises of Hypo Tirol Bank AG. The product range is completed by a company group insurance.
Furthermore, Hypo Tirol Bank AG operates two company restaurants in Innsbruck, where well-balanced meals at special prices are available. All employees who work in the regions and cannot benefit from this offer, receive a monthly lunch allowance.
Finally, regular events for employees also contribute to a perfect company climate and also allow exchange and networking.

IV. Report on Research and Development

With regard to research and development, no branch specific statements were made.

Innsbruck, 29 March 2017

HYPO TIROL BANK AG
Managing Board

Johann Peter Hörtnagl	Mag. Johannes Haid	Mag. Alexander Weiß

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I. Profit and Loss Account

in kEUR	Notes	2016	2015 adjusted	in kEUR	Change in %
Interest and similar income		169,505	197,126	-27,621	-14.0
Interest and similar expenses		-83,946	-100,832	16,886	-16.7
NET INTEREST INCOME	**(38), (43)**	**85,559**	**96,294**	**-10,735**	**-11.1**
Credit risk provision	(39), (44)	18,725	-26,396	45,121	n.a.
NET INTEREST INCOME AFTER RISK PROVISION		**104,284**	**69,898**	**34,386**	**49.2**
Commission income		32,459	33,121	-662	-2.0
Commission expenses		-6,121	-6,141	20	-0.3
Net commission income	**(40), (45)**	**26,338**	**26,980**	**-642**	**-2.4**
Trading result	(41), (46)	54	-1,232	1,286	n.a.
Result from hedge accounting	(47)	1,606	1,612	-6	-0.4
Result from financial instruments – at fair value through profit or loss - prior to change	(42), (48)	-1,927	3,525	-5,452	n.a.
Result from other financial instruments	(49)	646	5,475	-4,829	-88.2
Result from associated companies	(50)	238	-803	1,041	n.a.
Administrative expenses	(51)	-74,041	-79,561	5,520	-6.9
Other income	(52)	21,935	27,850	-5,915	-21.2
Other expenses	(53)	-40,871	-33,501	-7,370	22.0
Operative result prior to change of own credit risk		**38,262**	**20,243**	**18,019**	**89.0**
Result from change of own credit risk (*)	*)	0	47,046		
Result prior to taxation		**38,262**	**67,289**	**-29,027**	**-43.1**
Tax on income and profit	(54)	-11,798	-9,647	-2,151	22.3
Result after taxation		**26,464**	**57,642**	**-31,178**	**-54.1**

*) in the 2016 fiscal year, IFRS 9 was applied on an early basis pursuant to the provisions of IFRS 9.7.1.2

II. Statement of Comprehensive Income

in kEUR	2016	2015 adjusted	Change in kEUR	Change in %
Result after taxation	**26,464**	**57,642**	**-31,178**	**-54.1**
Data which can be reclassified in the profit and loss account				
Evaluation of financial assets - AFS - included in other income	-840	-6,857	6,017	87.7
Reclassification of evaluation results from disposed of financial assets - AFS to net income for the period	2,646	4,861	-2,215	-45.6
Reclassification of evaluation results from impairment of financial assets - AFS to net income for the period	228	460	-232	-50.4
Deferred tax from evaluation of financial assets - AFS included in other income	-508	607	-1,115	>100.0
	1,526	**-929**	**2,455**	**>100.0**
Data which cannot be reclassified in the profit and loss account				
Actuarial profit/loss	-1,000	212	-1,212	>100.0
Deferred tax from evaluation of actuarial profit/loss included in other income	250	-53	303	>100.0
Credit rating induced fair value change - own liabilities	-46,837	0	-46,837	>100.0
Deferred tax not affecting income from credit rating induced fair vallue change - own liabilities	11,709	0	11,709	>100.0
	-35,878	**159**	**-36,037**	>100.0
Other result after tax on income and profit	**-34,352**	**-770**	**-33,582**	**>100.0**
Total result	**-7,888**	**56,872**	**-64,760**	**>100.0**

III. Balance Sheet

Assets

in kEUR	Notes	2016	2015 adjusted	in kEUR	Change in %
Cash assets reserve	(17), (55)	**277,660**	**121,104**	**156,556**	**>100**
Receivables from credit institutions	*(18), (56)*	*207,102*	*100,856*	*106,246*	*>100*
Risk provision	*(19), (59)*	*0*	*0*	*0*	*n.a.*
Receivables from credit institutions after risk provision		**207,102**	**100,856**	**106,246**	**>100**
Receivables from resolution unit former credit institution	*(18), (57)*	*0*	*83,952*	*-83,952*	*n.a.*
Risk provision	*(19), (59)*	*0*	*-20,988*	*20,988*	*n.a.*
Receivables from resolution unit former credit institution ater risk provision		**0**	**62,964**	**-62,964**	**n.a.**
Receivables from clients	*(18), (25), (58)*	*5,388,248*	*5,526,325*	*-138,077*	*-2.5*
Risk provision	*(19), (59)*	*-174,654*	*-236,634*	*61,980*	*-26.2*
Receivables from clients after risk provision		**5,213,594**	**5,289,691**	**-76,097**	**-1.4**
Positive market values from derivative hedging instruments	(12), (60)	**10,864**	**4,094**	**6,770**	**>100**
Trading assets and derivatives	(9), (61)	**152,991**	**214,360**	**-61,369**	**-28.6**
Financial assets – designated at fair value	(10), (62)	**734,054**	**736,493**	**-2,439**	**-0.3**
Financial assets – AFS	(13), (63)	**811,994**	**663,468**	**148,526**	**22.4**
Financial assets – HTM	(14), (64)	**35,335**	**76,932**	**-41,597**	**-54.1**
Financial assets – L&R	(15), (65)	**2,851**	**4,753**	**-1,902**	**-40.0**
Interests in associated companies	(5), (66)	**9,876**	**9,777**	**99**	**1.0**
Investment properties	(21), (67)	**73,742**	**88,540**	**-14,798**	**-16.7**
Intangible assets	(22), (68)	**1,849**	**1,441**	**408**	**28.3**
Tangible assets	(23), (69)	**58,543**	**68,737**	**-10,194**	**-14.8**
Other assets	(26), (70)	**24,265**	**15,501**	**8,764**	**56.5**
Non-current assets and disposal groups held for sale	(27), (71)	**9,611**	**35,678**	**-26,067**	**-73.1**
Deferred tax assets	(28), (72)	**7,841**	**7,421**	**420**	**5.7**
TOTAL ASSETS		**7,632,172**	**7,501,810**	**130,362**	**1.7**

Liabilities and Equity

in kEUR	Notes	2016	2015 adjusted	in kEUR	Change in %
Liabilities to credit institutions	(29), (73)	**182,027**	**619,669**	**-437,642**	**-70.6**
Liabilities to clients	(29), (74)	**3,474,076**	**2,898,761**	**575,315**	**19.8**
Liabilities evidenced by certificate	(29), (75)	**1,636,815**	**1,112,690**	**524,125**	**47.1**
Negative market values from derivative hedging instruments	(12), (76)	**7,344**	**11,593**	**-4,249**	**-36.7**
Derivatives	(8), (9), (77)	**129,584**	**155,521**	**-25,937**	**-16.7**
Financial liabilities – designated at fair value	(10), (78)	**1,430,473**	**1,909,991**	**-479,518**	**-25.1**
Provisions	(30), (79)	**46,774**	**59,957**	**-13,183**	**-22.0**
Other liabilities	(31), (80)	**72,696**	**67,354**	**5,342**	**7.9**
Liabilities and disposal groups held for sale	(27), (71)	**0**	**2,168**	**-2,168**	**n.a.**
Current tax liabilities	(28), (81)	**2,383**	**1,153**	**1,230**	**>100**
Deferred tax liabilities	(28), (72)	**1,406**	**1,964**	**-558**	**-28.4**
Subordinate and supplementary capital	(32), (82)	**103,144**	**102,670**	**474**	**0.5**
Equity	(IV), (34), (83)	**545,450**	**558,319**	**-12,869**	**-2.3**
TOTAL LIABILITIES AND TOTAL EQUITY		**7,632,172**	**7,501,810**	**130,362**	**1.7**

IV. Equity Changes

in kEUR	Subscri-bed capital	Capital reserves	AFS reserves after taxation	Actuarial profit/loss after taxation	Credit rating induced fair value change - own liabilities	Cumulative income	Total equity
As at 2015-01-01	**50,000**	**311,233**	**12,507**	**-3,981**	**0**	**132,625**	**502,384**
Result after taxation	0	0	0	0	0	0	**57,642**
Other result after taxation	0	0	-929	159	0	0	**-770**
Total result 2015	**0**	**0**	**-929**	**159**	**0**	**57,642**	**56,872**
Other adjustments	0	0	0	0	0	-937	**-937**
Dividends paid	0	0	0	0	0	0	**0**
As at 2015-12-31 adjusted	**50,000**	**311,233**	**11,578**	**-3,822**	**0**	**189,330**	**558,319**
As at 2016-01-01	**50,000**	**311,233**	**11,578**	**-3,822**	**0**	**189,330**	**558,319**
Early application of IFRS 9.7.1.2	0	0	0	0	58,959	-58,959	**0**
Result after taxation	0	0	0	0	0	26,464	**26,464**
Other result after taxation	0	0	1,526	-750	-35,128	0	**-34,352**
Total result 2016	**0**	**0**	**1,526**	**-750**	**-35,128**	**26,464**	**-7,888**
Other adjustments	0	0	0	0	0	0	**0**
Dividends paid	0	0	0	0	0	-100	**-100**
Change - consolidated companies	0	0	0	0	0	-4,881	**-4,881**
As at 2016-12-31	**50,000**	**311,233**	**13,104**	**-4,572**	**23,831**	**151,854**	**545,450**

For additional information regarding equity please see notes (34) and (83).

V. Cash Flow Statement

in kEUR	2016	2015 adjusted
Result after taxation	**26,464**	**57,642**
Items non-affecting cash flow and transfer to cash flow from operating business activities included in the result		
Depreciation and appreciation to assets	12,857	7,433
Allocation and dissolution of reserves and risk provisions	-96,151	-99,245
Result from sale of assets	-6,410	-6,066
Tax on income and profit	-10,274	-9,097
Correction net interest income	-82,951	-92,366
Profits from associated companies	238	-803
Unrealised foreign currency profits and losses	2,803	38,560
Change of assets and liabilities from current business activities after correction of items non-affecting cash flow		
Receivables from credit institutions	-22,481	124,995
Receivables from clients	131,023	139,148
Positive market values from derivative hedging instruments	-4,845	-2,440
Trading assets and derivatives and financial assets at fair value	51,172	223,464
Other assets	-246	-22,607
Liabilities to credit institutions	-437,678	149,234
Liabilities to clients	578,899	94,977
Liabilities evidenced by certificate and financial liabilities at fair value	24,302	-916,652
Negative market values from derivative hedging instruments	-3,918	7,774
Derivatives	-27,043	-48,371
Other liabilities	14,777	14,821
Interests received	184,775	226,512
Interests paid	-99,415	-141,947
Net total from payment of tax on income and profit and tax refunds	-444	-11
Cash flow from current business activities	**235,454**	**-255,045**
Cash inflow from sale/liquidation of		
Financial assets – HTM, AFS, L&R and interests	179,230	290,693
Subsidiaries	11,056	1,087
Tangible assets, intangible assets and investment propertie	24,490	21,605
Cash outflow due to investments in		
Financial assets – HTM, AFS, L&R and interests	-290,939	-42,230
Tangible assets and intangible assets	-3,041	-4,224
Cash flow from investment activities	**-79,204**	**266,931**
Cash flow-affecting changes subordinated and supplementary capital	406	3,300
Dividends paid	-100	0
Called-in participation capital/capital contribution by the Province of the Tyrol	0	0
Cash flow from financing activities	**306**	**3,300**
Cash holdings at the end of the previous period	**121,104**	**105,918**
Cash flow from current business activities	235,454	-255,045
Cash flow from investment activities	-79,204	266,931
Cash flow from financing activities	306	3,300
Cash holdings at the end of the period	**277,660**	**121,104**

Cash holdings correspond to cash reserves. See notes (17) and (55).

VI. Notes

Principles of the Consolidated Financial Statements

Hypo Tirol Bank AG and its subsidiaries offer their clients a comprehensive range of financial services. The core business comprises corporate client business, private client business as well as leasing business. In addition, clients are offered a wide range of services in the field of insurance and real estate. The corporate group's core market is the Tyrol, which is extended by the Province of the South Tyrol in Northern Italy. In the Eastern part of Austria, the financial institution is represented by its branch office in Vienna.

The bank is a public limited company seated in Innsbruck and is listed in the companies register Innsbruck, Austria (FBN 171611w). The bank's address is Meraner Strasse 8, 6020 Innsbruck.

The Hypo Tirol Bank AG Group is part of the scope of consolidation of the Landes-Hypothekenbank Tirol Anteilsverwaltung, seated in Innsbruck. The present consolidated financial statements are integrated in the consolidated financial statements of Landes-Hypothekenbank Tirol Anteilsverwaltung, Innsbruck.

The present consolidated financial statements were prepared in accordance with the Austrian Banking Act article 59a, in combination with the Austrian Commercial Code article 245 and according to International Financial Reporting Standards as applicable in EU countries.

Apart from the consolidated balance sheet and the consolidated profit and loss account and the comprehensive income statement, these financial statements also include equity changes, the cash flow statement and the notes. Segmental reports are included in the notes and illustrated under note (89).

The reporting currency is Euro (€). Unless specifically indicated otherwise, all amounts are shown in thousands of Euro (kEUR). This might lead to marginal discrepancies in the illustration of percentages.

Due to amendments the retrospective adjustment of the consolidated balance sheet and the consolidated profit and loss account regarding the 2015 fiscal year was required in accordance with the provisions stipulated in IAS 8.41. For further details please see "Changes in accounting and evaluation methods and further adjustments". The remaining values of the previous year were evaluated on the same basis as the figures of the 2015 fiscal year.

Methods of Accounting and Evaluation

(1) Principles

The consolidated financial statements were prepared by using the principle of evaluation on the basis of historical acquestion and production costs, with the exception that financial instruments in the categories "designated at fair value", "AFS - available for sale" and all derivative financial instruments are evaluated on a fair value basis which can be attributed to them.

The preparation of the consolidated financial statements was based on the going-concern assumption. Income and expenses are deferred pro rata over time and listed in the net profit or loss for the period to which they are attributable on an economical basis.

The fundamental accounting and evaluation methods, which have been used for preparing the present consolidated financial statements, are described in the following. Unless stated otherwise, the methods are consistently and continuously employed across the group. In this connection, assets and liabilities, contingent assets and liabilities at the balance sheet date, as well as income and expenses in the reporting period are evaluated and recognised in compliance with IFRS requirements.

The transfer of the result from the consolidated profit and loss account to the total result with detailed illustration of other results was prepared in a separate statement (see section II, "Statement of Comprehensive Income").

Cash flow from operating business activities is calculated by using the indirect method. More precisely, the consolidated result is first adjusted by non-cash items, in particular evaluation results and provisions recognized. The item „other adjustments" largely contains interest and income tax payments in the business year, which are illustrated in the section cash flow from current business activities.

The section cash flow from investment activities illustrates payments into and out of the account from items, whereas the main purpose is the use for long term investment or utilisation.

Financing activities include equity and cash flows from subordinate and supplementary capital.

Hypo Tirol Bank AG considers the significance of the cash flow statement as rather limited. Neither does the cash flow statement replace planning in relation to liquidity or financing nor is it used as a steering tool.

(2) Changes Regarding Accounting and Evaluation Methods and Further Adjustments

Following the adoption of IFRS 9 "financial instruments" in EU law in November 2016 and in compliance with IFRS 9.7.1.2 regarding fiscal years starting before 1 January 2018, Hypo Tirol Bank AG started making use of ist right to illustrate profit and loss from own credit risk of financial liabilities designated at fair value regarding fiscal years beginning before 1 January 2018, in other results already from 1 January 201t6 on. The remaining regulations of IFRS 9 will not be applied ahead time. Since own credit risk is not hedged, no resulting effect has to be illustrated in the profit and loss account.

In 2016, Hypo Tirol Bank AG was subject to an audit without particular cause in compliance with the Accounting Control Act (RL-KG) article 2, section 1, no 2. In the course of this audit, the consolidated financial statements as at 31 December 2015 and the associated consolidated financial report as well as half-year financial reports as at 30 June 2015 and 30 June 2016 were examined. Even though the audit has not been concluded yet, Hypo Tirol Bank AG decided to make retrospective adjustments to the consolidated financial statements as at 31 December 2015 in accordance with IAS 8.41. The resulting adjustments are illustrated hereinafter.

The result from individual assessment of credit evaluation as at 31 December 2015 required an increase in specific allowance illustrated as at 31 December 2015 by EUR 1.9 million. In addition, Hypo Tirol Bank AG overstated an issued bond contrary to the stipulations of IFRS 13.76 in connection with B37 by using level 1 inputs at fair value (on 31 December 2015) by EUR 1.8 million Even though this effect already changed in the first half of 2016 due to the redemption of the bond, it was adjusted retrospectively in compliance with IAS 8.41. Furthermore, the balance sheet item “financial assets AFS” shows interest in a private equity fund (on 31 December 2015) with an accounting value of EUR 5.7 million. Based on the quarterly established fund report, fair value (on 31 December 2015) is EUR 1.2 million and thus, a corresponding write-up of the accounting value was necessary. Moreover, securities in connection with HETA Asset Resolution AG (on 31 December 2015) were understated by EUR 1.2 million and thus retrospectively adjusted in accordance with IFRS 8.41.

Profit and Loss Account

in kEUR	2015 adjusted	2015 prior to adjustment	in kEUR	Change in %
Interest and similar income	197,126	197,126	0	0.0
Interest and similar expenses	-100,832	-100,832	0	0.0
NET INTEREST INCOME	**96,294**	**96,294**	**0**	**0.0**
Credit risk provision	-26,396	-24,471	-1,925	7.9
NET INTEREST IINCOME AFTER RISK PROVISION	**69,898**	**71,823**	**-1,925**	**-2.7**
Commission income	33,121	33,121	0	0.0
Commission expenses	-6,141	-6,141	0	0.0
Net commission income	**26,980**	**26,980**	**0**	**0.0**
Trading result	-1,232	-1,232	0	0.0
Result from hedge accounting	1,612	1,612	0	0.0
Result from financial instruments – at fair value through profit or loss prior to change of own credit risk	3,525	2,598	927	35.7
Result other financial instruments	5,475	5,175	300	5.8
Result from associated companies	-803	-803	0	0.0
Administrative expenses	-79,561	-79,561	0	0.0
Other income	27,850	27,850	0	0.0
Other expenses	-33,501	-33,501	0	0.0
Operative result prior to change of own credit risk	**20,243**	**20,941**	**-698**	**-3.3**
Result from change of own credit risk (*)	47,046	45,246	1,800	4.0
Result prior to taxation	**67,289**	**66,187**	**1,102**	**1.7**
Tax on income and profit	-9,647	-9,372	-275	2.9
Result after taxation	**57,642**	**56,815**	**827**	**1.5**

Balance Sheet

in kEUR	2015 adjusted	2015 prior to adjustment	in kEUR	Change in %
Cash assets reserve	**121,104**	**121,104**	**0**	**0.0**
Receivables from credit institutions	*100,856*	*100,856*	*0*	*0.0*
Risk provision	*0*	*0*	*0*	*0.0*
Receivables from credit institutions after risk provision	**100,856**	**100,856**	**0**	**0.0**
Receivables from resolution unit former credit institution	*83,952*	*83,952*	*0*	*0.0*
Risk provision	*-20,988*	*-20,988*	*0*	*0.0*
Receivables from resolution unit former credit institution after risk provision	**62,964**	**62,964**	**0**	**0.0**
Receivables from clients	*5,526,325*	*5,526,325*	*0*	*0.0*
Risk provision	*-236,634*	*-234,709*	*-1,925*	*0.8*
Receivables from clients after risk provision	**5,289,691**	**5,291,616**	**-1,925**	**-0.0**
Positive market values from derivative hedging instruments	**4,094**	**4,094**	**0**	**0.0**
Trading assets and derivatives	**214,360**	**214,360**	**0**	**0.0**
Financial assets – designated at fair value	**736,493**	**735,566**	**927**	**0.1**
Financial assets – AFS	**663,468**	**662,278**	**1,190**	**0.2**
Financial assets – HTM	**76,932**	**76,632**	**300**	**0.4**
Financial assets – L&R	**4,753**	**4,753**	**0**	**0.0**
Interests in associated companies	**9,777**	**9,777**	**0**	**0.0**
Investment properties	**88,540**	**88,540**	**0**	**0.0**
Intangible assets	**1,441**	**1,441**	**0**	**0.0**
Tangible assets	**68,737**	**68,737**	**0**	**0.0**
Other assets	**15,501**	**15,501**	**0**	**0.0**
Non-current assets and disposal groups held for sale	**35,678**	**35,678**	**0**	**0.0**
Deferred tax assets	**7,421**	**7,421**	**0**	**0.0**
TOTAL ASSETS	**7,501,810**	**7,501,318**	**492**	**0.0**

Liabilities and equity

in kEUR	2015 adjusted	2015 prior to adjustment	in kEUR	Change in %
Liabilities to credit institutions	**619,669**	**619,669**	**0**	**0.0**
Liabilities to clients	**2,898,761**	**2,898,761**	**0**	**0.0**
Liabilities evidenced by certificate	**1,112,690**	**1,112,690**	**0**	**0.0**
Negative market values from derivative hedging instruments	**11,593**	**11,593**	**0**	**0.0**
Derivatives	**155,521**	**155,521**	**0**	**0.0**
Financial liabilities – designated at fair value	**1,909,991**	**1,911,791**	**-1,800**	**-0.1**
Provisions	**59,957**	**59,957**	**0**	**0.0**
Other liabilities	**67,354**	**67,354**	**0**	**0.0**
Liabilities and disposal groups held for sale	**2,168**	**2,168**	**0**	**0.0**
Current tax liabilities	**1,153**	**1,153**	**0**	**0.0**
Deferred tax liabilities	**1,964**	**1,391**	**573**	**41.2**
Subordinate and supplementary capital	**102,670**	**102,670**	**0**	**0.0**
Equity	**558,319**	**556,600**	**1,719**	**0.3**
TOTAL LIABILITIES AND TOTAL EQUITY	**7,501,810**	**7,501,318**	**492**	**0.0**

Equity Changes

in kEUR	Subscri-bed capital	Capital reserves	AFS reserves after taxation	Actuarial profit/ loss after taxation	Cumulative income	Total equity
As at 2015-01-01	**50,000**	**311,233**	**12,507**	**-3,981**	**132,625**	**502,384**
Income after taxation	0	0	0	0	0	**56,815**
Other income after taxation	0	0	-1,821	159	0	**-1,662**
Total income 2015	**0**	**0**	**-1,821**	**159**	**56,815**	**55,153**
Other adjustments	0	0	0	0	-937	**-937**
Dividends paid	0	0	0	0	0	**0**
As at 2015-12-31 prior to adjustment	**50,000**	**311,233**	**10,686**	**-3,822**	**188,503**	**556,600**
As at 2015-01-01	**50,000**	**311,233**	**12,507**	**-3,981**	**132,625**	**502,384**
Income after taxation	0	0	0	0	0	**57,642**
Other income after taxation	0	0	-929	159	0	**-770**
Total income 2015	**0**	**0**	**-929**	**159**	**57,642**	**56,872**
Other adjustments	0	0	0	0	-937	**-937**
Dividends paid	0	0	0	0	0	**0**
As at 2015-12-31 adjusted	**50,000**	**311,233**	**11,578**	**-3,822**	**189,330**	**558,319**

Cash Flow Statement

in kEUR	2015 adjusted	2015 prior to adjustment
Result after taxation	**57,642**	**56,815**
Items non-affecting cash flow and transfer to cash flow from operating business activities included in the result		
Depreciation and appreciation to assets	7,433	8,660
Allocation and dissolution of reserves and risk provisions	-99,245	-101,170
Result from sale of assets	-6,066	-6,066
Tax on income and profit	-9,097	-9,372
Correction interest profit	-92,366	-92,366
Profits from associated companies	-803	-803
Unrealised foreign currency profits and losses	38,560	38,560
Change of assets and liabilities from current business activities after correction of items non-affecting cash flow		
Receivables from credit institutions	124,995	124,995
Receivables from clients	139,148	139,148
Positive market values from derivative hedging instruments	-2,440	-2,440
Trading assets and derivatives and financial assets at fair value	223,464	223,464
Other assets	-22,607	-22,607
Liabilities to credit institutions	149,234	149,234
Liabilities to clients	94,977	94,977
Liabilities evidenced by certificate and financial liabilities at fair value	-916,652	-914,852
Negative market values from derivative hedging instruments	7,774	7,774
Derivatives	-48,371	-48,371
Other liabilities	14,821	14,821
Interests received	226,512	226,512
Interests paid	-141,947	-141,947
Net total from payments of tax on income and profit and tax refunds	-11	-11
Cash flow from current business activities	**-255,045**	**-255,045**
Cash inflow from sale/liquidation of		
Financial assets – HTM, AFS, L&R and interests	290,693	290,693
Subsidiaries	1,087	1,087
Tangible assets, intangible assets and investment properties	21,605	21,605
Cash outflow due to investments in		
Financial assets – HTM, AFS, L&R and interests	-42,230	-42,230
Tangible assets and intangible assets	-4,224	-4,224
Cash flow from investment activities	**266,931**	**266,931**
Cash flow-affecting changes subordinated and supplementary capital	3,300	3,300
Dividends paid	0	0
Called-in participation capital/capital contribution by the Province of the Tyrol	0	0
Cash flow from financing activities	**3,300**	**3,300**
Cash holdings at the end of the previous period	**105,918**	**105,918**
Cash flow from current business activities	-255,045	-255,045
Cash flow from investment activities	266,931	266,931
Cash flow from financing activities	3,300	3,300
Cash holdings at the end of the period	**121,104**	**121,104**

(3) Amendments to Financial Reporting Standards

In the course of accounting and evaluating, all International Financial Reporting Standards required by the EU and valid at the key date and during the reporting period are applied.

Early application of standards and interpretations which will become effective on 1 January 2017 or later, as well as standards and interpretations that are not mandatory in the EU have not been applied, with the exception of the provisions stipulated in IFRS 9.7.1.2 concerning the illustration of own credit risk, because Hypo Tirol Bank AG applies all standards for the first time at the time they become mandatory.

New standards and clarifications that have already been published and adopted by the EU and that are to be applied for the first time in the fiscal year:

Standards that became mandatory in the EU for the first time on 1 January 2016 had no impact on the consolidated financial statements prepared by Hypo Tirol Bank AG.

The following new and amended standards have already been published; nonetheless, their application has not yet become mandatory:

In November 2009, the IASB published **IFRS 9 "Financial Instruments"** which was the first step towards replacing IAS 39 "Financial Instruments: Recognition and Measurement". On 24 July 2014, the IASB published a revised version of IFRS 9 of 2013, which added new regulations for accounting and impairment of financial assets including revised regulations to classify and evaluate financial instruments.

Classification and Evaluation:
IFRS 9 introduces new classification and evaluation regulations of financial assets within the scope of IAS 39. 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 shall be measured on the basis of continuous acquisition costs, 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 show redemptions and interest payments. If a financial asset is held to collect and to realise contractual payment flows of the financial asset, and if the contractual payment flows of the financial asset only represent the return of the nominal value and the interest regarding the outstanding nominal value, measurement on a fair value basis via other income is applied. All instruments which cannot be assigned to one of the categories are consequently evaluated on a fair value basis with effect on net income.

Accounting and impairment of financial assets:
The new regulations regarding the accounting of impairment fundamentally change their recognition. According to this, companies shall measure risk provision by evaluating impairment or by creating provisions in the amount of the credit loss that is expected within the following 12 months (12 month expected credit loss) – (based on the probability of loss within the following 12 months). In the course of subsequent measurement credit loss, which is expected to occur within the following 12 months, shall be replaced by the credit loss expected for the entire term (lifetime expected credit loss criteria). Risk provision for credit loss is again measured on the basis of credit loss, which is expected to occur within the following 12 months, if credit quality has improved sustainably and lifetime expected loss criteria are no longer fulfilled. With regard to receivables from the delivery of goods and services or active contractual items as well as receivables from leasing business, a simplified procedure, which is based on the lifetime expected credit loss criteria, can be applied.

Hedge-Accounting:
In addition, the IASB introduced amendments in relation to hedge accounting, whereas the methods and the kind of illustration on the balance sheet remain unchanged. However, corporate risk management is emphasised on. Furthermore, the hitherto existing strict limits which had to be effective within a hedge in order to illustrate it on the balance sheet, have been removed. Instead of that, there are new cumulative requirements in relation to the efficiency, as it forms part of qualitative prerequisites for hedge accounting. This means that an economic link between basic transaction and hedge shall exist, default risk shall not be dominating and the hedging rate shall be selected accordingly. The accounting of macro hedges was excluded from IFRS 9 and a separate project was focused on. All other regulations under IAS 39 shall be applicable until further notice.

