Passionate. Sound. Advice.

THE QUALITY OF REFLECTION

HYPO LANDESBANK VORARLBERG
ANNUAL REPORT 2011

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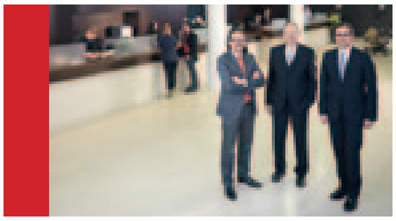
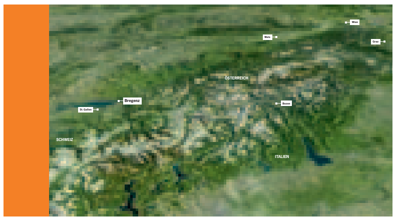




SUSTAINABILITY REPORT

FINANCIAL STATEMENT (IFRS)

BRANCH OFFICES | SUBSIDIARIES

THE DIVERSITY OF DUTIES

HYPO LANDESBANK VORARLBERG
CORPORATE BANK | RESIDENTIAL BANK | INVESTMENT BANK

Johannes Hefel
Member Managing Board

Jodok Simma
CEO, Chairman Managing Board

Michael Grahammer
Member Managing Board

THE PLEASURE OF CHALLENGE

HYPO LANDESBANK VORARLBERG FOREWORD – MANAGING BOARD

Dear Reader

in this annual report, we will detail the continuing, extremely positive development of Hypo Landesbank Vorarlberg. We were successful, although conditions in 2011 were often very difficult. Due to the public debt crisis, trust in the European Union as well as the euro was at times deeply shaken. Fortunately we were only minimally affected and were able to reach a positive balance for 2011. Earnings before taxes amounted to EUR 81.3 million, exceeding last year's excellent results by 6.2% (even after including bank excise tax in the amount of EUR 6 million).

Businesses have developed better than expected
2011 was a demanding but overall very positive business year for the economy in our area as well as in Austria in general. Our growth in lending underscores the excellent state of the local economy. We have noted a positive order situation and a continued willingness to invest. Loans to businesses exceeded expectations in 2011 and Hypo Landesbank Vorarlberg was able to further cement its position as market leader in Vorarlberg.

Values and business model have proved their worth
A good bank must be consistent and reliable. Only in this way can a long-term, trusting relationship with customers be established. To this end we have always worked with the long-term, down to earth, solid business model of a regional bank. This means focussing on the regions where we know the markets. This provides security for our customers and protects them from surprises in difficult times.

We solicit deposits and allocate these as loans. High risk marketing and speculation does not match our understanding of the banking business. This basic attitude is a very important success and quality factor of our bank and gives our customers and our employees clear goals, orientation and security. Ultimately the local economy and the State of Vorarlberg as main owner also profit. Our annual report with the theme "The Quality of Reflection" expresses in word and picture how we perceive ourselves.

Stable foundation
We have always placed great value on a risk conscious credit and business policy. This has proven to be – in times of growing

uncertainty and changing risk profiles – the best protection against the consequences of the financial market and public debt crises. We are, compared to the countries most severely affected by the crisis, only minimally exposed. At the same time our risk costs in lending businesses are at a historically low level.

With a debt/equity ratio of 13.26% and a core capital ratio of 9.1% (both banking book), Hypo Landesbank Vorarlberg is on solid footing. We currently expect to be in a position to fulfill the anticipated capital requirements of Basel III in 2013. However, we are not satisfied with that. With our capital resources and liquidity ratio we want to remain among the best Austrian banks in order to secure an excellent rating and refinancing position. Therefore we will put special emphasis on increasing capital resources in the coming years.

The course for the future
In June 2011, the Supervisory Board was confronted with a major change in the management of the Bank. As announced two years ago, after more than 36 years on the Managing Board, Jodok Simma (65) has chosen not to extend his contract and will retire as Chairman Managing Board in April 2012. The Supervisory Board has appointed Michael Grahammer to the position of Chairman Managing Board effective 1 May 2012. As also previously announced Michel Haller will join Johannes Hefel to complete the board.

Well equipped for future challenges
For 2012, Hypo Landesbank Vorarlberg has once more set ambitious goals. We want to again achieve excellent results. There are major challenges before us all that we will tackle with great confidence, creativity and vigilance. We will continue to make our customers the main focus of our business.

The members of the Managing Board
Jodok Simma
Michael Grahammer
Johannes Hefel

THE STRATEGY OF CONTINUITY

HYPO LANDESBANK VORARLBERG INTERVIEW WITH JODOK SIMMA

How do you rate 2011?
For the real economy in Austria and in our market area, 2011 was a good year overall. However, the banking industry was confronted in the second half of the year with difficult stock and capital markets due to the debt crisis and a lack of political resolve or willingness to reach decisions. Fortunately we were affected by these developments to a manageable extent and could post a positive balance for the past year. Our profit before tax of EUR 81.3 million exceeds last year's excellent results by 6.2%, even after factoring in the EUR 6 million bank excise tax.

It is well known that I am not happy with the recently introduced bank excise tax or with the financial stability contribution. In addition to paying over EUR 19 million in corporate taxes, Hypo Landesbank Vorarlberg must also pay EUR 6 million in federal, state, and municipal taxes. That is roughly three times as much as all other Vorarlberg banks combined. In any other industry it would be unthinkable that a flourishing company would be forced to pay for the mistakes and mismanagement of the competition. It is also incomprehensible that many of your competitors were exempt although they benefit from government aid to their top institutes. With the announced increase in the bank excise tax, other sectors have indicated their intention to fight against these incorrect government measures.

How has the Vorarlberg economy developed?
Our lending figures underline the excellent health of the local economy. We have noted a favourable order situation and a continuing willingness to invest among local businesses. Loans to corporate customers exceeded the budgeted amount in 2011 and showed an increase of EUR 428 million (9.5%) over the previous year. This reconfirms Hypo Landesbank Vorarlberg's position as market leader in Vorarlberg.

Is this true for your customers outside Vorarlberg?
The stable level of profitability in our customer and interest business is also significantly due to the above average customer and volume growth in our branches in Vienna, Graz and Wels. We are also a valued business partner for both lending and investment for medium-sized companies in other Austrian states.

In general the image of banks in this crisis has suffered greatly...
This is certainly the case. Many customers have reacted very emotionally to the current crisis. I have a certain amount of understanding for this, however, firmly believe that you must differentiate. Regional banks like us, which have absolutely no responsibility for the debt crisis, are forced to pay for the mistakes of international banks. It also seems popular among politicians to blame banks for problems for which they themselves are responsible. Another reason for the dissatisfaction of many customers are the current low yields. Between developments in the markets and low interest yields there are few attractive investment possibilities for our customers.

Curriculum Vitae Jodok Simma
Jodok Simma (65), CEO and Chairman of the Board, has been a member of the Managing Board of Hypo Landesbank since 1975. After his commercial science studies at the Vienna University of Business Administration, Jodok Simma began his career in the accounting department of Girozentrale in Vienna. In 1980, he was appointed Deputy Chairman of the Bank's Board, becoming Chairman of the Board in 1997. Jodok Simma has been Section Representative and thus Spokesman for all banks and insurance companies in Vorarlberg since 2000. Until 2006, he served as President of the Association of the Austrian Landes-Hypothekenbanken for two terms and in 2010 once again took over this position. Besides serving as Spokesman for the Board, Jodok Simma is also head of the departments Corporate Customers Sales, Treasury, Accounting, Human Resources and the associated company HUBAG. At the end of April 2012, he will turn over his position as Chairman Managing Board to his successor Michael Grahammer.

What role do rating agencies play in the current crisis?
One can justly accuse the rating agencies of being grossly negligent in connection with their assessment of subprime products before the crisis. However, they are correct in their current assessment of many countries. It is unfortunately the case that the rating agencies are expressing economic truths which are politically undesirable and, as the bearers of the bad news, are being pilloried themselves. Personally, I find that credit rating agencies play an important and useful role because they force politicians to look at economic truths and thus possibly provoke a change in thinking. From this perspective, I can view these developments with a certain level of confidence.

How crisis resistant is the Hypo Landesbank Vorarlberg's business model?
Many banks are responding to the current changing market conditions by trying to adapt their strategy in the short-term and end up following a zigzag course. This unsettles customers and employees alike. As chairman of the managing board of Hypo Landesbank Vorarlberg, I have always followed a different policy. A good bank must be consistent and reliable. Only in this way can a long-term, trusting relationship with customers be established. To this end we have always worked with a long-term, down to earth, solid business model which provides our customers and employees clear objectives, orientation and security. I am convinced that this is a very important factor in the success of our bank. Both the regional economy and the State of Vorarlberg as principle owner also benefit.

You are retiring this year as Chairman Managing Board?
I will be retiring at the end of April 2012 as Chairman Managing Board and will turn over my duties to Michael Grahammer. I am both pleased and rather proud that I leave a well-functioning, profitable and secure bank. It is very important to me that customers continue to be the main focus of Hypo Landesbank Vorarlberg. Our bank enjoys an excellent reputation locally and far beyond Vorarlberg. These are excellent conditions for the future. I wish my successor Michael Grahammer, his fellow board members Johannes Hefel and Michel Haller, as well as all employees, all the best and future great success.

I would also like to take this opportunity to sincerely thank all those who have supported and assisted me in the last 37 years in my duties for Hypo Landesbank Vorarlberg. Success is always the result of teamwork. Vital to this success was the trust I received from our customers, our employees and our owners. Once again, a heartfelt thank you.

THE WAY TO THE FUTURE

HYPO LANDESBANK VORARLBERG INTERVIEW WITH MICHAEL GRAHAMMER

Where does Hypo Landesbank Vorarlberg stand on risk management?
We have for many years attached great importance to a risk-conscious lending and business policy. This has proven to be an important factor in the success of the bank in times of increasing uncertainty and changing risk profiles. We are, in comparison with the countries most severely affected by the crisis, only minimally exposed. At the same time our risk costs in lending are at a historically low level.

What will change with Basel III?
Because we have handled the systematic increase in capital resources as part of our expanded risk management, Hypo Landesbank Vorarlberg, with a debt/equity ratio of 13.26% and a core capital ratio of 9.1%, is already on solid footing.

We currently expect to be in a position to fulfil the anticipated Basel III capital requirements in 2013. However, we are not satisfied with that. With our capital resources and liquidity ratio we want to remain among the best Austrian banks and will therefore put special emphasis on increasing capital resources in the coming years.

The requirements from Basel III will not only have consequences for banks. I cannot rule out the possibility that, with increased capital resource requirements and liquidity costs, corporate loans could be more expensive in the medium term. I view this potential scenario with great concern, because the negative effects on the real economy will be felt by all. Neither regional banks nor small or medium-sized enterprises started the financial crisis but are now unfairly burdened by these new regulations.

How do you view the future of the Euro zone?
I think that structural reform for both the EU and the euro are inevitable. The frantic rescue efforts only addressed the symptoms, but did not solve the underlying problems in the countries concerned. The necessary reforms will be lengthy and unpopular, but in my opinion cannot be avoided. I only hope that politicians will finally take the appropriate measures in a resolute and coordinated manner.

How have Hypo Landesbank Vorarlberg's holdings developed?
Hypo Immobilien GmbH and Hypo SüdLeasing GmbH were merged at the beginning of 2012. The entire Austrian leasing and real estate business of Hypo Landesbank Vorarlberg is now combined in the new Hypo Immobilien & Leasing GmbH.

Curriculum Vitae Michael Grahammer
Michael Grahammer (47) was appointed member of the Board of Hypo Landesbank Vorarlberg as of 1 July 2004, and is responsible for Risk Management, Leasing, Real Estate, Legal Matters, and Participation Administration. After having obtained his doctoral degree in commercial sciences (Vienna University of Business Administration), Michael Grahammer began his career in 1993 as country adviser and team leader for Africa and Asia at Raiffeisen Zentralbank AG. Effective 1 May 2012, he will take over the position of Chairman Managing Board from Jodok Simma and assume his responsibilities. In 1997, he became the head of the Risk Management department of Raiffeisenbank in the Czech Republic, and was appointed member of its Managing Board in 1999. In 2000, Vorarlbergborn Grahammer returned to his home state, where he was appointed Regional Director of the commercial business of Erste Bank der Österreichischen Sparkassen AG. In late 2001, Michael Grahammer changed to Hypo Landesbank Vorarlberg, where he was put in charge of the leasing department.

The new company's large range of services will offer our customers integrated leasing and real estate consultation by experience experts and also closer cooperation with the Bank. A classic win-win situation.

What are your priorities for 2012?
In May, I will succeed Jodok Simma as Chairman Managing Board of Hypo Landesbank Vorarlberg. The Bank is strategically well placed and has been successful for many years. This is an excellent starting point but also a great responsibility for the new managing board. As previously announced, Michel Haller, with Johannes Hefel, will complete the board.

What is your forecast for the current business year?
We are basically optimistic for 2012. The first months of the year have been, for us, satisfactory. The real economy is also running well. Naturally, we remain vigilant in view of the forecasts for an economic slowdown. However, in Vorarlberg we observe business confidence, a willingness to invest, earning power and filled order books.

In my view, no major adjustments to the Hypo Landesbank Vorarlberg business model and strategy are necessary. We will, of course, continue to attentively follow changes in the regulatory system, the needs of our customers and the financial markets in order to remain prepared.

As in the past, changes will be made in a steady and methodical manner. This has always been the Hypo Landesbank Vorarlberg trump card – the constancy and reliability of its business policy, which provides security and perceptible added value for all concerned.

THE IMPORTANCE OF INNOVATION

HYPO LANDESBANK VORARLBERG INTERVIEW WITH JOHANNES HEFEL

How was the Private Customer sector in 2011?
There were further positive developments in both the Private Banking and Private Customer sectors. We have recorded a significant increase in profits compared to last year. Historically low interest rates have stimulated the demand for financing. In the past year many Vorarlbergers have invested in construction or renovation of real estate. At the same time the trend to pay down debt continues; our customers have often repaid loans in advance. Compared to last year, volume of lending in 2011 increased by EUR 57 million (plus 3.6%).

Conservative, short-term forms of investment are high in demand, especially fixed-term saving accounts. Many people still have little confidence in the financial markets. That is both understandable and regrettable because many stocks have increased considerably in recent months.

You mentioned earlier customer confidence …
The dramatic fall in share prices in August 2011 led to strong uncertainty and we are still feeling the consequences today. Many investors have finally turned their back on the market after the third massive decline in share prices in ten years.

The demand for safe investments can also be seen in private and corporate deposits where we recorded an increase of 11.3% to over EUR 4.2 billion. Customers, corporate as well as private, are carefully considering with whom they entrust their funds and examining closely the creditworthiness of their bank. As a solid, highly rated bank, we benefit from this. We are especially pleased by the readiness of our customers to recommend us as a result of their high level of satisfaction with our services.

How do you explain the success in Private Banking and Asset Management?
I attribute the sustained success of Hypo Landesbank Vorarlberg to our down to earth business policy as well as our targeted innovations. In many areas we often go in new directions earlier than others. In 2005, Hypo Landesbank Vorarlberg was the first Austrian bank to implement the highest international standards of performance measurement and transparency in their asset management. For years we have also systematically developed competence of our employees in the area of investment as well as initiated innovative in-house asset management strategies, which have given a high level of security to our customers, especially during the financial crisis.

Curriculum Vitae Johannes Hefel
Johannes Hefel (54) has been a member of the Board of the Bregenz-based Vorarlberger Landes- und Hypothekenbank AG since 1997. His responsibilities include the departments Private Customer Sales, Private Banking, and Portfolio and Asset Management. He previously worked as financial analyst and asset manager, and as a business consultant and management trainer in Liechtenstein and Frankfurt am Main. In 1990, he changed to the Management Zentrum St Gallen (MZSG) as business consultant and management trainer and, beginning in 1993, worked independently in this field for five years. In 1982, he concluded his business management studies with a Master's degree, and went on to obtain a doctoral degree in economic and social sciences in 1985.

What innovations were introduced in Private Banking the past year?
In April 2012 the new 25% capital gains tax on shares and securities (Wertpapier KESt) will go into effect and we have innovative products to meet these new conditions. Starting in April, we will offer our customers a new updated, tax-optimised version of our "Dynamik Plus" fund. To prepare investors for possible future market turbulence, in December our asset management developed the new strategy "Hypo-Weltportfolio IQ Maximum Return" (Hypo IQ). With this innovative product, customers can generate a return in negative as well as positive markets. And finally, we have developed in asset management a single equity strategy to incorporate the idea of asset value maintenance which will invest in selected leading global companies that are solid and profitable. I believe that quality shares will best preserve purchasing power in the coming years.

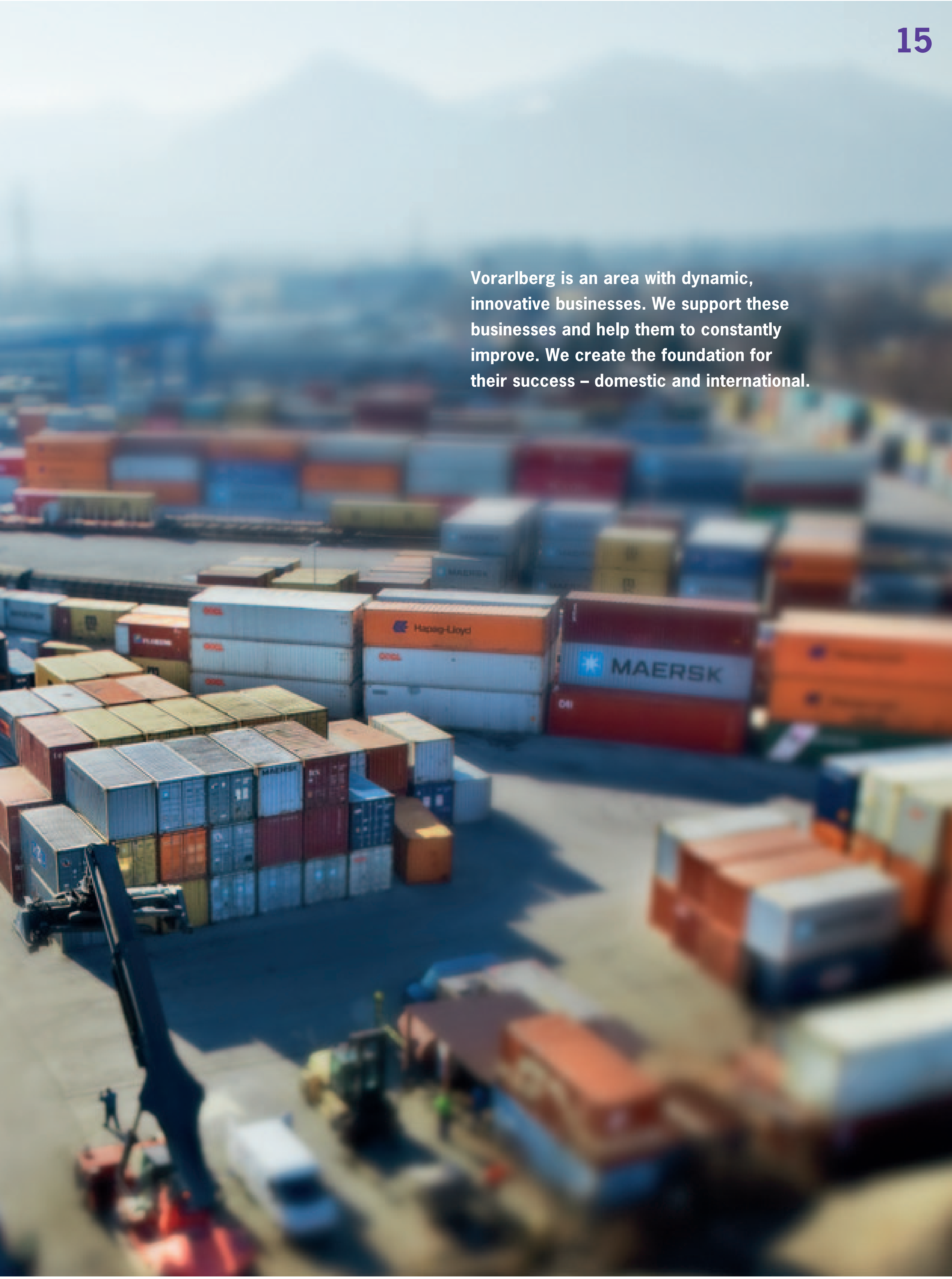
How does it look in area of savings?
There has been great response in Vorarlberg to the new Hypo-Umwelt-Sparbuch, which Hypo Landesbank Vorarlberg uses to support selective regional environmental projects. In the future, retirement provisions and savings will be important themes for all age groups, and we are committed to offering attractive savings options to ours customers.

Your outlook for the future?
We have a healthy history, have grown methodically over the years and want to use our expertise in asset management to serve more classic, institutional customers such as banks, insurance companies and pension funds. Our "assets" include an innovative product range and specialised, individual consultation, which we value greatly.

As in the past, our branch banks remain the most important pillar of the Bank. At the same time we have for many years offered our customers varied online options for payment and security transactions (E brokerage). In order to fully exploit the new online technologies, Hypo Landesbank Vorarlberg is expanding its online presence starting in spring 2012. With the new online portal hypodirekt.at, customers can open an account with attractive interest rates from the comfort of their home. Our goal is to offer customers more online services in the future.

A FOCUS ON THE ESSENTIAL

HYPO LANDESBANK VORARLBERG
THE CORPORATE BANK



Vorarlberg is an area with dynamic, innovative businesses. We support these businesses and help them to constantly improve. We create the foundation for their success – domestic and international.

ORGANISATIONAL CHART

OF VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

Managing Board

Div Corporate Customers
Jodok Simma, CEO

Corporate Customers Sales
Karl-Heinz Rossmann
- Branch Office for Corporate Customers
- Institutional Customers
- International Services

Corporate Customers Vienna, Lower Austria, Burgenland
Roswitha Klein

Treasury
Florian Gorbach
- Asset Liability Management
- Money, Foreign Exchange and Interest Derivatives Trading
- Securities Customer Trading
- Fund Service
- Swapgroup

Accounting
Martin Baldauf
- Controlling
- Bookkeeping
- Accounting

Human Resources
Egon Helbok

Communication
Roswitha Nenning

Div Private Customers | Private Banking
Johannes Hefel

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

Private Customers | Private Banking Vienna, Lower Austria, Burgenland
Roswitha Klein

Asset Management
Roland Rupprechter
- Asset Management
- Fund Management
- Foundations
- Financial | Research
- Institutional Customers

Logistics
Johann Berchtold
- Information Technology
- Organisation
- Payment Transactions | E-Banking

Securities Settlement
Martin Baldauf | Elmar Raid

Marketing
Roswitha Nenning
- Marketing Management
- Product Management
- Advertising
- Marketing Controlling

Div Risk Management
Michael Grahammer

Credit Management – Corporate Customers
Stefan Germann
- Credit Management – Corporate Customers
- Credit Management – Banks and Leasing
- Syndication | Structured Finance
- Financial Aids Department

Credit Management – Private Customers
Martin Heinzle
- Credit Management – Private Customers
- Certification | Credit Service
- Housing Construction Aids

Group Risk Controlling
Markus Seeger

Law
Klaus Diem

Compliance
Reinhard Kaindl

Participation Administration
Emmerich Schneider

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

Hypo Immobilien & Leasing GmbH
Wolfgang Bösch
Peter Scholz

Hypo Versicherungsmakler GmbH
Manfred Bösch
Christoph Brunner

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

Ombudsperson
Martha Huster

Corporate and Internal Audit
German Kohler

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

Graz Branch Office
Horst Lang, RM
Andreas Draxler, HPB

Wels Branch Office
Friedrich Hörtenhuber, RM
Iris Häuserer, HPB

St. Gallen Branch Office
Dieter Wildauer, RM
Peter Ricklin

Bludenz Branch Office
Christian Vonach, BOH
Walter Hartmann, HPB

Feldkirch Branch Office
Jochen Egger, BOH
Erich Vonbank, HPB

Götzis Branch Office
Wolfgang Fend, HPB

Hohenems Branch Office
Andreas Fend, BOH

Bregenz Private Customers Branch Office
Christian Brun, BOH

Private Customers
Raymond Plankel

Private Banking
Stephan Bohle

Vorkloster
Udo Seidl, BM

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

Key Account Manager
Rainer Terwart

Corporate Customer Centre Germany
Markus Schmid

Filiale Private Banking Plus
Stefan Schmitt, HPB

Financial Intermediaries | CEE
Christoph Schwaninger

Hard Branch Office
Anja Schmidt, BM

Lauterach Branch Office
Karl-Heinz Ritter, BM

Dornbirn Branch Office
Richard Karlinger, BOH
Egon Gunz, BM

Messepark
Stephan Spies, BM

Lustenau Branch Office
Graham Fitz, BOH
Helgar Helbok, BM

Höchst Branch Office
Erich Fitz, BM

Feldkirch state hospital Branch Office
Stefan Kreiner, BM

Rankweil Branch Office
Günter Abbrederis, BM

Rankweil state hospital
Ringo Schieder, BM

Egg Branch Office
Stefan Ritter, BM

Riezlern Branch Office
Artur Klauser, BOH

Mittelberg
Josef Wirth, BM

Schruns Branch Office
Hannes Bodenlenz, BM

Gaschurn
Paul Roschitz, BM

Lech Branch Office
Reinhard Zangerl, BOH
Egon Smodic, BM

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

EXECUTIVE BOARDS

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

MANAGING BOARD

Jodok Simma
CEO, Chairman Managing Board, Bregenz

Michael Grahammer
Member, Dornbirn

Johannes Hefel
Member, Schwarzach

SUPERVISORY BOARD

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

Norbert Metzler
Deputy Chairman, Management Consultant, Alberschwende

Christian Brand
CEO of Landeskreditbank Baden-Württemberg Förderbank, Karlsruhe

Albert Büchele
Agriculturist, Hard

Elmar Geiger
Managing Director of EHG-Stahlzentrum GmbH & Co OG, Dornbirn

Michael Horn
Deputy CEO of Landesbank Baden-Württemberg, Stuttgart

Andrea Kaufmann
Member of the Vorarlberg government, Bregenz

Christian Konzett
Lawyer, Bludenz

Klaus Martin
State Official (retired), Feldkirch

Nicolas Stieger
Lawyer, Bregenz

Bernhard Egger
Works Council Delegate

Bernhard Köb
Works Council Delegate

Elmar Köck
Works Council Delegate

Veronika Moosbrugger
Works Council Delegate

Cornelia Vonach
Works Council Delegate (since 20 May 2011)

Rudolf Wüstner
Works Council Delegate (until 19 May 2011)

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

AUDIT COMMITTEE
Chairman, Michael Horn
Kurt Rupp
Norbert Metzler
Dkfm. Elmar Geiger
Veronika Moosbrugger
Elmar Köck

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

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

STATE COMMISSIONER

Gabriele Petschinger

Josef Nickerl
Deputy

ESCROW AGENTS

Heinz Bildstein
Deputy, President of the State Court, Feldkirch

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

ADVISORY BOARD

VORARLBERGER LANDES- UND HYPOTHEKENBANK AKTIENGESELLSCHAFT

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

Hans Dietmar Sauer
Deputy Chairman, Chairman Managing Board (retired), LBBW Ravensburg

Werner Abbrederis
Managing Director, GIKO Verpackungen AG, Weiler

Gerhart Bachmann
President, Vorarlberg Dental Chamber, Feldkirch

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

Astrid Bischof
Managing Director, Otto Bischof Transport GmbH, Göfis

Ernst Bitsche
Entrepreneur, Thüringen

Herbert Blum
Managing Director, Julius Blum GmbH, Höchst

Birgitt Breinbauer
President, Bar Association of Vorarlberg, Lawyer, Dornbirn

Manfred Brunner
Chairman, Vorarlberger Gebietskrankenkasse, Höchst

Martin Dechant
Chairman, Junge Wirtschaft Vorarlberg
Managing Director, ikp Vorarlberg PR & Lobbying GmbH, Dornbirn

Guntram Drexel
Managing Director, ASPIAG Management AG, Lustenau

Dieter Egger
Chairman, FPÖ political party, Hohenems

Kurt Fischer
Mayor, Lustenau

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

Lars Frormann
Dean, University of Applied Sciences Vorarlberg, Dornbirn

Jutta Frick
Managing Director, Bad Reuthe Frick GmbH, Reuthe

Georg Früh
CFO, Alpla Werke Alwin Lehner GmbH & Co KG, Hard

Roland Frühstück
Chairman, ÖVP political party, Bregenz

Andreas Haid
Mayor, Riezlern

Heinz Hämmerle
Entrepreneur, Lustenau

Hubert Hämmerle
President, Chamber of Labour, Lustenau

Anton Haller
Hotelier, Mittelberg

Dietmar Hefel
CEO, Hefel Textil AG, Schwarzach

Josef Huber
Managing Director, Huber Invest GmbH, Götzis

Robert Janschek
Managing Director, Walter Bösch KG, Bregenz

Michael Jonas
President, Chamber of Physicians, Dornbirn

Walter Klaus
Entrepreneur, Lochau

Urs-Peter Koller
Entrepreneur, Gossau

Oswin Längle
Managing Director, Anton Längle KG, Götzis

Markus Linhart
Mayor, Bregenz

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

Sepp Manhart
Lawyer, Bregenz

Bernadette Mennel
President, Vorarlberg Parliament, Bregenz

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

Egon Mohr
State Official, Wolfurt

Josef Moosbrugger
President, Chamber of Agriculture, Dornbirn

Johannes Rauch
Chairman, Die Grünen political party, Rankweil

Manfred Rein
President, Chamber of Commerce, Dornbirn

Hubert Rhomberg
Chairman, Young Industry Vorarlberg
Managing Director, Rhomberg Gruppe, Bregenz

Michael Ritsch
Chairman, SPÖ political party, Bregenz

Karl-Heinz Rüdisser
Member of the Vorarlberg government, Lauterach

Günter Schertler
Managing Director, Schertler-Alge GmbH, Lauterach

Hannelore Schneider
Hotelier, Lech

Thomas Sohm
Managing Director, Carini Etiketten GmbH, Lustenau

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

Ludwig Summer
CEO, Illwerke/VKW Group, Bregenz

Eduard Tschofen
Public Accountant, Feldkirch

Anselm van der Linde, O.Cist.
Abbot, Wettingen-Mehrerau, Bregenz

Hans-Jörg Vetter
Chairman Managing Board Landesbank Baden-Württemberg, Königstein

THE OBLIGATION TO CARE

HYPO LANDESBANK VORARLBERG COMPLIANCE AND RISKMANAGEMENT

COMPLIANCE

The Compliance Department reports directly to the Managing Board and is chiefly responsible for monitoring compliance with Austrian securities and stock exchange regulations as well as the Austrian Banking Act to prevent money laundering.

All employees must agree to uphold compliance regulations upon joining Hypo Landesbank Vorarlberg. These regulations are based on the Standard Compliance Code for the lending industry and Austrian securities and exchange regulations. Compliance with these regulations is regularly checked and documented. New hires receive thorough instruction on compliance basics. All employees receive ongoing training and also relevant information if there are changes.

The Compliance department regularly audits for compliance with securities regulations, including the Markets in Financial Instruments Directive (MiFID), implementing any necessary changes jointly with other departments concerned. These regulations are designed for investor protection, and to ensure market efficiency and integrity. Regular controls are also carried out here.

MONEY LAUNDERING

As part of its operating activities, Hypo Landesbank Vorarlberg aims to prevent any forms of money laundering and the financing of terrorism. Three IT programs and other checks are used to achieve this aim in the Money Laundering department. They support employees firstly in classifying customers in terms of money laundering risk and secondly in indicating suspicious payments. This ensures that the legal obligations concerning the embargo check and the check for politically exposed persons are met.

The staff members undergo extensive training on the deterrence of money laundering and the financing of terrorism, in which they receive instruction regarding applicable laws and suspicious circumstances. All new employees are also educated in this. Annual testing is conducted to ensure that employees' knowledge is up-to-date.

In additional training courses, staff members are instructed on special characteristics and typologies of money laundering so that suspicious transactions can be recognised. Furthermore regular controls are conducted at the branch offices.

RISK MANAGEMENT

Concerning risk management objectives and methods as well as disclosures on existing default and market risks, please refer to the disclosures on financial risks and risk management in the consolidated financial statements, and particularly to the disclosures per Section 26 of the Austrian Banking Act posted on Hypo Landesbank Vorarlberg's website, www.hypovbg.at.

KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN VIEW OF THE FINANCIAL REPORTING PROCESS

Responsibility for setting up and shaping the internal control and risk management system at Hypo Landesbank Vorarlberg lies with the Managing Board as a whole. Hypo Landesbank Vorarlberg distinguishes itself with clear organisational, corporate, control and monitoring functions, especially the dual control principle, IT-supported controls, approval authorities based on risk exposure and monitoring instruments.

In order to further optimise the internal control system, a comprehensive ICS (internal control system) project was launched at the end of 2009. In 2010, ICS-relevant documentation was created and implemented regarding the core processes of accounting and reporting, various processes of the Bank's overall risk management and of the Treasury, compliance, money laundering and the management of loans for corporate customers. In the year under review, they were followed by the core processes involved in the management of loans for private customers, custodian bank services, product and business introduction, payment transactions and e-banking, documentary business, marketing and sales. The third and final phase will be completed in 2012.

Control environment

Hypo Landesbank Vorarlberg's accounting, which also functions as the Group's accounting, includes such areas as bookkeeping, accounts presentation, reporting, controlling and account management and is the responsibility of the Chairman Managing Board. The Bookkeeping and Accounting Department creates the balance sheets for the Bank and the Group and the bookkeeping and balance sheets for the Bank's subsidiaries. This arrangement guarantees a common approach, especially in the preparation of the Group balance sheets.

The close cooperation between these departments and the Bank's Group Risk Controlling Department allows for uniform and coordinated internal and external reporting for the Bank. The reporting processes including control measures are regulated in work instructions, internal process descriptions, ICS documentation and the Group Manual.

Risk assessment and control measures

As part of the ICS project, processes were reviewed, adjusted and supplemented if necessary in terms of their current risk exposure and the existence of clear, effective and efficient risk-reducing measures and controls. These processes, measures and controls are continually adjusted to requirements and updated at least once per year. In addition, a control and effectiveness analysis is conducted on an ongoing basis and recognised potential for improvement is acted upon.

The financial reporting process is not limited solely to internal and external reporting, but uses guidelines and processes to regulate data acquisition, creating bookings, accounting for transactions, and evaluating transactions ahead of time with various software solutions (Arctis, Geos, SAP, B&S, PMS, etc.). These programmes offer automatic assistance and controls for correct data entry and use. Manual controls are also used on an ongoing basis in day-to-day business. The organisation, comprehensibility, effectiveness and efficiency of these controls are ensured by ICS monitoring.

Information and communication
The Bank's reporting is almost entirely automated by means of input systems and automatic interfaces and ensures current data for controlling, earnings statements and other evaluations. Accounting information is based on the same data and is coordinated monthly for reporting purposes. Due to the close cooperation between accounting, controlling and the Bank's overall risk management, actual and target comparisons are performed on an ongoing basis. Mutual controls and coordination between the departments is ensured.

In order to perform their monitoring and control function, the Bank's decision makers periodically receive a number of reports such as the weekly statement, monthly earnings overview including interest margin, earnings extrapolation at the levels of branch offices, departments and the Bank as a whole, actual and target comparisons of volumes and income, ALM reports, risk reports, Treasury reports, quarterly cost reports, various statistics and evaluations.

Based on the above fundamentals, period reports are issued to the Supervisory Board, Advisory Board and owners. An interim report in accordance with IFRS is prepared every quarter, whilst at the end of the year the Bank prepares its annual financial statements in line with the Austrian Banking Act (BWG) and the Austrian Business Code (UGB), the Bank's consolidated annual statements in accordance with IFRS and the holding group's consolidated financial statements in accordance with IFRS. Please also refer to the current regulatory reporting requirements to the Austrian National Bank (Österreichische Nationalbank or OeNB) and the Austrian Financial Market Authority (Finanzmarktaufsichtsbehörde or FMA).

An ICS report is prepared for the Managing Board every six months and annually for the Audit Committee of the Supervisory Board and the results of the ICS are reported. ICS reporting uses the bottom up approach. The records on the implemented controls are created when the process owners carry out the operational tasks.

These records are combined with the results of the control and effectiveness analysis in the ICS report to be able to issue a statement on the effectiveness of ICS in connection with the results of the audits by Internal Audit.

Monitoring
The quality of the internal control and risk management system is assessed by Internal Audit on an ongoing basis in relation to its dependability, accuracy and the legality of the accounting process and reporting. Internal Audit works closely with the responsible members of the Managing Board and Managing Directors at the subsidiaries and periodically reports to the Audit Committee of the Supervisory Board.

DISCLOSURE REGULATION FOR REMUNERATION POLICY IN 2011

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

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

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

Apart from all basic banking services, the core business areas of Hypo Landesbank Vorarlberg are its corporate customer business, real estate finance as well as investment. In geographic terms, its business is limited to Austria and areas bordering Austria. Because of this business model, the stringent multi-stage authorisation guidelines and the guidelines combined in the risk management manual, the influence that an individual employee can exercise over risky business activities is slight to non-existent. Risks may only be incurred subject to compliance with the dual control principle.

In principle, employees' remuneration is based on fixed salaries that reflect market conditions and are agreed collectively with the option for higher payment. Executives and highly qualified employees may also benefit from a variable salary component. Certain performance-related criteria, which are specified individually in the contract of employment and recorded, must be met for payment of the variable components. Key performance-related criteria in the contracts of employment offering a variable salary component currently in force are:

- Earnings from ordinary activities
- Leadership demonstrated by the respective employee
- Achievement of targets in the employee's own area as specified in the annual target-setting discussion
- Individual targets and personal performance appraisal
- Social performance criteria
- Success in business development

The annual IT based appraisal and target-setting discussion is a key human resources tool, among others, for assessing performance. The appraisal and target-setting discussion is specified in detail in a works agreement recorded for this purpose.

Employees' variable remuneration components are capped and do not exceed the materiality threshold in relation to the total remuneration. Because of the principle of proportionality prevailing in accordance with Section 39b of the Austrian Banking Act, neither a restriction on payment nor a provision of more than one year is required.

Future bonus agreements are revocable and the employer is granted the right of making adjustments if necessary or in the event of changes to the law. In the event of a deterioration in or negative financial position or result of operations (similar to no. 12 (a) of the annex to Section 39b of the Austrian Banking Act), payment may also be cancelled entirely even if individual criteria are met.

On the basis of the very good business results in 2011, the Managing Board has decided, as in the previous year, to pay all employees of Hypo Landesbank Vorarlberg a non-recurring bonus of EUR 1,000.00 on fulfilment of defined formal preconditions.

Remuneration policy for Managing Board members

The Managing Board members of Hypo Landesbank Vorarlberg exercise material influence on the Bank's risk profile. In addition to a fixed basic annual salary, which is paid in fourteen instalments on the normal salary payment dates and a lump-sum for overtime, they are, in principle, entitled to a performance-related bonus subject to certain preconditions.

The Managing Board of Hypo Landesbank Vorarlberg receives a capped amount specified in advance in their contracts as a bonus. By capping the bonus, the bank ensures that there is no temptation to pursue an expansionary business policy associated with significant risk. The bonus also guarantees a balanced relationship between fixed and variable remuneration.

The following criteria were selected for stipulating quantitative and qualitative criteria for the performance appraisal from financial year 2012:

- MuM (money under management) measured against five-year planning figures
- Earnings from ordinary activities measured against five-year planning figures
- Leadership and social skills

The Remuneration Committee excluding the staff representatives is also responsible for Managing Board remuneration.

DISCLOSURE UNDER SECTION 243A OF THE AUSTRIAN BUSINESS CODE (UGB)

Share capital, share denominations and participation capital

Subscribed capital consists of share capital of EUR 150 million (2010: EUR 150 million) that, like the participation capital, is fully paid in. As at 31 December 2011, 293,000 shares with a nominal value of EUR 511.9454 and 1 million participation certificates with a nominal value of EUR 9.00 were issued.

Shareholder structure

Vorarlberger Landesbank Holding holds 74.9997% of the share capital of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft. The remaining shares are owned by Austria Beteiligungsgesellschaft mbH, which is headquartered in Stuttgart.

Shareholders	Interest	Voting rights
Vorarlberger Landesbank-Holding	74.9997%	74.9997%
Austria Beteiligungs-gesellschaft mbH	25.0003%	25.0003%
Landesbank Baden-Württemberg	16.6669%	
Landeskreditbank Baden-Württemberg Förderbank	8.3334%	
Share capital	**100.0000%**	**100.0000%**

Appointment of executive bodies

Other than the requirements defined by law, there are no other regulations pertaining to the appointment and removal of Managing Board members and Supervisory Board members or to amending the company's articles of association.

THE ECONOMICS OF THE FAMILY

HYPO LANDESBANK VORARLBERG
THE RESIDENTIAL BANK

People have a need for a home that belongs to them. For shelter and security for themselves and their family in their own home or their own flat. We create the conditions for this: with fair, transparent financing models, assistance and support.

THE IMPORTANCE OF ANALYSIS

HYPO LANDESBANK VORARLBERG ECONOMIC ENVIRONMENT

Global economy and Euro zone
In the past year financial markets have had to process numerous exogenous and endogenous influences of varying duration. In the early months capital markets were influenced by political unease and the pro-democracy movements in North Africa and the Near East. In March, stock markets recorded significant losses in the wake of the earthquake in Japan. Due to the nuclear disaster at Fukushima, there will be long-term negative aftereffects. While Japan's economy improved due to reconstruction efforts, Thailand struggled with severe flooding which led to production losses. Globally, there was an economic slowdown in the second half of the year. Fears of recession emerged – in Europe due to the debt crisis and in the USA not least due to the protracted debate over raising the debt limit and the associated loss of the triple-A rating.

Ever present, but still unresolved, the debt problem in some European countries continued. At the beginning of the year Portugal followed Greece and Ireland as the third member to request financial assistance. In addition to the more peripheral countries, European core countries came more and more under scrutiny.

Although GDP growth rates in the Euro zone and USA were positive at the beginning of the year, only the economic performance of Germany and France prevented a premature slide into a Euro zone recession. In the second half of the year fears of a global recession increased. The sentiment indicators or "soft facts" such as consumer confidence were worse than the economic figures or "hard facts", especially in Europe.

Austria
A strong economy in the early months of 2011 helped Austria overcome a weak fourth quarter and record a significant economic growth figure of 3.1%. Exports provided the greatest support for the Austrian economy. With high employment figures and low unemployment, Austria has ranked among the best in Europe for several years. In spite of robust labour market figures, an above European average inflation rate only allowed for a slight increase in real household income. According to the Austrian National Bank, the savings rate for Austrian households was again low (9.1%). Only four countries in Europe have double-digit savings figures – Germany, Switzerland, Belgium and Sweden.

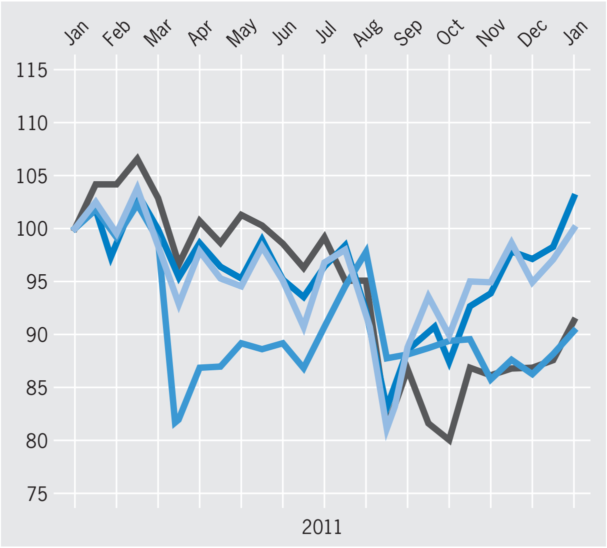
In 2011, the Austrian budget also felt the direct consequences of the debt crisis. The Austrian national debt rose in 2011, but remained under the European average. In autumn, Austria increasingly came under pressure when it became clear that the rating agency Standard & Poor's would probably lower the top AAA rating due to Austrian bank activity in Eastern Europe. The yield spreads on Austrian government bonds clearly widened.

Vorarlberg
After a satisfactory fiscal year 2011, businesses in Vorarlberg are quite optimistic for 2012. Over half of the companies surveyed in the fourth quarter rated their business situation as good. The business climate index of Vorarlberg industry – an average of the current business situation and expectations for six months declined to + 6.4% compared to the third quarter. As a comparison, the value in the fourth quarter 2010 was + 45.1%.

Of the companies surveyed, 56% characterised foreign orders as good and 48% rated the order backlog as good. Also positive was the current earnings situation: 46% gave a good rating, 47% rated the current earnings situation as average. Looking ahead six months, 79% of the companies surveyed expected the earnings situation to remain constant. The three month employment outlook was mixed but relatively stable. 15% of those surveyed wanted to increase staffing levels while 15% anticipated lower staffing levels. 50 firms, with a total of 22,744 employees took part in the survey which is carried our quarterly by the industry division of the Vorarlberg Chamber of Commerce and the Industriellenvereinigung (an industrial association).

Great uncertainty on the stock exchanges
The performance of the stock indices in 2011 was similar to a fever thermometer. After a profitable beginning to the year, investors appeared cautious but held their nerve. The benchmark indices were slightly lower in the first half of the year but without dramatic losses. Even the Japanese Nikkei 225 rebounded from the natural catastrophe by summer. Only investors in the usually profitable emerging markets suffered significant losses in the first half of the year, due to numerous interest rate hikes in these countries, which were attributable to high inflation rates.

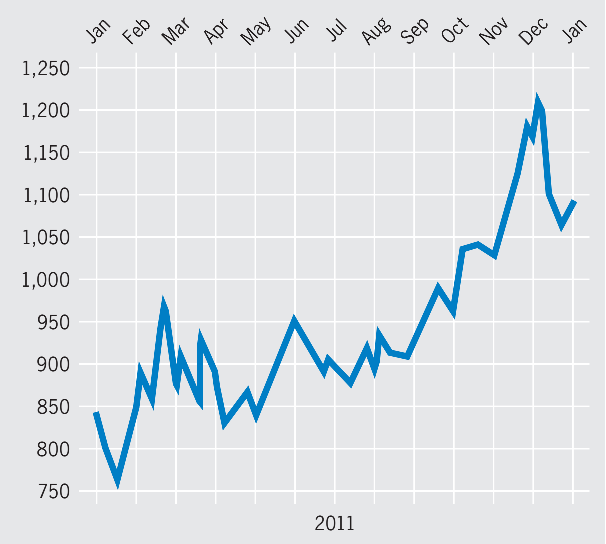
Another EU debt summit at the end of July, which should have calmed financial markets, instead caused panic in the stock markets due to inadequate political signals. Global stock markets plummeted which led to a flight to German government bonds and gold.



Development of selected stock indices in 2010 (in euro)

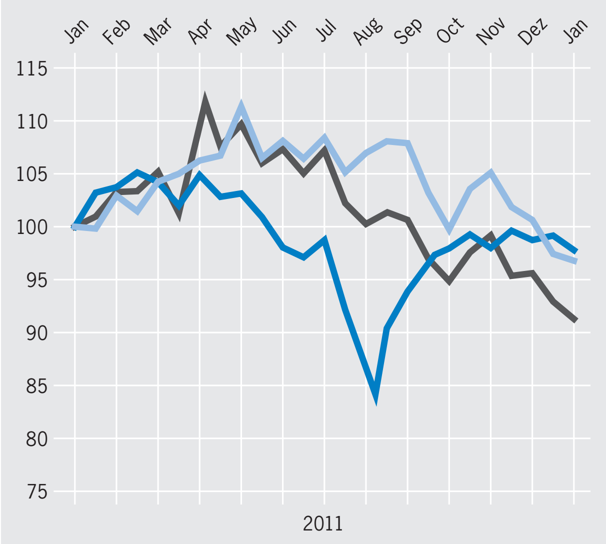
Nasdaq Composite
S&P 500
DJ Stoxx 50
Nikkei 225

Raw Materials
The hope for a promising year for raw materials did not materialise in spite of positive economic data. 2011 was an especially disappointing year for industrial metals due to sagging economic activity with weak development. Copper, considered an economic barometer, lost 23%. Precious metals were also highly volatile; gold reached an all-time high in the second half of the year. After a decline in the third quarter, the price of crude oil again rose due to geopolitical tensions.



Development of gold price in 2011
(per ounce)

Currency developments 2011
In 2011 the development in the international currency markets was marked by the EU debt crisis and the resulting uncertainty. Both the Japanese and the Swiss central banks intervened several times against the strengthening of their currencies. Despite this intervention, the Japanese yen appreciated against the euro by 8.7% by the end of the year. In a surprise move, the Swiss National Bank pegged the Swiss franc to the euro at CHF 1.20. Concern about the euro also led to a strengthening of the Australian, Canadian and US dollar.



Development of selected stock indices in 2011 (in euro)
USD CHF JPY

Key interest rates remained low in Europe and USA
The flight from high risk securities into German bonds led to a dramatic widening of spreads for other issuers compared to German government securities, which continued to strengthen over the year. Yields fell to record lows. The central banks and the decisions they reached were intensely scrutinised. The US Federal Reserve made it clear that the zero-interest policy will continue until further notice. The European Central Bank made it more exciting. At the beginning of the year the interest rate was 1.0%, then in two steps was increased to 1.50%. Under the new leadership of Mario Draghi, the European Central Bank lowered the key interest rate again to 1.0% at year end. The three month Euribor was 1.001% at the beginning of the year, 1.332% at the middle of April and 1.356% at the end of 2011. Since then the tree month Euribor has fallen dramatically and as of 20 March 2012 was 0.832%.

THE AUSTRIAN BANKING SECTOR IN 2011

At the end of the third quarter of 2011, the total assets of Austrian banks exceeded the figure of EUR 1,000 billion (EUR 1,012.5 billion) for the first time in a year and stabilised at EUR 1,014.3 billion up to the year end. This equates to a slight increase of EUR 33.93 billion (+ 3.5%) in the first nine months of 2011. In the fourth quarter, the total assets of Austrian banks only grew by EUR 1.8 billion. Growth was primarily attributable to the balance sheet items foreign loans and advances and loans and advances to Austrian banks in 2011. The top ten banks measured by total assets accounted for a market share of 51.2% (+ 1.2%) at the end of September 2011.

Companies' investing activities increased to EUR 163.8 billion up to the third quarter of 2011 and decreased slightly in the fourth quarter. Loans extended to private households totalled EUR 143.8 billion as at 30 September 2011. The main reason for flatter growth in lending to private households was the acceleration in the repayment of foreign currency borrowings. In total, direct loans and advances to Austrian non-banks amounted to EUR 319.3 billion at the end of 2011.

The total deposits of all banks subject to reporting requirements in Austria increased by EUR 7.3 billion to EUR 288.8 billion compared with the end of 2010. As at 30 September 2011, deposits were divided as follows with 54.0% being accounted for by savings deposits (EUR 155.84 billion), 32.4% by demand deposits (EUR 93.6 billion) and 13.6% by term deposits. The low level of interest rates combined with attractive offers from direct banks is making demand deposits seem more attractive. In the last four years since September 2007, these have grown by 36.4% while savings deposists only posted growth of 9.5% in the same period. Growth in deposits in the first nine months of 2011 was mostly attributable to non-bank financial intermediaries (insurance companies, pension funds, + 3.2%). The sectors non-financial companies (+ EUR 1.86 billion) and private households (+ EUR 1.39 billion) also posted growth in total deposits.