The revised version of IFRS 9 was adopted into EU law in November 2016 and shall be applicable for the first time to reporting periods, beginning on or after 1 January 2018. This first time application is accompanied by several provisions regulating the transition of the final balance sheet according to IAS 39 to the opening balance sheet according to IFRS 9. The discussed amendments substantially influence both, the illustration of the consolidated group result and the principles of accounting. Currently, the effects caused by IFRS 9 Introduction to group equity cannot be quantified on a reliable basis, because it strongly depends on the classification type of financial instruments held on 1 January 2018.

Hypo Tirol Bank AG administers a centrally managed IFRS 9 programme, whose members directly report to the Managing Board. It comprises several subprojects such as business models and evaluations, modifications, impairment, hedge accounting and reporting. The IFRS 9 programme is supported by experts working in the field of methodology, data acquisition, IT and financial reporting.

In connection with the new provisions stipulated in IFRS 9, additional disclosure requirements regarding the notes shall be required on the basis of **IFRS 7 "Financial Instruments: Disclosures"**. The provisions shall be applicable to reporting periods beginning on or after 1 January 2018. Due to the significance of these standards for Hypo Tirol Bank AG, the implementation of these standards shall be guaranteed by their incorporation into the IFRS 9 project. Thus, the standards will be analysed in detail and consequently all required implementation measures will be taken accordingly.

Amendments to IAS 12: with the amendments to IAS 12 "income taxes" the IASB clarifies that the devaluations to a lower market value of debt instruments measured at fair value, which result from market interest rate changes, leas to deductible temporary differences. The amendments shall be applicable on a retrospective basis to fiscal years beginning on or after 1 January 2017. The amendments will probably have substantial influence on the illustration; this is currently being assessed.

Standards that have not yet been adopted by the EU

The IASB published **IFRS 16 "Leases"**. The basic idea behind the new standard is that the all leases and the corresponding contractual rights and obligations shall be recognised in the balance sheet of the leasee. The former distinction between operating leases and finance leases required by IAS 17 will no longer be needed. As far as the lessor is concerned, the provisions of the new standard are similar to the previous IAS 17 requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases. For classifications according to IFRS 16, the criteria of IAS 17 were adopted. In addition, IFRS 16 includes a number of further regulations regarding illustration and notes as well as sale-and-leaseback transactions. The new provisions shall be applicable to fiscal years beginning on or after 1 January 2019. Generally, Hypo Tirol Bank AG acts as a lessor. Therefore, the corresponding effects of the amendments regarding illustration and notes are currently being analysed.

Apart from that, the remaining standards, which have not yet been adopted by the EU, are already applied by Hypo Tirol Bank AG. According to our current assessment, they have no substantial influence on income, assets or the financial situation.

(4) Essential Decisions, Assumptions and Estimates

In the course of preparing the consolidated financial statements, the management has the obligation to make estimates and assumptions which influence the balance sheet approach for the reporting period, the disclosure of profits and expenses and the information contained in the notes. Changes regarding essential estimates and assumptions concerning the future developments that result from inherent uncertainties, might lead to substantial changes concerning the balance sheet approaches for the following business years; such estimates and assumptions involve: assessing the sustainability of financial assets, determining fair value, evaluating provisions and the approach and assessment of deferred income taxes. The methods regarding such estimates and subjective evaluations of assumptions are illustrated herein. The illustration of the parameters and detailed uncertainties will be explained in the notes referring to the respective balance sheet item.

The assumptions were based on propositions, which are founded on the latest available state of knowledge. The expected future business developments were based on the respective circumstances at the time of preparing the financial statements and on realistic prospects regarding the future developments of the global and branch-specific environment. Some amounts may deviate from original estimates due to deviating development assumptions and developments that are beyond the control of the management.

For further details regarding stress tests see sections: "financial risks and risk management"".

A) Credit Risk Provision

With regard to individual impairment, possible impairment is formed on the basis of the cash value of the expected future cash flow in case objective evidence is available [see note (19)]. The estimation of expected cash flows requires assumptions considering the amount and the time of future payments. This also applies to impairment on portfolio level. These assumptions, together with estimates and evaluations of indicators which lead to loan risk provision, are based on past experiences gained in the loan business and are regularly controlled and amended, if necessary, in order to diminish any possible differences between risk provision and actual credit loss.

The amount and the development of credit risk provision are described under note (59).

B) Impairment of Financial Assets Available for Sale (AFS)

Estimates regarding the significance of impairment are based on assumptions. Defined thresholds concerning fair value changes and time related aspects, serve as reference in terms of assessing significant or prolonged impairment (see note (13)).

Accounting values of financial assets – AFS as well as impairment are illustrated in note (63).

C) Determination of Fair Value by Using Evaluation Methods

Financial instruments that are not quoted in an active market are evaluated in accordance with recognized and customary mathematical methods, such as the cash value method or other suitable evaluation methods (option price models). Such evaluation models are substantially influenced by underlying assumptions. Therefore, fair value shall be understood as a key-date related estimate.

In case, the transaction price deviates from another observed market price at the time when the financial instrument is added, a „day-one profit or loss" (consistent with the following evaluation of the financial instrument) shall be illustrated. However, profit or loss after addition can only be determined if it is based on the change of a factor which would be recognised by market participants in terms of pricing.

For further details regarding employed evaluation models and the influence of underlying assumption please see note (7).

Market values and accounting values of financial instruments are illustrated in note (84) "fair value".

D) Provisions

Provisions are employed for uncertain liabilities against third parties in the amount of the expected claim {see note (30)}. The provided amount represents the best possible estimate of the costs that are required to fulfil such an obligation.

For detailed information regarding accounting values of provisions and their development please see note (79).

E) Deferred Income Tax

The evaluation of deferred tax obligations and deferred tax assets considers the tax consequences resulting from the fact how the Group expects to realise its assets at the balance sheet date or to fulfil its obligations. Such expectations represent the best possible estimates.

The use of active deferred taxes depends on the possibility to earn enough taxable income within the context of the respective tax law. In order to evaluate, how likely the future availability of active deferred taxes is, certain aspects such as past earnings and tax strategies should be taken into account. In case the actual results deviate from these estimates or if these estimates have to be adjusted to future periods, the active deferred taxes must be devalued in profit-affecting manner. Currently, the Group's tax planning period amounts to five years.

Quantitative details regarding deferred income tax are described in note (72): “Deferred Tax Assets and Obligations”.

(5) Principles of Consolidation

The principles of consolidation basically comprise two methods to illustrate participating interest:

1. Control: full consolidation (IFRS 10, IFRS 3)
2. Associated companies and joint ventures: equity method (IFRS 10, IFRS 11, IAS 28, IFRS 3)

In compliance with IFRS 10.6 an investor has control over an associated company, if he or she is subject to fluctuating yields within the associated company, or is entitled to own them and if he or she has the ability to include such yields by power of deposition over the associated company

Substantial influence represents the possibility to take part in the financial and business-related decision making process of the associated company without having control or joint control over the company (IAS 28.3, 28.5.).

Joint Control is an agreement according to which two or more parties have joint control. Joint control in this context is understood as the contractually agreed share of control of an agreement and is given only, if decisions regarding substantial activities require the unanimous approval by the parties having such control (IFRS 11.4, 7.).

In order to limit the complexity of the principles of consolidation, the following subjects are explained in detail:

- Control – subsidiaries (IFRS 10),
- Joint agreement (IFRS 11) and
- Associated companies (IAS 28) as well as
- Changes in the cycle of consolidation in the course of the business year

A) Subsidiaries

The consolidated financial statements include the financial statements of the parent company, and the financial statements of those companies influenced by the parent company, including structured companies (see subsidiaries). Hypo Tirol Bank AG gains control in the even that:

- It can exercise a dominating influence on subsidiaries,
- it is subject to fluctuating yields from interests and
- it can influence the amount of the yields due to its exercising power.

In case facts and conditions indicate that one or more of the above mentioned three criteria of influence have changed Hypo Tirol Bank AG shall re-evaluate, whether it has dominating influence on a subsidiary or not.

Even if Hypo Tirol Bank AG has no majority voting right, it still controls the subsidiary, if it has the practical option to determine the significant activities of the subsidiary on a unilateral basis. In the course of the evaluation process, whether the voting rights are adequate with regard to the respective subsidiary, Hypo Tirol Bank AG considers all facts and conditions. These include:

- the extent of the voting rights of Hypo Tirol Bank AG in relation to the extent and the distribution of the voting rights of other proxy holders,
- potential voting rights of Hypo Tirol Bank AG of proxy holders of other parties,
- rights resulting from other contractual agreements and
- other facts and conditions which indicate that Hypo Tirol Bank AG has the practical option or does not have the option to determine significant activities at the point of time, when specific decisions must be made in consideration of the voting behaviours of earlier general assemblies.

A subsidiary is concluded in the consolidated financial statements for a period starting from the point of time, at which Hypo Tirol Bank AG controls the subsidiary to the point of time at which the control exercised by Hypo Tirol Bank AG ends. In this context, the results of the acquired or sold subsidiary in the course of the year are recorded in the group’s profit and loss account and in other results according to period from the actual date of acquisition to the actual date of sale.
The profit or loss and any component of other results shall be assigned to the shareholder of the parent company and to the shareholders not exercising control. This shall also apply if it results in a negative balance for the shareholders not exercising control

If required, the financial statements of the subsidiary are modified in order to adjust the accounting and evaluation methods to the methods applied by the corporate group.

All intragroup financial assets, debts, equity capital, income, expenses and cash flows in connection with business truncation between companies of the group are completely eliminated in the context of the consolidation process.

The balance sheet date (key date) of the bank’s consolidated financial statements corresponds to the balance sheet date of all companies included in the consolidated financial statements.

Changes regarding the participation rate in relation to subsidiaries:

Changes concerning the participation rate within the corporate group in relation to subsidiaries which do not result in the loss of control over the respective subsidiary are balanced in compliance with IFRS 10:23 as equity capital transaction resulting in neither profit nor loss. The difference between the amount, by which die shares (not controlled) are adjusted and the fair value of the disbursed or received services is immodesty recorded in equity capital and assigned to the partners of the parent company. There were no effects on the net profit or loss for the period or on balanced assets or liabilities or the company value which had been estimated in the course of the first consolidation.

In case Hypo Tirol Bank AG loses control over a subsidiary, the profit or loss from deconsolidation is recorded on a profit affecting basis. It is calculated from the difference between

- the total amount of fair value of received services and fair value of retained shares and
- the accounting value of assets (including business value and company value), the debts of the subsidiary and all shares which are not controlled.

All amounts in connection with the respective subsidiary are illustrated in “Other Result” and are balanced like the sale of assets, that is to say by reclassification in the profit and loss account or by direct transfer to revenue reserves.

Acquisition of subsidiaries

The acquisition of businesses is accounted on the basis of the purchase method. The compensation transferred in the course of a corporate merger is evaluated on a fair value basis. Fair value results from the total of the fair value applicable at the time of acquisition, transferred assets, liabilities of the former owners of the acquired company and from equity capital instruments determined by the corporate group in exchange for the control over the acquired company. All transaction expenses in relation to the company merger are reported on a profit affecting basis at the time of incurrence.

The business and company value results from the surplus from the total of the transferred compensation, the amount of all non-controlled share in the acquired company and the fair value of the equity capital share of the acquirer in the acquired company (if issued) via the balance, fair values determined at the time of acquisition concerning the acquired identifiable assets and liabilities assumed. In case of a negative difference – even after re-evaluation – the amount is accounted immediately as profit affecting income.

Company values are reviewed with regard to recoverability at least once a year and in case indicators for impairment are existent. In case of determination of such impairment, it is depreciated subsequently [see note (24)].

Shares of non-controlling shareholders, who currently own property rights and grant the owner the right to obtain a proportion of the net assets of the company in case of liquidation, are either evaluated on a fair value basis at the time of inflow or on the basis of the respective proportion of identifiable net assets. This voting right can be exercised in the course of every company merger. Other components of shares of non-controlling shareholders are evaluated on a fair value basis or on the basis of measure of value resulting from other standards.

In case the first balance of the company merger has not been completed at the end of the fiscal year, provisional amounts are reported for such items.

If new data become available within the evaluation period that clarify the situation at the time of acquisition, the revisionary amounts will be corrected or additional assets or liabilities will be calculated, where applicable.

B) Joint arrangement

A joint arrangement is as an arrangement under which two or more contracting parties exercise joint control. IFRS 11 IFRS 11 distinguishes between two types of joint arrangements (joint activities and joint ventures) and defines the different rights and obligations of the respective arrangements. In this context, the structure, the legal form of the arrangement, the terms of contract defined by the involved parties and other relevant facts and conditions, if appropriate shall be determined. If two or more companies find an arrangement under which they have immediate rights from assets and obligations from liabilities, we talk about joint activities. A joint venture is defined as joint agreement, under which the parties have joint control and have rights from net income of the company in which they hold a share. Balance sheets for joint activities differ from those of joint ventures. Holdings in joint ventures shall be reported by using the equity method. The balance sheet regarding joint activities is established in such a manner that each joint partner reports his or her financial assets (including the share in jointly held assets), liabilities (including the share in loss of liabilities) as well as income (including the share in income from sale of products or services offered by the joint arrangement) and expenses (including the share in jointly created expenses). In this respect, financial assets, liabilities, income and expenses shall be reported in accordance with the relevant International Financial Reporting Standards.

IFRS 11 shall be considered in a dynamic manner and significantly depends on the possibility of control, Hypo Tirol Bank AG assesses in relation to the acquisition of a subsidiary or in case of changes affecting in the group's share in existing subsidiaries, whether facts for joint arrangements exists. Hypo Tirol Bank AG prepares the account for two companies (joint ventures) according to IFRS 11.24 (the same regulations shall apply as for associated companies (see section C).

C) Shares in associated companies

An associated company is a company over which the group exerts a substantial influence; substantial influence is the opportunity to make financial and business related decisions of the company, in which the interest is held. In this context, neither controlling nor joint management regarding the decision making processes exists.

In order to illustrate results, assets and liabilities of associated companies the equity method is applied, except shares are classified "available for sale". In such cases IFRS 5 „non-current assets held for sale and discontinued operations" shall be applied and they are balanced as such.

Pursuant to the equity method, shares in associated companies are included in the balance sheet at acquisition costs, which are adjusted by changes concerning the corporate group's share in the profit and loss and in other results from associated companied subsequent to the time of acquisition. Losses of associated companies that exceed the corporate group's share in the respective associated company are not recorded. Such recording is only carried out if the corporate group has entered into legal or factual commitments or settles payments instead of the associated company.

As soon as an associated company fulfils all requirements accordingly, the share in the respective associated company is balanced in compliance with the equity method. Any acquisition cost surplus concerning the purchase of shares higher than the acquired share of identifiable assets, liabilities and contingent liabilities at fair value is recorded as business or company value. The business or company value is part of the accounting value and is no longer tested separately in order to verify impairment.

Subsequent to re-evaluation, any surplus of the group's share of identifiable assets, liabilities and contingent liabilities at fair value that is higher than the acquisition cost of the purchased share is recorded as profit.

In order to verify impairment indicators, the regulations of IAS 39 are applied. If impairment tests must be carried out, the investment book value (including business and company value) is assessed for recoverability in accordance with IAS 36. Therefore, the recoverable amount of the share, more precisely the higher amount resulting from value of use and fair value less sales costs, is compared with the investment book value. The calculated impairment requirement is offset against the investment book value. Impairment losses regarding the assets contained in the investment book value including business and company value are not listed. If the recoverable amount increases in the forthcoming years, value recovery is carried out in compliance with IAS 36.

The corporate group will discontinue the equity method as soon as the group's share is no longer considered an associated company or if the share pursuant to IFRS 5 is classified as "held for sale". If the corporate group returns a share in the formerly associated company and if this share represents a financial asset in compliance with IAS 39, it is evaluated at the time of its first recording on a fair value basis. The difference between the previous accounting value of the associated company (at the time when the equity method was discontinued) and the fair value of the retained shares, and other income from the sale of a part of shares in associated companies, shall be considered in the course of determining capital gains/losses. In addition, within the corporate group all amounts concerning the respective associated company included in other result will be accounted in the same manner that would be required, if the associated company directly sold its assets or liabilities. Consequently, when the equity method is discontinued, a profit or loss, which is recorded by the associated company in other result, and which is reclassified in the profit and loss account in case of sale of assets or liabilities, shall be reclassified by the corporate group form equity capital to the profit and loss account.

If the Group's participation rate in an associated company changes, and the Group still applies the equity method, the proportion of the profit or loss previously recorded in other result, which is allotted to the participation rate, is reclassified on a cost or profit affecting basis. This reclassification shall be applied if such profits or losses must be reclassified on a cost and profit affecting basis when the corresponding assets and liabilities are sold.

In the event that an associated company employs alternating accounting and evaluation methods, appropriate adaptions to IFRS requirements are made in the context of ancillary accounts. The balance sheet date of all associated companies corresponds to the balance sheet date of the parent company.

D) Changes in the scope of consolidation regarding the 2016 fiscal year

Non-consolidated subsidiaries:

EKZ Abwicklungs GmbH seated in Völs (former **CYTA Errichtungs- und Management GmbH**) currently being liquidated

Associated companies:

HTV KAPPA Immobilienleasing GmbH consolidated in the financial statement according to the equity method (50% share) was sold in 2016.

Fully consolidated subsidiaries

CYTA-Errichtungs- und Management GmbH & Co. KG, registered office in Völs, sold in the 2016 business year.

CYTA Errichtungs- und Management GmbH & Co.KG had no means of payment or cash equivalents available – neither in the previous reporting period nor at the time of disposal. At the time of disposal the balance sheet total amounted to EUR 26.8 million including only assets held for sale. Liabilities to credit institutions amounted to EUR 13.0 million and other assets accounted for EUR 2.2 million.

A complete list of all subsidiaries, associated companies, and joint companies included in the consolidated financial statements and all companies not included in the consolidated financial statements can be found in section VII participating interest. In addition, shares in non-consolidated companies have been published in compliance with IFRS 12.24 et seqq.

(6) Currency Translation

The consolidated financial statements are prepared in Euro, which is the functional currency of all companies of the corporate group.

Since 2011, all financial statements of the companies that are included in the consolidated financial statements have been prepared in Euro.

Monetary assets and liabilities denominated in foreign currencies are converted at the European Central Bank's rate at the balance sheet date.

Non-monetary items are converted in accordance with the evaluation 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 at fair value are converted on an analogue basis to monetary items at the current rate at the balance sheet date. Income and expenses 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 entered in the balance sheet at fair value at the time of acquisition; at that particular time they are assigned to one of the following evaluation categories. Basically, the balance sheet items correspond to the evaluation categories of financial instruments. Thus, the explanations of the evaluation categories are found in the corresponding balance sheet items. Receivables from and liabilities to clients are exempt from that rule. Receivables and liabilities which are voluntarily evaluated on a fair value basis are also recorded in these balance sheet items. The inclusion of financial assets and liabilities occurs at their trading date. The subsequent evaluation depends on the classification.

For more detailed information regarding stress tests referring to financial instruments, please see financial risk and risk management.

(7) Fair Value

Pursuant to IFRS 13, fair value is the price received for the sale of an asset, or the price paid for the transfer of a liability in an orderly transaction between market participants in common market conditions at the measurement date in the main market or in the most favourable market. In this context, fair value is either directly observed or estimated by using evaluation techniques. The evaluation technique that is considered most appropriate for the respective circumstances and that provides sufficient evaluation data shall be applied. The overall objective is to keep the employment of significant observable inputs relatively high, which leads to the evaluation hierarchy (fair value hierarchy). It divides inputs, used to measure fair value, into three levels. In the context of the fair value hierarchy, quoted prices (unadjusted) in active markets for identical assets or liabilities are given top priority (level 1 inputs), while inputs for assets or liabilities that are not based on observable market data (unobservable inputs) are given lowest priority (level 3 inputs).

Level 1 inputs are prices quoted (not adjusted) for identical assets or liabilities in active markets that are accessible for an entity at the measurement date, Basically, the markets with the largest trading volumes are considered in his respect (main market). In case stock market prices are not available in the main market, the most favourable market can be considered in order to measure fair value.

Financial instruments with a fair value that is measured on the basis of level 1 inputs are liquid equity instruments and liquid government and company bonds.

Level 2 inputs are market price quotations (other than those described as level 1 inputs) for assets or liabilities that are to be observed either directly or indirectly. In case prices of active markets are not available, fair value is measured on the basis of evaluation techniques. If a single financial instrument shows real-time, actual transactions, such transaction prices serve as fair value indicators. In case no transactions of identical financial instruments are available, transaction prices of basically identical financial instruments are used. With regard to complex and individual product design, such deviation of transaction prices of comparable financial instruments shall not be possible. For that reason evaluation models based on observable market data shall be used. Within the group, fair value for financial instruments with fixed payments is evaluated on the basis of the **discounted** cash flow method or for financial instrument with optional components evaluated on the basis of optional price models

If fair value is evaluated by means of the **discounted** cash flow method, the payment flows 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 agreement). With regard to financial instrument with optional components, the Black/Scholes Model (Plain Vanilla OTC Options to interest and currency) is used to evaluate fair value. Complex financial instruments are evaluated by using the Hull-White Model.

In case evaluations are made on the basis of real-time, actual transactions or on the basis of basically identical financial instruments, financial instruments are divided into segments and a term-related spread is evaluated via the credit curve applicable to the particular segment. Such a segmentation or evaluation of corresponding spreads has subspatial influence on the discount interest rate and consequently on fair value.

Financial instruments with a fair value evaluated on the basis of level 2 inputs are hedging instruments with a positive respectively negative market value, derivatives, liabilities to clients, liabilities evidenced by certificate as well as subordinate and supplementary equity capital each designated at fair value.

Level 3 inputs: In some cases, the fair value of financial instruments cannot be calculated. Neither via market prices nor on the basis of valuation models which are completely based on observable market data. For such financial instruments, initial parameters are based on other relevant sources of information or must be estimated according to appropriate assumptions. In this category, the corporate group primarily evaluates customer requirements designated at fair value. A significant and non-observable input factor in this context is an internal rating. The worse the creditworthiness of the client, the higher the corresponding interest rate is which influences the discount rate that is necessary to evaluate fair value.

The classification of financial instruments is regularly assessed by people in charge, who will carry out reclassifications, if appropriate.

If requirements regarding classifications within the hierarchy of evaluation are not fulfilled anymore, the group will publish the number of sub-classifications between level 1 and 2, the number of sub-classifications regarding level 3, the reasons for the sub-classifications as well as the method to evaluation such sub-classifications. Sub-classifications regarding single levels are illustrated and discussed separately (for level 1 and 2 and level 3).

For further details regarding the fair value of financial instruments (fair value statements, level categorisation, transfer calculation of financial instruments in level 3 category, sensitivity analysis of non-observable parameters, etc.) see note (84).

(8) Fair Value Derivatives

In the context of fair value measurement for derivatives, the counterparty default risk and the risk of the reporting company have to be considered. Therefore, the adjustment deriving from credit risk (CVA – credit value adjustment) has to be subtracted from the fair value of the derivative. In order to consider counterparty default risk, the expected exposure for future periods must be evaluated. According to the expected exposure the credit value adjustment for each contracting party can be calculated using the respective probability of default and the loss in case of default (depending on the respective counterparty). The expected exposure is evaluated in the corporate group by way of market risk adjustment factors in consideration of collateral agreements made with the counterparty. The probability of default is evaluated on the basis of credit spreads. If such spreads for the counterparty are observed in the market, they are taken into consideration; in any other case bond spreads are used. In a few cases, in which spreads regarding the counterparty are not definable, peer-group spreads are used. The amount of the loss in case of default is evaluated on the basis of empirical studies conducted by Moody's.

(9) Trading Assets and Derivatives

Securities acquired for trading purposes and all derivatives, unless they are used for hedge accounting, are illustrated in this item. Trading assets and derivatives are evaluated at fair value.

The results of evaluation and sale regarding the trading assets are illustrated in the profit and loss account in the trading result. Income from interest and dividends are presented in net interest income.

(10) Financial Assets and Liabilities – designated at Fair Value

This balance sheet item illustrates financial assets and liabilities that are evaluated on a fair value basis irrevocably and voluntarily at the time they are acquired (designated at fair value). In the corporate group, these are financial instruments which are controlled as a corporate unit, based on economic hedge accosting with another financial instrument designated at fair value and for which hedge accounting is not applied {see note (12)}. In order to avoid accounting mismatch, these financial instruments are voluntarily evaluated at fair value.

Apart from that, all financial assets and liabilities with embedded derivatives are also evaluated voluntarily on a fair value basis.

The results from evaluation of own credit risk changes are shown (not affecting profit) in other result. The result from evaluation and sale are shown in the profit and loss account in the section "results from financial instruments – at fair value through profit or loss" in the profit and loss account. Transfer of interest and dividends are illustrated in net interest income.

(11) Embedded Derivatives

Embedded derivatives are derivatives, which are part of an original financial instrument and which are inseparably linked to it. With regard to the corporate group, such derivatives are bonds at indexed rates and, to a minor degree, stock bonds (bonds with a right to redemption in shares).

The embedded derivative is separated from its original financial instrument and, like an isolated free derivative, it is separately entered in the balance and evaluated on market value (fair value) basis, if:

- the economic characteristics and risks of the embedded derivative are not closely connected to the economic characteristics and risks of the basic contract, and
- an independent instrument with the sane condition like the embedded derivative would meet the definition of a derivative, and
- the structured financial instrument is not evaluated on a net income affecting basis at fair value.

At the balance sheet date, all financial instruments with embedded derivatives were evaluated on profit affecting basis at fair value.

(12) Hedge Accounting

With regard to the fair value hedge of specified financial assets and liabilities, the corporate group employs derivatives. Hedging instruments may face one or more similar basic transactions. Hedge accounting relations may include basic transactions on both, the assets side and the liabilities side of the balance sheet, whereas on the assets side of the balance sheet only fixed-rate assets - evaluation category AFS can be considered as basic transaction, and on the liabilities side of the balance sheet only fixed-rate engagements can be considered as basic transaction. The interest risk is the risk hedged. Only rate swaps are designated as hedges. Hedges are documented at the time they are established. The documentation mainly covers the identification of the basic business and the hedging instrument and the nature of the risk being hedged. In addition, the method which is used to determine the effectiveness of hedging transactions is documented.

Hedges are reviewed at the time of establishment to see how effective they are and subsequently, they are reviewed on a monthly basis. In this context, effectiveness is the relationship between the fair value change arising out of the basic business being hedged and the change of fair value of the hedging derivative itself (regarding the risk hedged). The corporate Group only reports hedges, if they are expected to be highly efficient over their entire term. Hedging is deemed to be highly efficient, if for the entire term, the ratio of the changes in value of the basic business and the hedge is between 0.8 and 1.25. If hedges are no longer considered to be highly effective, they are dissolved.

Derivatives used for hedging purposes are shown at their fair value as prevailing market values from derivative hedges – see notes (60) and (76). The evaluation changes of hedges together with market changes of the basic business, which shall be added to the hedged risk, are included in profit or loss for the period as results from hedge accounting. The non-effective component of the evaluation change is shown in results from hedge accounting – see note (47). This is calculated on the basis of the net total, the changes in market value of the hedging instruments, which are underlying the risk hedged, and the basic business transaction.

(13) Financial Assets – Available for Sale (AFS)

Financial assets – available for sale contain all non-derivative financial instruments that have not been assigned to categories, such as designated at fair value, HTM, L&R. within the Group, debt securities which have not been assigned to another category, are usually assigned to this category. To a small extent, equity securities and investment fund certificates have also been assigned to this category.

Financial instruments available for sale are evaluated on a fair value basis. The evaluation results are recorded in other income from AFS reserves, corrected by deferred tax.

In case of impairment, AFS reserves are adjusted by the impaired amount and are recorded in the profit and loss account under results from financial assets. The amount of impairment is the difference between acquisition costs and the current fair value.

With regard to foreign capital instruments, the corporate group considers impairment of value as profit affecting, if there is objective evidence which permits the expectation of negative impact on future payment flows from the financial instrument. Only creditrating induced decrease of fair value can be assigned. Objective evidence for such impairment is, for example, major financial difficulties of the debtor, default or delay of interest or redemption payments, possible insolvency proceedings or other restructuring measures of the debtor. If the market value drops by at least 20% of the acquisition costs, it is considered to an indicator of creditworthiness-induced decrease of fair value, and objective evidence of impairment in the corporate group shall be analysed.

As far as equity instruments are concerned, the assessment of impairment is primarily based on a significant or sustained decrease

in market value below acquisition costs. If the market value of equity instruments drops by at least 10% of the acquisition costs, it is considered to be an indicator of impairment and consequently it shall be analysed within the Group, whether there is objective evidence indicating that the expenses for the equity instrument may not be returned. A significant and sustained decrease is always assumed, if the market value in the course of one business years is at least 20%, or in the course of 2 years at least 10% below acquisition costs.
An appreciation in value of such income affecting impairments is balanced under foreign capital instruments in income from financial instruments. For equity instruments, the appreciation in value is balanced under equity capital in AFS reserves.

If financial assets are sold, cumulative evaluation results reported under equity are dissolved and reported in the profit and loss account under result from financial assets.

Interest and dividend income are shown under net interest income.

(14) Financial Assets - Held to Maturity (HTM)

This category contains non-derivative financial assets listed in an active market with fixed or determinable payments and fixed terms. Such financial assets are acquired with the intention and ability to hold them to maturity.

Designated fixed-rate securities are evaluated at continuous acquisition costs. In the event that acquisition costs differ from their redemption value, the difference is dissolved or credited in accordance with the effective interest method via the profit or loss for the period. In case an identifiable event occurs, which leads to the fact that expectations of future cash flows from an instrument decrease, impairment is recorded.

Effects on results from evaluation and sale of financial instruments are shown under result from financial assets. Interest is shown under net interest income.

(15) Financial Assets - Loans and Receivables (L&R)

This balance sheet item includes 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 were acquired in the sec-notary market.

Loans and receivables are evaluated at continuous acquisition costs. In case of impairment of value {see note (19) loan risk provisions}, the acquisition costs are adjusted with effect on profits and presented in the profit and loss account under section result from financial instruments.

Demarcated interests are included in the net profit or loss for the period under interest income. Premiums and discounts are spread over their term in accordance with the effective interest method via the net profit or loss for the period and included in interest income.

(16) Other Liabilities

This category comprises all financial liabilities which are not evaluated voluntarily on a fair value basis via the net profit or loss for the period. They are evaluated at continuous acquisition costs. Premiums or discounts are included in net interest income with effect on profits over their maturity via the effective interest method.

(17) Cash and Cash Equivalents

Cash and cash equivalents designated in the cash flow statement correspond to the balance sheet item "'cash reserves", and consist of cash balances and credit balances with central banks. The assets at central banks are dedicated to the minimum reserve which must be held as assets at the Austrian National Bank in accordance with ECB directives. The minimum reserves are part of the stock of payment instruments, which in the interpretation of the Austrian National Bank, can be considered as the basis for current payment transactions. For that reason the minimum reserve fulfils the definition "cash and cash equivalents" and is therefore presented in the cash reserve.

(18) Receivables from Credit Institutions, Resolution Units of former Credit Institutions and Clients

In this balance sheet item, issued credits are assigned in accordance with the respective business partner as receivables from credit institutions, receivables from resolution units of former credit institutions or receivables from clients. At the time they are added, receivables are classified as loans and receivables or as receivables evaluated voluntarily at fair value. Impairments are presented as risk provisions.

(19) Credit Risk Provision

Substantial risks in relation to the banking business are taken into account by means of allowances to an appropriate extent. In terms of risk provision, the categories are divided into individual and portfolio evaluation adjustments as well as lump sum allowances. Risks resulting from off-balance sheet credits are considered by means of provisions.

Individual allowances were made in accordance with consistent standards within the group to cover the credit risks involved in receivables from customers and credit institutions. Significant receivables amounting to more than kEUR 200 are reviewed annually to verify impairment of 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 include:
- Deferment of payment or waiver of payment obligations of the debtor
- Initiation of sanctions
- Delayed payment
- Impending insolvency or over-indebtedness
- Application to open insolvency procedures
- Failure of rescue measures

The extent of allowance depends on the difference between outstanding receivables, included accrued interest, and cash value of the payments that are expected to be received for the respective receivable, in consideration of valuable collateral. This is calculated on the basis of the original interest rate.

With regard to insignificant receivables up to a value of kEUR 200, an allowance on the basis of default probabilities, obtained from historical time series, is calculated (general allowance).

Unwinding (cash value effect) is shown in the profit and loss account - not as allowance but as interest income.

In addition, credit risks that already occurred but are not identifiable, are considered in form of portfolio allowances. Such portfolio allowances are calculated for the entire "living" business. The extent of the portfolio allowance is based on default probabilities differentiated by rating classes.

Details on default probabilities according to rating classes and regarding stress tests can be found in the notes on financial risks and on risk management (see pp. 84).

If the payment of receivables is questioned, they are considered by establishing risk provision. In case further payments cannot be expected with the utmost probability, a receivable is classified as irrecoverable. An irrecoverable, already adjusted receivable is deleted from the accounts by using risk provision. If no individual allowance exists for such a receivable, it is directly depreciated with direct effect on profits. Payments for depreciated receivables are recorded in the net profit or loss for the period.

(20) Real Pension Transactions (repos) and Securities Transactions

Real pension transactions are combinations of cash purchases or sales of securities with simultaneous forward sale or repurchase with the same contracting party. Securities held on a repurchase basis in repo transactions (cash sales) continue to be reported and evaluated as securities stocks in the consolidated financial statement. The inflow of liquidity from repo business is illustrated as liability to credit institutions or clients in the balance sheet, depending on the counterparty. Agreed interest payments are recorded as interest expenses on maturity.

(21) Investment Properties

Investment property, more precisely, real estate which is held in the long term to obtain rental income and/or to increase its value is shown in this balance sheet item. It is evaluated at continuous acquisition costs. Rental income is included under other income. In case real estate is used for a different purpose, i. e. the property is no longer used for the bank's own business activities, but rented out; such real estate is reclassified from tangible assets to investment properties.

Investment properties are depreciated on a straight line basis over its expected working life. This depreciation is inclouded in other expenses.

The asset depreciation range in the current business year - like in the past business year – can be illustrated as follows:

Asset depreciation range	Years
Buildings	25–50

At every balance sheet date, the presence of possible indicators of impairment is investigated. For the fiscal year, no such indicators were identified.

If there are indicators for impairment, impairment is evaluated according to the impairment model for non-financial assets note (24).

(22) Intangible Assets

The item "intangible assets" comprises purchased software as well as licensing rights and an acquired client stock. All intangible assets have a limited operating life.

These assets are evaluated at their acquisition cost less scheduled depreciation and impairment. Assets are depreciated on a straight line basis over their expected operating life.

The asset depreciation range in the current business year - like in the past business year – can be illustrated as follows:

Asset depreciation range	Years
Large scale projects (e.g. ARZ-Software, GEOS, SAP)	8
Other software and licensing rights	4
Client stock	7

At every balance sheet date, the presence of possible impairment indicators is investigated. For the fiscal year, no such indicators were identified.

In case there are indictors for impairment, impairment is determined according to the impairment model for investment properties [see note (24)].

(23) Tangible Assets

Tangible assets are evaluated at acquisition or production costs less scheduled depreciation and impairment.

Scheduled depreciation is applied on a straight line basis over the asset's estimated operating life. In this context operating life is determined in consideration of the estimated physical depreciation, technical aging and legal and contractual limitations.

The asset depreciation range in the current business year - like in the past business year – can be illustrated as follows:

Asset depreciation range Nutzungsdauer in	Years
Buildings	25–50
Factory and office equipment	5–10
Construction work in leased business premises	15
IT hardware	3–5

At every balance sheet date, the presence of possible impairment indicators is investigated. For the fiscal year, no such indicators were identified.

In case indictors for impairment are identified, impairment is determined according to the notes on impairment for investment properties [see note {24)].

(24) Impairment Model for Non-Financial Assets

In case indicators for impairment are detected, the recoverable amount must be determined and compared with the cook value. The recoverable amount is the higher of its fair value less sales costs and value in use.

Fair value concerning investment properties is evaluated on the basis of annually updated evaluations of internal, generally certified and qualified experts for real estate evaluation.
With regard to properties, fair value is determined by using the comparative value analysis which is based on actual sales prices (in timely and physical proximity). If such comparative values are not available in a sufficient number, the real estate value is calculated on the basis of possible strains of the recoverable floor space with value share via residual value analysis.
Developed properties are rental properties. The value is determined in the course of a profit analysis based on actually received rentals, provided they have been received in a market-conform and sustainable manner. As far as empty property is concerned, fictional profits are scheduled.
Fair value is derived from the results of evaluation processes, assessed according to the respective market condition and adjusted, if appropriate.
The determination of valuation rates is based on land charge register inquires, regular market observations, regular adaptations of brokers, property developers and property managers as well as market date from the group's rental of real estate.
The appropriate capitalisation interest rate is determined on the basis of ranges published in specific literature (e.g. ÖVI-Immobilienbewertung - Austrian property evaluation authority) in due consideration of the respective market situation, significant location data and the characteristics of the property.

With regard to tangible assets, fair value of premises is determined according to the procedures mentioned above in section "investment properties"
As far as all other tangible assets are concerned – such as factory and office equipment and IT hardware, fair value is determined in connection with market transactions of similar factory and office equipment or IT hardware solutions in due consideration of technological aging

(25) Leasing

Leasing arrangements are evaluated in accordance with the allocation of economic risks and chances of lessor and lessee regarding the leased object.

Leasing arrangements are divided into financial and operating leasing. With regard to financial leasing, all the risks and opportunities associated with the property are transferred to the lessee, and thus the object leased is considered in the lessee's accounts. Operating leasing exists, if leasing assets are assigned to the lessor.

In this context, the Group as lessor currently offers both, financial leasing for the rental of movable property, and operating leasing for the rental of investment properties.

Leasing arrangements, in which the Group is the lessee, play a subordinate role in the Group.

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

Financial Leasing:
Lessor: the lessor designates the leasing receivables under receivables at their net investment value (cash value). Interest income is obtained on the basis of constant return which also includes the outstanding net investment value. Interest income from such transactions is shown under net interest income.

Operating Leasing
Lessor: leased assets, which are assigned to the lessor, are designated under investment properties and are determined in accordance with the described principles. Leasing profits are recorded on a straight line basis over the contactual maturity.

(26) Other Assets

The item "other assets" primarily includes value added tax receivables from the Italian state resulting from the acquisition of leasing properties and receivables other than from banking transactions.

Moreover, other assets also include real property and buildings which primarily were used as collateral by borrowers and which are now to be realised in disposing of impaired commitments (rescue acquisitions). These assets are shown as "assets held as collateral" and are evaluated as reserves in accordance with IFRS 5 [see note (27)]. In this context, expenses and income are presented in other expenses and income as "income or expenses concerning assets received as collateral".

(27) Non-Current Assets, Disposal Groups and Liabilities to Disposal Groups Held For Sale

Non-current assets or disposal groups, which comprise assets and liabilities, are classified as held for sale if the corresponding accounting value is primarily realised through sale and not through continued use. The Managing Board must have agreed the obligation to sell the asset. In this context it is anticipated that the sales process will be completed within one year subsequent to classification.

Generally, such assets or disposal groups are scheduled on the basis of the lower value resulting from their accounting value and fair value less sales costs. Possible impairment costs of a specific disposal group are first assigned to the business or company value and subsequently to remaining assets and liabilities on a pro rata basis – with the exception that no loss is assigned to stock, financial assets, deferred tax, assets in connection with employee benefits or financial properties which are still evaluated in accordance with the general financial reporting standards. Impairment costs in connection with the first classification "held for sale" as well as profits and losses that might occur later in the course of new evaluation are illustrated in profit and loss.

Intangible assets and tangible assets are no longer depreciated as scheduled. As soon as an associated company is classified “held for sale” it is also no longer balanced in accordance with the equity method.

In the event that the a disposal group is realised, the main groups of assets and liabilities held for sale up to, are illustrated in the notes (71).

(28) Current and Deferred Tax

Current income tax claims and obligations are evaluated at current tax rates at which payments to or refunds by tax authorities are expected. Receivables from current income tax are illustrated, due to their insignificance in the corporate group, under the item “other assets”. To a large extent, tax receivables assigned in other assets are consumer taxes. Current income tax obligations are illustrated separately under liabilities.

Deferred income tax claims and obligations are based on temporary differences between value approaches of assets and obligations in the balance sheet in compliance with IFRS and value approaches which apply for taxation purposes. They are evaluated on the basis of the tax rate that is expected to be applied at the time they are dissolved. For further details please see note (72).

Active deferred taxes are scheduled if there are sufficient passive deferred taxes within the same tax unit or it is likely that taxable profits will arise within the same tax unit in the future. This also applies to scheduling active deferred taxes to fiscal losses brought forward.

Active and passive deferred taxes are charged against each other, if it is permissible to offset actual tax refund claims against actual tax debts and the deferred taxes refer to the same tax authority.

Actual profit-based tax expenses are shown in the consolidated profit and loss account under “Income tax”. The effects of creating or dissolving deferred taxes are also included in this item, except they refer to items included in other results. In such a case they are created or dissolved against AFS reserves via illustration in other results.

(29) Liabilities

All liabilities to credit institutions are assigned to the category “other liabilities”. Liabilities to clients and liabilities evidenced by certificate are assigned to either “other liabilities” or to “designated at fair value”.

(30) Provisions

Provisions for social capital comprise reserves for pensions, severance payments, and length of service awards. These provisions are evaluated by the collective expectation method based on actuarial certificates. The liabilities resulting from a performance oriented pension scheme correspond to the cash value of the obligation less fair value of the plan assets available. Because the corporate group does not stipulate plan assets, the cash value of the obligation exceeds the fair value of the plan assets in all cases. The resulting liability is included in the balance sheet 8n the item “provisions”.

Pensions:
Within Hypo Tyrol Bank AG, there are several pensioners and survivors who are entitled to a performance oriented bank pension. The pension scheme is based on the final salary defined in a company agreement. All entitled pensioners have already retired and thus do not pay any further contributions. It is not intended to end this agreement. Active staff members are not entitled to bank pensions.

Severance payment:
Staff members, who joined the company before 31 December 2002, are entitled to severance payments under certain conditions, especially if they retire. Severance payment is regulated in article 23 of the Austrian Salaried Employees Act. The amount depends on the employee’s number of years in service up to a maximum of en annual salary, whereas the amount is calculated on the basis of the final salary. This system is a performance oriented pension plan. Severance payment provisions are made to cover these claims. This regulation shall not apply to staff member who joined the company after 31 December 2002. With regard to such staff members, monthly contributions are made to a staff pension fund. Apart from that employees are not entitled to any further payments.

Length-of-service award:
Employees shall receive one month’s salary as a length-of-service award after 25 years of service and two months’ salary after 35 years of service. Length-of service payments are based on the collective agreement, which specifies the requirements for length-of service payments and the respective amount.

The evaluation of social capital cash values is based on a number of actuarial assumptions, such as:

- Domestic actuarial interest rate flow 1.70% (2015: 2.25%)
- Annual valorisations, collective agreement and career based salary 2.5% (2015: 2.5%) regarding provisions for severance payments, service awards and occupational incapacity for employment risks
- Fluctuation rate according to separate chart, whereas length of service related fluctuation probabilities of 13% in the first service year to up to 0% in the 15th service year have been considered.
- Annual valorisations 1.5% (2015: 1.5%) regarding provisions for pensions
- Table values AVÖ 2008-P (generation related tables for employees in consideration of a surcharge due to out-dated values).

Actuarial assumptions are unprejudiced, coordinated with each other and represent the best possible estimation of the corporate group. Nevertheless, each assumption bears a risk in which changes of inflowing parameters would lead to a deviating balanced provision. In particular, in the context of calculating social capital, the corporate group points out the sensitivity of severance payment and pension provision parameters. For that reason, distortions of substantial influencing variables (discount interest rate and salary and pension valorisation) are illustrated by way of a sensitivity analysis under note (79). Based on experience and observations, the remaining variables (fluctuation rate or death probability) can be weighted as valid parameters with low distortion potential. In addition, length of service provision can also be regarded riskless as it is projectable and provides reliable actuarial parameters

As far as contribution-based pension schemes are concerned, provisions are not required. The payments regarding a contribution-based scheme are paid to a pension fund and are evaluated as expenses on a current basis. Apart from that, there are no other obligations involved.

Other provisions for contingent liabilities to third parties are made if there is a reliably assessable, legal or de facto obligation to third parties. Provisions are made in the amount which would have to be paid on a reasonable consideration to meet the liability on the balance sheet date.

A detailed overview of balanced provisions as well as an illustration of the provision development in the course of specific periods, and the above mentioned sensitivity analyses can be found under note (79).

(31) Other Liabilities

The item "Other Liabilities" basically presents liabilities which to a large extent do not result from banking businesses (basically, liabilities from delivery of goods and services to clients).

(32) Subordinate and Supplementary Capital

This item shows subordinate capital (Tier II) in accordance with CRR/CRD IV. Capital is evaluated at continuous acquisition costs.

(33) Trust Transactions

Assets and liabilities held by the Group in its own name but for the account of another party are not included in the balance sheet. In this context, incurred refunds regarding such businesses are shown as commission income in the profit and loss account.

(34) Equity

Equity comprises capital provided to the bank (subscribed capital plus capital reserves) and earned capital (profit reserves, reserves from currency translation and reserves formed on a profit-neutral basis from evaluations pursuant to IAS 39 and consolidated profits and earnings brought forward). Available for sale reserves summarize evaluation changes of the AFS stock which are not profit affecting after consideration of deferred tax. Actuarial gains and losses include evaluation effects in compliance with IAS 19 "employee benefits" after consideration of deferred tax.

Subscribed capital comprises 2,400,000 registered shares with restricted transferability of EUR 7.50 each and hence amounts to EUR 18,000,000.00, as well as a capital contribution amounting to EUR 32,000,000.00 from business funds in 2009.

(35) Financial Guarantees

A financial guarantee is a contract under which the guarantor is obliged to make certain payments in order to compensate the beneficiary for losses incurred because a debtor fails to meet his or her 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 a contracting party, that is, the time of accepting the guarantee offer. The firs evaluation is on a fair value basis at the time they are recorded.
Subsequent to that, the bank's obligations are evaluated on the basis of the higher value of the initial evaluation less straight line dissolution, which is used to allocate the guarantee provisions over the term of the financial guarantee and which is shown in the profit or loss for the period and in the risk provision for possible use.

(36) Accumulation of Financial Assets and Liabilities

Financial assets and liabilities are accumulated and designated in the balance sheet if there is an enforceable right to offset the amounts against our business partner and if transactions are settled on a net basis or if liabilities are settled at the same time as assets are realised.

According to IFRS 7, the Group is obliged to prepare statements concerning the netting out of financial instruments under Master Netting Agreement or similar agreements, even though the underlying instruments are not offset in the balance. With regard to instruments for which offsetting agreements have been made, but which are not offset in the balance, balancing effects are presented accordingly in note (86).

(37) Retirement of Financial Assets and Liabilities

The retirement of a financial asset is considered when the contractually agreed claims relating to cash flows from the financial asset have been eliminated or transferred. Furthermore, the retirement of a financial asset is considered when certain events occur, under which the corporate group has assumed the obligation to pay the cash flows from the asset to a third party.

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

In case of transactions for which all major risks and opportunities associated with the ownership of the financial asset have neither been retained nor transferred, the corporate group deletes the transferred asset value from the statement, once the power of disposition has been transferred.

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

The corporate group enters transactions in which it transfers assets that are recorded in balance sheet, but retains all major risks and opportunities associated with these assets. In the corporate group, such transactions are only stock options (see note {20} and note {95})

Notes in Relation to the Statement of Comprehensive Income

Profits and the associated expenses are recorded whenever it is likely that the economic benefit will accrue to the corporate group and if the amount of the profits can be determined on a reliable basis. This concept is applied to the major profit-generating activities of the corporate group as follows:

(38) Net Interest Income

Interest income is depreciated in accordance with the effective interest method and is only recorded if there is sufficient probability that the amounts will accrue to the company and if the amount can be determined on a reliable basis. In this contest, income which mainly represents payment for the use of capital (interest-similar income) is assigned to net interest income. In addition, income from participations is included in this item as well. Interest expenses are shown in line with interest income.

Dividends are also presented in net interest income as soon as legal entitlement arises.

(39) Risk Provision

This item illustrates appropriations to allowances and provisions, respectively profits from dissolving allowances and provisions as well as income subsequently received for receivables that have been depreciated in connection with credit business.

(40) Net Commission Income

Net commission income comprises the balance from income and expenses regarding the service business. Above all, this includes profit and expenses regarding 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 income and expenses are recorded appropriate to the period, subsequent to the entire provision of service.

(41) Trading Result

The trading result presents the evaluation results of the category “held for trading”. Interest and dividend profit from financial assets and liabilities of these evaluation categories are shown under net interest income. Furthermore, income from trading with securities is also included.

(42) Result from Financial Instruments – at Fair Value Through Profit or Loss – Prior to change to own credit risk

Result from financial instruments - at fair value through profit or loss shows the evaluated results from categories ‘designated at fair value’ as well as the evaluated results from bank book derivatives prior to changes in won credit risk. Interest and dividend income from financial assets and obligations of this evaluation category are reported under net interest income. Furthermore, the results from trading with securities are also illustrated.

In the 2016 fiscal year, pursuant to IFRS 9.7.1.2, the evaluation effect resulting from changes to own credit risk are illustrated directly in equity for the first time (please see note (1) “Changes in accounting and evaluation methods and further adjustments”.)

Notes on the Profit and Loss Account

(43) Net Interest Income

in kEUR	2016	2015
Interests and similar income from receivables from credit institutions	285	520
Interests and similar income from receivables from clients	90,733	97,295
Interests and similar income from bonds	31,519	41,170
Interests and similar income from leasing receivables	6,088	7,895
Interest gains from derivatives	26,694	41,682
Earnings from shares and other non-fixed securities	462	460
Earnings from participating interest in associated non-consolidated companies	5,477	1,928
Other earnings from participating interest	3,374	3,058
Other income	4,873	3,118
Interests and similar income	**169,505**	**197,126**
Interests and similar expenses for liabilities to credit institutions	-1,147	-1,246
Interests and similar expenses for liabilities to clients	-29,568	-28,259
Interests and similar expenses for liabilities evidenced by certificate	-45,984	-68,273
Interests and similar expenses for supplementary/subordinate capital	-3,922	-2,823
Other expenses	-3,325	-231
Interest and similar expenses	**-83,946**	**-100,832**
Net interest income	**85,559**	**96,294**

Negative interest is illustrated in other income in the amount of kEUR 4,873 as well as in other expenses in the amount of kEUR 3,325. Negative interest effects for Hypo Tirol Bank resulted from receivables from /liabilities to credit institutions, derivatives as well as repos.

Net interest income classified by evaluation categories of financial assets and liabilities can be described as follows:

in kEUR	2016	2015
Trading assets and derivatives	51,650	112,378
Financial assets – designated at fair value	19,918	23,919
Financial assets – HTM	1,511	3,052
Financial assets – AFS	8,489	10,798
Loans and receivables	99,324	110,923
Participations	8,852	4,986
Interest income	**189,744**	**266,056**
Derivatives	-22,134	-68,931
Financial liabilities – designated at fair value	-42,340	-59,684
Liabilities evidenced by certificate	-39,711	-41,147
Interest expenses	**-104,185**	**-169,762**
Net interest income	**85,559**	**96,294**

Interest income from financial assets not evaluated on a fair value basis amounted to kEUR 109,687 (2015: kEUR 118,961). The corresponding interest expenses for financial liabilities amounted to kEUR 39,711 (2015: kEUR 41,147).

Interest from impaired assets amounted to kEUR 3,428 (2015: kEUR 6,897).

The illustration of interest income and expenses is not netted.

(44) Credit Risk Provision

in kEUR	2016	2015 adjusted
Addition to allowances	-30,687	-73,697
Dissolutions of allowances	46,983	31,800
Direct depreciation of receivables	-7,885	-1,556
Earnings from income from depreciated receivables	1,464	891
Additions to provisions	-8,923	-5,233
Dissolution of provisions	17,773	21,399
Credit risk provision	**18,725**	**-26,396**

All profit affecting items of credit risk provision refer to allowances for receivables from clients [see note (59) and (79)].

The loss from credit business results from direct depreciation receivables, income from depreciated receivables, income from depreciated receivables and the use of generated provisions. In 2016, the loss amounted to kEUR 68,110 (2015: kEUR 126,390).

(45) Net Commission Income

in kEUR	2016	2015
Commission income from credit/leasing businesses	6,163	6,109
Commission income from securities businesses	10,393	12,086
Commission income from paperless clearing businesses and money transactions	12,294	10,969
Commission income from other service businesses	3,609	3,957
Commission income	**32,459**	**33,121**
Commission expenses for credit/leasing businesses	-834	-582
Commission expenses for securities businesses	-1,700	-2,096
Commission expenses for paperless clearing businesses and money transactions	-2,149	-1,842
Commission expenses for other service businesses	-1,438	-1,621
Commission expenses	**-6,121**	**-6,141**
Net commission income	**26,338**	**26,980**

Net commission income included income from trust transactions in the amount of kEUR 65 (2015: kEUR 81). Commission expenses included expenses from trust transactions in the amount kEUR 46 (2015: kEUR 14).

(46) Trading Result

in kEUR	2016	2015
Share related businesses	-218	-426
Currency related businesses	2,107	5,548
Interest related businesses	-1,835	-6,354
Trading result	**54**	**-1,232**

(47) Result from Hedge Accounting

The result from hedge accounting shows evaluation results from effective hedge accounting.

The result is structured as follows:

in kEUR	2016	2015
Result from secured basic businesses	-5,097	-4,620
Result from derivatives used as hedging instruments	6,703	6,232
Result from hedge accounting	**1,606**	**1,612**

(48) Result from Financial Instrument – at Fair Value Through Profit or Loss – Prior to Changes to Own Credit Risk

in kEUR	2016	2015 adjusted
Evaluation result financial instruments "designated at fair value"	20,765	28,684
Evaluation result derivatives	-22,692	-25,159
Result from financial instruments – at fair value through profit or loss - prior to changes to own credit risk	**-1,927**	**3,525**

The categorisation of the result from financial instruments "designated at fair value" corresponding to the balance sheet item, in which financial assets and liabilities are presented, is structured as follows:

in kEUR	2016	2015 adjusted
Receivables from clients	-9,049	-11,583
Financial assets – designated at Fair Value	-12,339	-18,739
Liabilities to clients	17,526	28,652
Financial liabilities – designated at Fair Value	24,627	30,354
Evaluation result for financial instruments designated at Fair Value	**20,765**	**28,684**

(49) Result from Other Financial Instruments

in kEUR	2016	2015 adjusted
Realised profit from asset sale	7,135	6,923
Realised losses from asset sale	-4,068	-1,179
Additions	913	76
Impairment financial instruments and participating interest	-3,334	-345
Result from other financial instruments	**646**	**5,475**

The result from other financial instruments, divided in evaluation categories is structured as follows:

in kEUR	2016	2015 adjusted
Profit/loss from financial assets – AFS	1,290	584
Profit affecting value changes due to outflows of AFS reserves of financial assets – AFS	1,357	4,813
Appreciation (+) / impairment (-) from financial assets – AFS	-148	-459
Profit/loss from participating interest and others	3,900	-82
Appreciation (+) / impairment (-) from participating interest	-6,288	32
Result from financial assets – AFS	**111**	**4,888**
Profit/loss from financial assets – HTM	0	-83
Appreciation (+) / impairment (-) from financial assets – HTM	524	-109
Result from financial asset – HTM	**524**	**-192**
Profit/loss from financial assets – L&R	51	811
Appreciation (+) / impairment (-) from financial assetsn – L&R	-40	-32
Result from financial asset – L&R	**11**	**779**
Result from other financial instruments	**646**	**5,475**

The result from repurchase of own issues accounted for kEUR 36 (2015: TEUR 24).

(50) Result from Associated Companies

in kEUR	2016	2015
Result from associated companies	238	-803

The illustrated loss of the previous year solely resulted from the sale of TKL III Grundverwertungsgesellschaft m.b.H.

(51) Administrative Expenses

in kEUR	2016	2015
Personalaufwand	-46,720	-51,331
Sachaufwand	-23,489	-23,958
Abschreibungen auf Sachanlagen und immaterielles Anlagevermögen	-3,832	-4,272
Verwaltungsaufwand	**-74,041**	**-79,561**

Personnel Expenses

in kEUR	2016	2015
Salaries and wages	-33,907	-37,037
Legal social expenses	-8,675	-9,227
Voluntary social expenses	-759	-825
Pension scheme expenses	-1,631	-1,858
Expenses for severance payments and pensions	-1,748	-2,384
Personnel expenses	**-46,720**	**-51,331**

Expenses for severance payments and pensions include payments to the corporate staff and self-employment provision fund in the amount of kEUR 175 (2015: kEUR 167).

The company strategy followed by Hypo Tirol Bank AG aims at reducing the balance sheet total and the number of employees. This policy is also reflected in the illustrated decline in personnel expenses.

Material Expenses

in kEUR	2016	2015
Building expenses	-3,271	-3,628
IT expenses	-6,573	-6,060
Communication expenses	-1,694	-1,457
Expenses for human resource development	-316	-404
Advertising and representation expenses	-3,596	-4,198
Legal and consulting expenses	-3,218	-3,710
Costs for legal structure	-1,741	-1,615
Other material expenses	-3,080	-2,886
Material expenses	**-23,489**	**-23,958**

Legal and consulting expenses and/or costs for legal structures included expenses for auditors (Ernst & Young chartered accountants Wirtschaftsprungsgesellschaftmbh, Wien) in the amount of kEUR 239 (2015: kEUR 234). Expenses for auditors were divided into expenses (costs for legal structures) for auditing the individual financial statements and the consolidated financial statements amounting to kEUR 232 (2015: kEUR 226) and into expenses for other confirmation services amounting to kEUR 7 (2016: kEUR 8).