Consolidated funds volume decreased by EUR 5.7 billion (– 4.6%) from January to September 2011 and consequently matches the level of the first quarter of 2005.

The profitability of Austrian banks deteriorated significantly in 2011. Highly volatile stock markets and falls in the value of individual asset classes had a considerable impact on profitability. In the first three quarters of 2011, Austrian banks generated a consolidated operating profit of approximately EUR 7.5 billion. An operating profit of EUR 7.4 billion is expected for the year as a whole. Higher loan loss provisions and the newly introduced profit-unrelated bank tax led to consolidated quarterly net earnings falling to EUR 0.3 billion as at 30 September. Earnings from ordinary activities of EUR 1.72 billion are expected for Austrian banks at the end of 2011.

Since the low in the third quarter of 2008, the aggregate core capital ratio (debt/equity ratio) of all Austrian banks has risen continuously to 10.1% up to the third quarter of 2011. Despite the improvement in the debt/equity situation, Austrian banks remain undercapitalised compared internationally.

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

EUR billion	1.–4. quarter 2011	Change in %	1.–4. quarter 2010	1.–4. quarter 2009
Net interest income	9.62	5.5%	9.12	8.77
Operating profit	7.42	–9.0%	8.16	6.73
Expected earnings from ordinary activities	1.72	–64.5%	4.83	–1.78

STATE OF AFFAIRS

HYPO LANDESBANK VORARLBERG
BUSINESS RESULTS IN 2011 WELL ABOVE THE MARKET AS A WHOLE

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft (hereinafter: Hypo Landesbank Vorarlberg) posted outstanding results of operations for financial year 2011. Net interest income rose by 15.2% to EUR 175.0 million (2010: EUR 151.9 million). Despite adhering to a cautious policy regarding provisions for loan losses and the bank excise of EUR 6.0 million already taken into consideration, earnings before taxes grew by 6.2% to EUR 81.3 million, while consolidated net income grew by 3.2% to EUR 61.7 million.

The bank has always pursued conservative accounting policies and made no changes to its measurement principles in 2011. The Managing Board has attached great importance to a risk-aware lending and business policy for many years. This is now proving – in times of increasing uncertainty and changed risk profiles – to be a major factor in the bank's success.

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

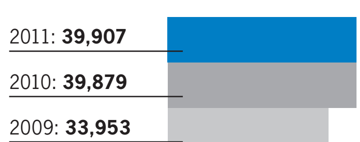
in '000 EUR	2011	Change in %	2010	2009
Net interest income	175,026	15.2%	151,875	131,919
Net interest income after loan loss provisions	149,453	18.5%	126,071	97,422
Net fee and commission income	39,907	0.1%	39,879	33,953
Administrative expenses	–79,670	0.7%	–79,121	–81,966
Earnings before taxes	81,290	6.2%	76,511	57,316
Consolidated net income	61,682	3.2%	59,742	66,199*

* Including sales proceeds from Hypo Investment Bank (Liechtenstein) AG

Net interest income
The interest business contributed substantially to 2011 earnings. Net interest income increased by 15.2% to EUR 175.0 million. Apart from growth in loans and advances to customers (+ 7.1% to EUR 8,522.0 million), it is beneficial that the prefunding in previous years can now be gradually transformed from investments on the money and capital markets into loans and advances to customers.

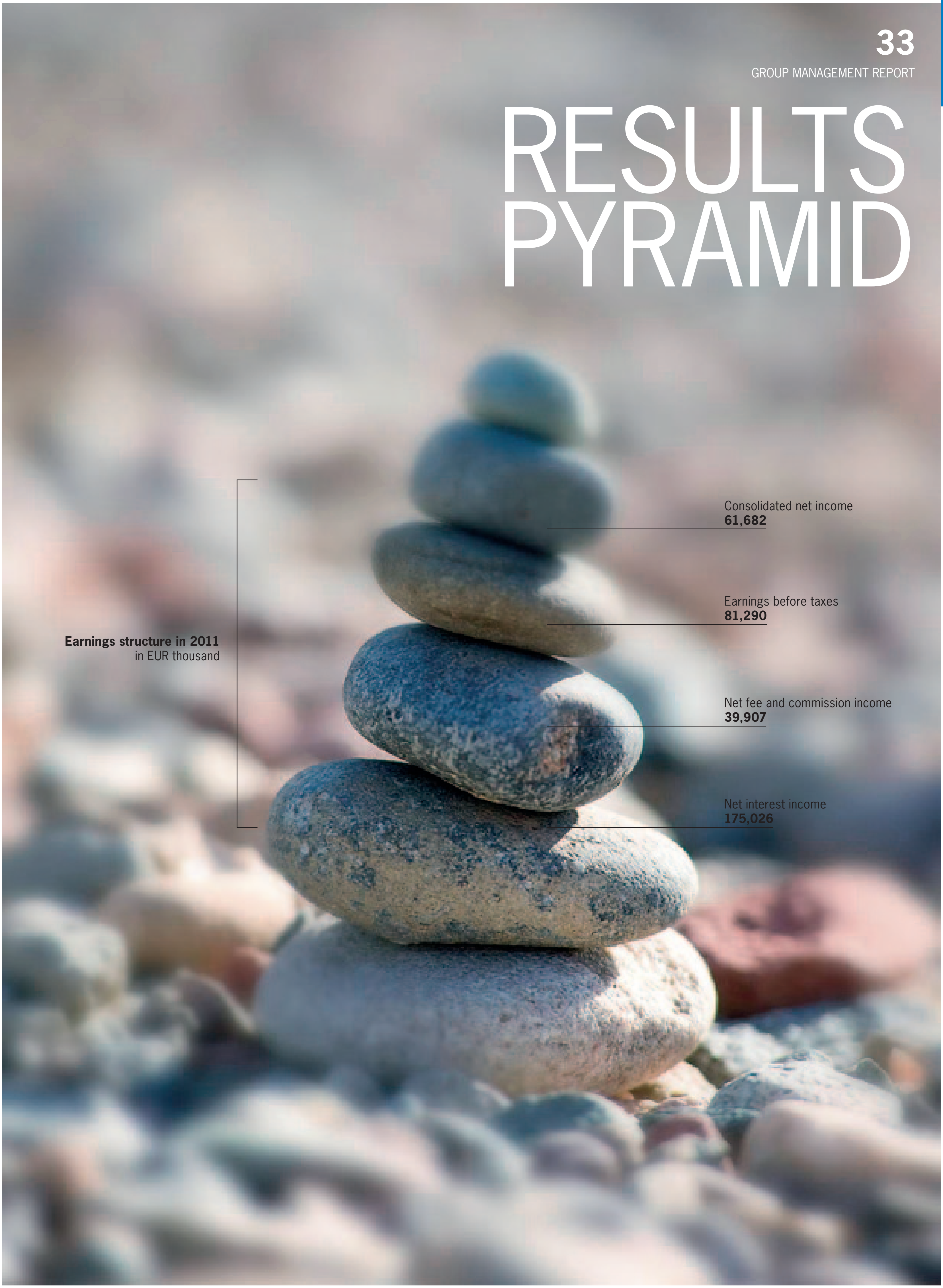
Loan loss provisions
Hypo Landesbank Vorarlberg focusses on business areas whose mechanisms and rules it understands and only takes on risk that it can manage on its own. Due to the economy remaining largely stable in financial year 2011, loan loss provisions, at EUR 25.6 million, fell slightly year-on-year (2010: EUR 25.8 million). Sufficient provisions were made for all recognisable risks.

Net fee and commission income
in EUR thousand



At EUR 39.9 million, net fee and commission income is slightly up the previous year. Apart from the increase in securities commission business of 7.7% to EUR 21.8 million, this item also contains fee and commission income from payment transactions, lending and leasing business and trading in currencies and precious metals.

RESULTS PYRAMID



Net trading result
The Bank maintains a small trading portfolio per Section 22q of the Austrian Banking Act with a focus on customer service. Hypo Landesbank Vorarlberg has no proprietary trading operations either. The net trading result includes the result of the valuation of derivatives and, at EUR –20.9 million, is negative in financial year 2011 because of market turbulence and increases in spreads.

Net result from other financial instruments
The negative result from other financial instruments of EUR –10.3 million is attributable to falls in the value of securities caused by events on the market.

Administrative expenses in EUR thousand

The continuous growth path of Hypo Landesbank Vorarlberg is accompanied by consistent cost management. Processes are refined for efficiency and corporate structures are made as lean as possible. Regular rationalisation projects such as functional analyses enable ongoing productivity and profitability improvement and contribute to consistently good key return figures. This ensures favourable performance of administrative expenses (+0.7%) and the necessary operating strength even in an economically uncertain environment.

In 2011, staff costs fell by 3.4% to EUR 48.4 million. Wages and salaries rose by 2.1% to EUR 36.7 million. Material expenses increased by 7.8% year-on-year. This increase is mainly attributable to higher IT costs.

Proposed distribution of profits
The net profit posted by Hypo Landesbank Vorarlberg for financial year 2011 was EUR 61.1 million (2010: EUR 54.9 million). After the allocation of EUR 58.5 million to reserves to boost capital as planned and after offsetting the net profit carried forward, accumulated profits available for appropriation totalled EUR 4.5 million (2010: EUR 13.5 million). Subject to approval by the annual meeting of shareholders, a dividend of EUR 9.00 is proposed per dividend-entitled share on share capital of EUR 150 million. The total distribution for 293,000 shares therefore results in an amount of EUR 2.637 million (2010: EUR 10.255 million). For the participation capital issued in 2008, interest rate profits are distributed on the basis of an agreed variable interest rate.

Key management indicators

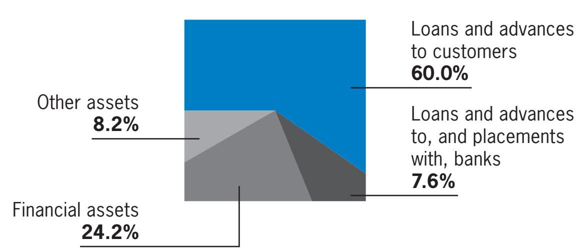
	2011	Change in %	2010	2009
Return on Equity (ROE)	14.18%	–3.0%	14.62%	12.25%
Cost-Income-Ratio (CIR)	39.66%	–5.5%	41.99%	50.72%
Solvency ratio (banking book)	13.26%	–2.6%	13.61%	13.22%
Core capital ratio (banking book)	9.10%	0.6%	9.04%	8.50%

At 14.18%, return on equity (ROE) before taxes deteriorated slightly compared with the previous year (2010: 14.62%). Hypo Landesbank Vorarlberg's cost/income ratio was 39.66% as at 31 December 2011 (2010: 41.99%),emphasising once again the high efficiency and productivity of Hypo Landesbank Vorarlberg. The debt/equity ratio decreased slightly from 13.61% to 13.26%, and the core capital ratio rose from 9.04% to 9.10%.

CHANGES IN THE NET ASSETS AND FINANCIAL POSITION

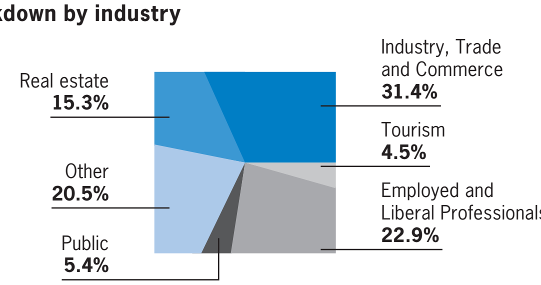
As at the end of 2011, Hypo Landesbank Vorarlberg's total assets increased by 4.8% to EUR 14,218.6 million as compared with last year's reporting date. Customer business rose at an above-average rate both on the assets side and on the liabilities side.

Balance sheet assets

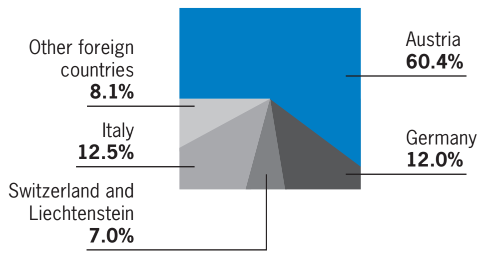


In 2011, loans and advances to banks decreased as planned by 23.5% to EUR 1,087.1 million. By contrast, loans and advances to customers increased by 7.1% to EUR 8,522.0 million with some of this growth due to an appreciation of the Swiss franc. Securities rose by 7.1% year-on-year to EUR 3,442.8 million.

Loans and advances to customers – breakdown by industry

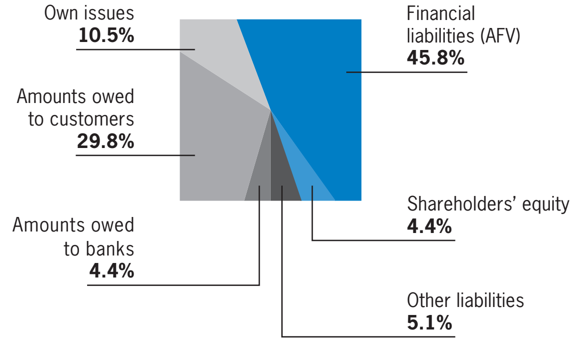


Loans and advances to customers – breakdown by region

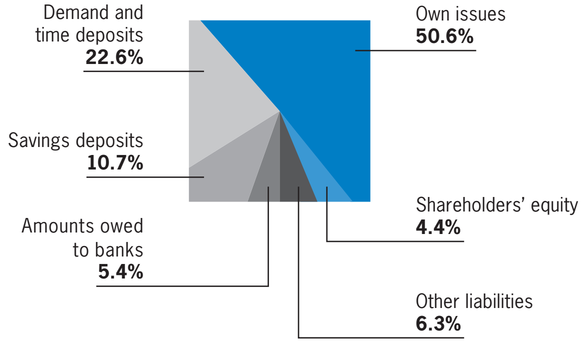


Liabilities to banks recorded a decrease of 20.3% to EUR 632.5 million. Thanks to our prefunding, funding capital from other banks could be reduced. Due to the elevated security needs of customers, demand for traditional savings vehicles was also very strong in 2011. Amounts owed to customers increased by 11.3% to EUR 4,236.3 million. In 2011, savings deposits increased by 5.3% to EUR 1,520.7 million, demand and term deposits by 12.8% to EUR 3,214.9 million. Securitised liabilities recorded growth of 3.5% to EUR 7,193.1 million. Equity rose by 7.1% to EUR 628.5 million.

Balance sheet liabilities



Funding structure



Statement of changes in equity

in '000 EUR	31.12.2011	Change in %	31.12.2010	31.12.2009
Core capital (Tier 1)	721,725	8.9%	662,556	596,819
Paid-in capital	159,000	0.0%	159,000	159,000
Disclosed reserves	443,558	15.2%	385,048	342,902
Minority interests per Section 24 (2) no. 1 BWG	109,859	8.5%	101,243	82,746
Consolidation per Section 24 (2) no. 2 BWG	10,952	–41.1%	18,605	13,267
Intangible assets	–1,644	22.7%	–1,340	–1,096
Supplementary capital resources (Tier 2)	333,560	–1.3%	338,102	335,332
Supplementary capital	105,236	3.0%	102,192	92,360
Remeasurement reserve	40,324	33.9%	30,110	14,972
Subordinated capital	188,000	–8.6%	205,800	228,000
Deductions	–3,506	–1.5%	–3,558	–3,150
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	1,051,779	5.5%	997,100	929,001
Assessment basis (banking book)	7,932,346	8.3%	7,326,872	7,025,499
Core capital ratio (banking book)	9.10%	0.6%	9.04%	8.50%
Solvency ratio (banking book)	13.26%	–2.6%	13.61%	13.22%
Assessment basis (modified)	8,273,850	8.2%	7,650,225	7,326,188
Core capital ratio	8.72%	0.7%	8.66%	8.15%
Solvency ratio	12.71%	–2.5%	13.03%	12.68%

The share capital of Hypo Landesbank Vorarlberg amounts to EUR 150 million. After the dividends to be distributed in the amount of EUR 2.637 million, core capital (Tier 1) increased by EUR 58.5 million. Supplementary capital resources (Tier 2) were EUR 333.6 million as at 31 December 2011.

Capital resources under Sections 23 and 24 of the Bankwesengesetz (Austrian Banking Act or BWG) as at 31 December 2011 came to EUR 1,051.8 million compared with EUR 997.1 million on the previous year's reporting date and are consequently well in excess of the minimum required by law. At the end of 2011, the debt/equity ratio (banking book) was 13.3% (2010: 13.6%), while the core capital ratio (banking book) rose from 9.0% to 9.1%.

Events of material importance after the reporting date

No events of significance occurred between the end of financial year 2011 and the preparation/auditing of the consolidated financial statements that materially impact the reporting company's assets and liabilities, financial condition, and results of operations in terms of a true and fair view.

On 21 February 2012, the rating agency Moody's changed the outlook from stable to negative for several banks, including Hypo Landesbank Vorarlberg (rated A1), because of the Republic of Austria's negative outlook.

OUTLOOK FOR 2012

Economic situation

Following an increase in Austrian GDP of 3.2% in real terms in 2011, WIFO (Österreichisches Institut für Wirtschaftsforschung or Austrian Institute of Economic Research) expects a small increase of 0.4% in 2012. However, following a satisfactory first quarter in 2012, experts are already talking of the economy having stabilised following a slight dip in growth at the end of 2011.

Interest rates will remain at a low level for the time being. This will facilitate a revival in the global economy once the economic weakness has been overcome. The assumption here is that increased austerity measures in the EU will not significantly extend the economic downturn but will contribute to calming financial markets. According to forecasts by WIFO, global production could recover markedly from 2012.

Focus areas for 2012

A major turning point for the Bank's management was decided in June 2011. After over 36 years on the Board of Hypo Landesbank Vorarlberg, Chairman Managing Board Jodok Simma (65) did not apply for an extension of his Managing Board contract – as announced two years ago. His Managing Board contract will end on 30 April 2012. The Supervisory Board appointed Board member Michael Grahammer as CEO and Michel Haller to the Board of Hypo Landesbank Vorarlberg with effect from 1 May 2012.

The new Managing Board will adhere to its proven business model. The strategic focus is deepening existing customer relationships and expanding the Bank's presence on the growth markets outside the home market of Vorarlberg to secure Hypo Landesbank Vorarlberg's earnings power in the long-term. We remain dedicated to optimal customer service of existing customers and to obtaining new customers.

In its corporate customer business, Hypo Landesbank Vorarlberg will continue to take a responsible approach in fulfilling its role as a leading corporate bank in Vorarlberg and supply companies with financing in existing markets. Companies' investing activities were somewhat weaker in the first quarters and consequently demand for loans is expected to be lower in 2012. Hedging interest rates is to be recommended because of low capital market interest rates.

In the Private Customer segment, the liquidity and refinancing policies will focus more on obtaining savings deposits. Hypo Landesbank Vorarlberg enjoys a high level of confidence from investment clients due to its good creditworthiness and high level of reliability. The need for reliability and flexibility will be met with attractive offers in the savings deposits area. Considerable willingness to invest continues to be expected in the area of private financing, as creating living space and renovations continue to be extremely important.

Investments in securities are to be reduced. Despite planned growth in loans, this could mean that total assets will fall slightly.

In the Asset Management segment, we wish to attract more customers from among the customer group of classic, institutional investors such as banks, insurance companies and pension funds. Hypo Landesbank Vorarlberg has a sound history and has grown methodically over the years. Its "assets" include an innovative product range and knowledges, individual advisory and consultancy services.

As previously, our branches will remain the most important pillar of our growth. For years, we have also been offering our customers various online services for payment transactions and securities transactions (e-brokerage). From spring 2012, Hypo Landesbank Vorarlberg will boost its Internet presence to make sensible use of the new technological opportunities. Using the online sales channel hypodirekt.at, customers will be able to open an account and invest their funds at an attractive rate from the comfort of their own homes. Our aim is to offer our customers additional online services in future.

With a debt/equity ratio (banking book) of 13.3% and a core capital ratio (banking book) of 9.1%, Hypo Landesbank Vorarlberg already has a sound basis today. We are planning a capital increase for 2012 and will pay particular attention to building up capital to secure a good rating and consequently favourable funding in future.

Expected earnings development in 2012

By and large, the first three months of 2012 were very satisfactory despite many factors generating political and economic uncertainty. Interest business is and will remain a stable pillar for earnings development. Hypo Landesbank Vorarlberg has always paid special attention to a sustainable liquidity policy and has sufficient liquidity reserves to allow a further expansion of its lending and to assume a further increase in net interest income.

The Managing Board expects a stabilisation of net fee and commission income at the current high level. Overall operating expenses will remain at about the same level as the prior year. A slight increase in staff costs must be assumed. Among administrative expenses, higher IT costs must be expected in particular. Hypo Landesbank Vorarlberg will continue to follow a careful risk and accounting policy and keep sufficient sums for loan loss provisions. Overall, the Managing Board is expecting another very good result in 2012.

In general, the Managing Board must assume a sharp increase in additional costs for the Bank due to the implementation of Basel III, the new securities capital gains tax and bank excise, which will lead to price increases in banking services. In addition to corporation tax of over EUR 19 million, Hypo Landesbank Vorarlberg pays a bank excise of EUR 6 million. Following the announcement of a further increase in the bank excise, other sectors has now announced they will fight these erroneous regulatory signals.

DEVELOPMENT BY SEGMENT

Corporate Customers

Developments in corporate customer business underline the positive state of the Austrian economy. We are finding an excellent order situation and a sustained willingness to invest. Loans to corporate customers were higher than budgeted in 2011 – rising by EUR 427.9 million or 9.5% year-on-year. Net interest income rose by 6.7% year-on-year to EUR 71.7 million. In total, earnings before taxes of EUR 41.4 million were generated in the corporate customers sector in financial year 2011.

As a result, Hypo Landesbank Vorarlberg further expanded its position as a financing specialist for companies and the public sector in recent years and again proved that it is a strong and dependable partner for Austrian businesses even in more difficult economic conditions. Above average increases were achieved in both revenues and earnings in the growth markets outside Vorarlberg (Vienna, Graz, Wels, eastern Switzerland and southern Germany).

Austrian companies' great confidence in Hypo Landesbank Vorarlberg is also clear from the trend in primary deposits: growth of EUR 236.4 million or 19.3% was achieved in the corporate customers sector in 2011.

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

Private Customers

The Private Customers sector performed well in 2011 despite difficult conditions and generated a total profit of EUR 10.6 million. Historically low interest rates have stimulated demand for loans: many customers invested in property or refurbished their homes last year. At the same time, it was clear that the trend towards paying off debt has continued unabated: many customers have repaid outstanding loans prematurely. The volume of loans repaid prematurely exceeded the volume of scheduled repayments for the first time. Despite these repayments amounting to more than EUR 100 milion, the volume of loans increased by approximately EUR 56.8 million year-on-year in 2011. This equates to growth of 3.6%. It should be noted here, that part of this growth incurred as a result of the appreciation in the Swiss franc compared with the euro.

As far as investments are concerned, conservative, short-term forms of investment are popular. Many people continue to have little trust in financial markets. Security is what counts in investment. At the same time, a trend towards simple products is apparent. At present, the majority of savings deposits are concentrated on short-term forms of saving such as as the one-year special interest savings book. The Hypo-Umweltsparbuch launched in September is an attractive new alternative savings product. It involves the bank supporting environmental projects in the region selected by a jury. The fact that makes it so appealing is that the more customers save with a Hypo-Umweltsparbuch, the greater the contribution Hypo Landesbank Vorarlberg makes to these environmental projects.

We seek to contact our customers under the motto "Passionate. Sound. Advice" and offer them individual solutions – particularly in challenging times. The project "Delight customers – recommendation by pleased customers", which was started in 2010, led to high levels of recommendations from satisfied customers.

Private Banking and Asset Management

Asset Management
Anxiety concerning the sovereign debt crisis and potential asset bubbles caused severe fluctuations on financial markets, since investors sold off riskier assets. Equities and commodities markets posted their weakest performance in three years in the second half.

Asset Management's result was necessarily adversely affected by these developments. Having posted the highest figure, at EUR 889.6 million, ever achieved by Hypo Landesbank Vorarlberg for assets under management as at 30 June 2011, this figure decreased to EUR 772 million as at 31 December 2011 (2010: EUR 863.1 million) primarily because of falls in market values. The number of asset management mandates declined by 290 to 2,956.

The introduction of new innovative asset management strategies in the fourth quarter of 2011 generated new asset management mandates in the first quarter of 2012. A mathematical investment model was developed in the shape of Hypo IQ, which is able to exploit both upward and downward trends in stock markets. The new Hypo Value Realwertestrategie (real value strategy) for shares is primarily targeted at the preservation of capital. The bank invests solely in shares of high-quality, large, internationally significant companies from a defined investment universe, which have low valuations.

In the Private Banking and Asset Management sectors, Hypo Landesbank Vorarlberg has earned itself an excellent reputation in recent years. This is underpinned by the bank's award from World Finance in the Investment Management category for 2011 and 2012. Based on this foundation, the Bank expects to serve more institutional customers such as pension funds, insurance companies and other banks in future.

Only Austrian bank with international performance standards in asset management
Pricewaterhouse Coopers Zürich reviews the compliance of asset management with the Global Investment Performance Standards (GIPS®) on an annual basis and accredited this most recently in December 2011. Since 2005, Hypo Landesbank Vorarlberg is the first and still the only Austrian bank whose asset management is certified according to these internationally-recognised standards.