Depreciation on tangible and intangible assets

in kEUR	2016	2015
Factory and office equipment	-1,382	-1,561
Real estate	-1,575	-2,027
Intangible assets	-875	-684
Depreciation on tangible and intangible assets	**-3,832**	**-4,272**

(52) Other Income

Other income comprises the following items:

in kEUR	2016	2015
Income from leasing business	4,781	6,267
Income from real estate sales	4,192	145
Rental income from investment properties	4,420	9,275
Income from assets received as collateral	456	11
Other income	8,086	12,152
Other income	**21,935**	**27,850**

(53) Other Expenses

Other expenses comprise the following items:

in kEUR	2016	2015
Leasing business expenses	-7,608	-7,610
Loss from real estate sales	-855	-170
Depreciation on investment properties	-2,647	-4,203
Expenses in connection with investment properties	-2,111	-4,522
in connection with real estate rented out	-2,105	-4,487
in connection with real estate not rented out	-6	-35
Expenses in connection with assets received as collaterals	-133	-12
Operational damages	-94	-166
Other expenses	-27,423	-16,818
Other expenses	**-40,871**	**-33,501**

Other expenses include stability tax in the amount of kEUR 6,534 (2015: kEUR 7,418). In addition, other expenses include expenses for deposit insurance in the amount of kEUR 858 and expenses in relation to the resolution fund in the amount of kEUR 3,424. Moreover, in 2016 a one-time special stability tax payment accounting for kEUR 12,042 were recognized in other expenses. This basically explains the year-on-year increase in other expenses.

(54) Tax on Income and Profit

in kEUR	2016	2015 adjusted
Current tax claims	-2,871	-2,272
Deferred tax	-8,927	-7,375
Tax on income and profit	**-11,798**	**-9,647**

Current taxes are based on the taxable results regarding this fiscal year in accordance with the local tax rates applicable to each company of the group. Corporate tax for Austrian companies amounts to 25 percent. This tax rate serves as the basis for the following offsetting and reconciliation. The offsetting and reconciliation illustrates the connection between the calculated and the recorded income taxes.

in kEUR	2016	2015 adjusted
Result prior to taxation	38,262	67,289
Applicable tax rate	25 %	25 %
Calculable income tax	**-9,566**	**-16,822**
Tax effects		
from tax free income from participating interest	780	-867
from investment benefits	0	0
from other tax free income	14	1,587
from previous years	-2,069	7,266
from goodwill depreciation	0	-44
from pre-payments	0	0
from deviating tax rates abroad	365	214
from other non-deductible expenses	-468	-1,057
from other differences	-854	76
from non-active losses brought forward	0	0
Designated income tax	**-11,798**	**-9,647**

Deferred tax expenses in the fiscal year amounting to kEUR 8,927 and deferred tax expenses of the previous year amounting to kEUR 7,375 entirely resulted from creating or dissolving temporary differences and the accounting of deferred tad in relation to losses brought forward.

Notes on the Balance Sheet

(55) Cash Reserve

in kEUR	2016	2015
Kassabestand	26,009	25,549
Guthaben bei Zentralnotenbanken	251,651	95,555
Barreserve	**277,660**	**121,104**

Pursuant to ECB directives, kEUR 30,866 (2015: kEUR 95,555) of the deposits at central banks are dedicated to the minimum reserve.

(56) Receivables from Credit Institutions

Receivables from credit institutions are assigned to the category „Loans and Receivables“ and are evaluated on the basis of continuous acquisition costs.

Receivables from credit institutions by business type

in kEUR	2016	2015
Interbank accounts	175,068	8,682
Money market business	14,777	73,426
Loans to banks	14,222	18,537
Other receivables	3,035	211
Receivables from credit institutions	**207,102**	**100,856**

Receivables from credit institutions by region

in kEUR	2016	2015
Austria	**119,616**	**40,109**
Foreign countries	**87,486**	**60,747**
Germany	40,307	30,660
Italy	6,305	3,805
Other foreign countries (incl. CEE)	40,874	26,282
Receivables from credit institutions	**207,102**	**100,856**

Receivables from credit institutions by maturity

in kEUR	2016	2015
Maturity: daily	108,159	57,814
Up to 3 months	35,629	24,505
3 months to 1 year	57,607	0
1 year to 5 years	1,536	10,000
More than 5 years	4,171	8,537
Receivables from credit institutions	**207,102**	**100,856**

(57) Receivables from Resolution Unit of Former Credit Institution

Based on the restructuring of receivables from HETA ASSET RESOLUTION AG in October 2016 by means of the exchange into a bond of the Carinthia resolution fund with guarantee provided by the Republic of Austria, receivables from HETA ASSET RESOLUTION AG were entirely booked out.

(58) Receivables from Clients

Receivables from clients accounting for kEUR 377,989 (2015: kEUR 427,745) were assigned to the category "financial assets - designated at fair value". The remaining receivables in the amount of kEUR 5,010,259 (2015: 5,098,580) were recorded in the category "loans and receivables".

Receivables from clients by business type (prior to risk provision)

in kEUR	2016	2015
Current account	562,263	617,967
Cash	49,934	52,693
Credits	2,862,127	2,753,243
Credits on bill of exchange	0	0
Covered communal loans	727,164	798,728
Covered bond loans	610,051	671,131
Other loans	19,645	20,688
Leasing receivables	533,785	595,567
Other receivables	23,279	16,308
Receivables from clients	**5,388,248**	**5,526,325**

Receivables from clients by region

in kEUR	2016	2015
Austria	**4,485,902**	**4,435,737**
Foreign countries	**902,346**	**1,090,588**
Germany	158,792	221,775
Italy	711,891	835,382
Other foreign countries (incl. CEE)	31,663	33,431
Receivables from clients	**5,388,248**	**5,526,325**

Receivables from clients by maturity

in kEUR	2016	2015
Maturity: daily	134,315	169,142
Up to 3 months	325,819	329,891
3 months to 1 year	681,977	815,372
1 year to 5 years	1,666,408	1,751,203
More than 5 years	2,579,729	2,460,717
Receivables from clients	**5,388,248**	**5,526,325**

Receivables from clients by sector

in kEUR	2016	2015
Central state and public sector	574,714	616,871
Corporate clients	3,629,686	3,770,045
Private households	1,154,150	1,115,616
Others	29,698	23,793
Receivables from clients	**5,388,248**	**5,526,325**

Gross and net investment values in leasing business

in kEUR	2016	2015
Gross investment value	590,942	665,324
Financial income not realised	-57,157	-69,757
Net investment value	**533,785**	**595,567**
Non-guaranteed residual values	**44,266**	**45,528**
Accumulated allowance	**-15,091**	**-29,736**

Accumulated allowances in leasing business are illustrated in the item "risk provisions in connection with receivables from clients".

In the expired fiscal year, no contingency payments were recorded as expense.

Net investment values in leasing business by maturity

in kEUR	2016	2015
Maturity daily	0	0
Up to 3 months	10,641	12,560
3 months to 1 year	46,595	57,634
1 year to 5 years	202,342	224,036
More than 5 years	274,207	301,337
Net investment value	**533,785**	**595,567**

Gross investment values in leasing business by maturity

in kEUR	2016	2015
Up to 3 months	13,253	15,437
3 months to 1 year	53,799	65,863
1 year to 5 years	232,438	279,728
More than 5 years	291,452	304,296
Gross investment value	**590,942**	**665,324**

Minimum leasing payments from non-callable operating leasing contracts as lessor were not collected

(59) Credit Risk Provision

At the balance sheet date no risk provision in connection with credit institutions was established by the group.

Risk provision in relation to HETA ASSET RESOLUTION AG can be illustrated separately as follows:

Development of risk provision in connection with receivables from resolution unit of former credit institution

in kEUR	2016	2015
As at 01.01.	-20,988	0
Currency differences	4	-1
Consumption	5,020	0
Liquidation	19,870	0
Addition	-3,906	-20,987
Risk provision in connection with receivables from resolution unit of former credit institution	**0**	**-20,988**

Based on the restructuring of receivables from HETA ASSET RESOLUTION AG in October 2016, by means of the exchange into a bond of the Carinthia resolution fund with guarantee provided by the Republic of Austria, risk provisions for receivables from HETA ASSET RESOLUTION AG developed as disrobed in the chart shown above.

Development of risk provision in connection with receivables from clients

Risk provision in connection with receivables from clients amounted to kEUR 0 (2015: kEUR 3,320) and was assigned to the category "financial assets – designated at fair value". The remaining risk provision amounting to kEUR 174,654 (2015: kEUR 233,314) was recorded in the category "loans and receivables", evaluated on the basis of continuous acquisition costs.

in kEUR	2016	2015 adjusted
As at 01.01.	-236,634	-341,089
Currency differences	-42	-359
Consumption	61,689	125,725
Liquidation	27,113	32,558
Addition	-26,780	-53,469
Risk provision in connection with receivables from clients	**-174,654**	**-236,634**

Risk provision in connection with receivables from clients by region

in kEUR	2016	2015 adjusted
Austria	**-38,455**	**-58,971**
Foreign countries	**-136,199**	**-177,663**
Germany	-6,641	-9,176
Italy	-128,714	-167,334
Other foreign countries (incl. CEE)	-844	-1,153
Risk provision in connection with receivables from clients	**-174,654**	**-236,634**

Development of risk provision in connection with receivables from clients

in kEUR	As at 01.01.	Currency translation	Consumption	Liquidation	Additions	As at 31.12.
2015 adjusted						
Credit risks – receivables > kEUR 500	-306,196	-49	101,080	31,500	-43,236	-216,901
Credit risks – receivables < kEUR 500	-26,611	-310	24,645	1,058	-8,856	-10,074
Portfolio provision	-8,282	0	0	0	-1,377	-9,659
Total	**-341,089**	**-359**	**125,725**	**32,558**	**-53,469**	**-236,634**
2016						
Credit risks – receivables > kEUR 200	-216,901	-42	59,882	23,721	-24,799	-158,139
Credit risks – receivables < kEUR 200	-10,074	0	1,807	1,156	-1,570	-8,681
Portfolio provision	-9,659	0	0	2,236	-411	-7,834
Total	**-236,634**	**-42**	**61,689**	**27,113**	**-26,780**	**-174,654**

Development of risk provision in connection with receivables from clients by sector

in kEUR	As at 01.01.	Currency translation	Consumption	Liquidation	Additions	As at 31.12.
2015 adjusted						
Public sector	-2	0	0	0	0	-2
Corporate clients	-327,764	-311	121,890	31,435	-51,464	-226,214
Private households	-13,282	-48	3,832	1,115	-2,005	-10,388
Other	-41	0	3	8	0	-30
Total	**-341,089**	**-359**	**125,725**	**32,558**	**-53,469**	**-236,634**
2016						
Public sector	-2	0	0		-2	-4
Corporate clients	-226,214	-11	60,365	24,937	-25,206	-166,129
Private households	-10,388	-31	1,324	2,155	-1,442	-8,382
Other	-30	0	0	21	-130	-139
Total	**-236,634**	**-42**	**61,689**	**27,113**	**-26,780**	**-174,654**

Additions include unwinding in the amount of kEUR 136 (2015: kEUR 257) which was reclassified in the profit and loss account from risk costs to interest income.

In consideration of risk provisions, receivables from credit institutions, receivables from the resolution unit of former credit institution and receivables from clients can be reclassified as follows:

in kEUR	Receivables from clients 2016	Receivables from clients 2015	Receivables from credit institutions 2016	Receivables from credit institutions 2015	Receivables from resolution unit of former credit institution 2016	Receivables from resolution unit of former credit institution 2015
Receivables with no specific allowance	4,982,356	4,976,489	207,102	100,856	0	0
Overdue receivables - no allowance	6,593	14,456	0	0	0	0
Individual allowance for receivables	399,299	535,380	0	0	0	83,952
Risk provision	-174,654	-236,634	0	0	0	-20,988
Receivables	**5,213,594**	**5,289,691**	**207,102**	**100,856**	**0**	**62,964**

Receivables with specific allowance included receivables, for which specific allowance has been created and receivables, for which a lump-sum allowance has been created.

Within the Group, credit quality of receivables with non-specific allowance from credit institutions and clients is evaluated in accordance with internal rating classifications:

in kEUR	Receivables from clients 2016	Receivables from clients 2015	Receivables from credit institutions 2016	Receivables from credit institutions 2015
Outstanding creditworthiness (ratings 1A – 2B)	1,417,613	1,426,479	85,236	32,173
Very good creditworthiness (ratings 2C – 2E)	1,052,399	1,020,763	78,810	45,950
Good creditworthiness (ratings 3A – 3B)	1,273,169	1,270,007	647	13,101
Medium creditworthiness (ratings 3C – 3E)	1,038,502	1,056,792	42,409	9,632
Weak creditworthiness (ratings 4A – 4B)	128,660	144,035	0	0
Very weak creditworthiness (ratings 4C – 4E)	72,013	58,413	0	0
Receivables with no individual allowance	**4,982,356**	**4,976,489**	**207,102**	**100,856**

In the event of default payment of 90 days (Basel III), receivables are assigned to the internal rating category 5A and thus to „overdue receivables – no allowance". If allowances result from default payment, such receivables are re-categorised to receivables with specific allowance.

The analysis of receivables in the category „overdue receivables – no allowance" illustrates the following situation:

in kEUR	Receivables from clients 2016	Receivables from clients 2015
3 months to 6 months	1,391	14,206
6 months to 1 year	3,134	250
More than 1 year	2,068	0
Overdue receivables - no allowance	**6,593**	**14,456**

In case of default payment less than 90 days, that is 1 day to 3 months, receivables are not assigned to this category; in the fiscal year they amounted to kEUR 41,774 (2015: kEUR 44,499).

The analysis of forbearance measures by client can be illustrated as follows:

in kEUR	2016	2015
Private households	3,291	1,525
Corporate clients	40,281	16,703
Total concessions on non-performing loans	**43,572**	**18,228**
Private households	**2,055**	**0**
Corporate clients	36,378	22,305
Total concessions on non-performing loans	**38,433**	**22,305**
Total concessions	**82,005**	**40,533**

All extension agreements are adaptations or modifications of originally concluded agreements. As far as receivables of the category "concessions on performing loans" are concerned, no allowance is required at the moment.

Indicators for weak creditworthiness and corresponding required allowances are reflected in the internal rating class "default" which is divided into rating classes 5B to 5E. Ratings 5B to 5E show the development of commitments which start off at risk, then lead to deferrals or the withholding of payments due to impending insolvency or indebtedness of the client, and finally lead to potential bad debts because insolvency proceedings have been opened.

The analysis of specific allowance for receivables regarding the 2016 fiscal year illustrates the following situation:

	Receivables from clients		Receivables from credit institutions		Receivables from resolution unit of former credit institution	
in kEUR	2016	2015	2016	2015	2016	2015
Rating level 5B	93,004	207,383	0	0	0	83,952
Rating level 5C	279,482	299,862	0	0	0	0
Rating level 5D	25,788	26,972	0	0	0	0
Rating level 5E	1,025	1,163	0	0	0	0
Individual allowance for receivables	**399,299**	**535,380**	**0**	**0**	**0**	**83,952**
Risk provision	-174,654	-236,634	0	0	0	-20,988
Net asset value of individual allowance for receivables	**224,645**	**298,746**	**0**	**0**	**0**	**62,964**

In order to reduce risks, specific measures are taken, especially by means of collateral. The main forms of collateral used include mortgages, guarantees and other assets.
Accountable collateral – evaluated in accordance with regulatory law principles - reduced the default risks of overdue receivables without allowance and receivables with specific allowance as follows:

in kEUR	2016	2015
Collateral for overdue receivables without specific allowance	6,748	20,748
Collateral for receivables with specific allowance	242,100	295,358

(60) Positive Market Values from Derivate Hedging Instruments

Interest swaps are the only hedging instruments employed.

in kEUR	2016	2015
Positive Marktwerte aus zugeordneten effektiven Fair Value Hedges	10,864	4,094

Positive market values have a term to maturity of more than one year.

Assets and liabilities serve as underlying transaction, whereas on the assets side fixed rate securities businesses AFS and on the liabilities side fixed rate liabilities can be considered. On 31 December 2016, the accounting value of hedged AFS positions accounted for kEUR 147,201 (2015: kEUR 100,871), and the accounting value of hedged liabilities accounted for kEUR 849,741 (2015: kEUR 338,390).

(61) Trading Assets and Derivatives

Trading assets by business type

in kEUR	2016	2015
Investment share certificates	240	580
Positive market values from derivatives	119,584	166,918
Accrued interest to trading assets	33,167	46,862
Trading assets	**152,991**	**214,360**

Trading assets by maturity

in kEUR	2016	2015
Up to 3 months	17,094	18,710
3 months to 1 year	44,944	17,373
1 year to 5 years	36,448	119,772
More than 5 years	54,265	57,905
Without maturity	240	600
Trading assets	**152,991**	**214,360**

Derivatives

	Nominal value		Positive market values		Negative market values	
in kEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Derivatives "held for trading"						
FX-future transactions	291,620	305,388	2,060	5,383	2,328	968
FX-options	0	177	0	9	0	9
Currency derivatives	**291,620**	**305,564**	**2,060**	**5,392**	**2,328**	**978**
Interest swaps	3,610,526	4,424,768	114,266	158,565	105,507	128,121
Interest options	0	0	0	0	0	0
Future transactions	534,468	500,773	3,250	2,941	3,058	3,322
Futures	0	0	0	0	0	0
Interest derivatives	**4,144,994**	**4,925,541**	**117,516**	**161,505**	**108,565**	**131,444**
Credit default swaps	15,000	20,000	0	0	153	285
Options	0	0	8	21	0	0
Asset value dependent derivatives	**15,000**	**20,000**	**8**	**21**	**153**	**285**
Trading assets	**4,451,613**	**5,251,105**	**119,584**	**166,918**	**111,046**	**132,706**

Default risks of trading assets are assessed in the Group by using the internal rating system. Trading assets are rated inclusive of their interest demarcation. Internal rating levels correspond to the rating categories as stated in note (59) and are used to assess the default risks for all financial assets and liabilities on a standard basis. "Top creditworthiness" is a sub-category of rating class "outstanding creditworthiness" and corresponds to rating levels 1A to 1E.

2016

in kEUR	For trading purposes	Derivatives	Trading assets
Top creditworthiness	3	95,657	95,660
Outstanding creditworthiness	4	11,388	11,392
Very good creditworthiness	1	39,019	39,020
Good creditworthiness	0	1,065	1,065
Medium creditworthiness	0	811	811
Weak creditworthiness	0	4,803	4,803
Very weak creditworthiness	0	0	0
No rating	232	8	240
Total	**240**	**152,751**	**152,991**

2015

in kEUR	For trading purposes	Derivatives	Trading assets
Top creditworthiness	6	131,791	131,797
Outstanding creditworthiness	25	19,095	19,120
Very good creditworthiness	3	50,914	50,917
Good creditworthiness	0	2,973	2,973
Medium creditworthiness	0	1,507	1,507
Weak creditworthiness	0	7,480	7,480
Very weak creditworthiness	0	0	0
No rating	546	20	566
Total	**580**	**213,780**	**214,360**

(62) Financial Assets – designated at Fair Value

Financial assets – designated at fair value by business type

in kEUR	2016	2015 adjusted
Bonds of public issuers	299,255	314,248
Bonds of other issuers	424,356	409,930
Interest accrued	10,443	12,315
Financial assets – designated at fair value	**734,054**	**736,493**

Financial assets – designated at fair value by maturity

in kEUR	2016	2015 adjusted
Up to 3 months	105,423	25,940
3 months to 1 year	45,418	101,153
1 year to 5 years	281,432	335,094
More than 5 years	301,781	274,306
Financial assets - designated at fair value	**734,054**	**736,493**

Default risks of financial assets – designated at fair value are evaluated in accordance with internal rating categories as follows:

in kEUR	2016	2015 adjusted
Top creditworthiness	725,726	715,545
Outstanding creditworthiness	5,795	5,182
Very good creditworthiness	2,533	12,070
Good creditworthiness	0	0
Medium creditworthiness	0	0
Weak creditworthiness	0	3,696
Total	**734,054**	**736,493**

(63) Financial Assets – AFS

Participating interest and shares in associated companies are evaluated at continuous acquisition costs as follows:

Financial assets – AFS by business type

in kEUR	2016	2015 adjusted
AFS bonds of public issuers	262,895	228,604
AFS bonds of other issuers	450,931	328,488
AFS shares	2,445	3,483
AFS other holding rights	26,547	26,748
Interest accrued regarding AFS-portfolio	5,482	6,010
Participating interest – other companies	47,663	51,540
Shares in associated companies	16,031	18,595
Financial assets - AFS	**811,994**	**663,468**

Financial assets – AFS by maturity

in kEUR	2016	2015 adjusted
Up to 3 months	25,660	60,846
3 months to 1 year	128,344	45,190
1 year to 5 years	389,954	369,127
More than 5 years	175,350	87,940
Without maturity	92,686	100,365
Financial assets - AFS	**811,994**	**663,468**

The changes in AFS reserves, which are recorded in the profit or loss for the period and in other result, are illustrated under section II statement of comprehensive income.

In the expired fiscal year, impairments for securities "AFS" in the amount of kEUR 228 (2015: kEUR 460) were reclassified from ASF reserves to the profit and loss account. The development of impairments for financial assets – AFS, which was considered in the profit and loss account, can be described as follows:

in kEUR	Impairment on 01-01	Currency translation	Inflows in business year	Transfers Consolidation	Outflows in business year	Impairment on 12-31
2015						
Bonds of other issuers	-7,300	0	-379	0	189	-7,490
Shares	-221	0	-81	0	0	-302
Investment certificates	-887	0	0	0	0	-887
Participating interest - other companies	-5,799	0	-44	0	2,975	-2,868
Shares in associated companies	-3,931	0	0	0	515	-3,416
Financial assets - AFS	**-18,138**	**0**	**-504**	**0**	**3,679**	**-14,963**
2016						
Bonds of other issuers	-7,490	0	0	0	7,319	-171
Shares	-302	0	-139	0	36	-405
Investment certificates	-887	0	-88	0	18	-957
Participating interest - other companies	-2,868	0	-3,708	0	41	-6,535
Shares in associated companies	-3,416	0	-2,581	0	0	-5,997
Financial assets - AFS	**-14,963**	**0**	**-6,516**	**0**	**7,414**	**-14,065**

Default risk of financial assets – AFS is evaluated in accordance with internal rating levels and illustrates the following situation:

in kEUR	2016	2015 adjusted
Top creditworthiness	679,677	531,059
Outstanding creditworthiness	28,393	25,873
Very good creditworthiness	23,213	15,680
Good creditworthiness	478	2,388
Medium creditworthiness	509	0
Weak creditworthiness	483	466
No rating	15,547	17,867
Participating Interest - other companies	47,663	51,540
Shares in associated companies	16,031	18,595
Total	**811,994**	**663,468**

(64) Financial Assets – HTM

Financial assets – HTM by business type

in kEUR	2016	2015 adjusted
HTM-bonds of public issuers	16,849	24,763
HTM-bonds of other issuers	17,488	50,654
Interest accrued regarding HTM-portfolio	998	1,515
Financial assets – HTM	**35,335**	**76,932**

Financial assets – HTM by maturity

in kEUR	2016	2015 adjusted
Up to 3 months	10,316	18,482
3 months to 1 year	5,139	23,025
1 year to 5 years	18,985	31,207
More than 5 years	895	4,218
Financial assets - HTM	**35,335**	**76,932**

In the fiscal year the number of HTM sales was insignificant, consequently "Tainting Rules" were not applied.

The development of impairment illustrates the following situation:

in kEUR	Impairment on 01-01	Currency translation	Inflows in business year	Transfers Consolidation	Outflows in business year	Impairment on 12-31
2015 adjusted						
Bonds of public issuers	0	0	0	0	0	0
Bonds of other issuers	-1,438	0	-109	0	887	-660
Financial assets - HTM	**-1,438**	**0**	**-109**	**0**	**887**	**-660**
2016						
Bonds of public issuers	0	0	0	0	0	0
Bonds of other issuers	-660	0	0	0	660	0
Financial assets - HTM	**-660**	**0**	**0**	**0**	**660**	**0**

With regard to impairments, which have been considered on a profit affecting basis in the result from financial investments, financial assets – HTM are categorised as follows:

in kEUR	2016	2015
Non-impaired financial assets - HTM	35,335	75,632
Impaired financial assets – HTM	0	2,260
Impairment	0	-960
Financial assets – HTM	**35,335**	**76,932**

Default risks of financial assets – HTM are evaluated in the corporate group in accordance with internal rating levels. HTM reserves are categorised as follows:

in kEUR	2016	2015
Top creditworthiness	35,335	53,629
Outstanding creditworthiness	0	12,003
Very good creditworthiness	0	10,000
Good creditworthiness	0	0
Medium creditworthiness	0	0
Weak creditworthiness	0	1,300
Very weak creditworthiness	0	0
Total	**35,335**	**76,932**

(65) Financial Assets – L&R

Financial assets – L&R by business type

in kEUR	2016	2015
L&R bonds	2,851	4,749
Interest accrued regarding L&R-portfolio	0	4
Financial assets – L&R	**2,851**	**4,753**

Financial assets – L&R by maturity

in kEUR	2016	2015
3 months to 1 year	0	0
1 year to 5 years	0	1,406
More than 5 years	2,851	3,347
Financial Assets – L&R	**2,851**	**4,753**

The development of impairment is described as follows:

in kEUR	Impairment on 01-01	Currency translation	Inflows in business year	Transfers Consolidation	Outflows in business year	Impairment on 12-31
2015						
Bonds	-1,496	0	-32	0	1,270	-258
Financial assets - L&R	**-1,496**	**0**	**-32**	**0**	**1,270**	**-258**
2016						
Bonds	-258	0	-49	0	60	-247
Financial assets - L&R	**-258**	**0**	**-49**	**0**	**60**	**-247**

With regard to impairments, which have been considered on a profit affecting basis in the result of financial investments, financial assets – L&R are categorised as follows:

in kEUR	2016	2015
Non-impaired L&R	1,501	3,139
Impaired L&R	1,597	1,872
Impairment L&R	-247	-258
Loans & Receivables	**2,851**	**4,753**

Default risks of financial assets – L&R are evaluated in accordance with internal rating levels. L&R reserves are categorised as follows:

in kEUR	2016	2015
Top creditworthiness	2,851	3,347
Outstanding creditworthiness	0	1,406
Very good creditworthiness	0	0
Good creditworthiness	0	0
Medium creditworthiness	0	0
Weak creditworthiness	0	0
Very weak creditworthiness	0	0
Total	**2,851**	**4,753**

(66) Shares in Associated Companies

in kEUR	2016	2015
Shares in associated companies	**9,876**	**9,777**

Associated companies are accounted at equity. For details regarding associated companies pursuant to IFRS 12.21 please see section VII.

(67) Investment Properties

Development of historical acquisition cost and comparison of accounting value

in kEUR	Acquisition value 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows and recategoris. assets AFS in business year	Acquisition value 12-31	Accounting value 12-31	Accounting value 01-01
2015								
Undeveloped real estate	5,885	0	436	148	0	6,469	5,196	4,743
Real estate/buildings rented out - land share	16,284	0	0	1,108	-614	16,778	15,627	15,287
Real estate/buildings rented out - building share	156,296	0	544	6,972	-54,311	109,501	67,562	89,444
Factory and office equipment rented out	1,508	0	533	149	-1,768	422	144	628
Facilities under construction	58	0	82	-78	-51	11	11	58
Investment properties	**180,031**	**0**	**1,595**	**8,299**	**-56,744**	**133,181**	**88,540**	**110,160**
2016								
Undeveloped real estate	6,469	0	0	-160	-1,585	4,724	3,566	5,196
Real estate/buildings rented out - land share	16,778	0	0	4,812	-3,517	18,073	14,399	15,627
Real estate/buildings rented out - building share	109,501	0	246	14,117	-25,742	98,122	55,621	67,562
Factory and office equipment rented out	422	0	45	19	-24	462	156	144
Facilities under construction	11	0	1	-12	0	0	0	11
Investment properties	**133,181**	**0**	**292**	**18,776**	**-30,868**	**121,381**	**73,742**	**88,540**

Development of accumulated depreciation

in kEUR	Accumulated depreciation 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Accumulated depreciation 12-31
2015						
Undeveloped real estate	-1,142	0	0	-131	0	**-1,273**
Real estate/buildings rented out - land share	-997	0	0	-154	0	**-1,151**
Real estate/buildings rented out - building share	-66,852	0	-4,005	-3,839	32,757	**-41,939**
Factory and office equipment rented out	-880	0	-184	0	786	**-278**
Facilities under construction	0	0	-14	0	14	**0**
Investment properties	**-69,871**	**0**	**-4,203**	**-4,123**	**33,556**	**-44,641**
2016						
Undeveloped real estate	-1,273	0	0	115	0	**-1,158**
Real estate/buildings rented out - land share	-1,151	0	0	-2,523	0	**-3,674**
Real estate/buildings rented out - building share	-41,939	0	-2,608	-7,256	9,302	**-42,501**
Factory and office equipment rented out	-278	0	-39	-4	15	**-306**
Facilities under construction	0	0	0	0	0	**0**
Investment properties	**-44,641**	**0**	**-2,647**	**-9,668**	**9,317**	**-47,639**

Inflows in the fiscal year resulted from smaller investments in parts of buildings rented out.

It was decided to provide factory and office equipment as ancillary service regarding investment properties. For that reason these assets were also recorded hereunder.

No contractual obligations to purchase or establish investment properties and no fundamental obligations regarding repairing, maintenance and improvements were existent at the balance sheet date.