Treasury | Financial Markets

In 2011, financial markets were characterised by considerable volatility and uncertainty: in the first half by events in the Arab world, the natural disaster in Japan and the fluctuations on stock markets, the oil price and the Swiss franc triggered by this. The second half was influenced by the discussions concerning the increase in the borrowing limit in the USA, the subsequent downgrading of the USA to AA+ and the intensification in the debt crisis in the euro zone.

Turbulence on financial markets led to great uncertainty among private and professional investors with consequences for Hypo Landesbank Vorarlberg's Treasury business. The debt crisis and the increase in credit margins on government and bank bonds led to increased losses in the banking book, which depressed income from securities in 2011.

The disruption in the market resulted in an increase in credit margins on some bonds. The bank exploited this increase to purchase its own bonds maturing between 2015 and 2017 on the market. As a result of the ongoing positive liquidity situation, advantageous funding from mortgage bonds and increasing contribution margins from investment, Treasury exceeded the budget figures significantly in 2011.

In 2012, developments in Treasury will depend heavily on developments on financial markets and the continuing sovereign debt crisis.

Asset Liability Management
Investments totalling EUR 1,052 million were purchased for the banking book in 2011. At 31 December 2011, bond holdings were valued at a total EUR 3,439 million.

Because risk premiums on the market remain comparatively high, the volume of risk premiums received increased further despite the conservative investment policy. As in the previous year, the average rating of new investments was Aa3.

The investment focus in 2011 was primarily on bank bonds, mortgage bonds, government bonds and bank bonds with counter or sovereign guarantees. In its investment strategy, Hypo Landesbank Vorarlberg concentrated mainly on Austria.

In line with its risk policy Hypo Landesbank Vorarlberg has comparatively little exposure to interest rate risks (maturity transformation). In 2011, low money market interest rates meant that the bank generated very satisfactory earnings despite the moderate volumes involved in maturity transformation.

The portfolio of government bonds from the peripheral countries, which is already very low, is closely monitored and written down if necessary. Should there be no dramatic deterioration in the crisis, no additional major charges are expected.

The bank will continue to pursue a low-risk investment strategy in 2012. In the process, it will focus on government bonds from European core countries, covered bonds and other public sector risks. Geographically, it will also concentrate on Austria this year.

Asset and liability management – funding
In 2011, there were 29 new issues with a total volume of roughly EUR 558 million. They involved 18 private placements, nine retail issues and two public sector mortgage bonds issued on the Swiss capital market.

The majority of the new bonds were accounted for by public sector mortgage bonds with a nominal value of EUR 492 million, ca. EUR 61 million were issued in the form of senior unsecured bonds.

In 2012, the Bank will strive for a rated mortgage-backed covered pool to be able to issue broad-based mortgage bonds on the international capital market.

Money, Foreign Exchange and Interest Derivatives Trading
A bank's readily accessible short-term liquidity is naturally subject to significant fluctuations. In 2011, the funds to be invested in money market trading amounted to between EUR 100 million and EUR 750 million. Over 2,500 transactions were concluded to invest these funds, the majority of which involved partners from Austria, Germany and Switzerland. Secured money market transactions are becoming ever more important given the considerable levels of uncertainty prevailing on international markets.

Forex trading including all customer transactions, the corresponding offsetting transactions with banks, and forex swap transactions for steering the money market amounted to more than 12,500 individual transactions and a volume of EUR 15 billion in the forex sector. In the process, income increased by over one million year-on-year to EUR 3.47 million.

Fund Service
The Fund Service unit administered 70 mandates at the end of 2011. These reflect funds under management of EUR 7.7 billion. This equates to a fall of ca. 9% compared with the previous year, which was caused by net cash outflows and price falls.

Tax representative and paying agent functions were performed for 276 tranches and classes of foreign investment funds in 2011. As tax representative responsible for calculating and reporting dividend-equivalent income and capital gains, the unit administered 256 mandates.

Customer accounts for external brokers are also administered in the Funds Service department. Demand for fund products has fallen sharply because of the difficult market situation in this division.

Securities trading (non-proprietary)
Despite the difficult market environment, the branches' annual revenues of ca. EUR 1.5 billion in the previous year were more or less maintained. This is mainly attributable to excellent sales in the second half, which compensated for the relatively poor start to the year.

The trend in non-proprietary sales in 2012 will depend on the developments on financial markets and investor confidence.

Swapgroup
At the end of 2011, the Swap unit managed 1,104 derivative transactions with a total nominal volume of EUR 10.86 billion. Compared year-on-year, this equates to an increase of 245 transactions (+ 28.5%) and nominal growth of EUR 839 million (+ 8.4%).

The increasing number of transactions and derivative partners and the individual characteristics of each derivative entail substantial processing costs. The Bank also tried to make use of the potential for automation through a range of projects in the past year.

Collateral to secure derivative market values was exchanged with 34 business partners on a daily basis. At the year end, Hypo Landesbank Vorarlberg held net cash collateral of EUR 295 million.

MAJOR SUBSIDIARIES OF HYPO LANDESBANK VORARLBERG

Hypo Immobilien & Leasing GmbH

At the beginning of 2012, Hypo Landesbank Vorarlberg merged its two companies Hypo Immobilien GmbH and Hypo SüdLeasing GmbH. The main headquarters of the new Hypo Immobilien & Leasing GmbH is still the Hypo office in Dornbirn, Austria.

This merger was preceded by an extensive project. The two previous subsidiaries, Hypo SüdLeasing GmbH (previously 26% equity ratio) and Hypo Immobilien GmbH (100% equity ratio) were merged with the aim of creating a substantial company and exploiting administrative synergies, particularly in relation to real estate leasing. For this, Hypo Landesbank Vorarlberg acquired the 74% interest in Hypo SüdLeasing GmbH held by Landesbank Baden Württemberg in its entirety. The purchase agreement was signed in October 2011.

Hypo Landesbank Vorarlberg's entire Austrian leasing and real estate business has been combined in one company in the shape of Hypo Immobilien & Leasing GmbH. The new company's range of services extends from real estate brokerage through property appraisal, construction management, property management and facility management to optimal financing solutions involving vehicle, movables and real estate leasing. For customers, this means a holistic leasing advisory service and real estate management by an experienced, mobile team of experts working closely with the Bank. In Vorarlberg, the Bank offers real estate services at its Bregenz, Bludenz and Feldkirch offices in addition to its headquarters in Dornbirn. Leasing teams service customers in Dornbirn and Vienna. The Swiss leasing market is serviced directly by a mobile team. The Bank's branches in Graz and Wels act as a point of contact for customers interested in leasing. This means that the services of Hypo Immobilien & Leasing GmbH can be offered throughout Austria and on the Swiss market. Since the merger of the two Hypo subsidiaries, on average 50 people have been employed at Hypo Immobilien & Leasing GmbH.

The consolidated total assets of the companies mainly included in the consolidated financial statements and belonging to the real estate subgroup came to EUR 83.6 million as at 31 December 2011. Hypo Immobilien GmbH is posting earnings before taxes of EUR 378,524.00 for 2011.

The consolidated total assets of the companies mainly included in the consolidated financial statements and belonging to the leasing subgroup amounted to EUR 428.8 million as at 31 December 2011. New business worth EUR 57 million was generated in the movables and vehicle leasing sector. In real estate leasing, new business amounted to EUR 32 million. Total new business of EUR 89 million was achieved. At the end of 2011, the leasing portfolio comprises a volume of EUR 415 million.

Hypo Vorarlberg Leasing AG, Bozen
Hypo Vorarlberg GmbH, Bozen

In 2011, the Italian leasing market recorded a sharp fall (–9.9%) with the downturn being concentrated in the real estate sector, while the energy sector again recorded an increase. For Hypo Vorarlberg Leasing AG, 2011 was again characterised by a cautious business policy because of the difficult economic situation in Italy. In total, 157 contracts comprising net new volume of EUR 128 million were concluded. This was mainly focussed on lessees and guarantors with excellent credit ratings, top lease assets and much improved lending conditions compared with last year. The energy sector again put in a satisfactory performance, particularly with regard to investment in photovoltaic systems for private investors, which comprised ca. 19% of new volume in 2011.

The real estate market remains persistently subdued both in terms of the volume of completed transactions and the prices for commercial properties. This situation required increased loan loss provisions. As a result, Hypo Vorarlberg Leasing AG posted earnings before tax of EUR –1.9 million for financial year 2011.

The aim for 2012 is a net new volume of EUR 90 million under continued selectivity and stricter risk acquisition parameters. Attention will be focused on real estate leasing, while photovoltaic projects for private investors will no longer be processed for reasons related to capital requirements. Plans are in place to broker photovoltaic, movables and car transactions in return for commission income within the framework of a convention with a third party partner. The cooperation with Südtiroler Sparkasse started in 2011 is – similarly to the convention in place with Südtiroler Volksbank since 2006 – to facilitate access to impeccable – bankwise – customers in South Tyrol, Trentino and Veneto.

Hypo Vorarlberg Leasing's activities in Lombardy will be concentrated on the branch in Como from the second half of 2012. The branch in Bergamo will be closed and its contracts will be acquired by the Como branch.

Hypo Vorarlberg GmbH successfully completed the new structure in Burgstall started in 2010. The high quality, modern commercial property was let, as planned, to a Finnish electronics group, at the end of 2011. This investment project will secure a good, long-term return.

The crisis on the commercial property market also continued in 2011. In essence, the reasons for this are the increasing number of commercial properties on the market, a continuing reluctance by companies to take on capital expenditure and the restrictive attitude of Italian banks to approving credit. Despite these unfavourable conditions, several properties were sold in 2011. Hypo Vorarlberg GmbH also acquired some properties owned by Hypo Vorarlberg Leasing AG. Thanks to the conclusion of long-term tenancy agreements, these properties will remain in the possession of Hypo Vorarlberg GmbH as investment properties. Hypo Vorarlberg GmbH's results were negative, at EUR – 0.9 million, in 2011 because of impairment charges on properties owned by the company.

HYPO EQUITY Unternehmensbeteiligungen AG (HUBAG)

HYPO EQUITY Unternehmensbeteiligungen AG is a holding company for venture capital and private equity activities. Its core business is financing small and mid-sized enterprises by providing equity and mezzanine capital. Its investors include Hypo Landesbank Vorarlberg, Hypo Tirol Bank, Volksbank Vorarlberg as well as insurance companies, foundations and the management.

HYPO EQUITY Unternehmensbeteiligungen AG closed its financial year 2010/11 with a record result once more. Consolidated income after taxes as at the reporting date 30 September 2011 amounted to EUR 12.1 million (2010: EUR 10.9 million). Total assets increased from EUR 106 million to EUR 110 million in the past financial year. Success is due, not least, to the portfolio policy practiced over many years, which focuses on fundamentally hedged business models and invests in sectors, which build less on temporary hype than on long-term market requirements.

In line with its investment strategy, HYPO EQUITY Unternehmensbeteiligungen AG will also retain the the DACH Region (Germany, Austria, Switzerland) as its geographical core market in future, it will prefer later stage investments and adhere to a sector-impartial, opportunistic investment style. Investment by HYPO EQUITY Unternehmensbeteiligungen AG is focused on both buyouts and growth capital as well as special situations.

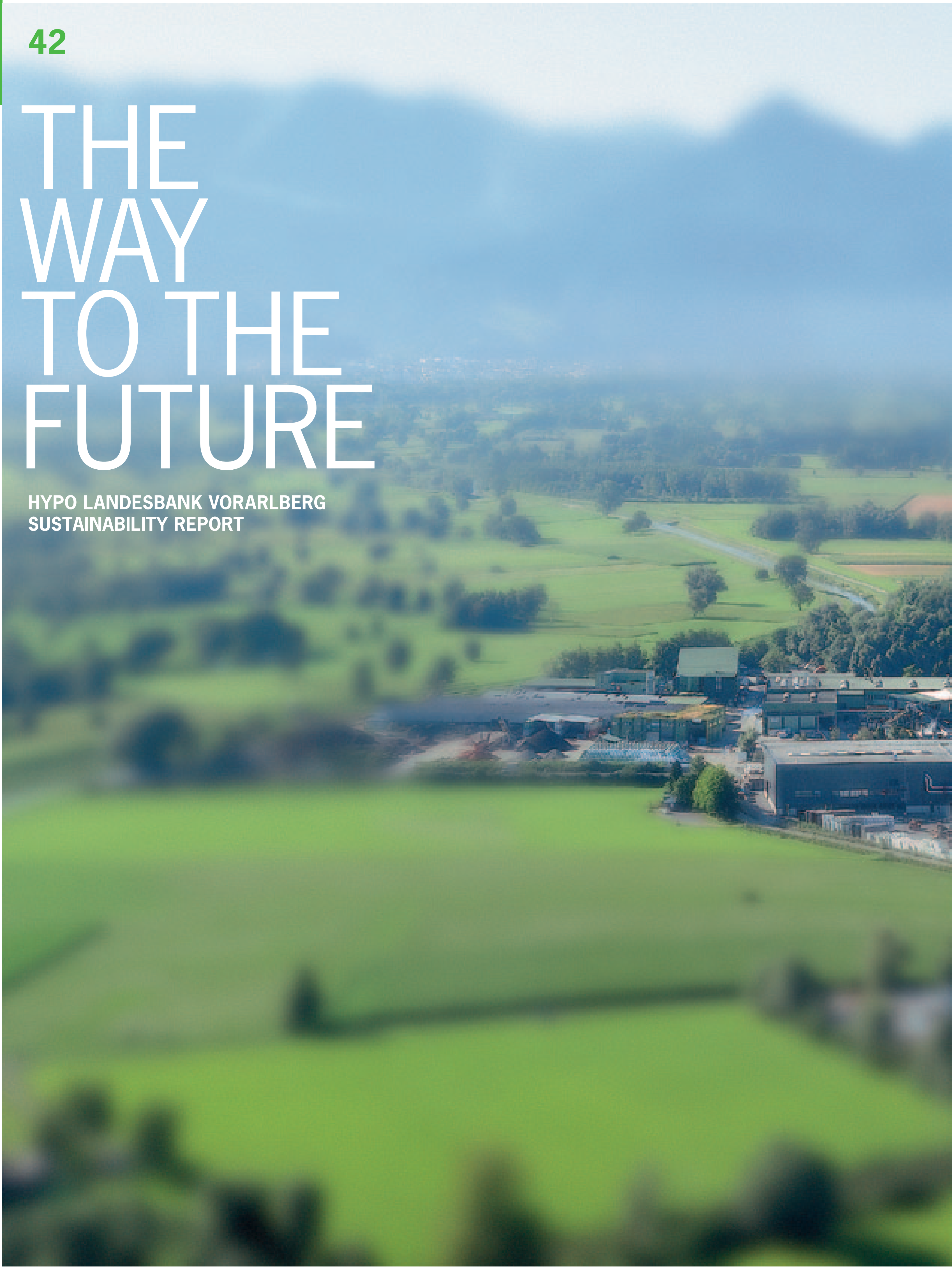
With regard to financing instruments, the company will continue its tried and tested practice of using a broad mix ranging from pure equity through debt and mezzanine financing to derivative financial instruments in future. This will always take place against the backdrop of a clear focus on bespoke,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

Hypo Versicherungsmakler GmbH

The positive development at Hypo Versicherungsmakler GmbH continued in 2011. Earnings before tax of EUR 124,624.00 (+ 28.1%) and sales revenues of more than EUR 1.2 million were achieved with unchanged staff of 13. This equates to a further increase in sales revenues of 9.2% compared with the previous year. By comparison, the Austrian insurance industry posted growth of ca. 3% in property and accident insurance in 2011. A fall in premiums of – 7.5% was recorded in life assurance. This fall is attributable to several factors: growing uncertainty regarding developments on capital markets in Europe, the extension of the minimum term for insurance policies to 15 years in return for a single premium and the slump in the sale of fund-linked life policies.

The concept of personal support for our corporate and private customers and the constant optimisation of insurance and premium conditions has proved its worth. Customers appreciate the comparative lack of fluctuation, the extensive specialist knowledge and high level of commitment of the broker teams. Using new concepts and products for groups of owners, the company has persuaded large numbers of facility managers to work with it. There is still considerable potential for growth in this area.

Demographic change in Austria and the previously very limited use of occupational pension schemes in Austria mean that a rapid increase in occupational pension provision can be expected in Austria. Enterpreneurs also pay far too little heed to the fact that there is generally insufficient financial provision for existing pension commitments. The ongoing adjustment of retirement tables to Austrians' increased life expectancy is leading to substantial additional provisions being required in balance sheets. The corporate customer advisors at Hypo Landesbank Vorarlberg and advisors at Hypo Versichrungsmakler GmbH offer attractive solutions for building up financial reinsurance.



THE WAY TO THE FUTURE

HYPO LANDESBANK VORARLBERG
SUSTAINABILITY REPORT

Sustainable thinking is one of the foundations of our corporate philosophy. It is because we are aware of our history that we can think of the future. We preserve existing values in order to create new ones and combine tradition with innovation. With respect for the next generation.

Responsible, sustainable development means combining economic thinking with a social and societal orientation. At Hypo Landesbank Vorarlberg appropriate measures are taken to safeguard a sustainable business model, to fulfil social responsibilities and at the same time assure that company values are lived by all employees.

ECONOMIC SUSTAINABILITY

As a bank, our greatest chance for sustainability lies in the financial area. The fundamental goal, to secure long-term profitability, has top priority at Hypo Landesbank Vorarlberg. Only a successful bank can fulfil its long-term social and ecological obligations and make an equitable contribution. Only with a responsible financial policy is it possible to be a long term business partner in a region and to create lasting added value for customers. Strategy, corporate policy, goal setting and the remuneration system at Hypo Landesbank Vorarlberg pay particular attention to long-term corporate success and make long-term successful development the guiding principle of business activities.

Current developments in the international financial markets pose great challenges for Hypo Landesbank Vorarlberg in reaching its economic goals, and at the same time confirm the strategic orientation of the Managing Board. Our investment policy has always been and remains to generate sustainable earnings. In the wake of the financial crisis this approach has proven that even in challenging times, Hypo Landesbank Vorarlberg is a reliable partner for its customers.

ECOLOGICAL SUSTAINABILITY

Hypo Landesbank Vorarlberg is constantly looking for ways to reduce its environmental footprint, including the consistent reduction of greenhouse gas emissions and efficient use of resources. For many years, Hypo Landesbank Vorarlberg has taken measures to reduce the environmental impact of its operations and processes. Environmentally conscious and long-term cost-reduction measures have been used in building and energy management (renovation of the headquarters, Hypo Office in Dornbirn, Austria). In day-to-day processes (paper use and waste separation) the Bank introduced a sustainable programme to change behaviour patterns at an early stage. Together, these measures contribute to a conscious and efficient use of natural resources.

Hypo Landesbank Vorarlberg has for many years participated in numerous projects to protect the environment. Since 2008, the Bank has sponsored the VN Klimaschutzpreis, a local environmental contest, which recognises special innovative and energy saving projects. The principles of sustainability and future orientation are also included in the products Hypo Landesbank Vorarlberg offers. Hypo-Klima-Kredit supports residential energy-saving measures by customers. The Umwelt-Sparbuch, introduced in 2011, offers significant value for people and the environment. Depositors waive 0.1% of the interest and Hypo Landesbank Vorarlberg doubles that amount which is then used for selected environmental projects. The more the Umwelt-Sparbuch is used, the greater the support for sustainable development in the region.

Conscious mobility offers advantages for people, businesses and the environment, and, in comparison to other transport policy instruments, through information and awareness raising brings great change in behaviour without major financial investment. By switching to public transportation for their commute to work, employees drive less. To this end, all employees at Hypo Landesbank Vorarlberg receive a travel expense subsidy for their commute to and from the workplace.

SOCIAL SUSTAINABILITY

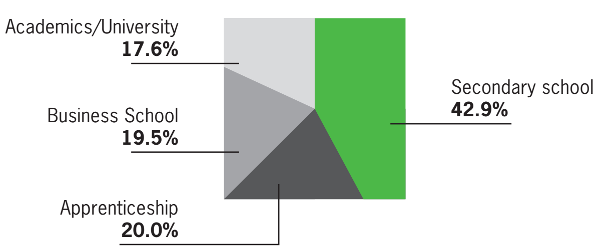
Hypo Landesbank Vorarlberg as employer

The most valuable capital of Hypo Landesbank Vorarlberg is our employees. We can only be successful – in both economic terms and with a view to our societal responsibilities – when our employees identify themselves with the bank and its goals, when they enjoy working with us and feel comfortable with their job. We owe our lasting success to their dedication, their competence and their motivation.

Training and further education

A major concern for the Bank is the continued development of the professional and social skills of our employees. Through offering excellent training for career starters and further educational opportunities for our established employees, Hypo Landesbank Vorarlberg will remain an attractive employer.

Training profile 2011



The professional training system of Hypo Landesbank Vorarlberg includes planned training for young employees and ensures training standards for all employees as well as creating a systematic and needs-oriented further education. In 2011, we invested EUR 591,923 in training and further education. This corresponds to EUR 998 per employee. On average our employees spend 3.7 days a year in courses.

In 2011, 44 employees passed the banking examinations (Hypo training level 1 and 2). Seven employees successfully completed professional career and technical training courses. In addition, seminars in specialised business-related fields and personal development were offered. In total 283 different educational activities were offered in 2011.

Expenditure on training and further education Hypo Landesbank Vorarlberg 2011

	2011	Change in %	2010	2009
Expenditure for education and training (in '000 EUR)*	**592**	–5.0%	625	635
Expenditure per employee in EUR	**998**	–3.2%	1,031	1,039
Average training days per employee per year	**3.7**	–31.5%	5.4	6.7

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

Hypo trainee and Hypo apprenticeship

Ten young people took advantage of the Hypo trainee programme to start their career at Hypo Landesbank Vorarlberg. Launched in 1999 as the first training programme of its kind in Vorarlberg, it has proved to be an indispensable source for a new generation of executives. More than 120 trainees have completed the programme as have 35 apprentices. The Hypo-Karriere-Forum further expands our commitment to graduating students and presents Hypo Landesbank Vorarlberg as an attractive employer.

As a company that has won awards for its apprenticeship programmes, we have for years also provided solid training for bankers. In addition, the Group also trains apprentices as IT experts and estate agents.

Employee interviews and feedback on senior management

The annual goal-setting discussions with employees are a central leadership and development instrument of Hypo Landesbank Vorarlberg. Holding these discussions regularly promotes open dialogue with executives and offers the opportunity to analyse the past year and set new goals. Every two years employees assess senior management and this feedback allows managers to reflect on their leadership performance and provides the basis for future executive training.

Executive development

Whenever possible, Hypo Landesbank Vorarlberg fills management positions with talented employees from its own ranks. Young managers in particular receive support through specialised training to meet the demands of their responsible and challenging positions.

Knowledge management
Knowledge management is an important part of the sustainability of a company. Hypo Landesbank Vorarlberg has a company culture that encourages employees to share their knowledge. The function analysis carried out in 2009 indicated that employees wanted a knowledge platform which would include all information concerning business processes.

The new knowledge platform Hypopedia, created in 2011, allows the flow of information at Hypo Landesbank Vorarlberg to be brought together in a logical structure. The newly developed search engine supports and simplifies the search for work procedures, and also allows browsing through other databases for information. A specially designed updating service provides a quick overview of all changes and new information in the knowledge base. A follow-up project in 2012 will standardise all documents in Hypopedia.

Operational processes
Hypo Landesbank Vorarlberg has concluded employment agreements which afford employees flexible working hours. Employees also receive a travel grant for the commute between home and work, a lunch allowance after six months of employment as well as the opportunity to participate in a pension fund.

Promoting company health
Working with wellness experts, we promote health awareness for our employees. Through focussing on various health topics, we help support their well-being and performance. In 2011, the main focus was “nourishment for the mind and body”. Presentations, practical workshops and a self-produced cookbook provided the basis for a balanced and varied diet and encouraged employees to put it into practise.

Family-friendly corporate culture
Hypo Landesbank Vorarlberg supports a family-friendly corporate culture and thus benefits from the increased motivation and contentment of their employees. Job-sharing models and flexible working time, equal opportunity for all employees for further education as well as comprehensive support for employees returning after maternity leave are part of our family-friendly policies. Our dedication to the policy of family and work was recognised by our recent endorsement by the State of Vorarlberg as “Excellent family-friendly business 2011” and underscores our commitment to the compatibility of family and career.

KEY EMPLOYEE FIGURES

Hypo Landesbank Vorarlberg

	2011	**Change in %**	**2010**	**2009**
Annual average number of employees	**593**	−2.1%	606	610
thereof apprentices	**6.5**	−7.1%	7.0	7.3
thereof part time	**46.3**	5.0%	44.1	43.1
Number of women (incl. apprentices)	**60.4%**	0.3%	60.2%	61.1%
Number of men (incl. apprentices)	**39.6%**	−0.5%	39.8%	38.9%
Average length of employment in years	**9.6**	1.1%	9.5	8.9
Average age in years	**36.3**	0.6%	36.1	35.5

Group figures

	2011	Change in %	2010	2009
Annual average number of employees	**724***	2.7%	705	719
Number of employees at year-end	**816**	4.9%	778	806
Total employee training days in 2011	**2,532**	−26.8%	3,461	4,321
Training hours per employee in 2011	**26.93**	−28.8%	37.80	46.27
Total expenditure (in '000 EUR) for staff development	**1,165**	13.8%	1,024	1,110
Cost for staff development per employee in EUR	**1,609**	10.8%	1,452	1,544

* Incl. Hypo SüdLeasing GmbH effective 2011

Sponsoring and regional engagement

Hypo Landesbank Vorarlberg wants sustainable development and that must include taking into consideration societal responsibility. Through our involvement in social issues, we want to provide recognisable social benefits and have for many years supported cultural and sporting projects with long-term commitments.

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

RESEARCH AND DEVELOPMENT

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

A product development and implementation process is conducted before adding a new or third party product to our range of products to ensure coordinated proceedings and to identify possible risks.