On 31 December 2016, fair value of investment properties accounted for kEUR 80,553 (2015: kEUR 97,872). Fair value was measured on the basis of internal fair market value assessments at the balance sheet date. In the context of evaluating fair value of real estate, the current utilisation represents the most efficient and best possible use. Within the Group, investment properties are evaluated at continuous acquisition costs. Fair value is calculated for the purpose of impairment tests and in relation to the notes, however, in case no impairment is required – it does not have any effects on the consolidated balance sheet or on the consolidated profit and loss account. Fair value of investment properties was classified as fair value level 3, based on inputs of the used evaluation method [see note (24)].

(68) Intangible Assets

Development of historical acquisition costs and comparison of accounting value

in kEUR	Acquisition value 01-01	Currency translation	Inflows in business year	Transfers consolid.	outflows in business year	Acquisition value 12-31	Accounting value 12-31	Accounting value 01-01
2015								
Client base	1,557	0	0	0	0	1,557	152	259
Software	15,404	0	648	166	-276	15,942	1,289	1,220
Intangible assets	**16,961**	**0**	**648**	**166**	**-276**	**17,499**	**1,441**	**1,479**
2016								
Client base	1,557	0	0	0	0	1,557	76	152
Software	15,942	0	1,307	0	-237	17,012	1,773	1,289
Intangible assets	**17,499**	**0**	**1,307**	**0**	**-237**	**18,569**	**1,849**	**1,441**

Development of accumulated depreciation

in kEUR	Accumulated depreciation 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Accumulated depreciation 12-31
2015						
Client base	-1,298	0	-107	0	0	**-1,405**
Software	-14,184	0	-577	-168	276	**-14,653**
Intangible assets	**-15,482**	**0**	**-684**	**-168**	**276**	**-16,058**
2016						
Client base	-1,405	0	-76	0	0	**-1,481**
Software	-14,653	0	-799	0	213	**-15,239**
Intangible assets	**-16,058**	**0**	**-875**	**0**	**213**	**-16,720**

Software inflows in the amount of kEUR 799 refer to various software solutions that were acquired in the expired business year – in particular by Hypo Tirol Bank AG.

No contractual obligations to purchase or establish intangible assets and no fundamental obligations regarding repairing, maintenance and improvements were existent at the balance sheet date.

(69) Tangible Assets

Development of historical acquisition costs and comparison of accounting value

in kEUR	Acquisition value 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Acquisition value 12-31	Accounting value 12-31	Accounting value 01-01
2015								
Undeveloped real estate	483	0	0	0	0	483	483	483
Developed real estate-owner occupied–land value	14,111	0	0	-539	-6	13,566	12,061	12,606
Developed real estate-owner occupied-build.value	86,830	0	1,073	-4,532	-57	83,314	49,375	52,308
Factory and office equipment	39,461	0	908	74	-1,380	39,063	6,748	7,437
Facilities under construction	78	0	0	-8	0	70	70	78
Tangible assets	**140,963**	**0**	**1,981**	**-5,005**	**-1,443**	**136,496**	**68,737**	**72,912**
2016								
Undeveloped real estate	483	0	0	0	0	483	483	483
Developed real estate-owner occupied–land value	13,566	0	0	-2,195	-855	10,516	9,840	12,061
Developed real estate-owner occupied-build.value	83,314	0	410	-6,591	-2,579	74,554	41,717	49,375
Factory and office equipment	39,063	0	1,032	350	-1,705	38,740	6,503	6,748
Facilities under construction	70	0	0	0	-70	0	0	70
Tangible assets	**136,496**	**0**	**1,442**	**-8,436**	**-5,209**	**124,293**	**58,543**	**68,737**

Factory and office equipment inflows basically referred to current replacement capital investments of Hypo Tirol Bank AG.

No contractual obligations to purchase or establish tangible assets or fundamental obligations regarding repairing, maintenance and improvements were existent at the balance sheet date

Development of accumulated depreciation

in kEUR	Accumulated depreciation 01-01	Currency translation	Inflows in business year	Transfers consolid.	Outflows in business year	Accumulated depreciation 12-31
2015						
Developed real estate - owner occupied - land value	-1,505	0	0	0	0	**-1,505**
Developed real estate- owner occupied - building value	-34,522	0	-2,027	2,558	52	**-33,939**
Factory and office equipment	-32,024	0	-1,561	-72	1,342	**-32,315**
Facilities under construction	0	0	0	0	0	**0**
Tangible assets	**-68,051**	**0**	**-3,588**	**2,486**	**1,394**	**-67,759**
2016						
Developed real estate - owner occupied - land value	-1,505	0	0	725	104	**-676**
Developed real estate- owner occupied - building value	-33,939	0	-1,575	2,246	431	**-32,837**
Factory and office equipment	-32,315	0	-1,382	-218	1,678	**-32,237**
Facilities under construction	0	0	0	0	0	**0**
Tangible assets	**-67,759**	**0**	**-2,957**	**2,753**	**2,213**	**-65,750**

(70) Other Assets

in kEUR	2016	2015
Assets held as collateral for non-performing loans	0	0
Tax receivables	1,671	1,170
Accruals and deferrals	94	214
Other	22,500	14,117
Other assets	**24,265**	**15,501**

Tax receivables basically comprised current consumer taxes and activated corporate tax prepayments of Hypo Tirol Bank AG in the amount of kEUR 616 and for Hypo Tirol Mobilenleasing II GmbH in the amount of kEUR 821 for fiscal years that have not yet been assessed

In 2016, other assets included kEUR 8,098 (2015: kEUR 10,528) from accounts.

(71) Non-Current Assets, Disposal Groups and Liabilities in Disposal Groups Held for Sale

In 2016, assets and disposal groups held for sale accounted for a total of kEUR 9,611 (2015: kEUR 35,678). This amount included single non-current assets held for sale accounting for kEUR 9,611 (2015: kEUR 11,574); the 2015 disposal group was entirely disposed of in the reporting year (2015: kEUR 24,104).

Non-current assets:

Non-current assets amounting to kEUR 9,611 comprised properties which are supposed to be sold in the first part of the 2ß17 fiscal year. The Group has already started looking for purchasers. Impairment was not determined, neither at the time of reclassification to „held for Sale“ nor at the balance sheet date (31. December 2016). This is based on the management’s assumption that fair value – based on latest market prices of similar properties in similar locations and current purchasing offers – less sales costs will be higher than the accounting value. Fair value is classified level 3 on the basis of inputs [see note (24)].

(72) Deferred Income Tax Assets and Obligations

in kEUR	2015	2015 adjusted
Evaluation of receivables and liabilities clients covered by security at fair value and evaluation of risk provision	11,901	13,557
Evaluation of derivatives at fair value	47,554	58,962
Evaluation of financial assets – designated at fair value and AFS at fair value	17,136	24,257
Evaluation of financial assets – HTM and L&R according to effective interest method	0	32
Evaluation of shares in associated companies according to equity method	0	0
Application of evaluation method at first consolidation and application of different depreciation approaches for investment properties and tangible assets	977	739
Evaluation of liabilities evidenced by certificate and financial liabilities– designated at fair value	2,800	0
Evaluation of provisions	7	16
Defered tax assets concerning losses brought forward	8,136	10,753
Deferred tax assets	**88,511**	**108,316**
Evaluation of receivables and liabilities covered by securities clients at fair value and evaluation of risk provision	12,427	15,045
Evaluation of derivatives at fair value	48,430	63,127
Evaluation of financial assets – designated at fair value and financial assets – AFS at fair value	15,233	17,006
Evaluation of financial assets – HTM and L&R according to effective interest method	17	75
Evaluation of shares in associated companies according to equity method	0	0
Application of evaluation method at first consolidation and application of different depreciation approaches for investment properties and tangible assets	188	320
Evaluation of liabilities evidenced by certificate and financial liabilities– designated at fair value	4,901	6,055
Evaluation of provisions	880	1,231
Deferred tax obligations	**82,076**	**102,859**
Deferred tax assets and obligations, per balance	**6,435**	**5,457**

Subsequent to balancing, the results were entered into the balan-
ce sheet as follows:

in kEUR	2016	2015
Deferred tax assets	88,511	108,316
Balancing	-80,670	-100,895
Deferred tax assets per balance	**7,841**	**7,421**

in kEUR	2016	2015 adjusted
Deferred tax obligations	82,076	102,859
Balancing	-80,670	-100,895
Deferred tax obligations per balance	**1,406**	**1,964**

in kEUR	2016	2015 adjusted
Deferred tax assets	7,841	7,421
Deferred tax obligations	1,406	1,964
Deferred tax assets and obligations per balance	**6,435**	**5,457**

Deferred tax assets in the amount of kEUR 44,144 (2015: kEUR 41,801) were not activated. They can be brought forward for an indefinite period of time.

(73) Liabilities to Credit Institutions

Liabilities to credit institutions are assigned to the evaluation category „other liabilities" and are evaluated on the basis of continuous acquisitions costs.

Liabilities to credit institutions by business type

in kEUR	2016	2015
Interbank accounts	27,159	244,910
Money market businesses	123,355	353,121
Trustee liabilities	29,931	16,462
Other liabilities	1,582	5,176
Liabilities to credit institutions	**182,027**	**619,669**

Liabilities to credit institutions by region

in kEUR	2016	2015
Austria	**107,527**	**373,035**
Foreign countries	**74,500**	**246,634**
Germany	28,984	130,152
Italy	2	734
Other foreign countries (incl. CEE)	45,514	115,748
Liabilities to credit institutions	**182,027**	**619,669**

Liabilities to credit institutions by maturity

in kEUR	2016	2015
Maturity: daily	67,046	117,352
Up to 3 months	38,004	471,717
3 months to 1 year	62,122	600
1 year to 5 years	13,596	30,000
More than 5 years	1,259	0
Liabilities to credit institutions	**182,027**	**619,669**

(74) Liabilities to Clients

Liabilities to clients amounting to kEUR 596,280 (2015: kEUR 642,256) were assigned to the category "financial liabilities evaluated at fair value on a profit affecting basis". The remaining liabilities amounting to kEUR 2,879,016 (2015: kEUR 2,256,505) were assigned to "other liabilities".

Liabilities to clients by business type

in kEUR	2016	2015
Current accounts	1,770,429	1,261,729
Time deposits	751,488	770,217
Other deposits	60,808	59,543
Savings deposits	666,179	609,242
Fixed-term savings pass books	225,172	198,030
Liabilities to clients	**3,474,076**	**2,898,761**

Liabilities to clients by region

in kEUR	2016	2015
Austria	**2,822,356**	**2,251,136**
Foreign countries	**651,720**	**647,625**
Germany	510,550	551,061
Italy	67,189	33,507
Other foreign countries (incl. CEE)	73,981	63,057
Liabilities to clients	**3,474,076**	**2,898,761**

Liabilities to clients by maturity

in kEUR	2016	2015
Maturity: daily	1,843,194	1,364,210
Up to 3 months	666,329	491,304
3 months to 1 year	798,326	340,293
1 year to 5 years	80,694	610,841
More than 5 years	85,533	92,113
Liabilities to clients	**3,474,076**	**2,898,761**

Liabilities to clients by sector

in kEUR	2016	2015
Public sector	708,382	647,997
Corporate clients	1,424,563	967,123
Private households	1,240,745	1,191,080
Other	100,386	92,561
Liabilities to clients	**3,474,076**	**2,898,761**

(75) Liabilities Evidenced by Certificate

Liabilities evidenced by certificate are evaluated at continuous acquisition costs.

Liabilities evidenced by certificate by business type

in kEUR	2016	2015
Debentures	581,444	87,276
Communal debentures	309,647	282,075
Bonds	728,144	699,000
Housing bonds	14,758	16,509
Bonds in the debentures sector	0	27,000
Interest accrued	2,822	830
Liabilities evidenced by certificate	**1,636,815**	**1,112,690**

Development of liabilities evidenced by certificate

in kEUR	2016	2015
As at 01-01	1,112,690	1,247,149
New issues	605,889	112,368
Redemption	-87,761	-248,363
Currency changes	0	0
Changes accrued interest	2,318	-611
Changes due to fair value hedge accounting	3,679	2,147
Liabilities evidenced by certificate	**1,636,815**	**1,112,690**

Liabilities evidenced by certificate by maturity

in kEUR	2016	2015
Maturity: daily	334	335
Up to 3 months	76,100	60,396
3 months to 1 year	484,031	5,803
1 year to 5 years	1,005,312	978,106
More than 5 years	71,038	68,050
Liabilities evidenced by certificate	**1,636,815**	**1,112,690**

Due to the maturity structure of liabilities, the corporate group's liquidity will be secured for the forthcoming years.

(76) Negative Market Values from Derivative Hedging Instruments

Interest swaps are the only hedging instruments employed.

in kEUR	2016	2015
Negative market values from assigned effective fair value hedges	**7,344**	**11,593**

The maturity of all market values is more than one year.

For further details in relation to basic transactions please see note (61).

(77) Derivatives

in kEUR	2016	2015
Negative market values from derivative financial instruments	111,046	132,706
Interest accrued	18,538	22,815
Derivatives	**129,584**	**155,521**

Derivatives by maturity

in kEUR	2016	2015
Up to 3 months	6,150	3,710
3 months to 1 year	5,949	7,832
1 year to 5 years	50,681	59,218
More than 5 years	66,804	84,761
Derivatives	**129,584**	**155,521**

(78) Financial Liabilities – Designated at Fair Value

Financial liabilities – designated at fair value by business type

in kEUR	2016	2015 adjusted
Debentures	249,760	211,422
Communal debentures	111,552	108,195
Cash obligations	0	0
Bonds	780,084	1,191,412
Housing bonds	195,930	195,252
Bonds in the debentures sector	15,293	83,084
Subordinate liabilities	44,247	67,594
Supplementary capital	15,676	23,513
Interest accrued	17,931	29,519
Financial liabilities - designated at fair value	**1,430,473**	**1,909,991**

The redemption amount of financial liabilities – designated at fair value accounted for kEUR 1,368,549 (2015: kEUR 1,835,229). Consequently, the difference between accounting value and redemption amount accounted for kEUR 61,924 (2015: kEUR 76,562).

Development of financial liabilities – designated at fair value

in kEUR	2016	2015 adjusted
As at 01-01	1,911,791	2,740,302
New issues	128,492	76,135
Redemption	-598,076	-846,295
Currency changes	2,910	32,233
Changes accrued interest	-11,588	-16,532
Changes due to fair value accounting	-3,056	-75,852
Financial liabilities - designated at fair value	**1,430,473**	**1,909,991**

Financial liabilities – designated at fair value by maturity

in kEUR	2016	2015 adjusted
Up to 3 months	266,006	388,034
3 months to 1 year	396,467	201,638
1 year to 5 years	455,362	912,142
More than 5 years	312,638	408,177
Financial liabilities - designated at fair value	**1,430,473**	**1,909,991**

(79) Provisions

in kEUR	2016	2015
Provision for severance payments	13,796	12,776
Pension provision	5,619	6,185
Length of service provision	2,086	2,028
Credit risk provisions	12,539	8,202
Other provisions	12,734	30,766
Provisions	**46,774**	**59,957**

Credit risk provision includes provisions such as provisions for negative interest, provisions for guarantees and liabilities and other obligations resulting from the granting of credits which are uncertain in terms of maturity and amount. Other provisions include other personnel provisions, legal costs, liabilities as well as other provisions (for detailed information see "other provisions")

Provisions for negative interest refer to ongoing proceedings before the Austrian Supreme Court (Oberster Gerichtshof), according to which negative reference interest rates were not passed on to the clients. The provision in the amount of KEUR 10,376 (2015: kEUR 3,403) was determined on the basis of the volume of clients involved. The outcome of the proceedings is uncertain; for that reason the actual use on the part of Hypo Tirol Bank AG depends on the outcome of the proceedings.

Development of provisions for pensions, severance and length-of-service

in kEUR	Severance payments provision	Pension provision	Length-of-service provision
2015			
As at 01-01	13,625	6,913	2,019
Service costs	535	0	121
Interest expenses	299	147	44
Transfers	0	0	140
Payments	-1,613	-734	-134
Actuarial profit/loss	-70	-141	-162
Actuarial profits and losses from changed demographic assumptions	0	0	0
Actuarial profits and losses from changed financial assumptions	-70	-141	-162
As at 12-31	**12,776**	**6,185**	**2,028**
2016			
As at 01-01	12,776	6,185	2,028
Service costs	488	0	122
Interest expenses	285	131	45
Transfers	0	0	0
Payments	-831	-619	-141
Actuarial profit/loss	1,078	-78	32
Actuarial profits and losses from changed demographic assumptions	0	0	0
Actuarial profits and losses from changed financial assumptions	1,078	-78	32
As at 12-31	**13,796**	**5,619**	**2,086**

Development of changed demographic and financial assumptions included in actuarial profits and losses:

in kEUR	2016	2015	2014	2013	2012
Severance provision	**13,796**	**12,776**	**13,625**	**11,589**	**11,505**
Actuarial profits/losses	1,078	-70	1,902	91	1,023
Actuarial profits and losses from changed demographic assumptions	*0*	*0*	*0*	*0*	*0*
Actuarial profits and losses from changed financial assumptions	*1,078*	*-70*	*1,902*	*91*	*1,023*
Pension provision	**5,619**	**6,185**	**6,913**	**6,163**	**6,643**
Actuarial profits/losses	-78	-141	1,315	106	871
Actuarial profits and losses from changed demographic assumptions	*0*	*0*	*0*	*0*	*0*
Actuarial profits and losses from changed financial assumptions	*-78*	*-141*	*1,315*	*106*	*871*
Length-of-service provision	**2,086**	**2,028**	**2,019**	**1,680**	**1,614**
Actuarial profits/losses	32	-162	306	5	198
Actuarial profits and losses from changed demographic assumptions	*0*	*0*	*0*	*0*	*0*
Actuarial profits and losses from changed financial assumptions	*32*	*-162*	*306*	*5*	*198*

Sensitivity analysis severance provision

Sensitivity discount rate

2015	ACTUAL	+1 %	-1 %
Discount rate	2.25 %	3.25 %	1.25 %
Severance provision in k €	12,776	11,372	14,443
2016	**ACTUAL**	**+1 %**	**-1 %**
Discount rate	1.70 %	2.70 %	0.70 %
Severance provision in k €	13,796	12,358	15,496

Sensitivity salary valorisation

2015	ACTUAL	+1 %	-1 %
Salary valorisation	2.50 %	3.50 %	1.50 %
Severance provision in k €	12,776	14,421	11,363
2016	**ACTUAL**	**+1 %**	**-1 %**
Salary valorisation	2.50 %	3.50 %	1.50 %
Severance provision in k €	13,796	15,464	12,356

Sensitivity analysis pension provision

Sensitivity discount rate

2015	ACTUAL	+1 %	-1 %
Discount rate	2.25 %	3.25 %	1.25 %
Pension provision in k €	6,185	5,751	6,692
2016	**ACTUAL**	**+1 %**	**-1 %**
Discount rate	1.70 %	2.70 %	0.70 %
Pension provision in k €	5,619	5,200	6,112

Sensitivity pension valorisation

2015	ACTUAL	+1 %	-1 %
Pension valorisation	1.50 %	2.50 %	0.50 %
Pension provision in k €	6,185	6,690	5,744
2016	**ACTUAL**	**+1 %**	**-1 %**
Pension valorisation	1.50 %	2.50 %	0.50 %
Pension provision in k €	5,619	6,108	5,195

The sensitivity analysis illustrates – in case the actuarial assumptions of the discount rate and the salary and pension valorisations are subject to distortions (+/- 1.0%) – that the assignment of the balanced personnel and severance provisions was either too high or too low.

Other provisions

in kEUR	2016	2015
Other personnel provisions	4,901	5,852
Provisions for legal costs	2,585	3,954
Liability provisions	463	945
Remaining other provisions	4,785	20,015
Other provisions	**12,734**	**30,766**

Other personnel provisions:

Other personnel provisions included, among others, provisions for occupational disability and survivorship annuity in the amount of kEUR 153 (2015: kEUR 228).

Development of provisions

in kEUR	As at 01-01	Currency translation	Inflows	Deployment	Outflows	Other changes	As at 12-31
2015							
Severance provision	13,625	0	834	-1,613	0	-70	12,776
Pension provision	6,913	0	147	-734	0	-141	6,185
Length-of-service provision	2,019	0	165	-134	0	-22	2,028
Credit risk provision	3,806	0	6,221	-843	-982	0	8,202
Other provisions	51,658	0	14,909	-12,351	-21,878	-1,572	30,766
Provisions	**78,021**	**0**	**22,276**	**-15,675**	**-22,860**	**-1,805**	**59,957**
2016							
Severance provision	12,776	0	772	-841	0	1,089	13,796
Pension provision	6,185	0	131	-619	0	-78	5,619
Length-of-service provision	2,029	0	166	-141	0	32	2,086
Credit risk provision	8,201	0	7,925	-2,178	0	-1,409	12,539
Other provisions	30,766	0	14,839	-15,611	-18,315	1,055	12,734
Provisions	**59,957**	**0**	**23,833**	**-19,390**	**-18,315**	**689**	**46,774**

The amounts illustrated in „other changes“ primarily resulted from actuarial profits/losses as they are disclosed in the table “development of provisions for pensions, severance payments and length of service payments”.

Maturity-structure of provisions

in kEUR	Up to 1 year	More than 1 year
2015		
Severance provision	0	12,776
Pension provision	0	6,185
Length-of-service provision	0	2,028
Credit risk provision	4,169	4,033
Other provisions	23,332	7,434
Provisions	**27,501**	**32,456**
2016		
Severance provision	0	13,796
Pension provision	0	5,619
Length-of-service provision	0	2,086
Credit risk provision	11,091	1,448
Other provisions	9,203	3,531
Provisions	**20,294**	**26,480**

(80) Other Liabilities

in kEUR	2016	2015
Deliveries and performances	70,861	65,950
Other liabilities	1,252	1,059
Accruals and deferrals	568	345
Other liabilities	**72,696**	**67,354**

The amount of kEUR 1,252 included in "other liabilities" refers to liabilities against employees of Hypo Tirol Bank AG.

(81) Current Income Tax Obligation

Current income tax obligations basically refer to obligations resulting from corporate taxes which have not yet been paid.

(82) Subordinate and Supplementary Capital

Subordinate and supplementary capital by business type

in kEUR	2016	2015
Subordinate capital	83,267	74,300
Supplementary capital	19,549	28,111
Interest accrued	328	259
Subordinate and supplementary capital by business type	**103,144**	**102,670**

Development of subordinate and supplementary capital

in kEUR	2016	2015
As at 01-01	102,670	99,371
New assumption	2,298	3,300
Redemption	-1,892	0
Changes accrued interest	68	-1
Subordinate and supplementary capital	**103,144**	**102,670**

Subordinate and supplementary capital by maturity

in kEUR	2016	2015
3 months to 1 year	48,087	8,564
1 to 5 years	22,649	70,738
More than 5 years	32,408	23,368
Subordinate and supplementary capital	**103,144**	**102,670**

(83) Equity

in kEUR	2016	2015 adjusted
Subscribed capital	50,000	50,000
Capital reserves	311,233	311,233
Tied-up capital reserves thereof	150,033	150,033
Capital reserves not tied-up	161,200	161,200
AFS reserves after taxation	13,104	11,578
Actuarial profits/losses after taxation	-4,572	-3,822
Credit risk induced fair value change own liabilities	23,831	0
Revenue reserves, corporate group profit/loss	151,854	189,330
Equity	**545,450**	**558,319**

The Illustration of equity was adjusted on a retrospective basis. Consequently, each item of "other result" was reported separately rather than under item ""new evaluation reserves incl. AFS reserves" (see details section IV "equity changes")

Capital reserves
The designated capital reserves resulted from the transformation of Hypo Bank Tirol AG into a public limited company and from a subsidy made by the owner, the Province of the Tyrol, in the amount of EUR 220 million.

Revenue reserves
Revenue reserves are divided into legal reserves and other reserves deriving from the consolidated net profit. Furthermore, the difference from capital consolidation and effects of first application is recorded in revenue reserves.

Additional IFRS-Information

(84) Fair Value

Fair Value of selected balance sheet items

The following chart compares accounting value and fair value of single balance sheet items:

ASSETS	Acc. value	Fair Value	Acc. value	Fair Value
in kEUR	**2016-12-31**	**2016-12-31**	**2015-12-31**	**2015-12-31**
Cash reserve	277,660	277,660	121,104	121,104
Receivables from credit institutions after risk provision	207,102	205,822	100,856	98,932
Receivables from resolution unit of former credit institution after risk provision	0	0	62,964	62,964
Receivables from clients after risk provision				
at fair value	377,989	377,989	427,745	427,745
at acquisition costs	4,835,605	4,729,320	4,861,946	4,714,964
Positive market values from derivative hedging instruments	10,864	10,864	4,094	4,094
Trading assets and derivatives	152,991	152,991	214,360	214,360
Financial assets – designated at fair value	734,054	734,054	736,493	736,493
Financial assets – AFS				
at fair value	750,817	750,817	594,523	594,523
Financial assets – HTM	35,335	36,496	76,932	78,561
Financial assets – L&R	2,851	2,817	4,753	4,613
Investment properties	73,742	80,553	88,540	97,872

LIABILITIES	Acc. value	Fair Value	Acc. value	Fair Value
in kEUR	**2016-12-31**	**2016-12-31**	**2015-12-31**	**2015-12-31**
Liabilities to credit institutions				
at fair value	31,220	31,220	0	0
at acquisition costs	150,807	147,195	619,669	608,246
Liabilities to clients				
at fair value	565,060	565,060	642,256	642,256
at acquisition costs	2,909,016	2,961,450	2,256,505	2,340,898
Liabilities evidenced by certificate	1,636,815	1,640,794	1,112,690	1,103,191
Negative market values from derivative hedging instruments	7,344	7,344	11,593	11,593
Derivatives	129,584	129,584	155,521	155,521
Financial liabilities – designated at fair value	1,430,473	1,430,473	1,909,991	1,909,991
Subordinate and Supplementary Capital	103,144	99,287	102,670	93,488

Fair value of investment properties is based on annually adapted evaluations carried out by an internal and legally certified real estate expert. With regard to other assets and liabilities, the accounting value represents an appropriate approximation for fair value. Therefore, fair value was not explained in detail.

As far as financial assets and liabilities are concerned, fair value has been measured in accordance with note (7). In summary it can be stated that that with regard to evaluation methods based on market data (level 2) fair value is evaluated by using the discounted-cash flow method, and as far as financial instrument with optional components are concerned, the Black/Scholes model is applied, with inputs being based on market data.

In the 2016 fiscal year, evaluation methods not based on market data (level 3) were employed to evaluate receivables – designated at fair value by using the discounted-cash flow method. Future payments flows, deriving from the underlying nominal value, were based on the current market interest curve and were discounted by means of a risk adequate interest rate. Risk adequate interest charges derived from the Group's internal risk assessment and were assigned to different rating classes. The group defined four different rating classes with different risk adequate interest charges. For that reason, rating substantially influences the discount rate which is necessary for the evaluation of fair value. Thus, the internal rating in terms of creditworthiness can be described as a significant, non-observable initial parameter. The better the rating, the lower the corresponding discount rate and the higher fair value is. This effect is illustrated in the sensitivity analysis.

Fair Value of financial instruments

As far as financial assets – AFS are concerned, the following table illustrates a total amount of kEUR 750,816 (2015: kEUR 594,523), whereas the sum in the corresponding balance sheet item amounts to kEUR 811,944 (2015: kEUR 663,468). This difference results from the fact that equity instruments, which are not listed in stock markets, are included in the AFS portfolio. Consequently, the fair value of such equity instruments cannot be evaluated on a reliable basis. In accordance with IAS 39, these equity instruments are evaluated at acquisition costs in consideration of possible impairment losses, if impairment indicators [see note (13)] are existent. In accordance with IFRS 7.29, no further information regarding fair value is required for equity instruments that are not listed in a stock market (within the corporate group such instruments are other participating interests and shares in associated companies). The development of accounting values of such equity instruments is illustrated under note (63). At the evaluation date no intention of disposal was existent.

The fair value of the remaining financial assets and financial liabilities is illustrated in the following chart and assigned to the three categories pursuant to IRFS fair value hierarchy [see note (7)].

2016

in kEUR	Prices quoted in active markets (level 1)	Evaluation method based on market data (level 2)	Evaluation method not based on market data (level 3)	Total
ASSETS 2016 Financial assets evaluated on a fair value basis				
Receivables from clients - designated at fair value			377,989	377,989
Hedging instruments with positive market value		10,864		10,864
Trading assets and derivatives	248	152,743		152,991
Financial assets - designated at fair value	731,521	2,534		734,055
Financial assets - AFS	729,683	21,133		750,816
Total financial assets evaluated on a fair value basis	**1,461,452**	**187,274**	**377,989**	**2,026,715**
LIABILITIES 2016 Financial liabilities evaluated on a fair level basis				
Liabilities to credit institutions - designated at fair value		31,220		31,220
Liabilities to clients – designated at fair value		565,060		565,060
Hedging instruments with negative market value		7,344		7,344
Derivatives		129,582		129,582
Financial liabilities - designated at fair value	91,459	1,339,014		1,430,473
Total financial liabilities evaluated on a fair value basis	**91,459**	**2,072,220**		**2,163,679**

2015

in kEUR	Prices quoted in active markets (level 1)	Evaluation method based on market data (level 2)	Evaluation method not based on market data (level 3)	Total
ASSETS 2015 adjusted Financial assets evaluated on a fair value basis				
Receivables from clients - designated at fair value			427,745	427,745
Hedging instruments with positive market value		4,094		4,094
Trading assets and derivatives	594	213,766		214,360
Financial assets - designated at fair value	713,432	23,061		736,493
Financial assets - AFS	582,284	12,239		594,523
Total financial assets evaluated on a fair value basis	**1,296,310**	**253,160**	**427,745**	**1,977,215**
LIABILITIES 2015 adjusted Financial liabilities evaluated on a fair level basis				
Liabilities to credit institutions - designated at fair value		642,256		642,256
Liabilities to clients – designated at fair value		11,593		11,593
Hedging instruments with negative market value		155,521		155,521
Derivatives	577,953	1,332,038		1,909,991
Financial liabilities - designated at fair value	**577,953**	**2,141,408**		**2,719,361**

Transfer of financial instruments to level 3

2016 in kEUR	Receivables from clients designated at fair value	Total
Amount at the beginning of the period	**427,745**	**427,745**
Total profits/losses	-9,049	-9,049
- recorded in the profit and loss account	-9,049	-9,049
- recorded in other result	0	0
Purchases	31,428	31,428
Sales	-72,135	-72,135
Issues	0	0
Adjustments	0	0
Reclassification to level 3	0	0
Reclassification from level 3	0	0
Amount at the end of the period	**377,989**	**377,989**

2015 in kEUR	Receivables from clients designated at fair value	Total
Amount at the beginning of the period	**467,955**	**467,955**
Total profits/losses	1,050	1,050
- recorded in the profit and loss account	1,050	1,050
- recorded in other result	0	0
Purchases	38,149	38,149
Sales	-79,409	-79,409
Issues	0	0
Adjustments	0	0
Reclassification to level 3	0	0
Reclassification from level 3	0	0
Amount at the end of the period	**427,745**	**427,745**

At the balance sheet date the column “profits/losses” included unrealised results in the amount of kEUR -9,049. The result is composed of unrealised profits accounting for kEUR 0 and unrealised losses accounting for kEUR -9,049.

Sensitivity analysis of non-observable parameters

In the event that the value of a financial asset is based on non-observable initial parameters, the value of the parameters at the balance sheet date to be used can be chosen from a wide range of appropriate possible alternatives. In the context of preparing the consolidated financial statement, appropriate values were chosen for such non-observable parameters, which correspond to the current market conditions and the group’s internal risk assessment.

The present data should illustrate possible effects, which result from relative uncertainties in the context of determining fair value of financial instruments, which are evaluated on the basis of non-observable parameters. Nevertheless it is unlikely, that de facto all non-observable parameters are at the extreme end of their range of appropriate possible alternatives at the same time. Moreover, the present data shall not be regarded as forecast or as indicators for future changes of fair value.

Rating, in particular, is founded on subjective estimations, therefore, the Group points out the sensitivity of such evaluation parameters. Modifying the rating degree leads to adjustments of risk adequate interest charges and consequently to a changed discount rate, which has substantial influence on the evaluation of fair value. Sensitivity is illustrated within a positive and negative range by reclassification of rating upwards and downwards. Reclassification of rating is simulated by positive or negative adjustment of the factors regarding the valid risk adequate interest sur by charge. Hypo Tirol Bank AG classifies all receivables from clients into rating levels ranging from 1A to 5E. All rating level 5 receivables from clients are defaulted receivables. In the context of calculating fair values, the possibilities of default, which affect the risk surcharge of the discount rate, range from 0.01% of level 1A to 20.50% of level 4E. Beginning with level 5A a 100% possibility of default is taken into account.

Reclassification of ratings is simulated by adjusting risk adequate interest surcharge by factor 1.5 upwards and downwards. The factor corresponds to the adjustment of possibility defaults regarding rating adjustment by one rating level.

in kEUR	Positive change of fair value by using appropriate possible alternatives	Negative change of fair value by using appropriate possible alternatives
Receivables from clients designated at fair value	3,914	-5,696
Total	**3,914**	**-5,696**

Credit risk induced changes of fair value

With regard to financial assets and liabilities that are voluntarily evaluated on a fair value basis, the change of creditworthiness results in the following profits and losses.

Credit risk induced fair value change of financial assets for the period amounted to kEUR 508 (2015: kEUR -1,930). The amount is illustrated in trading result. Since designation, the accumulated credit risk induced change has amounted to kEUR –9,499 (2015: TEUR -10,005).

Credit risk induced change is determined by using the differential calculation procedure. In this context, fair value change caused by market risk is deducted from the total fair value change on the basis of model calculations.

Fair value of financial instruments not designated at fair value

The evaluation criteria in order to measure the fair value of the group’s financial instruments not designated at fair value correspond to those described in note (7) “fair value”.

Financial instruments not designated at fair value are not controlled on a fair value basis. This applies to receivables from or liabilities to credit institution as well as to receivables HTM. Fair value for such instruments is only calculated for the purpose of preparing the annex data and has no influence on the corporate group’s balance sheet or on the corporate group’s profit and loss account. In addition, substantial estimates made by the management are required to determine fair value, because such instruments cannot be traded.

2016

in kEUR	Acct. value	Fair value: Prices quoted in active markets (level 1)	Fair value: Evaluation method based on market data (level 2)	Fair value: Evaluation method not based on market data (level 3)	Total
ASSETS 2016 **Financial assets not evaluated on a fair value basis**					
Cash reserve	277,660	277,660	0	0	277,660
Receivables from credit institutions after risk provision	207,102	0	0	205,822	205,822
Receivables from resolution unit of former credit institution after risk provision	0	0	0	0	0
Receivables from clients after risk provision	4,835,605	0	0	4,729,320	4,729,320
Financial assets - HTM	35,335	36,496	0	0	36,496
Financial assets - L&R	2,851	0	2,817	0	2,817
LIABILITIES 2016 **Financial assets not evaluated on a fair value basis**					
Liabilities to credit institutions	150,807	0	147,195	0	147,195
Liabilities to clients	2,909,016	0	2,904,327	57,123	2,961,450
Liabilities evidenced by certificate	1,636,815	721,682	919,112	0	1,640,794
Subordinate and supplementary capital	103,144	0	99,287	0	99,287

2015

in kEUR					
ASSETS 2015 **Financial assets not evaluated on a fair value basis**					
Cash reserve	121,104	121,104	0	0	121,104
Receivables from credit institutions after risk provision	100,856	0	0	98,932	98,932
Receivables from resolution unit of former credit institution after risk provision	62,964	0	0	62,964	62,964
Receivables from clients after risk provision	4,861,946	0	0	4,714,964	4,714,964
Financial assets - HTM	76,632	74,555	4,006	0	78,561
Financial assets - L&R	4,753	0	4,613	0	4,613
LIABILITIES 2016 **Financial assets not evaluated on a fair value basis**					
Liabilities to credit institutions	619,669	0	608,246	0	608,246
Liabilities to clients	2,256,505	0	2,285,726	55,172	2,340,898
Liabilities evidenced by certificate	1,112,690	261,690	841,501	0	1,103,191
Subordinate and supplementary capital	102,670	0	93,488	0	93,488

(85) Maximum Default Risk

Maximum default risk is illustrated by indicating the accounting value of financial assets after consideration of allowance:

2016 in kEUR	Loans and receivables	Debt capital instruments of the category trading assets, financial assets and derivatives	Equity capital instruments of the category trading assets and financial assets	Accounting value
Receivables from credit institutions	**207,102**	**0**	**0**	**207,102**
Receivables from resolution unit former credit institution after risk provision	**0**	**0**	**0**	**0**
Receivables from clients	**5,213,594**	**0**	**0**	**5,213,594**
– at cost	4,835,605	0	0	4,835,605
– at fair value	377,989	0	0	377,989
Hedging instruments	**0**	**10,864**	**0**	**10,864**
Trading assets	**0**	**152,743**	**248**	**152,991**
– for trading purposes	0	0	248	248
– derivatives	0	152,743	0	152,743
Financial assets	**0**	**1,491,548**	**92,687**	**1,584,234**
– designated at fair value	0	734,054	0	734,054
– AFS	0	719,308	92,687	811,994
– HTM	0	35,335	0	35,335
– Loans & Receivables	0	2,851	0	2,851

2015 adjusted

in kEUR				
Receivables from credit institutions	**100,856**	**0**	**0**	**100,856**
Receivables from resolution unit former credit institution	**62,964**	**0**	**0**	**62,964**
Receivables from clients	**5,289,691**	**0**	**0**	**5,289,691**
– at cost	4,861,946	0	0	4,861,946
– at fair value	427,745	0	0	427,745
Hedging instruments	**0**	**4,094**	**0**	**4,094**
Trading assets	**0**	**213,766**	**594**	**214,360**
– for trading purposes	0	0	594	594
– derivatives	0	213,766	0	213,766
Financial assets	**0**	**1,380,053**	**99,176**	**1,479,229**
– designated at fair value	0	736,493	0	736,493
– AFS	0	563,102	100,366	663,468
– HTM	0	76,932	0	76,932
– Loans & Receivables	0	4,753	0	4,753

At the balance sheet date, the maximum default risk from loan commitments and financial guarantees amounted to kEUR 895,322 (2015: kEUR 1,016,272).

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

Creditable collateral – evaluated in accordance with supervisory standards - reduce default risk to the following extent:

in kEUR	2016	2015
Forderungen an Kunden	3,367,725	3,280,536
– at cost	3,367,725	3,280,536
Derivate	55,230	78,670

(86) Specifications Regarding the Balancing of Derivative Financial Instruments

According to IFRS 7 the effects of balancing derivative financial instruments with netting agreements are illustrated as follows. The corporate group points out those agreements were established with all contracting parties with whom derivative financial instruments were concluded and that no balancing prohibition was agreed. At the evaluation date, balanced asset amounted to kEUR 65,960 (2015: kEUR 65,127) and the remaining liabilities after balancing amounted to kEUR 57,849 (2015: kEUR 42,352).

Balancing derivative financial instruments - assets/liabilities

2016 in kEUR	Financial assets (gross)	Added balanced amounts (gross)	Balanced financial assets (net)	Effects from netting agreements	Collateral in form of financial instruments	Net amount
				not balanced		
Assets						
Derivative financial instruments	123,042	0	123,042	-57,082	-55,224	**10,736**
Liabilities						
Derivative financial instruments	114,931	0	114,931	-57,082	-40,420	**17,429**
2015						
Assets						
Derivative financial instruments	163,745	0	163,745	-98,618	-60,586	**4,541**
Liabilities						
Derivative financial instruments	140,970	0	140,970	-98,618	-34,085	**8,267**

The liabilities regarding derivative financial instruments as illustrated above are composed of the balance sheet items “negative market values from derivative financial instruments” and “negative market values from derivative hedging instruments”.

(87) Specifications Regarding Associated Individuals and Companies

Associated individuals and companies include the following categories of individuals and companies:

- The Managing Board and the Supervisory Board of Hypo Tirol Bank AG and their immediate families
- Directors of consolidated subsidiaries and their immediate families
- Legal representatives and members of the supervisory boards of the main shareholders
- Subsidiaries and other companies, in which Hypo Tirol Bank AG holds participating interest,
- The province of the Tyrol, respectively the “Landes-Hypothekenbank Tirol Anteilsverwaltung”.

In the context of ordinary business activities, transactions with associated companies and individuals are basically concluded in accordance with similar terms and conditions customary in the market, that are applicable to similar transactions concluded with third parties in the same period. The scope of such transactions is shown below.

As the liability of the Province of the Tyrol ceases in 2017, it receives an annual liability commission amounting to kEUR 727 which is recorded under commission expenses.

Hypo Tirol Bank AG acts as service provider on behalf of the Province of the Tyrol and manages the residential construction support loans. In addition, the company provides financial services to the Province of the Tyrol at terms customary in the market. These amounts are not shown separately, as such transactions cannot be recorded in the system separately and information in this respect 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 amounted to kEUR 544 (2015: kEUR 249) at the balance sheet date. This change entirely refers to redemptions, interest charges and exchange rate fluctuations of existing credits.

Within the corporate group, the Managing Board members of the parent company are defined as management members with key positions. The active remuneration of the Managing Board of the parent company amounted to kEUR 762 (2015: kEUR 885). Severance payments for active Managing Board members amounted to kEUR 477. The active remunerations entirely refer to the current remunerations and thus, are classified as short term due performance cost. Managing Board members are not entitled to other categories of remuneration in accordance with IAS 24.17.

In the reporting year, the bank’s pension-scheme expenses for former Managing Board members and their survivors, less payments in accordance with the General Social Insurance ACT amounted to kEUR166 (2015: kEUR 265).

The remunerations for Supervisory Board members in the fiscal year 2016 amounted to kEUR 84 (2015: kEUR 95).

Business relations with fully consolidated companies have been eliminated in the course of debt consolidation, and thus have not been disclosed under “transactions with associated companies”. The amounts illustrated in “participating interest” refer to business relations with associated companies. Information contained in the table regarding “related parties” entirely refers to the owner, the Province of the Tyrol. Customary bank transactions concluded with companies being influenced by the Province are only contained in “receivables from clients” to an insubstantial extent.

Outstanding balances and the volume of business relations with associated companies in the past fiscal year are illustrated in the following charts.

Receivables from clients

	Associated companies		Participating interest		Related Parties	
in kEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
As at 01-01	1,333	1,786	57,494	91,484	204,246	243,418
Credits granted during the year	0	0	0	0	0	0
Redemptions from receivables from credits	0	-453	-15,629	-30,202	-19,547	-26
Balance: redemptions, interest charges and exchange rate fluctuations of current credits	53	0	-3,437	-3,788	-27,175	-39,146
As at 12-31	**1,386**	**1,333**	**38,428**	**57,494**	**157,524**	**204,246**
Other credit risk transactions						
Assumptions of liability	0	0	0	667	0	0

For outstanding balances with associated individuals as at 31 December 2016 collateral in the amount of kEUR 157,524 (2015: kEUR 191,510) was held. Advances were not granted

Financial assets – designated at Fair Value

	Related Parties	
in kEUR	**2016**	**2015**
As at 01-01	3,765	5,001
Redemptions	-1,236	-1,236
As at 12-31	**2,529**	**3,765**

Liabilities to clients

in kEUR	Associated companies 2016	Associated companies 2015	Participating interest 2016	Participating interest 2015	Related Parties 2016	Related Parties 2015
As at 01-01	2,529	2,132	12,489	13,079	365,607	254,326
New assumptions	0	0	0	0	11,339	6,366
Redemptions	-181	-360	-7,620	-3,538	-119,406	-80
Balance: redemptions, interest charges and exchange rate fluctuations of current liabilities	636	757	1,922	2,948	13,501	104,995
As at 12-31	**2,984**	**2,529**	**6,791**	**12,489**	**271,041**	**365,607**

Allowances for doubtful receivables from associated companies and individuals were not formed. Furthermore, in the fiscal year no expenses for doubtful or non-performing receivables from associated companies or individuals were recorded.

(88) Assets Received as Collateral

in kEUR	2016	2015
Actuarial reserve funds for debentures and communal debt securities	2,885,168	2,823,393
Financial assets	120,623	455,653
Assets received as collateral	**3,005,791**	**3,279,046**

Assets received as collateral are actuarial reserve funds for debentures and communal debt securities and ward money. The requirements regarding these assets as collateral must be defined in a manner which complies with the legal regulations regarding the Banking Act and the Debenture Act (Pfandbriefgesetz).

(89) Segmental Report

The corporate group's segmental report established by Hypo Tirol Bank AG is composed of the following criteria:

Private clients in the Tyrol
This segment comprises the results from transactions in the sectors private clients and private banking and liberal professions in the Tyrolean core market. In addition, it includes results from customer relations with corporate and public sector clients, provided that they are carried out in the branch offices.

Corporate and key account clients in the Tyrol
This segment illustrates the results from businesses with corporate and key account clients in the Tyrolean core market as well as the results from the financing portfolio in Germany, which is to be reduced. Furthermore, this segment includes insurance businesses and business relations with public sector clients.

Vienna
This segment comprises results from business activities in the additional market of Vienna and covers all branch segments.

Italy
This segment illustrates the results from business activities in Italy including leasing transactions.

Treasury
This segment includes financial assets, trading assets and liabilities, derivatives and issue businesses. In addition, it covers business relations with institutional clients and fund management operations. As far as the fiscal year 2016 is concerned, the results from financial assets included impairment amounting to kEUR 277 (2015: kEUR 960). For detailed information regarding the geographical composition of the securities portfolio please see note (94).

Leasing and Real Estate
In this segment, subsidiaries acting in the leasing sector are described. Furthermore, activities in the field of real estate and participating interest management are presented, as well as results from associated companies, which are balanced according to the equity method. The balance sheet items "long-term assets and disposal groups, held for sale" accounting for kEUR 9,611 (2015: kEUR 35,678) is entirely recorded in the segment of leasing and real estate.

Corporate Centre
This segment illustrates income and expenses that cannot be classified elsewhere as well as consolidation items for eliminating the corporate group's internal profits and expenses. Internal support unit expenses are assigned to the profit generating segments via appropriate distribution keys.

Administration expenses included depreciation on owner-occupied assets in the amount of kEUR 795 (2015: kEUR 930). Tax on income and profit in 2016 amounted to kEUR -10,274 (2015: kEUR -9,372).

In compliance with the management approach, the disclosed segments correspond to the business sectors in accordance with the internal profit and loss account.

Trading result, result from hedging instruments and result from financial instruments – designated at fair value through profit or loss are illustrated separately in the consolidated profit and loss account. In the segmental report these items are all illustrated under “trading result”.

Report by business type

2016	Private clients Tyrol	Corporate Key Account Tyrol	Vienna	Italy	Treasury	Leasing and real estate	Corporate centre	Total segments
in kEUR								
Net interest income	27,564	30,110	5,917	5,496	1,319	12,680	2,473	**85,559**
Credit risk provision	-2,750	5,451	-561	-14,723	0	175	31,133	**18,725**
Net commission income	16,393	7,600	1,791	1,561	91	-623	-475	**26,338**
Trading result	0	0	0	509	-776	0	0	**-267**
Result from other financial instruments	0	0	0	0	2,994	-2,218	-130	**646**
Result from associated companies	0	0	0	0	0	238	0	**238**
Administration expenses	-36,865	-14,926	-3,652	-11,948	-8,594	-3,627	5,571	**-74,041**
Other income	2,104	601	0	5,016	641	13,252	321	**21,935**
Other expenses	-277	-630	0	-5,327	0	-11,054	-23,583	**-40,871**
Result prior to taxation	**6,169**	**28,206**	**3,495**	**-19,416**	**-4,325**	**8,823**	**15,310**	**38,262**
Segmental assets	1,604,249	2,460,614	350,584	571,641	1,989,341	450,915	204,828	**7,632,172**
Segmental debts and segmental equity	1,602,015	1,092,400	164,594	135,906	4,328,420	99,888	208,949	**7,632,172**
Risk-adjusted assets	757,937	1,446,921	205,621	526,154	278,089	335,547	134,786	**3,685,055**

2015 adjusted

in kEUR	Private clients Tyrol	Corporate Key Account Tyrol	Vienna	Italy	Treasury	Leasing and real estate	Corporate centre	Total segments
Net interest income	26,263	29,753	5,105	9,559	14,164	7,970	3,480	**96,294**
Credit risk provision	-3,914	-8,484	179	-14,844	0	667	0	**-26,396**
Net commission income	17,158	7,146	1,312	2,270	326	-455	-777	**26,980**
Trading result	0	0	0	465	3,440	0	0	**3,905**
Result from other financial instruments	0	0	0	0	5,321	154	0	**5,475**
Result from associated companies	0	0	0	0	0	-803	0	**-803**
Administration expenses	-36,675	-16,084	-3,283	-12,560	-9,291	-4,329	2,661	**-79,561**
Other income	2,158	70	0	2,439	0	16,192	6,991	**27,850**
Other expenses	-285	-83	0	-5,901	0	-14,858	-12,374	**-33,501**
Operative result prior to change of own credit risk	**4,705**	**12,318**	**3,313**	**-18,572**	**13,960**	**4,538**	**-19**	**20,243**
Result from change of own credit risk							47,046	**47,046**
Result prior to taxation	**4,705**	**12,318**	**3,313**	**-18,572**	**13,960**	**4,538**	**47,027**	**67,289**
Segmental assets	1,245,778	2,345,423	319,479	776,208	1,925,941	603,972	285,007	**7,501,810**
Segmental debts and segmental equity	1,414,962	841,810	121,793	123,332	4,677,437	95,552	226,923	**7,501,810**
Risk-adjusted assets	747,853	1,475,588	202,255	597,945	294,453	455,356	156,524	**3,929,976**

Report by region

The regional report represents voluntarily provided additional information; it does not refer to operating segments in accordance with IFRS 8.

2016

in kEUR	Austria	Italy	Corporate Centre	Total segments
Net interest income	77,590	5,496	2,473	**85,559**
Credit risk provision	2,315	-14,723	31,133	**18,725**
Net commission income	25,252	1,561	-475	**26,338**
Trading result	-776	509	0	**-267**
Result from other financial instruments	776	0	-130	**646**
Result from associated companies	238	0	0	**238**
Administration expenses	-67,664	-11,948	5,571	**-74,041**
Other income	16,598	5,016	321	**21,935**
Other expenses	-11,961	-5,327	-23,583	**-40,871**
Result prior to taxation	**42,368**	**-19,416**	**15,310**	**38,262**

2015 adjusted

in kEUR	Austria	Italy	Corporate Centre	Total segments
Net interest income	83,255	9,559	3,480	**96,294**
Credit risk provision	-11,552	-14,844	0	**-26,396**
Net commission income	25,487	2,270	-777	**26,980**
Trading result	3,440	465	0	**3,905**
Result from other financial instruments	5,475	0	0	**5,475**
Result from associated companies	-803	0	0	**-803**
Administration expenses	-69,662	-12,560	2,661	**-79,561**
Other income	18,420	2,439	6,991	**27,850**
Other expenses	-15,226	-5,901	-12,374	**-33,501**
Operative result prior to change of own credit risk	**38,834**	**-18,572**	**-19**	**20,243**
Result from change of own credit risk			47,046	**47,046**
Result prior to taxation	**38,834**	**-18,572**	**47,027**	**67,289**

(90) Foreign Currency Volume and Foreign Countries Involved

in kEUR	EUR	USD	CHF	JPY	Others	Total
Assets 2016						
Cash reserves	276,690	375	393	12	190	277,660
Receivables from credit institutions	145,306	15,610	32,519	8,227	5,440	207,102
Risk provision for receivables from credit institution	0	0	0	0	0	0
Receivables from resolution unit former credit institution	0	0	0	0	0	0
Risk provision for receivables from resolution unit former credit institution	0	0	0	0	0	0
Receivables from clients	4,936,174	172	416,055	35,847	0	5,388,248
Risk provision for receivables from clients	-173,099	0	-1,522	-33	0	-174,654
Positive market values from derivative hedging instruments	10,864	0	0	0	0	10,864
Trading assets and derivatives	136,638	2,583	6,072	7,541	157	152,991
Financial assets						
– designated at fair value	729,292	0	4,762	0	0	734,054
– AFS	807,493	3,985	269	0	247	811,994
– HTM	35,335	0	0	0	0	35,335
– L&R	2,102	0	0	0	749	2,851
Shares in associated companies	9,876	0	0	0	0	9,876
Investment properties	73,742	0	0	0	0	73,742
Intangible assets	1,849	0	0	0	0	1,849
Tangible assets	58,543	0	0	0	0	58,543
Other assets	24,265	0	0	0	0	24,265
Non-current assets and disposal groups held for sale	9,611	0	0	0	0	9,611
Deferred tax assets	7,841	0	0	0	0	7,841
Total assets	**7,092,522**	**22,725**	**458,548**	**51,594**	**6,783**	**7,632,172**
Liabilities and equity 2016						
Liabilities to credit institutions	163,432	3,891	13,395	311	998	182,027
Liabilities to clients	3,401,847	15,024	3,197	49,231	4,777	3,474,076
Liabilities evidenced by certificate	1,636,815	0	0	0	0	1,636,815
Negative market values from derivative hedging instruments	7,344	0	0	0	0	7,344
Derivatives	122,167	2,896	4,432	82	7	129,584
Financial liabilities						
– designated at fair value	1,102,386	0	199,516	128,571	0	1,430,473
Provisions	46,774	0	0	0	0	46,774
Other liabilities	72,696	0	0	0	0	72,696
Liabilities in disposal groups held for sale	0	0	0	0	0	0
Current income tax obligations	2,383	0	0	0	0	2,383
Deferred tax obligations	1,406	0	0	0	0	1,406
Subordinate and supplementary capital	103,144	0	0	0	0	103,144
Equity	545,450	0	0	0	0	545,450
Total liabilities and equity	**7,205,844**	**21,811**	**220,540**	**178,195**	**5,782**	**7,632,172**

in kEUR	EUR	USD	CHF	JPY	Others	Total
Assets 2015 adjusted						
Cash reserves	120,127	308	432	14	223	121,104
Receivables from credit institutions	60,795	16,229	16,755	2,384	4,693	100,856
Risk provision for receivables from credit institution	0	0	0	0	0	0
Receivables from resolution unit former credit institution	78,205	0	5,747	0	0	83,952
Risk provision for receivables from resolution unit former credit institution	-19,551	0	-1,437	0	0	-20,988
Receivables from clients	4,957,657	4,442	536,742	27,384	100	5,526,325
Risk provision for receivables from clients	-234,189	-1	-2,195	-249	0	-236,634
Positive market values from derivative hedging instruments	4,094	0	0	0	0	4,094
Trading assets and derivatives	185,326	4,895	17,658	6,445	36	214,360
Financial assets						0
– designated at fair value	711,274	9,161	16,058	0	0	736,493
– AFS	657,713	5,156	178	0	421	663,468
– HTM	76,932	0	0	0	0	76,932
– L&R	3,446	0	0	0	1,307	4,753
Shares in associated companies	9,777	0	0	0	0	9,777
Investment properties	88,540	0	0	0	0	88,540
Intangible assets	1,441	0	0	0	0	1,441
Tangible assets	68,737	0	0	0	0	68,737
Other assets	15,501	0	0	0	0	15,501
Non-current assets and disposal groups held for sale	35,678	0	0	0	0	35,678
Deferred tax assets	7,421	0	0	0	0	7,421
Total assets	**6,828,924**	**40,190**	**589,938**	**35,978**	**6,780**	**7,501,810**
Liabilities and equity 2015						
Liabilities to credit institutions	549,292	286	59,521	2,671	7,899	619,669
Liabilities to clients	2,827,266	17,619	2,853	45,818	5,205	2,898,761
Liabilities evidenced by certificate	1,112,690	0	0	0	0	1,112,690
Negative market values from derivative hedging instruments	11,593	0	0	0	0	11,593
Derivatives	147,663	3,767	3,770	119	202	155,521
Financial liabilities						0
– designated at fair value	1,424,819	46,853	260,258	178,061	0	1,909,991
Provisions	59,957	0	0	0	0	59,957
Other liabilities	67,354	0	0	0	0	67,354
Liabilities in disposal groups held for sale	2,168	0	0	0	0	2,168
Current income tax obligations	1,153	0	0	0	0	1,153
Deferred tax obligations	1,964	0	0	0	0	1,964
Subordinate and supplementary capital	102,670	0	0	0	0	102,670
Equity	558,319	0	0	0	0	558,319
Total liabilities and equity	**6,866,908**	**68,525**	**326,402**	**226,669**	**13,306**	**7,501,810**

The difference between assets and liabilities in the single currencies does not reflect the open foreign currency position of the banking group. Open foreign currency positions are hedged on the basis of derivative financial instruments such as currency swaps or cross currency swaps. Such hedges are shown In the IFRS balance, but not with the nominal value but with the market value.

The result from currency translation amounted to a total of kEUR 2,146 (2015: kEUR 6,065). In the profit or loss for the period kEUR 2,107 (2015: kEUR 5,548) were recorded and kEUR 39 (2015: kEUR 517) in other income. The accumulative balance in equity capital accounted for kEUR 585 (2015: kEUR 853).

On 31 December 2016, the total of open foreign currency positions amounted to kEUR 480 (2015: kEUR 3,954).

in kEUR	2016	2015
Foreign assets	1,657,229	1,759,734
Foreign liabilities	1,691,946	2,362,993

(91) Subordinate Assets

in kEUR	2016	2015
Receivables from credit institutions	0	0
Debt securities	0	0
Subordinate assets	**0**	**0**

(92) Trust Transactions

Trust assets

in kEUR	2016	2015
Receivables from clients	29,931	16,462
Trust assets	**29,931**	**16,462**

Trust liabilities

in kEUR	2016	2015
Liabilities to credit institutions	29,931	16,462
Liabilities to clients	0	0
Trust liabilities	**29,931**	**16,462**

The designated trust transaction are export funds or ERP funds for which Hypo Tirol Bank AG has taken contingent liability against these institutions and has therefore included the respective assets and liabilities in its accounts in accordance with economical perspectives.