THE FLEXIBILITY OF TIME OFF

**HYPO LANDESBANK VORARLBERG
THE INVESTMENT BANK**

Financial security is more than long-term asset growth and stable investments. Financial security is also more than a secure pension. Good financial security means fulfilling dreams. The freedom to live life as one sees fit. Here and now.

CONCENTRATION ON THE FACTS

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS DATED 31 DECEMBER 2011

I. STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2011

Income statement

in '000 EUR	(Notes)	2011	2010	Change in '000 EUR	Change in %
Interest and similar income		334,294	282,693	51,601	18.3
Interest and similar expenses		–159,268	–130,818	–28,450	21.7
Net interest income	**(6)**	**175,026**	**151,875**	**23,151**	**15.2**
Loan loss provisions	(7)	–25,573	–25,804	231	–0.9
Net interest income after loan loss provisions		**149,453**	**126,071**	**23,382**	**18.5**
Fee and commission income		45,137	46,530	–1,393	–3.0
Fee and commission expenses		–5,230	–6,651	1,421	–21.4
Net fee and commission income	**(8)**	**39,907**	**39,879**	**28**	**0.1**
Net result on hedge accounting	(9)	–639	5	–644	> –100.0
Net trading result	(10)	–20,924	6,111	–27,035	> –100.0
Net result from other financial instruments	(11)	–10,311	–23,495	13,184	–56.1
Administrative expenses	(12)	–79,670	–79,121	–549	0.7
Other income	(13)	13,305	13,313	–8	–0.1
Other expenses	(14)	–18,597	–9,871	–8,726	88.4
Result from equity consolidation		8,766	3,619	5,147	> 100.0
Earnings before taxes		**81,290**	**76,511**	**4,779**	**6.2**
Taxes on income	(15)	–19,608	–16,769	–2,839	16.9
Consolidated net income		**61,682**	**59,742**	**1,940**	**3.2**
Of which attributable to:					
Parent company shareholders		61,670	59,742	1,928	3.2
Non-controlling interests		12	0	12	100.0

Other expenses contain the stability tax payable for the first time in 2011 of EUR 6,002,000. Without this additional tax burden, which is assessed on the basis of the modified total assets of the separate financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, earnings before taxes would amount to EUR 87,292,000 and the increase on the previous year would amount to 14.1%.

Statement of comprehensive income

in '000 EUR	2011	2010	Change in '000 EUR	Change in %
Consolidated net income	61,682	59,742	1,940	3.2
Other income after taxes	–8,634	3,757	–12,391	> –100.0
Changes to foreign currency translation reserve	25	190	–165	–86.8
Changes to revaluation reserve	–8,659	3,220	–11,879	> –100.0
of which changes in measurement	–10,981	4,151	–15,132	> –100.0
of which changes in holdings	–564	142	–706	> –100.0
of which income tax effects	2,886	–1,073	3,959	> –100.0
Change from equity consolidation	0	347	–347	–100.0
Total comprehensive income	**53,048**	**63,499**	**–10,451**	**–16.5**
Of which attributable to:				
Parent company shareholders	53,036	63,499	–10,463	–16.5
Non-controlling interests	12	0	12	100.0

II. BALANCE SHEET DATED 31 DECEMBER 2011

Assets

in '000 EUR	(Notes)	31.12.2011	31.12.2010	Change in '000 EUR	Change in %
Cash and balances with central banks	(16)	137,821	138,452	–631	–0.5
Loans and advances to banks	(17)	1,087,052	1,420,249	–333,197	–23.5
Loans and advances to customers	(18)	8,522,023	7,955,393	566,630	7.1
Positive market values of hedges	(19)	2,173	4,531	–2,358	–52.0
Trading assets and derivatives	(20)	806,682	631,875	174,807	27.7
Financial assets – at fair value	(21)	1,571,962	1,508,652	63,310	4.2
Financial assets – available for sale	(22)	791,054	556,481	234,573	42.2
Financial assets – held to maturity	(23)	1,079,789	1,149,151	–69,362	–6.0
Shares in companies valued at equity	(24)	34,617	21,947	12,670	57.7
Investment property	(25, 31)	37,788	32,563	5,225	16.0
Intangible assets	(26, 31)	8,070	1,560	6,510	> 100.0
Property, plant and equipment	(27, 31)	70,552	66,830	3,722	5.6
Tax assets		1,248	800	448	56.0
Deferred tax assets	(28)	8,876	5,174	3,702	71.6
Non-current assets available for sale	(29)	4,750	8,903	–4,153	–46.6
Other assets	(30)	54,147	58,589	–4,442	–7.6
Total Assets		**14,218,604**	**13,561,150**	**657,454**	**4.8**

Liabilities and shareholders' equity

in '000 EUR	(Notes)	31.12.2011	31.12.2010	Change in '000 EUR	Change in %
Amounts owed to banks	(32)	632,490	793,369	–160,879	–20.3
Amounts owed to customers	(33)	4,236,334	3,806,918	429,416	11.3
Liabilities evidenced by certificates	(34)	1,489,110	1,506,172	–17,062	–1.1
Negative market values of hedges	(35)	84,436	33,391	51,045	> 100.0
Trading liabilities and derivatives	(36)	327,225	281,478	45,747	16.3
Financial liabilities – at fair value	(37)	6,505,017	6,223,255	281,762	4.5
Provisions	(38)	32,479	31,117	1,362	4.4
Tax liabilities	(39)	5,146	9,418	–4,272	–45.4
Deferred tax liabilities	(40)	1,752	1,425	327	22.9
Other liabilities	(41)	38,772	47,829	–9,057	–18.9
Subordinated and supplementary capital	(42)	237,352	239,846	–2,494	–1.0
Shareholders' equity	(43)	628,491	586,932	41,559	7.1
Of which attributable to:					
Parent company shareholders		628,413	586,932	41,481	7.1
Non-controlling interests		78	0	78	100.0
Total Liabilities and shareholder's equity		**14,218,604**	**13,561,150**	**657,454**	**4.8**

III. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in '000 EUR	Sub-scribed capital	Capital reserve	Retained earnings and other reserves	Revaluation reserve (available for sale)	Reserves from currency trans-lation	Total parent company share-holders	Non-controlling interests	Total Share-holders' equity
Balance 1 January 2010	**159,000**	**27,579**	**354,789**	**–6,165**	**24**	**535,227**	**165**	**535,392**
Consolidated net income	0	0	59,742	0	0	59,742	0	59,742
Other income	0	0	373	3,220	164	3,757	0	3,757
Comprehensive income 2010	**0**	**0**	**60,115**	**3,220**	**164**	**63,499**	**0**	**63,499**
Change in scope of consolidation	0	0	–617	0	0	–617	–165	–782
Dividends	0	0	–11,177	0	0	–11,177	0	–11,177
Balance 31 December 2010	**159,000**	**27,579**	**403,110**	**–2,945**	**188**	**586,932**	**0**	**586,932**
Balance 1 January 2011	**159,000**	**27,579**	**403,110**	**–2,945**	**188**	**586,932**	**0**	**586,932**
Consolidated net income	0	0	61,670	0	0	61,670	12	61,682
Other income	0	0	188	–8,659	–163	–8,634	0	–8,634
Comprehensive income 2011	**0**	**0**	**61,858**	**–8,659**	**–163**	**53,036**	**12**	**53,048**
Change in scope of consolidation	0	0	0	0	0	0	98	98
Dividends	0	0	–11,555	0	0	–11,555	–32	–11,587
Balance 31 December 2011	**159,000**	**27,579**	**453,413**	**–11,604**	**25**	**628,413**	**78**	**628,491**

IV. CASH FLOW STATEMENT

Cash flows from operating activities

in '000 EUR	2011	2010
Consolidated net income	61,682	59,742
Non-cash items included in consolidated net income and reconciliation with cash flow from operating activities		
Impairments/reversals on financial instruments and property, plant and equipment	–3,655	–4,926
Allocations/reversals to/from reserves and loan loss provisions	5,851	894
Change in other non-cash items	–10,685	53,075
Reclassification of income from the sale of financial instruments and property, plant and equipment	1,437	–1,037
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks	355,650	777,533
Loans and advances to customers	–460,382	–171,055
Trading assets and derivatives	–524	1,423
Other assets	833	372
Amounts owed to banks	–164,568	–286,423
Amounts owed to customers	393,487	139,030
Liabilities evidenced by certificates	–21,411	–229,419
Financial liabilities – at fair value	76,813	–133,687
Other liabilities	–2,760	–3,597
Cash flows from operating activities	**231,768**	**201,925**

Cash flows from investing activities

in '000 EUR	2011	2010
Cash inflows from the sale of/repayment on		
Financial instruments	668,081	491,899
Property, plant and equipment and intangible assets	1,899	8,506
Subsidiaries	0	1,180
Cash outflows for investments in		
Financial instruments	–874,704	–632,310
Property, plant and equipment and intangible assets	–7,657	–10,142
Subsidiaries	–6,300	0
Cash flows from investing activities	**–218,681**	**–140,867**

Cash flows from financing activities

in '000 EUR	2011	2010
Non-cash changes in subordinated and supplementary capital	–2,552	3,303
Dividend payments	–11,588	–11,177
Cash flows from financing activities	**–14,140**	**–7,874**

Reconciliation with cash and balances with central banks

in '000 EUR	2011	2010
Cash and balances with central banks at end of previous period	**138,452**	**83,316**
Cash flows from operating activities	231,768	201,925
Cash flows from investing activities	–218,681	–140,867
Cash flows from financing activities	–14,140	–7,874
Effects of changes in exchange rate	422	1,952
Cash and balances with central banks at end of period	**137,821**	**138,452**

Additional disclosures on the cash flow statement

in '000 EUR	2011	2010
Payments of interest, dividends/profit distributions and income tax		
Interest received	355,941	255,892
Dividends and profit distributions received	4,498	3,409
Interest paid	–167,105	–119,703
Income tax paid	–23,644	–13,065

Further disclosures on the cash flow statement are shown under Note (46).

V. NOTES

A. ACCOUNTING POLICIES

(1) GENERAL INFORMATION

Vorarlberger Landes- and Hypothekenbank Aktiengesellschaft and its subsidiaries offer customers a broad spectrum of financial services. The core businesses are the Corporate and Private Customer segments and Private Banking. A range of leasing, insurance and real estate services are additionally offered. The Group's core market is the state of Vorarlberg, as well as Eastern Switzerland, Southern Germany and South Tyrol. In Eastern Austria the Bank has offices in Vienna, Graz and Wels.

The Bank is a stock corporation with its registered office in Bregenz, Austria, and is registered in Feldkirch, Austria, in the commercial register (FN145586y). The Bank is the ultimate parent company of the companies included in the consolidated financial statements. The shareholders of the Bank are presented under Note (53). The Bank's address is Hypo-Passage 1, 6900 Bregenz.

The consolidated financial statements for the 2011 financial year and the comparative figures for 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) that are in force and published by the International Accounting Standards Board (IASB) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC, formerly SIC, Standing Interpretations Committee) – as applicable in the European Union – and therefore fulfil the requirements of Section 59a of the Austria Banking Act and Section 245a of the Austrian Commercial Code.

On 23 March 2012, the Managing Board of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft authorised release of these annual financial statements.

All amounts are stated in thousand Euro (EUR '000) unless specified otherwise. The tables below may contain rounding differences.

(2) CONSOLIDATION PRINCIPLES AND SCOPE OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and its subsidiaries as at 31 December 2011. Subsidiaries are fully consolidated starting from the acquisition date, i.e. the date on which the Group obtains control.

Consolidation ends as soon as the parent company no longer controls the subsidiary. The financial statements of the subsidiaries are prepared using uniform accounting policies for the same reporting period as the financial statements of the parent company. Group-internal expenses, income, receivables and payables were eliminated in consolidation. Foreign currency-related differences from consolidation of liabilities and elimination of expenses and income are recorded in the net trading result, through profit and loss. Intra-Group transactions are eliminated, unless they are not of minor importance. Deferred taxes are recognised as required per IAS 12 for temporary differences arising from consolidation.

All group-internal transactions, unrealised profits and losses resulting from group-internal transactions and dividends are eliminated in full. The percentage of non-controlling interests is determined as the percentage of subsidiaries' equity held by minority shareholders. A subsidiary's comprehensive income also is allocated to non-controlling interests if this leads to a negative balance.

Any change in the ownership interest in a subsidiary without loss of control is accounted for as an equity transaction. If the parent company loses control of a subsidiary, the following steps are carried out:

- Derecognition of the subsidiary's assets (including good will) and liabilities,
- Derecognition of the carrying amount of the non-controlling equity interests in the former subsidiary,
- Derecognition of the cumulative translation differences recognised in equity,
- Recognition of the fair value of the consideration received,
- Recognition of the fair value of the remaining investment,
- Recognition of the income surpluses or shortfalls in the income statement,
- Reclassification of the components of other income attributable to the parent company in the income statement or in retained earnings, if IFRS requires this.

Business combinations are accounted for using the purchase method. The costs of an acquisition are measured as the sum of the consideration transferred measured at fair value on acquisition and the non-controlling equity interests in the company acquired. With each business combination, the Group decides whether to measure the non-controlling equity interests in the acquired company at fair value or at the corresponding share of the identifiable net assets of the acquired company. Costs incurred as part of the business combination are recognised as expense and shown in the administrative expenses item.

If the Group acquires a company it will assess the appropriate classification and designation of the financial assets and liabilities assumed in debts in accordance with the conditions of the agreement, the economic circumstances and the conditions prevailing on acquisition. This also includes separating the derivatives embedded in host contracts.

Goodwill is measured at cost on initial recognition, which is calculated as the amount by which the total consideration transferred and the amount of the non-controlling equity interests exceeds the Group's identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. Following initial recognition, goodwill is measured at cost less cumulative impairment losses. For the purpose of the impairment test, the goodwill acquired as part of a business combination is allocated to the Group's cash generating units, which are expected to benefit from the business combination, from the date of acquisition. This shall be the case irrespective of whether other assets or liabilities of the acquired entity are allocated to these cash generating units. If the goodwill was allocated to a cash generating unit and a division of this unit is sold, the goodwill attributable to the division sold is taken into account as a component of the carrying amount of the division in establishing the result from the sale of this division. The value of the sold portion of goodwill is established on the basis of the relative values of the division sold and the remaining part of the cash generating unit.

In addition to the parent company, 34 subsidiaries are included in the consolidated financial statements (2010: 16), in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft directly or indirectly holds more than 50% of voting rights or which it otherwise controls. 25 of these companies are domiciled domestically (2010: 12) and nine internationally (2010: 4).

In addition, in financial year 2011 one special fund (2010: 1) was also included in the consolidated financial statements in line with IAS 27 and SIC 12. Inclusion of this special fund has no material impact on the Group's assets and liabilities, financial condition, and results of operations.

The Group's equity interests in an associated company are accounted for using the equity method. Associated companies are companies not controlled by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, but over which significant influence is exercised by virtue of an equity holding ranging between 20% and 50%. In accordance with the equity method, equity interests in an associated company are recognised in the balance sheet at cost plus changes in the Group's share of the net assets of the associated company that occurred post-acquisition. The goodwill associated with the associated company is included in the carrying amount of the equity interests and is subjected neither to scheduled amortisation nor a separate impairment test.

The income statement contains the Group's share of the associated company's profit or loss for the period. Changes shown directly in the equity of the associated company are recognised by the Group in the amount of its equity interest and, where necessary, presented in the statement of changes in equity. Unrealised gains and losses from transactions between the Group and the associated company are eliminated in line with the equity interest in the associated company.

The Group's share in the profit of an associated company is presented in the income statement. Here, it is a question of the profit attributable to the shareholders of the associated company and consequently the profit after taxes and non-controlling shares in the subsidiaries of the associated company.

After application of the equity method, the Group establishes whether it needs to recognise an additional impairment loss for its equity interests in an associated company. At each reporting date, the Group determines whether there are objective indications that the equity interest in an associated company could be impaired. If this is the case, the difference between the recoverable amount of the equity interest in the associated company and the carrying amount of the "share of the profit or loss of the associated company" is recognised as an impairment loss through profit and loss.

In the event of a loss of significant influence, the Group measures all equity interests, which it retains in the former associated company, at fair value. Differences between the carrying amount of the equity interest in the associated company at the time significant influence is lost and the fair value of the retained equity interests and the sales proceeds are recognised in the income statement.

10 (2010: 9) significant domestic associated companies were valued using the equity method.

The aggregate total assets of associate holdings not valued at equity amounted to EUR 45,284,000 for the past financial year (2010: EUR 274,972,000). The aggregate shareholders' equity of these holdings amounted to EUR 10,255,000 (2010: EUR 12,043,000), and a result after taxes totalling EUR –5,000 was achieved (2010: EUR 50,000).

The Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft Group is included in the scope of consolidation of Vorarlberger Landesbank-Holding with its registered office in Bregenz. These consolidated financial statements are included in the Vorarlberger Landesbank Holding Group. The consolidated financial statements of Vorarlberger Landesbank Holding are published in the Official Gazette of the Wiener Zeitung. Vorarlberger Landesbank Holding is wholly owned by the state of Vorarlberg.

The reporting date for the Bank's consolidated financial statements is the same as the reporting date for all companies fully consolidated in the consolidated financial statements with the exception of Hypo Spezialfonds. The reporting date for Hypo Spezialfonds, 30 September, is different by three months. However, interim financial statements as at 31 December 2011 and 31 December 2010 were prepared. The associated company Hypo Equity Unternehmensbeteiligungen AG also has a different reporting date of 30 September 2011.

In 2011, the scope of consolidation changed because of the acquisition of the equity interest in HIL Mobilien GmbH (previously Hypo SüdLeasing GmbH). As a result of the purchase, the equity interests in the company increased from 26% to 100%. HIL Mobilien GmbH and its subsidiaries runs the Group's finance leasing business in the movables and real estate sectors. The purchase of the equity interests took place on 31 October 2011. The same percentage of voting rights was acquired with this acquisition of 74% of the shares. The management expects the purchase of the HIL Mobilien Group to generate synergies in administration and marketing and to increase the potential for cross-selling. The management also plans to refocus the business model towards real estate leasing. Since the acquisition was dealt with as at 31 October 2011, the timeframe was not sufficient to complete the work of allocating the purchase price by the balance sheet date. There may therefore be changes to goodwill. Capitalised goodwill amounts to EUR 6,396,000. The value of goodwill on the balance sheet date is based on discounted anticipated cash flows from existing finance leases allowing for funding costs and anticipated bad debts and administrative expenses. The effect on the income statement from the change in the ownership structure amounts to EUR 51,000 and was recognised in the item net result from other financial instruments. The sum of the consideration provided for the acquisition amounted to EUR 6,300,000 and was transferred in the form of cash equivalents. The fair value of the consideration transferred amounted to EUR 6,300,000. The fair value at the acquisition date of the equity interest held directly before the acquisition date was EUR 2,213,000. A profit of EUR 2,783,000 resulted from the appreciation of the shares held up to the acquisition date, which was recognised in the item net result from other financial instruments. The fair value of the receivables acquired amounted to EUR 404,515,000, the contractual gross amount of the receivables EUR 490,713,000, the anticipated uncollectible contractual cash flows EUR 16,474,000. The provisions assumed from the acquisition amounted to EUR 177,000. Goodwill was capitalised at Group level and therefore has no impact in terms of tax. Since goodwill is based on future income from existing finance leases and corresponding loss carryforwards can be realised in the HIL Mobilien Group, realisation of this anticipated income will lead to realisation of these loss carryforwards. Net interest income constitutes the revenues of the HIL Mobilien Group because of its business activities. This amounted to EUR 5,511,000 in 2011. Of this figure, EUR 919,000 was taken into account in the Group's profit or loss for 2011. In 2011, the net profit of the HIL Mobilien Group amounted to EUR 3,017,000. Of this figure, EUR 1,157,000 was recognised in the Group's profit or loss for the period. The changes in provisions and HIL Mobilien GmbH are as follows.

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

The acquisition of 13.288% of the shares in HYPO EQUITY Unternehmensbeteiligungen AG impacted on the income statement in the amount of EUR –13,000, which was recognised in the item net result from other financial instruments.

The scope of consolidation was also extended by the acquisition of HTV Kappa Immobilienleasing GmbH and Silvretta-Center Leasing GmbH. The Group holds 50% of the shares in both companies, which are consolidated using the equity method. The effect on the income statement from the change in the scope of consolidation amounts to EUR 268,000 and was recognised in the item net result from other financial instruments.

A full listing of the subsidiaries and associated companies included in the consolidated financial statements is provided under item VII of the consolidated financial statements.

(3) ACCOUNTING AND MEASUREMENT METHODS

The principal accounting and measurement methods utilised in preparing these consolidated financial statements are outlined in the following. The methods outlined have been applied uniformly by the consolidated companies for the entirety of the specified reporting periods unless otherwise stated.

Accounting and measurement were conducted under a going concern assumption. The consolidated financial statements were prepared applying the principle of historical cost. This does not include financial assets available for sale, financial assets and liabilities designated at fair value, trading assets, trading liabilities or derivatives. These assets and liabilities are carried at fair value. Income and expenses are deferred pro rata and recorded and shown in the period to which they are economically attributable.

The consolidated financial statements consist of the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes. Segment reporting is shown in the notes in Section E.

a) Currency translation

The functional currency of companies included in the consolidated financial statements, i.e. the currency of their respective economic environments, is applied for measuring assets and liabilities.

Figures in these consolidated financial statements are stated in euro, the euro being the Group's functional and reporting currency. The assets and liabilities not denominated in euro are translated into euro at market spot rates at the reporting date.

Transactions in foreign currencies are translated into the functional currency applying exchange rates effective at the time of the transaction. Gains and losses from translating foreign currency transactions are recorded under the net trading result on the income statement. For changes in the market values of financial instruments in foreign currency designated as AFS, currency translation differences in amortised cost are recorded under the net trading result on the income statement. However, translation differences resulting from market value changes are recorded under other result in equity in the AFS revaluation reserve.

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

If a Group company uses a functional currency other than the reporting currency, then assets and liabilities are translated at the average exchange rate on the reporting date and at the average exchange rate for the year for the income statement. Equity is translated at historical exchange rates. Any resulting translation gains and losses from capital consolidation are recognised directly in other result and shown separately under shareholders' equity.

In the Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft Group, the ECB exchange rates listed below (foreign currency amount for 1 euro) were applied at the reporting date for translating the values of monetary assets and liabilities, including those of subsidiaries not reporting in euro.

FX rates	31.12.2011	31.12.2010
CHF	1.2156	1.2504
JPY	100.2000	108.6500
USD	1.2939	1.3362
PLN	4.4580	3.9750
CZK	25.7870	25.0610
GBP	0.8353	0.8608

b) Borrowing costs
Borrowing costs directly attributable to the purchase, construction or production of an asset for which a considerable length of time is required to prepare it for its intended use or sale, are capitalised as part of the cost of the relevant asset. All other borrowing costs are recognised as expense in the period in which they are incurred. Borrowing costs are interest and other costs incurred by a company in connection with borrowing funds.

c) Cash balance
The item cash and balances with central banks in the balance sheet comprises cash on hand and credit balances repayable on demand with central banks.

For the purposes of the cash flow statement, cash and cash equivalents comprise the above definition of cash. Cash and balances with central banks were measured at nominal values.

d) Financial instruments
Financial instruments are accounted for in accordance with the categorisation and measurement principles outlined in IAS 39. An asset is recognised on the balance sheet when it is likely to generate future economic benefit for the enterprise and can be reliably measured at cost of acquisition or production or at another value. A liability is recognised on the balance sheet when fulfilment of an existing obligation is likely to result in a direct outflow of resources holding economic benefit and the fulfilment amount can be reliably measured.

Initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Derivatives represent financial instruments per IAS 39. Financial instruments are recognised for the first time when the Group enters into a contract for a financial instrument. Regular way purchases or sales of a financial asset are recognised at the settlement date, i.e. the date on which the asset is delivered. The financial instruments are allocated to the categories described below at the time of their addition. The classification depends on the purpose and the intention of the management, what the financial instrument was acquired for and its characteristics. Financial instruments are measured at their fair value on initial recognition.

Derecognition of financial assets and financial liabilities
A financial asset is derecognised if the contractual rights to the cash flows from a financial asset have expired or the company has assigned its contractual right to cash flows from a financial asset or it has assumed a contractual obligation to pay the cash flows immediately to a third party as part of an agreement and has thereby either transferred substantially all of the risks and rewards associated with ownership of the financial asset or has neither transferred nor retained substantially all of the risks and rewards associated with ownership of the financial asset but has transferred control over the asset.

A financial liability is derecognised when the obligation is fulfilled, cancelled or has expired. However, expired liabilities from the savings business are not derecognised.

Classifications of financial instruments
The Group recognises the classifications of financial instruments shown below.

Classifications of financial instruments	Abbreviation
Assets held for trading	HFT
Assets voluntarily measured at fair value	AFV
Assets available for sale	AFS
Assets held to maturity	HTM
Loans and receivables	L&R
Liabilities and liabilities evidenced by certificates	LAC
Liabilities held for trading	LHFT
Liabilities voluntarily measured at fair value	LAFV

Financial assets and liabilities are shown on the balance sheet broken down into these classifications. Explanations and measurement rules for the individual classifications are provided in the Notes on the respective balance sheet items. Financial instruments are either carried at amortised cost or fair value.

Measurement of financial assets	Measurement
HFT – Trading assets and derivatives	Fair value in the income statement
AFV – Assets voluntarily measured at fair value	Fair value in the income statement
AFS – Assets available for sale	Only fair value changes in other result
HTM – Assets held to maturity	Amortised cost
L&R – Loans and advances to banks and customers	Amortised cost

Measurement of financial liabilities	Measurement
LAC – Amounts owed to banks and customers and liabilities evidenced by certificates	Amortised cost
LHFT – Trading liabilities and derivatives	Fair value in the income statement
LAFV – Liabilities voluntarily measured at fair value	Fair value in the income statement

Amortised cost
Amortised cost is the amount representing historical acquisition cost factoring in premiums and discounts and transaction costs. Differences between historical cost and repayment amounts are deferred using the effective interest method and recorded under net interest income, through profit and loss. Accrued interest on receivables and liabilities, as well as premiums and discounts, are shown with the respective receivables and liabilities within the relevant balance sheet items.