(93) Contingent Liabilities and Credit Risks

Contingent liabilities

in kEUR	2016	2015
Liabilities from debt guarantees	57,336	49,800
Other contingent liabilities	52,423	38,089
Contingent liabilities	**109,759**	**87,889**

Contingent liabilities by maturity

in kEUR	2016	2015
Up to 3 months	455	827
3 months to 1 year	85,791	69,342
1 year to 5 years	16,471	14,885
More than 5 years	7,042	2,835
Contingent liabilities	**109,759**	**87,889**

Credit risks pursuant to Banking Act article 51 section 14

in kEUR	2016	2015
Other credit risks	895,322	1,016,272
credit risks	**895,322**	**1,016,272**

Credit risks by maturity

in kEUR	2016	2015
3 months to 1 year	410,300	532,162
1 year to 5 years	485,022	484,110
Credit risks	**895,322**	**1,016,272**

These credit risks include loans which have been granted but not yet been used by clients; this primarily includes promissory notes in loan business, but also unused credit lines.

In addition to contingent liabilities described above, the following contingent liabilities exist:

- Liabilities resulting from the mandatory membership of the deposit protection company "Hypo-Haftungs-Gesellschaft m.b.H. "according to Deposit Insurance Act, article 8.

Pursuant to Deposit Insurance Act article 8, section 1, Hypo Tirol Bank AG as CRR institution headquartered in Austria belongs to the insurance institution in compliance with Deposit Insurance Act article 1, no 1t. Due to transitional provisions in relation to Deposit insurance Act, article 59, no. 3, Hypo-Haftungs-GmbH – member of the professional association of the regional mortgage banks – will act as insurance institution until 31 December 2018. Each insurance institution shall establish a deposit insurance fund comprising available financial means in the amount of at least 0.8% of the total of all covered deposits made by the member institutions. The membership contribution corresponds to the amount of all covered deposits based on pre-arranged risk factors (risk-based contribution calculation). As far as the 2016 fiscal year is concerned, the contribution amounted to kEUR 85, in case financial means are not sufficiently available in order to cover claims. Hypo-Haftungs-GmbH shall be liable to levy special contributions from its member institutions. In compliance with Deposit Insurance Act article 22 (1), such special contributions may amount to an annual maximum of 0.5% of all covered deposits.

On 1 January 2019 the task of sectoral insurance institutions will be passed on to insurance institution, which will have to be established by the Austrian Chamber of Commerce. In addition, the tasks of the insurance institution of the professional association of credit institutions will also be transferred at that time.

– Liability in relation to liabilities of the "Mortgage Bond Division of the Austrian Regional Mortgage Banks"

Hypo Tirol Bank AG shall be liable as a member institution of the Mortgage Bond Division of the Austrian regional mortgage banks in compliance with the Mortgage Bond Division Act, article 2, section 1 jointly with all other member institutions for all liabilities of the Mortgage Bond Division. Such liability applies equally to all other member institutions and their universal succession as stated in article 1, section 2 of the articles of association of the Mortgage Bond Division. Regarding liabilities of the Mortgage Bond Division, which accrued before 2 April 2003 or after 2 April 2003 until 1 April 2007 with a term not exceeding 30 September 2017, the guarantors of the member institutions shall also be liable jointly in accordance with the Mortgage Bond Division Act article 2, section 2 (respective province). Pursuant to the auditor's report of the Mortgage Bond Division the liabilities of the guarantors at the balance sheet date accounted for kEUR 1,929,509 (2015: kEUR 3,343,912). This corresponds approximately to the total sum of liabilities of the Mortgage Bond Division until 31 December 2016. In consideration of financial means borrowed by the Mortgage Bond Division and forwarded to Hypo Tirol Bank AG in the amount of kEUR 15,293 (2015: kEUR 118,601) which were evaluated according to IFRS, the result to be recorded in compliance with the Austrian Company Code article 237 Z 8a accounted for kEUR 1,914,216 (2015: kEUR 3,225,311). It shall be stated that on 15 January 2015, all business operations carried out the Mortgage Bond Division were transferred to Pfandbriefbank (Österreich) AG on a retrospective basis (key date 31 December 2013). Pfandbriefstelle is the sole shareholder of Pfandbriefbank (Österreich) AG.

For further details regarding debenture bonds and promissory note bonds issued by the mortgage bon bank the group refers to section VII participating interest IFRS 12.24 data regarding shares in non-consolidated structured companies.

(94) Structuring of Financial Instruments According to Issuing Country

The following list of financial instruments by issuing country was established on accounting value basis:

	Available for Sale		Loans & Receivables		Held to Maturity	
in kEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Austria	252,440	218,568	0	0	16,360	17,536
Germany	152,133	99,288	0	0	0	0
Italy	0	0	525	603	0	0
Spain	3,535	0	1,140	1,337	0	12,998
Netherlands	27,450	27,207	0	1,018	4,999	10,998
Great Britain	22,495	20,523	1,110	1,692	0	0
France	19,795	12,961	0	0	4,998	9,994
Finland	21,643	20,076	0	0	0	0
Ireland	5,388	5,901	77	99	0	0
Portugal	27,698	0	0	0	0	0
Sweden	27,490	32,497	0	0	4,985	0
Remaining EU countries	91,003	73,509	0	0	2,994	15,891
Remaining European countries	45,228	24,295	0	0	0	0
Outside Europe	46,521	53,688	0	0	1	8,001
Total accounting value	**742,819**	**588,513**	**2,852**	**4,749**	**34,337**	**75,418**

(95) Genuine Repos

The accounting value of retired securities designated in the balance sheet item “financial assets – held to maturity and “financial assets – designated at fair value” amounted to kEUR 0 (2015: kEUR 172,932). The inflow of liquidity from such repos is shown in “liabilities to credit institutions” and amounted to kEUR 0 (2015: TEUR 159,068).

(96) Personnel

Full-time equivalent

in kEUR	2016	2015
Full-time employees	405	400
Part-time employees	100	101
Apprentices	14	12
Employees	**519**	**513**

(97) Events That Occurred After the Balance Sheet Date

No special events with substantial influence on the assets, the financial position and the profit situation of the corporate group occurred between the end of the fiscal year and the preparation of the consolidated financial statements. With regard to such events we refer to the information provided in the consolidated financial report.

(98) Consolidated Equity and Supervisory Requirements in relation to Equity

For detailed information regarding capital control please see notes on financial risks and risk management (risk control p. 84).

Based on regulation (EU) No. 575/2013 (Capital Requirements Regulations – CRR) and the directive regarding the access to activities of credit institutions (Capital Requirements Directive 4 – CRD IV) consolidated equity capital and consolidates supervisory equity capital requirements shall be determined pursuant to IFRS, but based on the consolidation circle, commending in 2014. Within HYPO TIROL BANK AG the supervisory consolidation circle corresponds to the consolidation circle in compliance with IFRS.

Consolidated equity according to CRR/CRD IV

in kEUR	2016 CRR/CRD IV	2015 CRR/CRD IV
Subscribed capital	50,000	50,000
Reserves, differences, minority interests	480,803	501,953
Supervisory adjustments items acc. to art. 32 et seqq (prudential filter)	-24,251	-70,479
Intangible assets	-1,849	-1,441
Common equity	504,703	480,033
Additional capital	0	0
Core capital (Tier I)	**504,703**	**480,033**
Deductions due to interests acc. to art. 36 and art. 89 CRR	0	0
Accountable core capital	**504,703**	**480,033**
Capital instruments paid and subordinate loans	70,467	89,725
Supplementary equity, subordinate capital (tier II)	**70,467**	**89,725**
Deductions due to interests acc. to art. 66 CRR (own interests supplementary capital)	-8,260	-7,627
Accountable supplementary equity (less deductions)	**62,207**	**82,098**
Total accountable equity	**566,910**	**562,130**
Required equity	**294,804**	**314,398**
Equity surplus	**272,106**	**247,732**
Core capital rate in % acc. to CRR/CRD IV on the basis of total equity capital requirements	13,70%	12,21%
Equity rate in % acc. to CRR/CRD IV on the basis of total equity capital requirements	15,38%	14,30%

Required equity according to CRR/CRD IV

Categories of receivables	Risk adjusted assets	Required Equity CRR/CRD IV	Required Equity CRR/CRD IV
in kEUR		**2016**	**2015**
Receivables from central states	20,499	1,640	1,857
Receivables from regional administrative bodies	4,105	328	1,251
Receivables from public institutions	17,588	1,407	82
High risk receivables	13,465	1,077	1,525
Receivables from institutions	107,225	8,578	8,303
Receivables from companies	1,171,630	93,730	105,898
Retail-receivables	354,833	28,387	24,620
Receivables secured by real estate	1,005,184	80,415	78,815
Overdue receivables	320,397	25,632	30,970
Receivables in terms of covered debt securities	38,413	3,073	2,903
Securitisation items	1,059	85	246
Receivables in terms of investment fund shares	23,266	1,861	1,926
Participating interest items	45,760	3,661	3,678
Other items	317,062	25,365	32,083
Risk adjusted assets	**3,440,486**	**275,239**	**294,157**
Required equity for operational risk		18,055	18,620
CVA-Charge		1,511	1,621
Total required equity		**294,805**	**314,398**

Financial Risks and Risk Management

Risk Management

Hypo Tirol Bank AG considers appropriate risk management an essential success factor for the sustainable and positive development of the company. It corresponds to the requirements of ICAAP (Internal Capital Adequacy Assessment Process) as well as ILAAP (Internal Liquidity Adequacy Assessment Process). The risk management process, which refers to the entire group, is defined as a specialized, systematic and steady business process including the following stages:

- Identification
- Evaluation
- Monitoring
- Active controlling
- Internal reporting system

The objective of internal risk management processes is to safeguard appropriate risk capacity which corresponds to the risk appetite. In this context, the following major risks are considered:

Risks
Credit risk incl. CCR
Market risk Interest rate risk, Price risk, Foreign currency risk, Credit value adjustment, Alternative Investments, Credit spread risk
Liquidity risk
Macroeconomic risk From credit risk incl. risk reducing measures, Market risk, Liquidity risk
Operational risk
Risk from other assets
Risk capital from participating interest relevant to the group strategy
Risk buffer Model risk & quality of data, Concentration risk

The overall risk within Hypo Tirol Bank AG, which is composed of identified major risks, is defined as the total of single risks and is compared with risk capacity (available financial resources). The limits for single risks and risk capacity are determined by the managing board and monitored on a monthly basis. In terms of active risk control, appropriate measures are taken if applicable.

Credit Risk and Counter Party Credit Risk

Definition
Hypo Tirol Bank AG defines credit risks as default risks arising out of non-securitized receivables and securitised receivables from third parties. The risks comprise receivables for Hypo Tirol Bank, which will not be paid as stated in the terms of the contract, i.e. amount, time. Credit risks may also result from specific forms of product design or from the application of measures to minimize credit risks. In the context of quantifying credit risk, counter party credit risk (CCR) is also considered.

Credit risk control
Credit risks (default risks) are controlled by credit risk management, which assesses the financial recovery and operation of the non-performing loans portfolio.

Division of the portfolio by creditworthiness
The evaluation of creditworthiness of our debtors is essential for controlling credit risk. For that reason, the creditworthiness of our clients is continuously monitored and the composition of the portfolio is evaluated on a quarterly basis. More than 2/3 of the volume of receivables can be assigned to the upper creditworthiness segment with outstanding creditworthiness and good creditworthiness. The proportion in these rating groups has slightly increased compared to the previous year [see note (59)] – risk provision in relation to receivables from credit institutions and clients – in which loan quality is illustrated by means of internal rating classes.

Non-performing loans could be further decreased by managing the portfolio in consistent, sustainable and active manner; therefore, the non-performing loans ratio developed positively in comparison to the previous year.

Division of the portfolio by branches
Hypo Tirol Bank AG remains to be strongly represented in the "industrial construction companies" branch and in the "tourism industry". In these branches we provide the best of our knowledge. Based on the large concentrations in these sectors, the respective segments are especially monitored via risk indicators – see illustration "receivables from clients by business type" note (58) and the development of risk provision in relation to receivables from clients by business type note (59).

Division of the portfolio by market regions
In the 2016 fiscal year, Hypo Tirol Bank AG continued to focus on the core market that is to say the Tyrol, the South Tyrol and Vienna. By doing so, it succeeded in maintaining the high level of 2015 in the Tyrol core market and in reducing further risk positions outside the defined core market. The development is illustrated under note (59) risk provision in relation to receivables from clients by region.

Foreign currency proportion – receivables from clients
In 2016, foreign currency volume was further reduced. Due to the specifications defined in our foreign currency strategies, no new transactions in foreign currency with private clients or to a very restricted extent with corporate clients is intended. Top priority is given to the further and consistent reduction of foreign currency volume. The illustration of foreign currency volumes divided by balance sheet item can be found under note (90).

Development of repayment vehicle loans
The strategy of Hypo Tirol Bank AG to continuously reduce the portfolio of repayment vehicle loans will be further pursued. In other words, no new capital building repayment vehicle loans or transfers to loans with regular payments where applicable will be granted. The concerned clients and their account managers will be regularly informed about the situation regarding their repayment vehicle loans and appropriate measures will be taken, if necessary.

Development of the Nostro securities portfolio
In 2016, Nostro securities were also reduced by EUR 100 million. In consideration of Basel III, new investments are primarily made

in highly liquid assets. For further information regarding the development of Nostro securities (divided by evaluation criteria) please see notes (62), 63), (64) and (65).

Collateral
Real estate collateral represents the most important type of collateral within Hypo Tirol Bank AG. It is evaluated in compliance with the defined corporate standards and used in accordance with the existing catalogue in order to secure credit exposures. A respective monitoring process, which is carried out by an independent institution, was established to ensure recoverability. The high quality of mortgage cover funds is also reflected by the external rating (Aa2 according to Moody's).

Risk Provision Policy

Risk provision includes the setup of risk provision in the balance sheet, with the explanations under note (19) being applied. The single components are assessed regarding their recoverability. In case impairments are detected, specific allowances in the corresponding amounts are made.
In order to identify risk potentials in credit business at an early stage, an early warning procedure is required to detect risks. In this way, countermeasures can be taken as soon as possible. Based on qualitative and quantitative risk criteria, the bank has developed indicators, defined as early warning system, which allow premature identification of risks.

Risk provision policy also includes the managing of overdue receivables. For further details see note (59) analysis of receivables – overdue – no allowance.

In addition, credits with contractual adaptations which shall be understood as forbearance measures (concessions in relation to credit terms in order to prevent impairment) regarding an active risk provision policy. Such concessions for clients suffering financial difficulties are illustrated under note (59).

Non-Performing Loans (NPL)

Within Hypo Tirol Bank AG non-performing loans include loans in default in the supervisory category of receivables and restructuring and operating cases. Due to the events that occurred in Italy in the past years, Hypo Tirol Bank AG has a high NPL-ratio within the corporate group. In 2016, the consistent management of the portfolio allowed strong reduction. At the key date (31 December 2015), the NPL rate amounted to 9.8% (corporate group without IT 3.7 % and IT 44.7 %.). At the key date (31 December 2016) it amounted to 7.6 % (corporate group without IT 2.4 % and IT 42.7 %). The further continuous reduction is one of the major objectives for Hypo Tirol Bank AG.

Market Risk and Interest Rate Risk

Definition

Hypo Tirol Bank AG describes market risk as the danger of losses which result from changes in market prices. Market risks are divided in interest rate risk, price risk, and foreign currency risk. Other risks, which are included in market risk within Hypo Tirol Bank AG, are alternative investment risk credit spread risk and credit value adjustment (CVA).

Interest risk covers Interest rate refixing risk, base risk, option risk and interest curve risk.

Market Risk Control
Market risk control is managed by the treasury department. In this context special attention is given to a balanced asset/liability management in consideration of the resulting impact on the financial statement in accordance with the Austrian Commercial Code and IFRS.
Especially regarding interest rate risk, a risk report is evaluated beyond the evaluation perspective (net interest income, NII).

Plus-200 Base Points of Interest Rate Shock

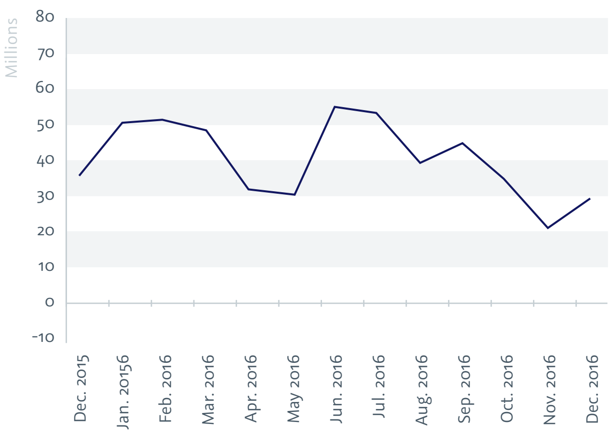
Regarding the cash value of the bank, the change is calculated on the basis of the assumption of a movement of 200 base points upwards or downwards in the interest rate curve. The non-interestsensitive components of equity have not been considered.

In 2016, the risk value under the upwards shock hovered round a medium value EUR 40.4 million Euro with a maximums of EUR 54.5 million and a minimum of ER 20.7 million In comparison to the previous year, risk values increased due to the low and partially negative interest level. Implicit floors in form of interest rate limits for loans and credits have been considered in risk evaluation and might lead to high risk of loss in the context of a plus-200 base points of interest rate shock scenario.

The result of stress tests in the entire business year was clearly below the threshold in the amount of 20% of equity defined by the banking supervision.

in kEUR	2016-12-31	2015-12-31
Plus-200 BP of interest shock	28,932	35,188
Annual average	40,388	23,901
Annual maximum	54,466	43,516
Annual minimum	20,732	-7,465

Development Plus-200-Base Points of Interest Rate Shock



Besides the 200 base point interest shock, other interest scenarios, such as the rate curve inverting and bulging out are considered.

Scenario Analyses for Market Risks
Hypo Tirol Bank AG simulates market risks throughout the corporate group and considers them in the context of different scenarios. The impact on the profit and loss account shows the following result (confidence rate 90%):

Impact on profit and loss account

in kEUR	2016-12-31	2015-12-31
Interest change risk	1,284	1,712
Share price risk	68	146
Credit spread risk	1,116	5,758
Foreign currency risk	2	23

Liquidity Risk

Definition
Insolvency risk is the risk that current or future payments cannot be made or made in full, or in a timely manner or cannot be made without having to suffer unacceptably high losses. Liquidity risk distinguishes between short-term liquidity risk (up to one year) and long-term refinancing risk (more than one year).

Liquidity Risk Control
Within Hypo Tirol Bank AG short-term liquidity risk is quantified and monitored on the basis of the key figures of liquidity coverage potential and the supervisory key figures of liquidity coverage ratio. The LCR outlook is integrated into liquidity risk management as an early warning instrument. In addition, LCR, liquidity buffer and liquidity sensitive products are monitored on a daily basis by means of the liquidity risk data board. Refinancing risk is quantified via structural liquidity risk and the supervisory key figure of net stable funding ratio (NSERG) and monitored via a refinancing monitoring system. Within Hypo Tirol Bank AG, liquidity control is managed by the treasury department.

Maturity analysis of undiscounted contractual cash flows of financial liabilities

in million €	Contractual cash flows	< 3 months	3-12 months	1-5 years	> 5 years
Liabilities to credit institutions	102	25	63	14	1
Liabilities to clients	2,849	2,128	180	541	0
Liabilities evidenced by certificate	3,288	351	941	1,586	409
Promissory note loans	649	177	345	0	127
Derivative liabilities[1]	55	0	0	55	0
Other liabilities	66	5	0	0	60
Total[2]	**7,008**	**2,686**	**1,529**	**2,196**	**597**

[1] Derivative financial liabilities are net-liabilities from derivatives.
[2] The amounts illustrated in the chart above do not correspond to the amounts illustrated in the consolidated balance sheet, as they represent undiscounted cash flows.

Operational Risk

Definition
Within Hypo Tirol Bank AG operational risk is defined as the risk of loss caused by the inappropriateness or failure of internal procedures, individuals, systems or external events. Strategic risks and reputation risks including legal risks are not included.

Operational risk control

The following instruments are employed to control operational risks:
- Organisational structure
- Damage date base
- Risk inventories (self-assessment)
- OP-risk learning programme

The use of these tools ensures a comprehensive control of operational risks within Hypo Tirol Bank AG. In addition, the following methods are applied to minimise operational risks:

- Internal control systems
- Clearly documented internal guidelines ("instructions")
- Allocation and limitation of decision making competences
- Separation of functions ("four eyes principle") for essential risk-relevant processes
- Continuous assurance and improvement of employee's skills in the context of vocational education and training (human resource development)
- Employment of modern technologies
- Risk insurance

Real Estate and Participation Risk

Definition

Real estate risk within Hypo Tirol Tank AG is the risk that prices of real estate change and consequently lead to a negative result in the profit and loss account (risk of vacancies, loss of rent, and deterioration of profit/cost relation). The risk in relation to property participation is added to real estate risk ("at equity"). Participation risk within Hypo Tirol Bank AG is the risk of loss resulting from financing by mans of equity capital (private equity) and/or borrowed capital (in connection with credit risk). In addition, Hypo Tirol Bank AG also includes the risk of loss resulting from market-evaluated participations (listed shares) and their price changes (in connection with market risk).

Excessive Debt Risk

Definition

In accordance with CRR section 429, the debt quota is defined as the quotient from the measured quantity of capital of an institution and its overall risk position quantity, whereas the measured quantity of capital represents core capital.

Debt quota Control

The debt quota is automatically evaluated on the basis of CRR section 429 in the general data processing centre. In the context of the financial statements, control is carried out via the analysis of different scenarios.

Macro-economic Risk

Definition

Macro-economic risks are loss potentials resulting from exposure against macro-economic risk factors. Risk factors are i.e. unemployment rate, GDP development, etc., and their respective impact on different business sectors of the bank. Hypo Tirol Bank AG assumes that risks from macro-economic environment are substantially reflected in the following:

- Currency risk
- Possibility of default on the part of the clients
- Recoverability of credit collaterals
- Market volatilities

In order to determine risk values for macro-economic risks, these parameters are stressed and additional unexpected losses are calculated in the context of this scenario.

Risk from other assets

Definition

Risks from other assets are values that do not have substantial influence on the amount of the assets in the balance sheet and that cannot be assigned to any other balance sheet item. Any change or default imposes a risk for Hypo Tirol Bank AG. They include accruals and deferrals of derivatives pre-paid liability fees, deposits for leasing objects.

Risk Management Organisation
The Managing Board determines the overall risk strategy, the specified risk appetite, the risk limits and the risk manual of Hypo Tirol Bank AG, which documents on the risk management process. Hence, the strategy is concluded by the supervisory board. The managing board informs the supervisory board and the risk committee of the corporate group's risk situation in appropriate manner. Within the corporate management board the chairman who is responsible for business transactions takes the responsibility for the further development of risk management and takes the leading position in the context of strategic risk management. Strategic risk management (SRM) shall report to the general managing board.
The risk management executive department is responsible for the development and the continuous improvement process of risk management systems. It identifies, qualifies, monitors and controls major risks and risk covering potential. In addition, proposals regarding risk and portfolio control are made and monitoring is conducted on the basis of defined internal reports (risk positions, limits, and events). In the event that limits are exceeded the executive department has the obligation to provide the respective information in a timely manner (ad-hoc report) and to propose counteracting measures accordingly. While risk management in production units is basically performed on the single item level SRM deals with risk management on portfolio level.
The central internal committee, which is responsible for active bank-wide management, organises the bank-wide management meeting on a monthly basis. The members of this committee are the general managing board, the head of the treasury department, the head of the accounting & controlling department, the deputy head of the accounting & controlling department, the head of the audit executive department as well as the head of the strategic risk management executive department.
The supervisory board, respectively its subcommittee (risk com-

mittee) is responsible for the regular monitoring of the corporate management and the evaluation of the risk management system operated by Hypo Tirol Bank AG.
This monitoring process is safeguarded by the following reports:

- Risk report - corporate group
- Risk report - Italy
- Special subjects concerning the audit committee
- Report within the audit committee via strategic risk management representatives

Procedure for quantifying risks and risk cover potentials

Typo of risk/parameter	Going concern view	Liquidation view
Confidence level	95%	99,9%
Period of observation	1 year	1 year
Credit risk: classic credit risk	Modell strongly complies with IRB approach of CRR	Modell strongly complies with IRB approach of CRR
Credit risk: counter party credit risk	Values of liquidation view are scaled to confidence level	Risk value from pillar I for CCR and CVA
Marktrisiko: Zinsänderungsrisiko Wertpapierkursrisiko Fremdwährungsrisiko	Historical value at risk	Historical value at risk
Market risk: Credit spread risk	Historical value at risk by using key figures	Historical value at risk by using key figures
Market risk: Alternative risk	Simulation	Simulation
Liquidity risk	Increased refinancing under spread shock	Increased refinancing under spread shock
Macroeconomic risk	Stress tests on components of credit, market and liquidity risk	Stress tests on components of credit, market and liquidity risk
Operational risk	Values of liquidation view are scaled to confidence level	Risk values from pillar I (base indicator approach)
Risk from other assets	Values of liquidation view are scaled to confidence level	Risk values from pillar I (risk weight approach)
Risk capital from corporate participation	Mixed approaches: IRB approach, risk weight approach	Mixed approaches: IRB approach, risk weight approach
Risk buffer Modell risk & data quality Concentration risk	Historical empirical data, simulations, minimum value	Historical empirical data, simulations, minimum value

Risk Report

Risk capacity
The quantification of risks and risk cover potentials is carried out on the basis of the going concern view and the liquidation view. Monthly reports are presented in the bank-wide management meeting.

Going concern view

Economic capital in %	2016-12-31	2015-12-31
Credit risk	17.3 %	20.2 %
Market risk	15.7 %	13.9 %
Liquidity risk	5.1 %	7.8 %
Macro-economic risk	3.7 %	2.1 %
Operational risk	4.5 %	4.5 %
Risk from other assets	3.8 %	5.0 %
Risk capital from corporate participation	1.3 %	1.7 %
Risk buffer for non-evaluated risks and model weaknesses	2.7 %	2.8 %
Economic risk total	54.1 %	58.1 %
Risk cover potential	**100.0 %**	**100.0 %**
Available cover assets	**45.9 %**	**41.9 %**

Liquidation view

Economic capital in %	2016-12-31	2015-12-31
Credit risk	31.5 %	36.0 %
Market risk	13.7 %	16.0 %
Liquidity risk	3.8 %	6.0 %
Macro-economic risk	8.0 %	4.8 %
Operational risk	3.3 %	3.4 %
Risk from other assets	2.9 %	3.8 %
Risk capital from corporate participation	2.5 %	3.6 %
Risk buffer for non-evaluated risks and model weaknesses	2.7 %	3.7 %
Economic risk total	68.4 %	77.2 %
Risk cover potential	**100.0 %**	**100.0 %**
Available cover assets	**31.6 %**	**22.8 %**

Short-term Liquidity Risk
Short-term liquidity risk is quantified and monitored within one day (intraday liquidity) but also via the daily liquidity dashboard.

Stress Test Results
The analyses relating to ordinary business activities are complemented by stress tests, sensitivity analyses and reverse stress tests. The results of bank-wide stress tests are reported to the supervisory board and to the members of the risk committee.

Ad-hoc-Report
As far as special issues are concerned or in case separate reports are required for particular developments, the reports are established by the strategic risk management department and thus made available for decision makers.

Particular developments in 2016 and outlook for 2017

An important point in 2016 – not only for Hypo Tirol Bank AG – was the agreement made between the Carinthia compensation fund and the creditors of HETA Asset Resolution AG in the beginning of October. Hypo Tirol Bank AG accepted the offer in relation to a zero coupon bond. Consequently, all receivables from HETA Asset Resolution AG could be cancelled from the books and the major part of risk provision could be dissolved.
The successful placement of a benchmark issue, a ranking upgrade by an external rating agency, the positive completion of EU trustee proceedings and the encouraging development of the NPL quota perfectly demonstrate the very successful deve lopment of Hypo Tirol Bank AG in 2016.

In 2017, special emphasis will be put on the preparation process in relation to increasing capital and liquidity requirements and on liquidity control, especially in view of the maturity of issues. In addition, top priority will be given to the continuous improvement of data quality.

Information Based on Austrian Law

(99) Legal Basis in Austria

In accordance with Banking Act, article 59a in conjunction with Austrian Commercial Code article 245a, sec. 1 compulsory consolidated financial statements shall be prepared in compliance with IFRS standards, as applicable in EU countries. On a supplementary basis, pursuant to Banking Act article 59a, the details according to Banking Act, article 64, sect. 1, lines 1-15 and sect. 2 as well as Austrian Commercial Code article 245a, sect. 1 and 3 must be included in the consolidated financial statements.
A full list of the corporate group's participating interest can be found in section VII (participating interests).

(100) Dividends and Retrospective Amendments

Hypo Tirol Bank AG is entitled to pay dividends not exceeding the profit as reported in the (individual) financial statement according to the Austrian Banking Act or Austrian Commercial Code in the amount of von kEUR 12,667 (2015: kEUR 253). In the expired fiscal year dividends in the amount of kEUR 100 were paid.
The annual net income generated in the 2016 fiscal year accounted for kEUR 38,407 (2015: annual surplus kEUR 26,859. After endowment of reserves amounting to kEUR 25,894 (2015: liquidation kEUR 26,633) and after addition of profit brought forward in the amount of kEUR 153 (2015: kEUR 27) the usable net profit amounted to kEUR 12,667 (2015: kEUR 253).
The Managing Board of Hypo Tirol Bank AG gave its consent to publish the consolidated financial statement on 27 March 2017.