- **L&R category**
  Financial assets for which no active market exists are designated as L&R if these are not derivatives and fixed or definable payments are attributable to the instruments. This applies regardless of whether the financial instruments were issued or were purchased on the secondary market.

  Financial instruments designated as L&R are initially recognised on the balance sheet at the settlement date at fair value plus directly attributable transaction costs and fees. Subsequent measurement of these financial instruments is at amortised cost. Differences between cost and repayment amounts (premiums and discounts) are amortised pro rata using the effective interest method and recorded as net interest income, affecting the income statement. Impairment affects income and is recorded on the income statement.

  Leased assets attributable to the lessee (finance leases) are shown at net investment in the lease (present value) under loans and advances to customers. Interest income is recognised evenly over time as periodic interest calculated based on remaining net investment in the lease. Finance lease income is shown as interest income. In the Group, receivables from finance leases under which the leased asset is attributable to the lessee primarily relate to real estate properties.

- **HTM category**
  Financial assets are designated as HTM if they do not constitute derivatives and fixed or definable payments can be attributed to them, as long as an active market exists and there is an intention and ability to hold them to maturity.

  Financial instruments designated as HTM are initially recognised on the balance sheet at fair value on the settlement date plus transaction costs and fees. Subsequent measurement of these financial instruments is at amortised cost. Differences between cost and repayment amounts (premiums and discounts) are amortised pro rata using the effective interest method and recorded as net interest income, affecting the income statement. Impairment affects income and is recorded on the income statement.

- **LAC category**
  Financial liabilities that are neither derivatives nor designated at fair value are designated as LAC.

  Financial instruments designated as LAC are initially recognised on the balance sheet at fair value on the settlement date plus transaction costs and fees. Subsequent measurement of these financial instruments is at amortised cost. Differences between receipts and repayment amounts are amortised pro rata using the effective interest method and recorded as net interest income, affecting the income statement.

Fair value
Fair value is the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

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

In assessing whether there is an active market, the Group is guided by several indicators. Firstly, certain asset classes are reviewed to determine if current prices are available. Other factors include currency-specific minimum size (volume) for a securities issue and trade scoring (BVAL score), offered by Bloomberg. The Bloomberg BVAL score represents relative availability and transaction volume, thereby providing an indication of the dependability of market values computed. Securities that are actively traded at binding prices register a high score.

Fair value on active markets
Market prices are used if there is an active market. If current price quotes are not available, the price in the last transaction gives an indication of fair value. However, if market conditions have changed substantially since the last transaction, current fair value is determined using appropriate methods (e.g. applying premiums and discounts).

Valuation models for inactive or non-existent markets
The valuation models ('mark to' models) utilised include deriving fair value from the market value of a comparable financial instrument, as well as present value and option pricing models. For financial instruments for which no active market exists, a DCF model is used to determine fair value. Expected cash flows are discounted at an interest rate reflecting maturity and risk parameters.

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

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

1. Market approach	Measurement based on quoted exchange prices and comparable methods
2. Income approach	Discounted cash flow (DCF) method, based on entity/equity method
3. Cost approach	Measurement at cost if fair value cannot be reliably measured

- **HFT category**
This balance sheet item represents securities and derivative financial instruments with a positive market value purchased for generating short-term profits on market price movements or spreads. Also recorded is the positive market value of derivative financial instruments in the banking book and derivative financial instruments in connection with host contracts under the fair value option. Because the Group only employed hedge accounting from the 2010 financial year, derivatives concluded previously that do not constitute hedging instruments in line with IAS 39 and that have a positive market value are designated to this category even though there is no trading intention, as these derivatives are mainly transacted to hedge market price risks. These financial instruments are recognised at fair value as at the settlement date. Transaction costs are recognised immediately through profit and loss in the income statement under commission expense.

Measurement is at fair value. Remeasurement and realised gains/losses are reported under trading result. If published price quotations in an active market are available, these are always used as fair value; otherwise, fair value is determined using accepted valuation methods. Interest income and expenses from trading assets and derivatives are recorded in net interest income.

- **AFV category**
Financial assets are voluntarily accounted for at fair value when the financial instrument is in a hedge relationship with a derivative financial instrument. Carrying derivative hedges at fair value would create an accounting mismatch between host contract and hedge on the balance sheet and income statement. Voluntary designation at fair value eliminates this accounting mismatch. Financial assets are also accounted for voluntarily at fair value if the financial instrument is part of a portfolio on which management receives regular market value reporting for monitoring and management purposes or the financial instrument contains one or more embedded derivatives required to be separated. Financial instruments may only be assigned this classification upon acquisition.

Financial assets at fair value are securities and loans, the interest rate structures of which are switched from fixed or structured interest payments to variable rates using interest rate swaps. The Hypo Spezial I institutional fund is fully consolidated within the Group per IAS 27 in conjunction with SIC 12. As the individual fund assets form part of the fund portfolio on which management receives regular market value reporting for monitoring and management purposes, the fund's assets were designated as AFV. Additionally, two convertible bonds, the conversion options of which represent derivatives required to be separated, were allocated to this category.

Financial instruments designated as AFV are recognised and measured at fair value on the balance sheet. These financial instruments are recognised at fair value as at the settlement date on the balance sheet. Transaction costs are recognised immediately through profit and loss in the income statement under commission expense. Changes in fair value are reported under trading result, affecting the income statement. Impairment on AFV instruments is implicitly contained in the fair value of the financial instrument, and thus not treated separately. Interest income and the amortisation of differences between cost and repayment amount are recorded in net interest income.

- **AFS category**
Under this balance sheet item, the Group shows financial instruments not designated to any other category. Financial instruments designated as AFS are recognised and measured at fair value in the balance sheet. These financial instruments are recognised in the balance sheet at the settlement date at fair value plus transaction costs. Changes in fair value are reported under other result in the AFS revaluation reserve. Impairment affects income and is recorded on the income statement. Reversals of impairment on ownership interests are directly recorded under AFS valuation reserve. Reversals of impairment on debt securities are carried at original amortised cost on the income statement.

Upon sale of a financial asset, net remeasurement gains/losses recorded in the AFS valuation reserve are reversed and transferred to the result from other financial instruments. If reliable market value data is not available for equity instruments in this category, measurement is at historical cost.

- **LHFT category**
Derivative financial instruments with negative fair value purchased for the purpose of profiting from short-term price movements or spreads are shown under this balance sheet item. The negative fair value of derivative financial instruments in the banking book is also recorded here. Remeasurement and realised gains/losses are reported under trading result. Derivative financial instruments are recognised on the trade date under trading liabilities. In addition, interest rate derivatives linked with underlying transactions under the fair value option are shown here. Interest income and expenses from trading liabilities and derivatives are recorded in net interest income.

- **LAFV category**
Financial liabilities are voluntarily accounted for at fair value when the financial instrument is in a hedge relationship with a derivative financial instrument. Carrying derivative hedges at fair value would create an accounting mismatch between host contract and hedge on the balance sheet and income statement. Voluntary designation at fair value eliminates this accounting mismatch. Financial liabilities are also voluntarily accounted for at fair value if the financial instrument contains one or more embedded derivatives required to be separated. Financial instruments may only be assigned this classification upon acquisition.

These are primarily financial liabilities in connection with fixed-rate issues and time deposits of institutional investors. Interest rate swaps are concluded to hedge resulting interest rate risk. New issues containing embedded derivatives, fixed rate issues and time deposits are designated to this category upon acquisition to avoid an accounting mismatch arising from the hedging derivative.

Financial instruments designated as LAFV are recognised and measured at fair value on the balance sheet. These financial instruments are recognised at fair value as at the settlement date on the balance sheet. Transaction costs are recognised immediately through profit and loss in the income statement under commission expenses. Changes in fair value are reported under trading result, affecting the income statement. Interest income and expenses are recorded in net interest income.

e) Financial guarantees

In accordance with IAS 39, a financial guarantee is a contract in which the guarantor is obligated to make specific payments to reimburse the guarantee holder for losses incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The obligation to pay from a financial guarantee is recorded when the guarantor enters into the contract, i.e. upon acceptance of the guarantee offer. Initial measurement is at fair value at the recognition date. Thus the fair value of a financial guarantee is generally zero upon contract conclusion, as with contracts in line with the market the value of the contractual premium corresponds to the value of the guarantee obligation. If the guarantee premium is received in full upon contract commencement, the premium is initially recorded as a liability and distributed pro rata through maturity. If guarantee premiums are paid on an ongoing basis, these are shown deferred in fee and commission income. Provisions are recognised in the amount expected to be payable if there are indications of deterioration in the guarantee holder's credit standing.

f) Embedded derivatives

Embedded derivatives are derivatives that are part of and attached to a primary financial instrument. They are separated from the primary financial instrument and carried and measured separately at market value (fair value) as a stand-alone derivative if the characteristics and risks of the embedded derivative are not closely connected with those of the host contract and the host contract is not designated as HFT or AFV. Changes in measurement affect income and are recorded on the income statement. The host contract is carried and measured according to the rules for the relevant financial instrument's classification. The Group holds financial instruments with embedded derivatives in Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft. For residential construction financing, the Bank grants customers a rate cap at 6%. This embedded derivative is closely connected with the host contract. For this reason the embedded derivative was not separated. The Bank also holds embedded derivatives for convertible bonds, inflation, fund and equity-linked payouts, CMS steepeners, CMS floaters, reverse floaters, multi-tranches and PRDCS. These securities are voluntarily designated at fair value, as the embedded structures are hedged by derivative financial instruments.

g) Repo and securities lending agreements

Repo agreements are transactions in which securities are bought or sold at spot prices under an agreement to resell to or buy back from the same counterparty at a specific time. Securities sold in repo transactions (regular way sales) continue to be recognised and measured as securities in the balance sheet of the lender. Cash flows from repo transactions are shown on the balance sheet as amounts owed either to banks or to customers depending on the counterparty. Agreed interest payments are recorded as interest expense in accordance with the maturity.

Cash outflows under reverse repos are correspondingly recognised and measured as loans and advances to banks or customers. Securities purchased in repo transactions (regular way purchase) are not measured and shown on the balance sheet. Agreed interest on reverse repos is recorded as interest income in accordance with maturity. Amounts advanced from reverse repos and owed on repos with the same counterparty are not eliminated against each other.

Accounting for securities lending transactions is similar to that of securities in genuine repurchase agreements. The remaining loaned securities stay in the securities portfolio and are measured as per IAS 39. Borrowed securities are not recognised or measured. Collateral we provide for securities lending transactions continue to be shown as loans and advances on the balance sheet. Collateral received from securities lending transactions are carried as liabilities.

h) Impairment of financial assets

Specific and portfolio valuation allowances are recognised for credit default risks.

Identifiable risks from the credit business are covered by recognising specific and portfolio valuation allowances. Portfolio valuation allowances are recognised for additional non-specific risks occurring to financial asset groups with similar credit risk characteristics, in amounts determined according to Basel II parameters (projected loss rates, default probabilities). The loss identification period (LIP) is applied as a correction factor for default probability. The time value of money is also factored into the loss given default (LGD). The loan loss provision created is set off against the underlying asset.

A potential loan loss is assumed when there are indications of payment delay for a specific period, forced collection measures, pending insolvency or over-indebtedness, filing or opening bankruptcy proceedings or unsuccessful restructuring. Loan losses are to be recognised when the expected recoverable amount of a financial asset is lower than the applicable carrying value, i.e. a loan is likely (in part) uncollectible. When this is the case, for financial assets the loss is recognisable at amortised cost, by way of indirect impairment (loan loss provisions) or a direct write-down, affecting the income statement. The recoverable amount is determined as present value applying the original effective interest rate from the financial asset. Unrecoverable loans are directly written down in the corresponding amount, affecting the income statement; amounts received on loans already written down are recorded as income.

At each reporting date, the Group determines whether objective indications of impairment on a financial asset or a group of financial assets have arisen. In the case of a financial asset, an impairment is present only if, as a result of one or more events that occurred after initial recognition of the asset, there is an objective indication of an impairment and the effect of this loss (or these losses) on the expected future cash flows of the financial asset or the group of financial assets can be reliably estimated.

- **Financial assets recognised at amortised cost**
  If there is an objective indication that an impairment has occurred, then the amount of the loss results from the difference between the carrying amount of the asset and the present value of the expected future cash flows. The calculation of the present value of the expected future cash flows of collateralised financial assets reflects the cash flows that result from realisation less the costs of obtaining and selling the collateral.

  For loans and advances, impairment is set off against the underlying receivable in the respective balance sheet item. The loss (allocation) is reported in the income statement in the loan loss provisions item. Loan loss provisions include specific valuation allowances for loans and receivables for which there are objective indications of impairment. In addition, loan loss provisions include portfolio valuation allowances for which there are no objective indications of impairment when considered individually.

  In the case of bonds in the categories HTM and L&R, impairment is recognised in the balance sheet directly by reducing the relevant asset items, and in the income statement in the result from other financial instruments. Interest income from individually impaired assets is deferred further on the basis of the reduced carrying amount, applying the interest rate that was used for discounting the future cash flows for the purpose of calculating the impairment loss. This interest income is included in the interest and similar income item.

  Loans are derecognised together with the associated impairment if there is no realistic prospect of future recovery and all collateral has been claimed and utilised. If the impairment increases or decreases in one of the subsequent periods due to an event that occurs after the impairment was recognised, then in the case of loans and receivables the previously recognised allowance account is increased or reduced by the difference. In the case of bonds in the categories HTM and L&R, the carrying amount is increased or reduced directly in the balance sheet. Decreases in impairment are reported in the income statement in the same item as the impairment loss itself.

- **Available-for-sale financial assets**
  In the case of debt instruments classified as available for sale, an individual examination is performed to determine whether there is an objective indication of impairment based on the same criteria as for financial assets recognised at amortised cost. However, the impairment amount recognised is the cumulative loss from the difference between amortised cost and the current fair value less any impairment previously recognised through profit and loss. In recognising impairment, all losses that were previously recognised in other result in the revaluation reserves item are transferred to the income statement in the result from other financial instruments. If the fair value of a debt instrument which is classified as available for sale increases in one of the subsequent periods and this increase can objectively be attributed to a credit event that occurred after the impairment was recognised through profit and loss, then the impairment is reversed and the amount of the reversal is recognised through profit and loss in the result from other financial instruments. Impairment losses and reversals of impairment are recognised directly against the asset in the balance sheet. In the case of equity instruments classified as available for sale, a significant or long-lasting decrease in the fair value below the asset's cost is also considered an objective indication. If there is an indication of impairment, the cumulative difference between cost and the current fair value less any impairment previously recognised through profit and loss is transferred from the revaluation reserves item in other result to the income statement in the item result from other financial instruments. Impairment losses on equity instruments cannot be reversed in the income statement. Increases in fair value after the impairment are recognised directly in other result. Impairment losses and reversals of impairment are recognised directly against the asset in the balance sheet.

- **Off-balance sheet loans**
  Loan loss provisions for off-balance sheet transactions such as warranties, guarantees and other credit commitments are included in the provisions item and the associated expense is reported through profit and loss in the loan loss provisions item.

i) Hedge accounting

The Group uses derivative instruments to hedge against currency and interest rate risks. At the beginning of the hedge relationship, the Group explicitly defines the relationship between the hedged transaction and the hedging instrument, including the type of risks being hedged against, the goal and strategy for execution and the method used to assess the efficiency of the hedging instrument. In addition, at the beginning of the hedge relationship the hedge is expected to be highly efficient in terms of compensating for risks from changes in the hedged transaction. A hedging relationship is considered highly efficient if changes in the fair value or cash flow that are attributable to the hedged risk for the period for which the hedging relationship was determined can be expected to be offset within a range of 80% to 125%. Detailed conditions for individual hedge relationships used are determined internally.

- **Fair value hedges**
  Fair value hedges are used to reduce fair value risk. For designated and qualified fair value hedges, the change in fair value of the hedging derivate is recognised through profit and loss in the result from hedge relationships. In addition, the carrying amount of the hedged transaction must be adjusted through profit and loss for the gain or loss attributable to the hedged risk.

When a hedging instrument expires, is sold, terminated or exercised, or when the hedge relationship no longer fulfils the criteria for hedge accounting, the hedge relationship is terminated. In this case, the adjustment of the carrying amount of a hedged financial instrument is reversed through profit and loss in the result from hedge relationships until the maturity of the financial instrument.

- **Cash flow hedges**
  Cash flow hedges are used to stabilise net interest income and eliminate the uncertainty of future cash flows. For designated and qualified cash flow hedges, the portion of the gain or loss from a hedging instrument identified as an effective hedge is recognised under other result and reported in the cash flow hedge reserve item. The ineffective portion of the gain or loss from the hedging instrument is recognised through profit and loss in the income statements. If a hedged cash flow is recognised through profit and loss, the gain or loss from the hedging instrument recognised in equity is reclassified to the corresponding income or expense item in the income statement.

  When a hedging instrument expires, is sold, terminated or exercised, or when the hedge relationship no longer fulfils the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss from the hedging instrument that was recognised under other result remains in equity and is reported separately there until the transaction takes place.

j) Offsetting financial instruments

Financial assets and liabilities are set off and reported as a net amount in the balance sheet only if there is a right at the same time to set off the reported amounts against each other and the intention is to settle on a net basis or to settle the associated liability simultaneously with the realisation of the asset.

k) Leasing

Determining whether an arrangement contains a lease is based on the substance of the arrangement at the time it is concluded and requires an assessment of whether the fulfilment of the contractual arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. A lease is an arrangement whereby the lessor transfers the right to use an asset to the lessee for an agreed period in exchange for a payment or a number of payments. We classify leases under which substantially all of the risks and rewards associated with ownership of the financial asset are transferred as finance leases. All other leases within the Group are classified as operating leases.

- **Accounting as lessor**
  Leases are assessed based on how the economic risks and rewards of ownership of the leased item are distributed between the lessor and the lessee and are carried accordingly as finance or operating leases. In the case of finance leases, a receivable from the lessee is reported in the amount of the present value of the contractually agreed payments taking into account any residual values (net investment in the lease). Lease payments due are recorded as interest income (interest income portion, affecting income) and charged against the balance of receivables (repayment portion not affecting income). In the case of operating leases, the leased assets are reported in the property, plant and equipment item or in real estate under “investment property” and are depreciated in line with the applicable principles for the respective assets. Lease income is recognised on a straight-line basis over the term of the lease. Lease payments received in the period and depreciation are shown under other income and under other expenses. Leases in which the Group is the lessor are classified almost exclusively as finance leases.

- **Accounting as lessee**
  The Group has not concluded any finance leases. In an operating lease the Group as real estate lessee shows the full amount of lease instalments made as lease expense under administrative expenses. In 2011, the Group conducted no sale-and-lease-back transactions.

l) Investment property

Investment property is measured at cost including incidental costs on initial recognition. In any subsequent measurement, investment property is stated at cost less cumulative scheduled depreciation and/or cumulative impairment losses. Investment property represents properties held to generate lease income and/or capital gains, not for providing services, for administrative purposes or for sale as part of ordinary business activities. Leased real estate properties are also shown under this balance sheet item when leased assets are attributable to the lessor (operating lease). Lease income is recognised over the contract term on a straight-line basis.

Mixed-use properties are not divided into a non-owner occupied portion to which IAS 40 applies and an operationally utilised portion measured as per IAS 16 if the leased portion comprises less than 20% of total space. The entire property is treated as property, plant and equipment in such cases.

For these properties, shown under financial assets, a depreciation period of 25 to 50 years generally applies. These properties are depreciated on a straight-line basis over their expected useful life.

A duly sworn, court-certified appraiser on the staff of Hypo Immobilien & Leasing GmbH regularly prepares valuation appraisals for investment properties. For the valuation of the corresponding assets, methods deployed by the appraiser include the capitalised income and comparative value methods. The value determined by the appraiser is then compared with the real estate market and further adjusted as necessary. Appraisals are also prepared by independent third parties for larger real estate properties. The key parameters in preparing the valuations were.

Key parameters for real estate appraisal	2011	2010
Return in %	4–8%	4–6%
Inflation rate in %	2.25%	2.00%
Rental loss risk in %	2–5%	2–4%

Rental income is recognised in other income. Depreciation and maintenance expenses for these properties are shown under other expenses. During the period under review, no contingent lease instalments were recorded as income. Disclosure of operating expenses for those investment properties for which no rental income was achieved during the period under review causes disproportionately large expenditure without increasing the informational value of the financial statements with regard to the Group's core business.

m) Intangible assets

Intangible assets not acquired as part of a business combination are stated at cost on initial recognition. The cost of intangible assets acquired as part of a business combination equates to their fair value at the time of acquisition. In subsequent periods, intangible assets are stated at cost less cumulative depreciation and cumulative impairment losses. Intangible assets are only recognised when it is likely the company will receive the expected benefits and costs of acquisition or production can be reliably determined. Development costs for software developed in-house are not capitalised as they do not fulfil the conditions for capitalisation. These costs are immediately recognised through profit and loss in the income statement in the year they are incurred. A distinction is made between intangible assets with limited useful lives and those with unlimited useful lives.

Intangible assets with a limited useful life are depreciated on a straight-line basis over their economic useful life and tested for possible impairment if there are indications that the intangible asset could be impaired. The amortisation period and amortisation method for intangible assets with a limited useful life are reviewed at least at the end of each reporting period. Changes in the amortisation method or amortisation period required because of changes in the anticipated useful life or the anticipated consumption of the asset's future economic benefits are treated as changes to estimates. Depreciation of intangible assets with limited useful lives is recognised in the income statement in the category of expenditure that equates to the function of the intangible asset in the company.

For intangible assets with unlimited useful lives, an impairment test is carried out at least once a year for the individual asset or at the level of the cash generating unit. These intangible assets are not subject to scheduled depreciation. The useful life of an intangible asset with an unlimited useful life is tested once a year as to whether the assessment of an unlimited useful life remains justified. If this is not the case, the assessment of an unlimited useful life is changed prospectively to a limited useful life. Gains or losses from the derecognition of intangible assets are determined as the difference between the net sales proceeds and the carrying amount of the asset and recognised in the income statement in the period in which the asset is derecognised.
The balance sheet item for the Group's intangible assets comprises software acquired as well as goodwill. Capitalised goodwill has an unlimited useful life. Software acquired has a limited useful life. Amortisation and impairment of software acquired is recognised through profit and loss under administrative expenses. Scheduled amortisation is recorded on a straight-line basis over the estimated useful life. Amortisation is effected using the following typical operational useful lives.

Typical operational useful life	in years
Standard software	3
Other software	4
Securities administration software	10

n) Property, plant and equipment

Property, plant and equipment are stated at cost less cumulative scheduled amortisation and/or cumulative impairment expenses. Scheduled amortisation is recorded on a straight-line basis over the estimated useful life. Physical usage, technological aging and legal/contractual restrictions are factored in when determining the useful life of property, plant and equipment. Land is not subject to scheduled depreciation. Cost includes the costs for replacing part of an item of property, plant and equipment and the borrowing costs for material, long-term construction projects if the recognition criteria are fulfilled. As of the reporting date and in the previous-year period, there were no liabilities or obligations from asset purchases or the construction of plant. There was no restriction on titles and no property, plant or equipment was pledged as security for liabilities either. Amortisation is effected using the following typical operational useful lives.

Typical operational useful life	in years
Buildings	25–50
Operational and office equipment	5–10
Construction on leased premises	10
IT hardware	3

Impairment is additionally recorded when the recoverable amount is below the carrying value of the asset. Property, plant and equipment are derecognised either on disposal or if economic benefit is no longer expected from the further use or sale of the recognised asset. The gains or losses resulting from derecognition of the asset are determined as the difference between the net sales proceeds and the carrying amount of the asset and recognised in the income statement in other income or other expenses in the period.

o) Impairment of non-financial assets
At each reporting date, the Group determines whether there are indications of an impairment of non-financial assets. If there are such indications or if an annual impairment test on an asset is required, the Group makes an estimate of the recoverable amount of the asset concerned. The recoverable amount of an asset is the higher of the fair value of an asset or a cash generating unit less costs to sell and the value in use. The recoverable amount must be determined for each individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset must be impaired and is written down to its recoverable amount. To calculate the value in use, the expected future cash flows are discounted to their present value based on a discount rate before taxes that reflects the current market expectations for the interest effect and the specific risks of the asset. An appropriate valuation model is used to determine the fair value less costs to sell.

The Group bases its assessment of impairment on detailed budget and forecast calculations, which are prepared separately for each of the Group's cash generating units to which individual assets are allocated. Budget and forecast calculations of this kind usually extend over five years. Impairment losses of continuing operations are recognised through profit and loss in the categories of expenditure to which the function of the impaired asset equates in the Group. This does not apply to previously revalued assets if appreciation from the revaluation was recognised in other income. In this case, the impairment is also recognised up to the amount from a previous revaluation in other income. Non-financial assets are tested for impairment once a year (as at 31 December). A test will also take place if circumstances indicate that the value could be impaired. Impairment of goodwill is determined by calculating the recoverable amount of the cash generating unit, to which the goodwill was allocated. If the recoverable amount of the cash generating unit falls below the carrying amount of this unit, an impairment loss is recognised. An impairment loss recognised for goodwill will no longer be reversed in subsequent reporting periods. The identification of cash generating units and the parameters used to calculate the impairment requirement in connection with goodwill was described in Note (26).

p) Tax assets

- **Current taxes**
  Current tax assets and liabilities are calculated based on the tax regulations of the relevant countries applying current tax rates, which determine the amount of refunds and back taxes due from/to tax authorities. Assets and liabilities are recognised only for expected claims vis-à-vis the tax authority. Current tax assets and tax liabilities are set off only if the Group has a legally enforceable right to set off the reported amounts against each other and actually intends to settle on a net basis. In the Group, this takes place particularly in the context of group taxation. Here, current tax assets from and liabilities to the tax authority are set off against each other in line with tax law provisions. Current tax expenses accruing on income are shown on the consolidated income statement under taxes on income.

- **Deferred taxes**
  Deferred tax assets are recognised and measured using the balance-sheet based liability method. Measurement is performed for each tax entity at the rates applicable by law for the period of assessment. Deferred tax items are not discounted to present value. The effects from the recognition or reversal of deferred taxes are also included in the consolidated income statement under taxes on income, unless the deferred tax assets and liabilities relate to items measured in other result. In this case, the deferred taxes are recognised/reversed in other result.

  Deferred tax assets are recognised for temporary differences in the measurement of assets and liabilities on the IFRS consolidated balance sheet versus tax accounting statements under local tax regulations applicable to Group companies. Deferred tax assets are only recognised when there are sufficient deferred tax liabilities within the same tax entity, or it is sufficiently likely that the same tax entity will generate taxable income. This also applies to the recognition of deferred tax assets on tax loss carryforwards.

  Deferred tax liabilities are recognised for temporary differences in the measurement of assets and liabilities on the IFRS consolidated balance sheet versus tax accounting statements under local tax regulations applicable to Group companies.

  Deferred tax assets and liabilities are set off when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority either for the same tax entity or, in the case of different tax entities, the intention is either to settle the current tax liabilities and assets on a net basis or to settle the liability simultaneously with the realisation of the asset.

q) Non-current assets held for sale and liabilities in connection with assets held for sale
Non-current assets are classified as held for sale if they can be sold in their current condition and are likely to be sold within 12 months of their classification as such. Assets classified as held for sale are reported in the balance sheet item "Non-current assets held for sale". Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

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

A disposal group is a group of assets, in some cases with the associated liabilities, which a company intends to sell in a single transaction. The measurement basis and the criteria for classification as held for sale are applied to the whole group. Assets that form part of a disposal group are reported in the balance sheet under the item "Non-current assets held for sale". Liabilities in connection with assets held for sale that form part of a disposal group are reported in the balance sheet under the item "Liabilities in connection with assets held for sale". No liabilities are held in connection with available-for-sale assets.

Selling costs for available-for-sale assets are immaterial in amount, as the buyer pays transaction and also realisation costs. If not sold within one year or if the asset no longer meets the criteria per IFRS 5, these assets are reclassified as investment property if they are let, or as property, plant and equipment or other assets if owner-occupied.

All income and expenses accruing in connection with available-for-sale assets are recorded on the income statement under other income or other expenses.

r) Provisions

A provision is recognised if the Group has a current legal or de facto obligation arising from a past event, the fulfilment of which is likely to involve the outflow of resources with economic benefit in an amount that can be reliably estimated. Provisions are thus recorded for uncertain liabilities to third parties and onerous contracts in the amount of expected utilisation. The amount of provisions recognised represents a best estimate of the expense necessary to fulfil obligations existing as of the reporting date. Risks and uncertainties are factored into these estimates. Provisions are carried at present value if the interest effect is significant. Credit risk provisions for off-balance sheet transactions (particularly warranties and guarantees) and litigation provisions are also reported under provisions. Expenses or income from the reversal of credit risk provisions for off-balance sheet items are recognised in the income statement under loan loss provisions. All other expenses or income in connection with provisions are reported under administrative expenses.

The Group's social capital is also shown under provisions. Social capital refers to the provisions for defined benefit and defined contribution plans for employees. Social capital comprises provisions for pensions, severance, service anniversary bonuses and disability/incapacity risk.

Pensions

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft has defined benefit pension obligations to 12 pension plan participants and their survivors (2010: 14). These are receiving pension benefits, and thus no longer make contributions. There is no intention to close this agreement. A defined contribution retirement plan was established for active employees with pension entitlement. There is no other de facto obligation from normal commercial practice.

Severance

Austrian labour law previously required severance payments to departing employees under certain circumstances. These include in particular ending employment due to pensioning. All employees hired prior to 31 December 2002 enjoy these severance entitlements. The maximum severance due is equal to one year's salary; the amount depends on length of service. The Group has recognised severance provisions for these entitlements. These regulations do not apply to employees hired after 31 December 2002. Contributions are deposited monthly to a severance fund for these employees. There are no other severance obligations.

Service anniversary bonuses

All employees are entitled to two months' pay as a service anniversary bonus after 25 and 40 years of employment.

Provisions for pensions and severance pay under the old regulations are for defined benefit obligations. The present value of social capital was calculated applying the following actuarial parameters:

- Provisions for defined benefit obligations are recognised using the accrued benefits method.
- Interest rate/domestic 4.5% (2010: 3.5%)
- Annual indexing, collective bargaining and performance-based salary increases 3.0% (2010: 2.0%) for provisions for severance, service anniversary bonuses and disability/incapacity risk
- Staff turnover rate 2.0% (2010: 8.5%)
- Individual career trend 2.5% (2010: 2.5%)
- Annual indexing 3.5% (2010: 3.0%) for provisions for pensions
- The expected retirement age was calculated individually for each employee on the basis of the changes resolved in the 2003 law accompanying the budget with regard to raising the earliest possible retirement age. The current regulation for gradually raising the retirement age to 65 for both men and women was taken into account.
- Generation tables for employees: table values from AVÖ 2008 P-Rechnungsgrundlage für die Pensionsversicherung – Pagler&Pagler

Actuarial gains and losses resulting from the adjustment of actuarial parameters were immediately taken to income in the income statement. For 2012 pension benefits to be paid are projected at EUR 326,000, severance payments at EUR 697,000 and service anniversary bonuses at EUR 68,000.

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

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

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

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

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

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

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

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

  Market prices are generally used for measuring the fair value of trading assets and liabilities. The present value method or suitable valuation models are used for determining the fair value of non-listed products. The trading result reflects both realised net gains/losses and net measurement changes in trading activities. It also includes inefficiencies from hedging and currency gains and losses. The trading result does not include interest and dividend income and funding costs shown under net interest income.

- **Net result from other financial instruments**
  Gains/losses from the sale and measurement of securities held in the portfolio of financial assets, investments and shares in unconsolidated subsidiaries are shown under the net result from other financial instruments. The result from other financial instruments includes both realised gains and losses from the disposal and measurement of financial instruments designated as HTM, L&R and LAC. Not included are gains and losses from the HFT, AFV, LHFT and LAFV classifications recorded under net trading result.

  Income from financial assets L&R represents measurement changes and realised gains and losses on securities not part of our original customer business.

- **Administrative expenses**
  Administrative expenses comprise the following expenses accrued for the reporting period: staff costs, materials expenses and amortisation, depreciation and impairment on property, plant and equipment and intangible assets. Impairment on goodwill is not included.

  Staff costs comprise wages and salaries, bonus payments, statutory and voluntary social benefits, and staff-based taxes and fees. Expenses and income from severance, pension and service anniversary provisions are also included in this item. Materials expenses include IT expenses, building expenses, advertising and PR expenses, legal and advisory expenses, staff development expenses (training, recruiting) and other office expenses. Amortisation, depreciation and impairment cover land without buildings, land with buildings and buildings used by the Group itself, operational and office equipment and leased movables under operating leases.

- **Other income**
  The item comprises income that is not directly attributable to the ongoing business activities entailed in banking operations. This includes rental income from properties that have been let, gains on the disposal of assets, other revenues from leasing business and operating cost income. Income from operating leases is recognised on a straight-line basis over the term of the leases.

- **Other expenses**
  The item comprises expenses that are not directly attributable to the ongoing business activities entailed in banking operations. These include amortisation of properties that have been let, losses on the disposal of assets, impairment of goodwill, expenses incurred in leasing business, other taxes expenses that do not constitute income taxes, operating cost expenses and expenses resulting from losses or operational risk.

- **Taxes on income**
  This item comprises all income-based taxes broken down into current tax expenses, deferred tax expenses and taxes from previous periods.

u) Material judgements, assumptions and estimates
In preparing the consolidated financial statements, management makes estimates and assumptions affecting the balance sheet, notes and the reporting of income and expenses during the period under review. These primarily involve estimating the value of assets, determining uniform useful lives for property, plant and equipment Group-wide and the accounting and measurement of provisions. Estimates and opinions are based on assumptions reflecting the latest updated data available. Circumstances in evidence at the time of preparation of the consolidated financial statements and forecasts pertaining to the global economic and industry environments deemed realistic are applied for estimating future business results. Actual figures may differ from estimates due to developments influencing these external factors that are contrary to assumptions and beyond the control of management. Assumptions underlying estimates of substantial scope are outlined below. Actual values may differ from assumed and estimated values in individual cases.

- **Impairment on loans and advances to banks and customers**
  The Group reviews the credit portfolio at least quarterly for impairment. An assessment is made as to whether identifiable events reduce the expected cash flows from the credit portfolio. Non-adherence to payment deadlines and agreements, monitoring and analysis of customers' financial situation and rating changes may provide indications of the need to recognise an impairment. In making estimates, management utilises assumptions based on historical default probability data for comparable credit portfolios. A 1% increase in the impairment ratio (risk provision to obligations) would have increased loan loss provisions by the amount of EUR 1,297,000 (2010: EUR 1,100,000) at the existing exposure level. A 1% decrease in the impairment ratio would have lowered loan loss provisions by the amount of EUR 1,297,000 (2010: EUR 1,100,000) at the existing exposure level. Portfolio impairment for defaults that has occurred but has not yet been recognised are measured on the basis of historical default probabilities, expected loss rates and the adjustment factor from the loss identification period (LIP). A 1% linear and relative shift in default probabilities would have resulted in an increase/decrease of EUR 97,000 (2010: EUR 89,000). Overall, a 1% increase in the default probabilities would change the expected loss from non-impaired loans and advances by EUR 389,000 (2010: EUR 357,000). The development of credit risk provisions is presented under Note (18). The effects on the income statement are presented under Note (7). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 9,609,075,000 (2010: EUR 9,375,642,000).

- **Impairment on financial instruments available for sale**
  With these financial instruments the Group distinguishes between debt and equity securities. Impairment is recognised on debt securities when events are expected to lead to reduced future cash flows. Impairment is recognised on equity securities when the market value of the financial instrument is more than 20% below cost in the 6 months prior to the reporting date or more than 10% below cost over the preceding 12 months. The Group factors in normal share price volatility in determining if impairment must be recognised. If all market value fluctuations had been deemed significant or permanent, this would have reduced the revaluation reserve by EUR 11,380,000 (2010: 6,596,000) and the result from other financial instruments by EUR 11,380,000 (2010: 6,596,000). The resulting effects from the assumptions and estimates can be seen in other income (Section III) and in the result from other financial instruments Note (11). They do not impact the carrying amounts of these financial instruments. The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 791,054,000 (2010: EUR 556,481,000).

- **Impairment on financial instruments held to maturity**
  The Group reviews these financial instruments for potential impairment on an ongoing basis, for example by monitoring rating changes and price movements. If there is a rating deterioration, the price movements of the financial instrument are monitored. An impairment is recognised if the price changes related to a rating deterioration. If all differences between market value and carrying value were deemed a lasting impairment, this would reduce the result from other financial instruments by EUR 7,158,000 (2010: 4,677,000). The carrying amounts on which these assumptions and judgements are based are presented under Note (23). Effects on the income statement are presented under Note (11). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 1,079,789,000 (2010: EUR 1,149,151,000).

- **Fair values**
  Many financial instruments measured at fair value are not traded on an active market. Valuation models are employed to determine fair value for these instruments. With the valuation models employed, the Group uses prices in observable, current market transactions in similar instruments as a reference, utilising observable market data in valuation models whenever available. See Note (58) regarding valuation model sensitivity. With regard to the income statement, these assumptions and estimates impact the net trading result in Note (10). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 2,380,817,000 (2010: EUR 2,145,058,000) that of liabilities to EUR 6,916,678,000 (2010: EUR 6,538,124,000).

- **Income tax**
  The Group has dealings with several different tax authorities. Material estimates are made in measuring tax provisions under Note (39). Reconciliation statements (financial versus tax accounting) are used to determine each company's taxable income based on country-specific financial accounting. Also, additional tax obligations expected in connection with ongoing or announced tax audits are recorded under tax provisions. Upon conclusion of a tax audit, the difference between expected and actual back tax owed is charged against income and recorded in the income statement under taxes from previous periods and deferred taxes. Judgements are required to determine the amount of deferred tax assets to be recognised based on the probable timing and amount of future taxable income and future tax planning strategies. Tax assets are recognised on the basis of planning figures over a period of five years. Disclosures relating to deferred taxes are shown in Notes (28) and (40). The effects on the income statement are presented under Note (15). The carrying amount of assets subject to judgements, assumptions and estimates amounts to EUR 10,124,000 (2010: EUR 5,974,000) that of liabilities to EUR 6,898,000 (2010: EUR 10,843,000).

- **Provisions**
  Amounts recognised for provisions represent a best estimate of the expense necessary to settle the present obligation as of the reporting date. Risks and uncertainties are factored into these estimates. The provisions recognised in the balance sheet are shown under Note (38). The effects on the income statement are reported in the loan loss provisions item under Note (7) for warranties and lending risks and in administrative expenses under Note (12) in other cases. The carrying amount of provisions – excluding social capital – subject to judgements, assumptions and estimates amounts to EUR 12,808,000 (2010: EUR 10,975,000).

- **Social capital**
  The amount of social capital is determined on the basis of actuarial computations. The discount factor is the relevant lever for the amount of social capital. Lowering the discount factor by 0.5% would result in an increase in staff costs in the amount of EUR 1,260,000 (2010: EUR 1,065,000); increasing the discount factor by 0.5% would result in a decrease in staff costs in the amount of EUR 1,148,000 (2010: EUR 1,134,000). The carrying amounts of the social capital are shown under Note (38). Effects on the income statement are presented under Note (12). The carrying amount of social capital subject to judgements, assumptions and estimates amounts to EUR 19,671,000 (2010: EUR 20,142,000).

- **Leases**
  Judgements are required on the part of the lessor particularly when differentiating between finance leases and operating leases; the criteria here is the transfer of substantially all of the risks and rewards from the lessor to the lessee. The carrying amount of finance leases subject to judgements, assumptions and estimates amounts to EUR 1,445,769,000 (2010: EUR 1,010,041,000).

(4) APPLICATION OF REVISED AND NEW IFRS AND IAS

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

a) First-time application of new and revised standards and interpretations

The International Accounting Standards Board (IASB) has made a number of changes to existing standards and issued new standards and interpretations, application of which is mandatory for 2011. These rules must be observed in the EU, and concern the following areas:

- **Annual Improvement Project 2010**
  In May 2010, the IASB published revisions to existing IFRS rules as part of its Annual Improvement Project. The revisions were endorsed by the EU as at 18 February 2011. These revisions, affecting a range of IFRS rules, in some cases affect the recognition, measurement and recording of accounting items, while in other cases terminological or editing revisions are concerned. Most revisions are effective for financial years beginning on or after 1 January 2011. The implementation of these revisions will not have any material effect on the consolidated financial statements. The Group plans to apply the revisions when they become effective.

- **IAS 24 – Related Party Disclosures**
  In November 2009 the IASB published a revised version of IAS 24 that was endorsed by the EU on 19 July 2010. The revisions are intended to simplify the definition of related parties while eliminating certain inconsistencies and exempting government-related entities from certain disclosures regarding related party transactions. The revised standard applies to financial years beginning on or after 1 January 2011. The exemption provision was already applied by the Group for the 2010 consolidated financial statements.

- **Revisions of IAS 32 – Classification of Rights Issues**
  In October 2009 the IASB published the revisions to this standard. These were endorsed by the EU on 23 December 2010. The revision clarifies how certain rights issues are to be accounted for if the instruments issued are not denominated in the functional currency of the issuer. If such instruments are offered pro rata to the existing shareholders at a fixed amount, then they should be classified as equity instruments if their rights issue price is denominated in a currency other the functional currency of the issuer. The revision is to be applied to financial years beginning on or after 1 February 2010. The revision has no impact on the consolidated financial statements.

- **Revisions of IFRS 1 – Limited Scope Exemption for First-time Adopters for Comparative Figures under IFRS 7**
  Because first-time adopters of IFRS do not enjoy the exemption from comparative disclosures for valuations at fair value and for liquidity risk stipulated by IFRS 7 in cases where the prior-year periods end before 31 December 2009, this revision of IFRS 1 is intended to allow for an exemption for

these companies too. These were endorsed by the EU on 30 June 2010. The provision comes into force for financial years beginning on or after 1 July 2010. The revision has no impact on the consolidated financial statements.

- **Amendments to IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**
  The IFRIC published this interpretation in November 2009. The amendment was endorsed in European Law by the EU in July 2010 and application becomes mandatory on 1 January 2011. This revision is intended to rectify an unintended consequence of IFRIC 14 in cases whereby a company that is subject to a minimum funding requirement makes a prepayment of future contributions and companies that make such prepayments must recognise this as expense in certain circumstances. If there is a minimum funding requirement for a defined benefit plan, this prepayment must be treated as an asset in line with this revision of IFRIC 14, as with all other prepayments. The revision of IFRIC 14 does not have any impact on our consolidated financial statements.

- **Publication of IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments**
  The IFRIC published this interpretation in November 2009. It contains guidelines on the accounting treatment of the partial or complete extinguishment of financial liabilities by issuing shares or equity instruments of the reporting company to creditors. The interpretation was endorsed in European law in July 2010 and application is mandatory as at 1 July 2010. Since transactions of this kind did not take place in the Group and are not planned either, IFRIC 19 will have no impact on the consolidated financial statements.

b) New standards and interpretations not yet applied
The IASB has issued further standards and revisions of standards and interpretations that are not mandatory for the 2011 financial year.

- **Annual Improvement Project 2011**
  In June 2011, the IASB published revisions to existing IFRS rules as part of its Annual Improvement Project. The proposed amendments have not yet been endorsed by the EU. These revisions, affecting a range of IFRS rules, in some cases affect the recognition, measurement and recording of accounting items, while in other cases terminological or editing revisions are concerned. Most revisions are effective for financial years beginning on or after 1 January 2013. The implementation of these revisions will not have any material effect on the consolidated financial statements. The Group plans to apply the revisions when they become effective.

- **Amendments to IAS 1 – Presentation of Financial Statements**
  The amendments published in June 2011 provide for items in other result being grouped according to whether these items can be reclassified in the income statement again in future or not. It also confirmed that it will be continue to be permissible to present the components of other result in one single statement or in two separate statements. The amendments come into force for financial years beginning on or after 1 July 2012. Early application is permissible. The amendments have been adopted by the IASB but still require endorsement in European law by the EU. The Group is currently examining the possible impact of implementing the amended disclosure requirements on the consolidated financial statements.

- **Amendments to IAS 12 – Income Taxes**
  In December 2010, the IASB published the amendment to the standard and offered a solution for the problem of the definition of the question whether the carrying amount of an asset is realised through use or sale through the introduction of a rebuttable presumption that the carrying amount will usually be realised through sale. As a consequence of the amendment SIC no longer applies for investment property measured at fair value. The other guidelines were integrated in IAS 12 and SIC 21 was withdrawn accordingly. The amendments come into effect for financial years beginning on or after 1 January 2012. Early application is permissible. The amendments have been adopted by the IASB but still require endorsement in European law by the EU. The Group expects no material impact from application of the amended standard.

- **Amendments to IAS 19 – Employee Benefits**
  The amendments to the standard published in June 2011 now exclude the previously permissible deferment of all changes in the present value of the pension obligation and the fair value of the plan assets (including the corridor approach, which is not used by the Group). In addition, IAS 19 demands a net interest rate, which replaces the anticipated income from plan assets and extends the disclosure requirements for defined benefit plans. The amendments come into effect for financial years beginning on or after 1 January 2013. Early application is permissible. The amendments have been adopted by the IASB but still require endorsement in European law by the EU. The Group is currently examining the possible impact of implementing the amendments on the consolidated financial statements.

- **Amendment to IAS 27 – Preparation of Separate Financial Statements**
  In May 2011, the IASB published a revised version of this standard. The objective is to set standards in relation to the accounting for investments in subsidiaries, associates and joint ventures, if a company decides to present separate financial statements. The amendments come into effect for financial years beginning on or after 1 January 2013. Early application together with early application of the new and revised provisions of IFRS 10, IFRS 11, IFRS 12 and IAS 28 is permissible. The amendments have been adopted by the IASB but still require endorsement in European law by the EU. The Group is currently examining the possible impact of implementing the amendments on the consolidated financial statements.

- **Amendment to IAS 28 – Investments in Associates and Joint Ventures**
  In May 2011, the IASB published a revised version of this standard. The objective is to codify the accounting for investments in associates and to issue the provisions on the application of the equity method if investments in associates and joint ventures are to be accounted for. The amendments come into effect for financial years beginning on or after 1 January 2013. Early application together with early application of the new and revised provisions of IFRS 10, IFRS 11, IFRS 12 and IAS 27 is permissible. The amendments have been adopted by the IASB but still require endorsement in European law by the EU. The Group is currently examining the possible impact of implementing the amendments on the consolidated financial statements.

- **Amendments to IAS 32 – Offsetting of Financial Assets and Financial Liabilities**
  In December 2011, the IASB published the amendments to IAS 32. The provisions on the offsetting of financial instruments remain essentially unchanged. Only the guidance was clarified. Additional disclosures were also introduced in IFRS 7 Financial Instruments. Future disclosures will be required for instruments under master netting arrangements or similar obligations even if underlying instruments are not shown netted off. The amendments come into effect for financial years beginning on or after 1 January 2014. Application must be effected retrospectively. The amendments have been adopted by the IASB but still require endorsement in European law by the EU. The Group is currently examining the possible impact of implementing the amendments on the consolidated financial statements.

- **Amendments to IFRS 1 – First-time adoption of IFRS**
  In December 2010, the IASB published two small amendments to IFRS 1. The first amendment replaced the references to the fixed transition date “1 January 2004” with “date of transition to IFRS”. The second amendment gives guidance on how to proceed with the presentation of IFRS compliant financial statements if the company did not comply with IFRS provisions for some time because its functional currency was subject to severe hyperinflation. Both amendments would come into effect on 1 July 2011. However, since the amendments have not yet been endorsed in European law, in accordance with European law application is not envisaged at present. These amendments will have no impact on the consolidated financial statements.

- **Revisions of IFRS 7 – Disclosures on Transfers of Financial Assets**
  With these revisions, the IASB intends to allow users of the financial statements a better insight into transactions for the purpose of transferring assets, for instance for factoring. If in such transactions certain risks and rewards remain with the transferring party, then the new disclosure requirements should contribute to greater transparency. The revisions of IFRS 7 are to be applied to financial years beginning on or after 1 July 2011. The revision of the standard was endorsed by the EU on 22 November 2011. The revision will result in extended disclosures for the Group. The Group plans to apply the revisions when they become effective.

- **Publication of IFRS 9 – Financial Instruments**
  In November 2009 the IASB published IFRS 9, which covers the classification and measurement of financial assets. The new standard has not yet been endorsed by the EU. This represents the first of three phases in the project to replace IAS 39. In October 2010 the IASB reissued the standard, which now includes new regulations for accounting for financial liabilities and has taken on the requirements for derecognition of financial assets and liabilities from IAS 39. The new standard has not yet been endorsed by the EU and is expected to be effective for financial years beginning on or after 1 January 2015. As part of the IFRS 9 project, the impact is being reviewed and analysed at present. Implementation will have far-reaching consequences and repercussions on the financial statements.

- **Publication of IFRS 10 – Consolidated Financial Statements**
  The new standard published in May 2011 replaces IAS 27 “Consolidated and Separate Financial Statements” in relation to consolidated financial statements and SIC 12 “Consolidation – Special Purpose Entities” and creates a standard definition for control, which must be applied to all companies included the special purpose entities previously analysed under SIC 12. An investor controls an investment, if it is exposed both to variable returns from the involvement with the investment and has the ability to affect these returns through its power over the investment. Control must be determined on the basis of all present facts and circumstances and be reviewed in the event of changes to circumstances. The new standard has not yet been endorsed by the EU and is expected to be effective for financial years beginning on or after 1 January 2013. The Group plans to apply the amendment when it becomes effective and does not expect any material impact.

- **Publication of IFRS 11 – Joint Arrangements**
  The new standard published in May 2011 replaces IAS 31 “Joint Ventures” and SIC 13 “Jointly-controlled Entities – Non-monetary Contributions by Venturers”. IFRS 11 now distinguishes between two types of joint arrangements: joint operations and joint ventures and uses the rights and obligations under the arrangement to distinguish between the two types. The previous option of proportionate consolidation of joint ventures, which is not used by the Group, has been abolished and application of the equity method is mandatory. The new standard has not yet been endorsed by the EU and is expected to be effective for financial years beginning on or after 1 January 2013. The Group plans to apply the amendment when it becomes effective and does not expect any material impact.

- **Publication of IFRS 12 – Disclosure of Interests in other Entities**
  The standard published in May 2011 codifies the aim of disclosure requirements with regard to disclosures of the type, associated risks and financial repercussions of interests in subsidiaries, associates and joint ventures as well as unconsolidated structured entities. In comparison with IAS 27 or SIC 12, IFRS 12 requires more comprehensive disclosures in the notes and stipulates which minimum information must be provided to fulfil the objective. The new standard has not yet been endorsed by the EU and is expected to be effective for financial years beginning on or after 1 January 2013. The Group plans to apply the standard when it becomes effective and is expecting to have to provide more comprehensive information and disclosures.