(101) Classification of Securities Acceding to the Austrian Banking Act

The following chart illustrates the classification of securities according to Banking Act article 64 sect. 1 no. 10 and no. 11, on 31 December 2016:

	Not quoted		Quoted		Total	
in kEUR	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Debt securities and other fixed-interest securities	56,155	65,485	320,850	432,435	377,005	497,920
Shares and other non-fixed interest securities	18,565	3,027	8,678	9,405	27,243	12,432
Participating interest	13,186	16,641	0	0	13,186	16,641
Shares in associated companies	39,613	64,882	0	0	39,613	64,882
Financial assets	15,454	32,680	1,088,294	859,432	1,103,748	892,112
Total securities according to Banking Act	**142,973**	**182,715**	**1,417,822**	**1,301,272**	**1,560,795**	**1,483,987**

In compliance with Banking Act article 56, sec. 2, the difference of securities having properties of financial assets amounted to kEUR 719 (2015: kEUR 781) and im compliance with Banking Act article 56 sec. 3 it amounted to kEUR 120 (2015: kEUR 280). The predicted amortization for 2017 accounted for kEUR 321,761 (2016: kEUR 471,103). Subordinate and supplementary capital amounted to kEUR 8,257 (2015: kEUR 7,626).

In the forthcoming year, liabilities evidenced by certificate with a nominal value in the amount of kEUR 1,262,769 (2016: kEUR 844,706) will mature and fall due.

(102)Country by Country Report

In compliance with Banking Act article 64, section 1 no 18 the following Country by Country Report regarding the branch office in Italy is illustrated. The branch office is operated as an EU-branch office without legal entity and its offices are located in Bolzano, Bressanone and Merano. In Italy, Hypo Tirol Bank AG works in the field of investment and property financing for private clients as well as in the field of real estate financing and leasing for companies.

Net interest income corresponds to interest income prior to risk provision. Operating income includes commission surplus, trading result and other operating income. The number of employees refers to the full-time equivalent.

in kEUR	2016	2015
Net interest income	5,714	9,632
Operating income	5,560	4,760
Annual result prior to taxation	-16,470	-11,957
Tax on income and profit	-1,784	0
Public aid received	-	-
	2016	**2015**
Number of employees	44	45

(103) Disclosure

Comprehensive information regarding organisational structure, risk management, risk capital situation, corporate governance and remuneration policy in accordance with CRR part 8 no. 431–455 in connection with Banking Act article 65a are published on the website of Hypo Tirol Bank AG.

For detailed information please see: www.hypotirol.com/Unternehmen/Recht&Sicherheit - Offenlegung CRR Teil 8 Artikel 431–455“ (download).

Executives

Supervisory Board Members			
Chairman	Mag. Wilfried STAUDER	Innsbruck	
1st Vice Chairman	Dr. Jürgen BODENSEER	Innsbruck	
2nd Vice Chairman	Mag. Franz MAIR	Münster	
Other Board Members	Dr. Toni EBNER	Aldein	until 2016-06-09
	Dr. Ida HINTERMÜLLER	Innsbruck	
	MMag. Daniel MAIRHOFER	Munich	
	Mag. Beate OPPERER-PFLEIDERER	Telfs	
	Ao. Univ.-Prof. Dr. Erich PUMMERER	Innsbruck	
Delegated by the works council			
	Dr. Heinrich LECHNER, Betriebsratsvorsitzender	Innsbruck	until 2016-04-20
	Mag. Gabriele HILBER, Betriebsratsvorsitzende	Innsbruck	from 2016-04-20
	Andreas PEINTNER	Ellbögen	
	Peter PICHLER	Innsbruck	
	Ingrid WALCH	Inzing	

Managing Board Members		
Chairman	Johann Peter HÖRTNAGL	Trins
Managing Board Member	Mag. Johannes HAID	Absam
Managing Board Member	Mag. Alexander WEISS	Axams

Representatives of the Supervisory Authority		
State Commissioner	MMag. Paul SCHIEDER	Vienna
Deputy State Comissioner	Amtsdirektor Josef DORFINGER	Vienna

Trustees		
Trustee according to Pfandbrief Act	Dr. Klaus-Dieter GOSCH	Innsbruck
Deputy Trustee according to Pfandbrief Act	AD RR Erwin GRUBER	Vienna

VII. Participating Interest

Companies fully consolidated in the financial statements

Company name, locations	Core business	Capital share in % 2016	Capital share in % 2015	Date of financial statements	Changes to 2015
HYPO TIROL LEASING GMBH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Rent Gebäudeleasing 1987 Gesellschaft m.b.H., Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Rent Immobilienverwaltungs-Gesellschaft m.b.H., Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Tirol Mobilienleasing II Gesellschaft m.b.H., Innbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Rent Liegenschaftsanlage-Gesellschaft m.b.H., Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Rent II Grundverwertung GmbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Tirol Mobilienleasing Gesellschaft m.b.H., Innbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Beteiligungs-und Finanzierungsgesellschaft m.b.H., Innsbruck	Associated Company	100.00 %	100.00 %	31.12.16	
Hypo Tirol Versicherungsmakler GmbH, Innsbruck	Insurance Broker	100.00 %	100.00 %	31.12.16	
HYPO TIROL INVEST GmbH, Innsbruck	Associated Company	100.00 %	100.00 %	31.12.16	
Hypo Tirol Leasing Wiener Betriebsansiedlungen GmbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Liegenschaftstreuhand GmbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
L2 Errichtungs- und Vermietungsgesellschaft mbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Autopark Grundverwertungs GmbH, Innsbruck	Managing Realities	100.00 %	100.00 %	31.12.16	
Alpen Immobilieninvest GmbH , Innsbruck	Rental of Ral Estate	100.00 %	100.00 %	31.12.16	
HTL Deutschland GmbH, Kulmbach	Leasing Company	100.00 %	100.00 %	31.12.16	
ERFOLG Liegenschaftsvermietungs GmbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
VBC 3 Errichtungs GmbH, Wien	Leasing Company	100.00 %	100.00 %	31.12.16	
Dienstleistungszentrum Kramsach Betriebsgesellschaft mbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Tirol Immobilien und Beteiligungs GmbH (IBG), Bozen	Associated Company	100.00 %	100.00 %	31.12.16	
Hebbel Projektentwicklung Gesellschaft mbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo-Rent Betriebsansiedlungsgesellschaft m.b.H., Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo Tirol Beteiligungs GmbH, Innsbruck	Associated Company	100.00 %	100.00 %	31.12.16	
Berger Truck Service Verwaltungs GmbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
HTI Immobilienverwaltungs-GmbH, Innsbruck	Leasing Company	100.00 %	100.00 %	31.12.16	
Hypo Immobilien Betriebs GmbH, Innsbruck	Rental of Real Estate	100.00 %	100.00 %	31.12.16	

Companies included in the consolidated financial statements in accordance with the equity method:

All companies that were consolidated in the financial statements in accordance with the equity method are associated companies; no quoted market price was available for any of the associated shares.
HTV KAPPA Immobilienleasing GmbH, headquartered in Dornbirn and Immorent Hypo Rent Grundverwertungsgesellschaft m.b.H. are joint companies in compliance with IFRS 11.16 (based on IFRS 11.B7).

As far as the remaining companies are concerned, Hypo Tirol Bank AG owns 33.33% of the voting rights, thus the counter parties can overrule Hypo Tirol Bank at any time. Hypo Tirol Bank has substantial influence in terms of financial and geopolitical decisions. All mentioned indicators, according to IAS 28.6 (sections a and b) confirm the classification „associated company".

Company name, location	Core business	Capital Share in % 2016	Equity in kEUR	Date of Financial Statements
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	854	31.12.16
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	-20	31.12.16
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	1,777	31.12.16
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	124	31.12.16
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	-97	31.12.16
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	157	31.12.16
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	Leasing Company	33.33 %	302	31.12.16
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	50.00 %	540	31.12.16
Seilbahnleasing GmbH, Innsbruck	Leasing Company	33.33 %	538	31.12.16
HTV KAPPA Immobilienleasing GmbH, Dornbirn	Leasing Company	50.00 %	Sold in 2016	

Company name, location	Core business	Capital Share in % 2015	Equity in kEUR	Date of Financial Statements
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	1,236	31.12.15
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	5	31.12.15
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	1,838	31.12.15
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	114	31.12.15
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	-205	31.12.15
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	33.33 %	-536	31.12.15
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	Leasing Company	33.33 %	-908	31.12.15
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	Leasing Company	50.00 %	-234	31.12.15
Seilbahnleasing GmbH, Innsbruck	Leasing Company	33.33 %	452	31.12.15
HTV KAPPA Immobilienleasing GmbH, Dornbirn	Leasing Company	50.00 %	162	31.12.15

Data in accordance with IFRS 12.B12

2016

in kEUR	Future Assets	Non-current assets	Current debts	Non-current debts	Turnover	Annual net income from continued business operations	Result after taxation from discontinued business operations	Annual net income	Other result	Comprehensive income	Dividends received
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	3	4,178	40	3,287	272	-34	0	-46	0	-46	0
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	0	1,557	909	668	43	-8	0	-9	0	-9	0
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	3,436	8,775	8,548	1,886	550	-59	0	-60	0	-60	0
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	1,392	18,375	11,144	8,499	680	11	0	10	0	10	0
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	732	7,256	3,715	4,370	640	109	0	107	0	107	0
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	3,670	64,089	46,904	20,698	3,050	683	0	693	0	693	0
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	367	1,253	90	1,228	1,464	1,212	0	1,210	0	1,210	0
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	1,354	19,122	593	19,343	2,239	513	0	485	0	485	0
Seilbahnleasing GmbH, Innsbruck	710	8,242	839	7,575	2,626	90	0	86	0	86	0

2015

in kEUR	Future Assets	Non-current assets	Current debts	Non-current debts	Turnover	Annual net income from continued business operations	Result after taxation from discontinued business operations	Annual net income	Other result	Comprehensive income	Dividends received
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H., Innsbruck	1,122	4,830	65	4,652	272	-34	0	-46	0	-46	0
TKL II Grundverwertungsgesellschaft m.b.H., Innsbruck	0	1,596	902	689	53	11	0	11	0	11	0
TKL V Grundverwertungsgesellschaft m.b.H., Innsbruck	3,139	9,251	8,540	2,012	551	-47	0	-49	0	-49	0
TKL VI Grundverwertungsgesellschaft m.b.H., Innsbruck	1,239	19,681	11,927	8,879	678	-145	0	-147	0	-147	0
TKL VII Grundverwertungsgesellschaft m.b.H., Innsbruck	3,642	10,238	6,283	7,802	896	62	0	60	0	60	0
TKL VIII Grundverwertungsgesellschaft m.b.H., Innsbruck	4,031	68,202	48,322	24,447	3,129	109	0	125	0	125	0
Tiroler Landesprojekte Grundverwertungs GmbH, Innsbruck	2,192	10,724	11,845	1,979	592	47	0	45	0	45	0
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	2,458	23,406	1,017	25,081	2,503	386	0	340	0	340	0
Seilbahnleasing GmbH, Innsbruck	468	12,241	995	11,262	2,695	15	0	14	0	14	0
HTV KAPPA Immobilienleasing GmbH, Dornbirn	1,719	29,393	4,512	26,438	1,357	101	0	75	0	75	0

Data in accordance with IFRS 12.B13

2016

in kEUR	Means of payment	Short -term debts	Long -term debts	Depreciation according to plan	Interest income	Interest expenses	Income tax
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	1,299	0	19,340	1,338	11	105	-29

2015

in kEUR	Means of payment	Short -term debts	Long -term debts	Depreciation according to plan	Interest income	Interest expenses	Income tax
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H., Innsbruck	2,439	0	25,049	1,427	7	139	-46
HTV KAPPA Immobilienleasing GmbH, Dornbirn	918	3	26,434	885	5	192	-25

Current respectively non-current debts illustrated refer to current or non-current financial liabilities according to IFRS 12.B13, except liabilities from delivery and service, other liabilities or provisions.

Companies not included in the consolidated financial statements:

The following companies have not been integrated into the consolidated financial statements, as they are of minor importance, regarding both, the separate financial statements and the consolidated financial statements. None of the following non-consolidated companies is a structured company pursuant to IFRS 12.B21-B24.

Data concerning companies with a capital share more than 20% (2016 financial year)

Company name, location	Capital share in % 2016	Note
HTW Holding GmbH, Innsbruck	100.00 %	Company of minor importance
Landhaus-Parkgaragen Gesellschaft m.b.H., Innsbruck	100.00 %	Company of minor importance
Landhaus-Parkgaragen Gesellschaft m.b.H. & Co. KG, Innsbruck	100.00 %	Company of minor importance
C ZWEI Investment GmbH in Liqu., Innsbruck	100.00 %	Company of minor importance
EKZ Abwicklungs GmbH in Liqu., Völs	100.00 %	Company of minor importance
HYPO Gastro GmbH, Innsbruck	100.00 %	Company of minor importance
HT Immobilien Investment GmbH, Innsbruck	100.00 %	Company of minor importance
ARZ Hypo-Holding GmbH, Innsbruck	99.24 %	Company of minor importance
MC ZWEI Investment GmbH in Liqu., Wien	50.00 %	Company of minor importance
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	33.30 %	Company of minor importance
ARZ Allgemeines Rechenzentrum GmbH, Innsbruck	32.70 %	No substantial influence
REB II Beteiligungs AG, Wien	25.64 %	Company of minor importance
„Wohnungseigentum", Tiroler gemeinnützige Wohnbaugesellschaft m.b.H., Innsbruck	24.33 %	No substantial influence
HYPO EQUITY-Unternehmensbeteiligungen AG, Bregenz	21.78 %	Company of minor importance

Data concerning companies with a capital share more than 20% (2015 financial year)

Company name, location	Capital share in % 2015	Note
HTW Holding GmbH, Innsbruck	100.00 %	Company of minor importance
Landhaus-Parkgaragen Gesellschaft m.b.H., Innsbruck	100.00 %	Company of minor importance
Landhaus-Parkgaragen Gesellschaft m.b.H. & Co. KG, Innsbruck	100.00 %	Company of minor importance
C ZWEI Investment GmbH, Innsbruck	100.00 %	Company of minor importance
HYPO Gastro GmbH, Innsbruck	100.00 %	Company of minor importance
HT Immobilien Investment GmbH, Innsbruck	100.00 %	Company of minor importance
Kramsacher Betriebsansiedlungsgesellschaft m.b.H., Innsbruck	0.00 %	Company of minor importance
HPS Standortservice GmbH, Innsbruck	0.00 %	Company of minor importance
ARZ Hypo-Holding GmbH, Innsbruck	99.24 %	Company of minor importance
MC ZWEI Investment GmbH, Wien	50.00 %	Company of minor importance
Senioren Residenz Veldidenapark Errichtungs- und Verwaltungs GmbH, Innsbruck	33.30 %	Company of minor importance
ARZ Allgemeines Rechenzentrum GmbH, Innsbruck	32.70 %	No substantial influence
Lantech Innovationszentrum GesmbH, Landeck	32.73 %	Company of minor importance
REB II Beteiligungs AG, Wien	25.64 %	Company of minor importance
„Wohnungseigentum", Tiroler gemeinnützige Wohnbaugesellschaft m.b.H., Innsbruck	24.33 %	No substantial influence
GHS Immobilien AG, Wien	22.69 %	Company of minor importance
HYPO EQUITY-Unternehmensbeteiligungen AG, Bregenz	21.78 %	Company of minor importance

Data concerning companies with a capital share less than 20 % (2015/2016 financial years)

Company name, location	Capital share in % 2016	Capital share in % 2015
GHS Immobilien AG, Wien	19.57 %	22.69 %
Global Private Equity IV Holding AG, Wien	18.74 %	18.74 %
Tiroler gemeinnützige Wohnungsbau- und Siedlungsgesellschaft m.b.H. (TIGEWOSI), Innsbruck	17.45 %	17.45 %
Lantech Innovationszentrum GesmbH, Landeck	16.36 %	32.73 %
Masterinvest Kapitalanlage-Gesellschaft m.b.H., Wien	12.50 %	12.50 %
Hypo-Wohnbaubank Aktiengesellschaft, Wien	12.50 %	12.50 %
Hypo-Banken-Holding Gesellschaft m.b.H., Wien	12.50 %	12.50 %
Hypo-Haftungs-Gesellschaft m.b.H., Wien	12.50 %	12.47 %
Rathaus Passage GmbH, Innsbruck	11.23 %	11.23 %
HP IT-Solutions Gesellschaft m.b.H., Innsbruck	9.09 %	10.00 %
Logistikzentrum Hallbergmoos GmbH, München	6.00 %	6.00 %
Logistikzentrum Forchheim GmbH, München	6.00 %	6.00 %
Pflegeheim Wolfratshausen Grundstücks GmbH, München	6.00 %	6.00 %
PensPlan Invest SGR Spa/AG, Bozen	4.44 %	4.44 %
Bergbahnen Rosshütte Seefeld Tirol Reith AG, Seefeld	1.62 %	1.62 %
Lienzer-Bergbahnen-Aktiengesellschaft, Lienz	1.32 %	1.32 %
VBV–Betriebliche Altersvorsorge Aktiengesellschaft, Wien	1.28 %	1.28 %
AAA Air Alps Aviation Alpenländisches Flugunternehmen Ges.m.b.H., Innsbruck	0.28 %	0.28 %
Verwaltungsgenossenschaft der start:Gruppe e.Gen., Wien	0.04 %	0.04 %
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination GmbH, Wien	0.01 %	0.01 %
S.W.I.F.T. SCRL, Belgien	0.01 %	0.01 %

Data in compliance with IFRS 12.24 et seqq concerning participating interest in non-consolidated structured companies

Hypo Tirol Bank AG is a member of the Mortgage Bond Division (Pfandbriefstelle) of the Austrian Landes- und Hypothekenbank (regional and mortgage bank). The Mortgage Bond Division, more precisely since 15 January 2015, its legal successor, the Pfandbriefbank Österreich AG (Austrian mortgage lending bank) represents the joint issuing institution of the Landes- und Hypothekenbank, whereas its main task is to lend mortgage bonds, public bonds and debenture bonds, and provide the member institutions with the financial means resulting thereof. Moreover, the Pfandbriefbank is responsible for credit transactions and other transaction regarding all member institutions on a mutual basis.

Besides Hypo Tirol Bank AG, the following institutions are members of the Mortgage Bond Division

- HYPO-BANK BURGENLAND Aktiengesellschaft
- Austrian Anadi Bank AG
- HETA ASSET RESOLUTION AG
- HYPO NOE Gruppe Bank AG
- Oberösterreichische Landesbank Aktiengesellschaft
- SALZBURGER LANDES-HYPOTHEKENBANK AKTIENGESELLSCHAFT
- Landes-Hypothekenbank Steiermark Aktiengesellschaft
- Vorarlberger Landes- und Hypothekenbank

The Mortgage Bond Division is a financial institution regulated by public law. Therefore, no shares or ownership structures concerning the Mortgage Bond Division are existent. Each member institution sends a member to the board of administration and thus has a voting right (one vote). Decisions require simple majority of the votes cast. In case of tie votes, the chairman has the deciding vote. Regarding the resolution of the articles of association or any amendment to the articles of association, the liquidation of the Mortgage Bond Division or the distribution of the income from liquidation a two-third majority of the votes cast is required. The business activities of the Mortgage Bond Division were transferred to the Pfandbriefbank (Österreich) AG, with effect from 2015 on and in compliance with Banking Act article 92 concerning the universal succession. The Mortgage Bond Division is the sole shareholder of the Pfandbriefbank.

Since 2004, the Mortgage Bond Division has been subject to the regulations of the Pfandbrief Act. Pursuant to Pfandbrief Act article 2, all member institutions shall be jointly liable for liabilities of the Mortgage Bond Division or in connection with Banking act article 92, section 6 for liabilities of the Pfandbriefbank. The guarantors of the member institutions shall be jointly liable for all liabilities of the Mortgage Bond Division/Pfandbriefbank that accrued before 2 April 2003. With regard to liabilities that accrued after 2 April 2003, the guarantors shall only be liable jointly, if the defined terms do not exceed 30 September 2017. The guarantors shall not be liable for liabilities that accrued after 1 April 2007. Liabilities, for which the guarantors are not liable anymore, liability agreements between member institutions could be arranged in single cases. However, they shall only be valid, if they are published in the terms and conditions of issue.

On 31 December 2016, the issuing volume of the Mortgage Bond Division/Pfandbriefbank, for which the member institutions and their guarantors are jointly liable, amounted to kEUR 1,929,509 (2015: kEUR 3,343,912). This amount includes a proportion of Hypo Tirol Bank AG accounting for kEUR 15,293 (2015: kEUR 118,601). Based on regional law, the regional governments have contingent liability towards the member institutions. This must be differentiated from joint and several liabilities of all member institutions and guarantors for liabilities of the Mortgage Bond Division/Pfandbriefbank. In case the Mortgage Bond Division/Pfandbriefbank shall not fulfil its obligations towards bond and debenture bond creditors, the creditors of the Mortgage Bond Division, in accordance with legal regulations on joint and several liability, are entitled to claim the due amount directly from the member institutions and/or the guarantors, Consequently, the member institutions and/or guarantors that paid the dues shall have the right, subject to special conditions, to exercise recourse clams against the other member institutions, guarantors and/or the Mortgage Bond Division/Pfandbriefbank. Finally, the joint creditors that paid the dues can exercise recourse claims against the respective member institution the issue refers to. In accordance with the regional legal provisions such recourse claims can also be asserted against the province involved, which serves as a deficiency guarantor [also see note (92)].

Liabilities to the Mortgage Bond Division presented in the balance sheet:

in kEUR	2016-12-31	2015-12-31
Liabilities evidenced by certificate	0	27,007
Financial liabilities – at fair value	23,240	91,594
Liabilities to Mortgage Bond Division	**23,240**	**118,601**

Interest expenses in relation to liabilities towards the Mortgage Bond Division:

in kEUR	2016-12-31	2015-12-31
Interest expenses for liabilities evidenced by certificate	0	22
Interest expenses for financial liabilities – at fair value	1,305	4,584
Interest expenses from liabilities to Mortgage Bond Division	**1,305**	**4,606**

HYPO TIROL BANK AG MANAGING BOARD

Innsbruck, 29 March 2017

Johann Peter Hörtnagl	Mag. Johannes Haid	Mag. Alexander Weiß

Auditor's report *)

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of

Hypo Tirol Bank AG, Innsbruck,

and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2016 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRSs) as adopted by EU, and the additional requirements under Section 245a UGB and Section 59a BWG.

Basis for Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing. Our responsibilities under those regulations and standards are further described in the „Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified the following Key Audit Matters:
1. Loan loss provisions and credit risk provisions
2. Valuation of securities, own issues and derivatives

1. Loan loss provisions and credit risk provisions

Description:
Hypo Tirol Bank AG shows significant loan loss provisions and credit risk provisions in its consolidated financial statements as of December 31, 2016.

International Financial Reporting Standards require an entity to review the credit portfolio for impairment and necessity for loan loss provisions.

The appropriateness of loan loss provisions and credit risk provisions are significant areas, in which management uses estimates. The identification of impairment and the determination of recoverable amount includes uncertainty and therefore contains various assumptions and factors, such as the financial situation of the counterparty, assumptions of future cash flows and the value of collateral. Using different assumptions and valuation methods might lead to different estimations of impairment or loan loss provisions.

We refer to management disclosures in the notes to the consolidated financial statements notes (4) „Essential Decisions, Assumptions and Estimates", (19, 44 and 59) „Credit Risk Provisions", (79) „Provisions".

How key audit matters were addressed in the context of the audit:
We have assessed the design and effectiveness of the internal controls regarding individual and lump-sum loan loss provision calculation, including the quality of the underlying data and systems. For loan loss provisions and credit risk provisions calculated on an individual basis, we have tested the estimations regarding impairment identification and quantification, including projections of future cash flows, valuation of collateral and the recoverable amount in case of default on a sample basis.

We have assessed the appropriateness of disclosures regarding loan loss provisions and credit risk provisions made by the management in the notes to the consolidated financial statements.

2. Valuation of securities, own issues and derivatives

Description:
Hypo Tirol Bank AG shows significant securities, own issues and derivatives in its consolidated financial statements as of December 31, 2016.

The valuation of securities, own issues and derivatives was a key audit topic due to the importance of those financial instruments to the group. Management makes significant assumptions due to the complexity and because of limited availability of external evidence for the valuation of those financial instruments.

We refer to management disclosures in the following notes to the financial statements:
- Securities: Notes 10, 13 – 15, 62 and 65
- Own issues: Notes 10, 29, 32, 75, 78 and 82
- Derivatives: Notes 8, 9, 12, 60, 61, 76 and 77

How key audit matters were addressed in the context of the audit:
We have assessed the price verification processes as well as the design and effectiveness of the group's significant controls regarding data input for the valuation. In case of not reliable market prices where a higher degree of estimation is involved, we have assessed the assumptions and methods used by the group. Based on a sample, we have assessed the valuation of securities, own issues and derivatives in accordance with their classification pursuant to IAS 39.

We have assessed the appropriateness of disclosures regarding valuation of those financial instruments made by the management in the notes to the consolidated financial statements.

Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a UGB and Section 59a BWG for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Comments on the Management Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a UGB, and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Responsible Austrian Certified Public Accountant

The engagement partner on the audit resulting in this independent auditor's report is Ms. Andrea Stippl, Certified Public Accountant.

Vienna, March 29, 2017

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Wolfgang Tobisch mp	Mag. Andrea Stippl mp
Wirtschaftsprüfer / Certified Public Accountant	Wirtschaftsprüferin / Certified Public Accountant

*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

Statement of the Legal Representatives

We confirm to the best of our knowledge that the consolidated financial statements, which were established in accordance with all relevant reporting standards, give a true and fair view of the assets, the financial position and the profit situation of the corporate group; that the consolidated financial report describes the business development, the company result and the company situation in such a manner that gives a true and fair view of the assets, the financial position and the profit situation of the corporate group, and that the consolidated financial report describes the essential risks and uncertainties the corporate group is confronted with.

We confirm to the best of our knowledge that the financial statements of the parent company, which were established in accordance with all relevant reporting standards, give a true and fair view of the assets, the financial position and the profit situation of the company; that the financial report describes the business development, the company result and the company situation in such a manner that gives a true and fair view of the assets, the financial position and the profit situation, and that the financial report describes all risks and uncertainties the company is confronted with.

Innsbruck, 29 March 2017

Managing Board

Johann Peter Hörtnagl

Mag. Johannes Haid

Mag. Alexander Weiß

Report of the Supervisory Board of Hypo Tirol Bank AG

In the course of the 2016 fiscal year, all business activities carried out by the Managing Board were monitored by the Supervisory Board. In the context of rotational meetings and other reports, the Supervisory Board gained detailed information about the development of the company and all essential business cases. In addition, the Chairman of the Supervisory Board regularly received information provided by the Managing Board and the Internal Auditors Department.

Supervisory Board Meetings

In the 2016 fiscal year, five ordinary Supervisory Board meetings were held, at which fundamental issues of business policy, current developments of investment income, compliance with budgetary requirements and single business cases, which required the approval of the Supervisory Board due to legal or statutory provisions, were discussed with the Managing Board. The Supervisory Board particularly focused on the measures regarding the implementation of the bank's strategic realignment programme.

Supervisory Board Committees

The Supervisory Board appointed six committees.

The Credit Committee manages mortgages, loans, and large-scale investments. Four ordinary meetings and one extraordinary meeting were held by the Credit Committee in the 2016 fiscal year.

According to the Austrian Banking Act, article 63a, sec. 4, the Audit Committee is responsible for monitoring the preparation of the financial statements, the effectiveness of the internal control system, the internal audit system and the risk management system of the company; furthermore it manages the audit and the preparation of the approval of the financial statements, the proposal concerning profit distribution, the financial report as well as the consolidated financial statements and the consolidated financial report. Altogether, four Audit Committee meetings were held in the 2016 fiscal year.

The Committee for Managing Board matters regulates the relations between the company and the members of the Managing Board, except appointments or recall of appointments or granting share options of the bank. In the 2016 fiscal year, one meeting was held by the Managing Board Matters Committee.

The Remuneration Committee is responsible for all remuneration issues described in the Austrian Banking Act, articles 39 b and c with the exception of Managing Board remuneration. In the 2016 fiscal year, one meeting was held.

In the 2016 fiscal year, one meeting was held by the Nomination Committee, which is responsible for all matters in relation to the Austrian Banking Act, article 29.

In the 2016 fiscal year, the Risk Committee, which manages all matters regarding the Austrian Banking Act, article 39 d, held two meetings.

Financial Statements

The financial statements and the financial report as at 31 December 2016 were audited by the chartered accountants Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. As no objections were proposed, the auditor's opinion was granted without any limitations or reservations.

The consolidated financial statements including the notes, which were prepared in compliance with the International Financial Reporting Standards (IFRS), as well as the consolidated financial report as at 31 December 2016, were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna.

Subsequent to the final audit of the 2016 financial statements and the 2016 consolidated financial statements, the notes, the financial report regarding the financial statements and the consolidated financial statements, no objections were raised. The Supervisory Board approves the present profit allocation proposal, and the financial statements submitted by the Managing Board, which has been prepared in accordance with the Companies Act, article 96, section 4, and it acknowledges the consolidated financial statements.

Innsbruck, 30 March 2017

Supervisory Board

Mag. Wilfried Stauder

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