- **Publication of IFRS 13 – Fair Value Measurement**
  The standard published in May 2011 brings together the provisions for establishing fair value within IFRS. IFRS 13 amends the definition of fair value and gives pointers as to how to measure at fair value if another IFRS prescribes or permits measurement at fair value. The disclosure also demands more comprehensive information on measurement at fair value. IFRS 13 will come into force for financial years beginning on or after 1 January 2013. Early application is permissible. IFRS 13 has been adopted by the IASB but still requires endorsement in European law by the EU. The Group is currently examining the possible impact of implementing the standard on the consolidated financial statements.

(5) RESTATEMENT OF PREVIOUS-YEAR FIGURES

Until the financial statements as at 31 December 2010, the loan loss provisions created from specific valuation allowances and portfolio valuation allowances was shown as a separate balance sheet item. From the 2011 financial year, these closely associated items are offset. The change in balance sheet presentation is shown in the table below.

in ’000 EUR	**31.12.2010**
Loans and advances to customers – reported	8,065,327
Loan loss provisions on loans and advances to customers – reported	–109,934
Loans and advances to customers – new	**7,955,393**

Until the financial statements as at 31 December 2010, the items other provisions and social capital were shown as a separate balance sheet item. From the 2011 financial year, these items are combined and shown under provisions.

in ’000 EUR	**31.12.2010**
Other provisions – reported	10,976
Social capital – reported	20,141
Provisions – new	**31,117**

Previously other income and other expenses were set off and shown in other result in the income statement. From the 2011 financial year, other income and other expenses are shown separately in separate items in the income statement.

in ’000 EUR	**2010**
Other result – reported	3,443
Rounding difference	1
Other income – new	**13,313**
Other expenses – new	**–9,871**

B. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(6) NET INTEREST INCOME

in '000 EUR	2011	2010
Income from cash and balances with central banks	1,002	784
Income from loans and advances to banks	9,261	8,842
Income from loans and advances to customers	175,942	141,549
Income from leasing business	35,481	22,372
Income from hedging instruments	0	2,339
Income from derivatives, other	5,761	5,715
Income from debt securities	102,349	97,683
Income from shares	2,364	2,145
Income from investments in affiliated companies	994	647
Income from investments in associated companies	0	580
Income from equity investments, other	1,140	37
Interest and similar income	**334,294**	**282,693**
Expenses from amounts owed to banks	–7,568	–7,527
Expenses from amounts owed to customers	–50,016	–43,743
Expenses from liabilities evidenced by certificates	–22,011	–22,709
Expenses from hedging instruments	–15,884	–10,763
Expenses from derivatives, other	–7,753	–8,087
Expenses from liabilities designated AFV	–51,530	–32,596
Expenses from subordinated and supplementary capital	–4,506	–5,393
Interest and similar expenses	**–159,268**	**–130,818**

An amount of EUR 912,000 from unwinding was recorded under interest income from loans and advances to customers (2010: EUR 506,000). Interest income from loans and advances measured at amortised cost amounts to EUR 260,711,000 (2010: EUR 216,174,000). Interest expense on loans and advances measured at amortised cost amounts to EUR –84,101,000 (2010: EUR –79,372,000).

Of which income from debt securities

in '000 EUR	2011	2010
Income from debt securities – AFV	42,495	39,923
Income from debt securities – AFS	21,292	15,622
Income from debt securities – HTM	38,562	42,138
Income from debt securities	**102,349**	**97,683**

Of which income from shares

in '000 EUR	2011	2010
Income from shares – HFT	9	89
Income from shares – AFV	1,298	1,027
Income from shares – AFS	594	540
Income from shares – HTM	463	489
Income from shares	**2,364**	**2,145**

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

(7) LOAN LOSS PROVISIONS

in '000 EUR	2011	2010
Additions to valuation allowances	–42,554	–38,224
Reversals of valuation allowances	18,368	16,415
Direct write-downs of loans and advances	–1,171	–2,276
Income from amounts received on loans and advances already written down	1,799	950
Additions to provisions	–2,795	–4,248
Reversals of provisions	780	1,579
Loan loss provisions	**–25,573**	**–25,804**

In 2011, the loss from the direct write-down of loans and advances and consumption of loan loss provisions created amounted to EUR 18,834,000 (2010: EUR 29,395,000). There were no indications of a need to recognise additional impairment as of the preparation date of the consolidated financial statements.

(8) NET FEE AND COMMISSION INCOME

in '000 EUR	2011	2010
Lending and leasing business	4,518	4,293
Securities business	21,797	20,245
Giro and payment transactions	11,940	15,246
Other service business	6,882	6,746
Fee and commission income	**45,137**	**46,530**

in '000 EUR	2011	2010
Lending and leasing business	–1,223	–1,158
Securities business	–1,368	–1,211
Giro and payment transactions	–2,483	–4,214
Other service business	–156	–68
Fee and commission expenses	**–5,230**	**–6,651**

Fee and commission income from financial assets or liabilities, which are not classified as measured at fair value through profit or loss, amounts to EUR 7,175,000 (2010: EUR 7,084,000).
Fee and commission expenses on financial assets or liabilities, which are not classified as measured at fair value through profit or loss, amount to EUR –498,000 (2010: EUR –582,000).
Fee and commission income from fiduciary activities amounts to EUR 1,651,000 (2010: EUR 1,320,000).

(9) NET RESULT ON HEDGE ACCOUNTING

in ’000 EUR	2011	2010
Adjustment to loans and advances to banks	3,735	–24
Adjustment to loans and advances to customers	21,359	3,595
Adjustment to financial instruments available for sale	23,666	6,049
Adjustment to securitised liabilities	–1,156	–463
Net result from adjustment to underlying transactions from hedging	**47,604**	**9,157**
Measurement of hedging instruments for loans and advances to banks	–3,721	50
Measurement of hedging instruments for loans and advances to customers	–21,698	–3,602
Measurement of hedging instruments for available for sale financial instruments	–23,978	–6,068
Measurement of hedging instruments for securitised liabilities	1,154	468
Net result of the measurement of hedging instruments	**–48,243**	**–9,152**
Net result from hedging	**–639**	**5**

(10) NET TRADING RESULT

in ’000 EUR	2011	2010
Trading result	3,745	6,454
Result from the valuation of financial instruments – HFT	–251	436
Result from the valuation of derivatives	183,435	71,442
Result from the valuation of financial instruments – AFV	–207,853	–72,221
Net trading result	**–20,924**	**6,111**

Of which trading result

in ’000 EUR	2011	2010
Currency-based transactions	835	2,348
Interest-based transactions	4,382	4,111
Credit risk-related transactions	–1,408	0
Result from consolidation of liabilities	–64	–5
Trading result	**3,745**	**6,454**

Currency-related transactions include translation differences from assets and liabilities in foreign currencies. In 2011, the translation differences totalled EUR 5,290,000 (2010: EUR 2,202,000).

Of which result from the valuation of financial instruments HFT

in ’000 EUR	2011	2010
HFT – realised gains	14	275
HFT – appreciation in value	112	167
HFT – depreciation/amortisation	–377	–6
Net result from the valuation of financial instruments – HFT	**–251**	**436**

Of which result from the valuation of derivatives

in ’000 EUR	2011	2010
Interest rate swaps	159,743	60,107
Cross-currency swaps	19,667	14,138
Interest rate options	73	–100
Credit default swaps	–591	–2,863
Foreign exchange forwards	566	298
Currency swaps	3,977	–138
Result from the valuation of derivatives	**183,435**	**71,442**

Of which result from the valuation of financial instruments at fair value

in ’000 EUR	2011	2010
Realised gains on assets – AFS	9,132	232
Realised gains on liabilities – LAFV	9,126	9,212
Realised losses on assets – AFS	–12,034	–1,203
Realised losses on liabilities – LAFV	–4,571	–2,771
Impairment reversals on assets AFV	45,746	29,554
Impairment reversals on liabilities LAFV	19,446	25,356
Impairments on assets AFV	–35,819	–8,540
Impairments on liabilities LAFV	–238,879	–124,061
Result from the valuation of financial instruments – AFV	**–207,853**	**–72,221**

The result from the valuation of derivative financial instruments in the amount of EUR 183,435,000 (2010: EUR + 71,442,000) should be considered in connection with the valuation result from use of the fair value option in the amount of EUR –207,853,000 (2010: EUR –72,221,000), as hedge accounting in accordance with IAS 39 has only been used since the 2010 reporting year and these derivatives were primarily used to hedge against interest rate, currency and market price risks. There is no intention to trade these derivatives, which are used to hedge long-term underlying transactions. In the 2011 reporting year, as in the previous year, credit risk was not hedged using credit derivatives or similar instruments. The valuation result from credit default swaps originates from lending substitution business, which the Bank carries in its banking book. The result from the valuation of derivatives relates almost entirely to hedges against market risks for banking transactions subject to the fair value option.

(11) NET RESULT FROM OTHER FINANCIAL INSTRUMENTS

in ’000 EUR	2011	2010
Realised gains on sales of financial instruments	3,197	5,268
Realised losses on sales of financial instruments	–934	–935
Impairment reversals on financial instruments	597	59
Impairments on financial instruments	–13,171	–27,887
Net result from other financial instruments	**–10,311**	**–23,495**

For AFS financial assets, an impairment of EUR 2,662,000 (2010: EUR 10,536,000) was recorded under impairment, affecting income. Impairment of EUR 5,382,000 was recognised in the financial year on financial assets designated as HTM (2010: EUR 3,960,000) under impairment. Impairment of EUR 4,007,000 was recognised in financial year 2011 on financial assets designated as L&R (2010: EUR 12,599,000) under impairment on financial instruments.

Net result from other financial instruments by measurement classification

in ’000 EUR	2011	2010
AFS – realised gains	1,486	3,390
AFS – realised losses	–62	–144
AFS – impairment reversals	59	31
AFS – impairments	–2,662	–10,536
Result from financial assets AFS	**–1,179**	**–7,259**
HTM – realised gains	119	668
HTM – realised losses	–518	–696
HTM – impairments	–5,797	–3,960
Result from financial assets HTM	**–6,196**	**–3,988**
L&R – realised gains	1,404	494
L&R – realised losses	–17	–91
L&R –- impairment reversals	469	25
L&R – impairments	–4,087	–12,722
Result from financial assets L&R	**–2,231**	**–12,294**
LAC – realised gains	188	716
LAC – realised losses	–337	–4
LAC – impairment reversals	69	3
LAC – impairments	–625	–669
Result from liabilities LAC	**–705**	**46**
Net result from other financial instruments	**–10,311**	**–23,495**

(12) ADMINISTRATIVE EXPENSES

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

in ’000 EUR	2011	2010
Staff costs	–48,409	–50,136
Materials expenses	–27,214	–25,242
Depreciation/amortisation of property, plant and equipment and intangible assets	–4,047	–3,743
Administrative expenses	**–79,670**	**–79,121**

Of which staff costs

in ’000 EUR	2011	2010
Wages and salaries	–36,695	–35,948
Statutory social security contributions	–9,482	–9,205
Voluntary social benefits	–722	–947
Expenses for retirement benefits	–949	–857
Social capital	–561	–3,179
Staff costs	**–48,409**	**–50,136**

Expenses for retirement and other benefits include contributions to defined contribution plans as an employee retirement benefit and pension fund contributions of EUR 890,000 (2010: EUR 704,000).

Of which material expenses

in ’000 EUR	2011	2010
Building expenses	–4,322	–4,440
IT expenses	–10,291	–6,852
Advertising and PR expenses	–3,173	–3,274
Legal and advisory expenses	–1,148	–2,068
Communications expenses	–1,218	–1,305
Organisational form-related expenses	–2,097	–2,009
Staff development expenses	–1,165	–1,024
Other taxes and fees	0	–257
Other materials expenses	–3,800	–4,013
Materials expenses	**–27,214**	**–25,242**

Building expenses include payments for rented and leased assets. For 2012, minimum lease expenses of EUR 1,611,000 are projected (2011: EUR 1,566,000); the projected amount for the next five years is EUR 8,261,000 (2011: EUR 8,297,000). The increase in IT expenses is largely attributable to data processing costs incurred because of our custodian bank function.

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

in '000 EUR	2011	2010
Depreciation of property, plant and equipment	–3,454	–3,300
Depreciation/amortisation of intangible assets	–593	–443
Depreciation/amortisation of property, plant and equipment and intangible assets	**–4,047**	**–3,743**

(13) OTHER INCOME

in '000 EUR	2011	2010
Income from operating leases	2,606	2,284
Income from the disposal of assets	4,828	5,213
Other revenue from leasing business	2,019	3,830
Operating cost income	64	89
Merchandise revenues	707	378
Revenues from consultancy and other services	1,010	379
Miscellaneous other income	2,071	1,140
Other income	**13,305**	**13,313**

Income from operating leases constitutes rental income from properties that have been let. The minimum lease payments from non-terminable operating leases for future periods are shown in the table below.

Minimum lease payments from operating leasesn

in '000 EUR	2011	2010
Up to 1 year	1,011	169
More than 1 year to 5 years	2,806	283
More than 5 years	218	190
Minimum lease payments from non-terminable operating leases	**4,035**	**642**

(14) OTHER EXPENSES

in '000 EUR	2011	2010
Depreciation/amortisation investment properties	–923	–971
Depreciation/amortisation other assets	–516	–237
Impairment other assets	–1,150	–292
Disposals of remaining carrying amounts	–1	–33
Losses on the disposal of assets	–3,165	–3,596
Other expenses from leasing business	–2,441	–1,861
Operating cost expenses	–745	–495
Cost of merchandise	–678	–273
Other tax expenses	–6,362	0
Expenses resulting from losses	–316	0
Miscellaneous other expenses	–2,300	–2,113
Other expenses	**–18,597**	**–9,871**

Other tax expenses contain the stability tax payable for the first time in 2011 of EUR 6,002,000.

(15) TAXES ON INCOME

in '000 EUR	2011	2010
Current income taxes	–19,378	–16,873
Deferred income taxes	–234	292
Income taxes from previous periods	4	–188
Taxes on income	**–19,608**	**–16,769**

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

in '000 EUR	2011	2010
Earnings before taxes	81,290	76,511
Applicable tax rate	25%	25%
Income tax computed	**–20,323**	**–19,128**
Tax effects		
from tax-exempt investment income	2,212	1,699
from other tax-exempt income	1,601	27
from previous years and tax rate changes	–495	–65
from advance payments	0	–167
from differing international tax rates	–456	–1,500
from other non-deductible expenses	–2,909	–638
from other differences	762	3,003
Taxes on income	**–19,608**	**–16,769**

C. NOTES TO THE BALANCE SHEET

(16) CASH AND BALANCES WITH CENTRAL BANKS

in '000 EUR	31.12.2011	31.12.2010
Cash on hand	23,872	24,755
Balances with central banks	113,909	113,646
Deferred interest	40	51
Cash and balances with central banks	**137,821**	**138,452**

Balances with central banks of EUR 98,376,000 comprise the minimum reserve per ECB regulations (2010: EUR 104,079,000). According to the definition of the Austrian National Bank, the minimum reserve represents a working balance for current payment transactions. The minimum reserve therefore fulfils the definition of "cash and cash equivalents" and is accordingly reported under cash and balances with central banks.

(17) LOANS AND ADVANCES TO BANKS (L&R)

In loans and advances to banks, the use of hedge accounting led to amortised cost of EUR 108,251,000 (2010: EUR 45,047,000) being adjusted by the hedged fair value of EUR 3,711,000 (2010: EUR –24,000).

Loans and advances to banks – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Interbank accounts	133,501	125,824
Money market investments	90,243	360,120
Loans to banks	199,006	191,900
Bonds	660,707	739,539
Other loans and advances	3,595	2,866
Loans and advances to banks	**1,087,052**	**1,420,249**

Loans and advances to banks – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	271,302	806,273
Germany	259,345	175,309
Switzerland and Liechtenstein	72,091	121,457
Italy	37,663	82,946
Other foreign countries	446,651	234,264
Loans and advances to banks	**1,087,052**	**1,420,249**

Valuation allowances included – by type

in '000 EUR	31.12.2011	31.12.2010
Portfolio valuation allowances	–79	0
Loan loss provisions for loans and advances to banks	**–79**	**0**

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

In loans and advances to customers, the use of hedge accounting led to amortised costs of EUR 347,393,000 (2010: EUR 142,315,000) being adjusted by the hedged fair value of EUR 24,953,000 (2010: EUR 3,595,000).

Loans and advances to customers – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Cash advances	373,350	330,252
Overdraft lines	699,319	1,077,567
Acceptance credits	10,902	9,210
Municipal cover loans	828,809	748,478
Mortgage bond cover	1,576,624	1,442,692
Lombard loans	153,635	281,518
Other loans	3,174,877	2,799,957
Lease receivables (net investment in a lease)	1,445,769	1,010,041
Bonds	258,610	255,490
Other loans and advances	128	188
Loans and advances to customers	**8,522,023**	**7,955,393**

Loans and advances to customers – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	5,146,776	4,914,752
Germany	1,029,429	944,668
Switzerland and Liechtenstein	593,411	514,160
Italy	1,066,046	1,021,840
Other foreign countries	686,361	559,973
Loans and advances to customers	**8,522,023**	**7,955,393**

Loans and advances to customers – breakdown by segment

in '000 EUR	31.12.2011	31.12.2010
Corporate Services	4,938,152	4,510,217
Private Customers	1,625,269	1,568,474
Financial Markets	458,023	390,676
Corporate Center	1,500,579	1,486,026
Loans and advances to customers	**8,522,023**	**7,955,393**

Loans and advances to customers – breakdown by industry

in '000 EUR	31.12.2011	31.12.2010
Public sector	464,351	290,582
Commerce	1,048,311	744,268
Industry	1,084,533	939,456
Trading	547,082	421,390
Tourism	379,373	370,070
Real estate	1,304,806	1,166,278
Other industries	1,692,298	1,763,655
Liberal professionals	174,717	175,719
Private households	1,772,984	1,747,476
Other	53,568	336,499
Loans and advances to customers	**8,522,023**	**7,955,393**

Gross and net investment in leases
The Group predominantly leases real estate properties, and to a lesser extent movables, under finance leases. For the receivables from finance leases contained in this item, the reconciliation of the gross investment value with the present value of the minimum lease payments is as follows:

in '000 EUR	31.12.2011	31.12.2010
Minimum lease payments	1,808,818	1,288,241
Non-guaranteed residual values	11,847	11,518
Gross total investment	**1,820,665**	**1,299,759**
Unrealised financial income	–374,896	–289,718
Net investment	**1,445,769**	**1,010,041**
Present value of non-guaranteed residual values	–10,673	–10,386
Present value of minimum lease payments	**1,435,096**	**999,655**

Total valuation allowances on finance leases amounted to EUR 25,460,000 (2010: EUR 14,859,000). The lease payments recognised as income in the reporting period are shown in net interest income in Note (6).

Leases – breakdown by maturity

in '000 EUR	31.12.2011	31.12.2010
Gross total investment	**1,820,665**	**1,299,759**
of which up to 1 year	297,907	180,708
of which 1 to 5 years	553,931	337,825
of which more than 5 years	968,827	781,226
Present value of minimum lease payments	**1,435,096**	**999,655**
of which up to 1 year	242,731	144,507
of which 1 to 5 years	395,585	222,388
of which more than 5 years	796,780	632,760

Loan loss provisions – breakdown by type

in '000 EUR	31.12.2011	31.12.2010
Individual valuation allowances	–118,325	–98,891
Portfolio valuation allowances	–10,076	–10,859
Other valuation allowances	–1,230	–183
Loan loss provisions for loans and advances to customers	**–129,631**	**–109,933**

Loan loss provisions – breakdown by segment

in '000 EUR	31.12.2011	31.12.2010
Corporate Services	–81,432	–70,444
Private Customers	–21,328	–20,075
Financial Markets	–342	–2,192
Corporate Center	–26,529	–17,222
Loan loss provisions	**–129,631**	**–109,933**

Specific valuation allowances

in '000 EUR	2011	2010
Balance 1 January	–98,891	–102,646
Currency differences	498	–2,382
Change in scope of consolidation	–13,462	0
Reclassifications	1,106	405
Utilisation	17,663	27,117
Reversals	16,428	15,986
Additions	–41,667	–37,371
Balance 31 December	**–118,325**	**–98,891**

Portfolio valuation allowances

in '000 EUR	2011	2010
Balance 1 January	–10,859	–10,424
Reclassifications	14	0
Utilisation	0	3
Reversals	1,340	416
Additions	–571	–854
Balance 31 December	**–10,076**	**–10,859**

Changes in the other valuation allowances included

in '000 EUR	2011	2010
Balance 1 January	–183	–196
Change in scope of consolidation	–1,432	0
Utilisation	21	0
Reversals	601	13
Additions	–237	0
Balance 31 December	**–1,230**	**–183**

(19) POSITIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2011	31.12.2010
Positive market values of fair value hedges	1,845	1,728
Deferred interest on derivative hedges	328	2,803
Positive market values of hedges	**2,173**	**4,531**

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

in '000 EUR	31.12.2011	31.12.2010
Interest rate swaps	976,822	534,136
Cross-currency swaps	12,772	5,419
Interest rate derivatives	**989,594**	**539,555**
Nominal values from fair value hedges	**989,594**	**539,555**

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

in '000 EUR	31.12.2011	31.12.2010
Interest rate swaps	1,845	1,728
Interest rate derivatives	**1,845**	**1,728**
Positive market values from fair value hedges	**1,845**	**1,728**

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

(20) TRADING ASSETS AND DERIVATIVES

Trading assets and derivatives – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Investment certificates	2,841	2,317
Positive market values of derivative financial instruments	728,202	536,162
Deferred interest	75,639	93,396
Trading assets and derivatives	**806,682**	**631,875**

Trading assets and derivatives – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	57,273	34,355
Germany	252,800	200,496
Switzerland and Liechtenstein	4,959	20,421
Other foreign countries	491,650	376,603
Trading assets and derivatives	**806,682**	**631,875**

Nominal values from derivatives – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Interest rate swaps	7,591,644	7,473,006
Cross-currency swaps	1,537,255	1,184,116
Interest rate options	711,325	740,653
Interest rate futures	12,000	20,000
Interest rate derivatives	**9,852,224**	**9,417,775**
FX forward transactions	1,780,251	1,966,413
FX swaps	283,877	449,434
FX options	46,856	56,316
Other FX derivatives	2,000	0
Currency derivatives	**2,112,984**	**2,472,163**
Stock index futures	12,750	11,649
Stock options	7,433	1,764
Derivatives on securities	**20,183**	**13,413**
Credit default swaps	135,141	139,426
Credit derivatives	**135,141**	**139,426**
Nominal values from derivatives	**12,120,532**	**12,042,777**

Positive market values from derivatives – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Interest rate swaps	494,218	300,156
Cross-currency swaps	198,168	186,524
Interest rate options	4,174	3,037
Interest rate futures	0	54
Interest rate derivatives	**696,560**	**489,771**
FX forward transactions	23,645	32,121
FX swaps	4,378	10,402
FX options	1,418	1,889
Other FX derivatives	1,573	0
Currency derivatives	**31,014**	**44,412**
Stock index futures	0	190
Stock options	0	1,764
Derivatives on securities	**0**	**1,954**
Credit default swaps	628	25
Credit derivatives	**628**	**25**
Positive market values from derivatives	**728,202**	**536,162**

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

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

in '000 EUR	31.12.2011	31.12.2010
Debt securities of public issuers	298,563	215,560
Debt securities of other issuers	533,896	514,724
shares	15,636	18,933
Investment certificates	24,060	24,634
Other equity interests	4,765	6,493
Loans and advances to banks	5,254	5,525
Loans and advances to customers	674,236	704,812
Deferred interest	15,552	17,971
Financial assets – at fair value	**1,571,962**	**1,508,652**

Notes on credit risk

in '000 EUR	2011	2010
Credit exposure	**1,556,410**	**1,490,681**
Collateral	318,800	358,116
Total change in market value	**100,744**	**76,140**
thereof due to market risk	112,915	80,181
thereof due to credit risk	–12,171	–4,041
Change in market value during the reporting period	**24,604**	**17,017**
thereof due to market risk	32,734	10,564
thereof due to credit risk	–8,130	6,453

Changes in fair value due to credit risk are measured by means of a model in which fair value changes due to credit risk are deducted from the overall change in fair value. The disposal of financial instruments at fair value resulted in a realised loss of EUR –616,000 (2010: EUR –971,000). This loss is offset by a realised gain of EUR +659,000 (2010: EUR +1,011,000) from the disposal of derivatives. These derivatives are primarily for hedging risks in connection with interest rate changes, currency movements and market price changes. As in the previous year, in the year under review no credit derivatives were held to hedge credit risk from financial assets voluntarily designated at fair value.

Financial assets designated at fair value – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	676,506	579,373
Germany	319,992	294,702
Switzerland and Liechtenstein	80,714	156,932
Italy	32,387	32,463
Other foreign countries	462,363	445,182
Financial assets – at fair value	**1,571,962**	**1,508,652**

(22) FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

Financial assets available for sale – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Debt securities of public issuers	154,911	81,699
Debt securities of other issuers	570,123	413,192
Shares	1,142	1,143
Investment certificates	11,004	11,049
Other equity interests	17,994	19,007
Deferred interest	14,392	9,092
Other equity investments	21,384	21,135
Other investments in affiliated companies	104	164
Financial assets – available for sale	**791,054**	**556,481**

Financial assets available for sale – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	353,967	206,438
Germany	23,436	48,057
Switzerland and Liechtenstein	10,231	4,691
Italy	20,930	14,593
Other foreign countries	382,490	282,702
Financial assets – available for sale	**791,054**	**556,481**

The financial assets available for sale item represents other holdings and shares in affiliated companies with a carrying value of EUR 10,188,000 (2010: EUR 9,999,000). These assets were not carried at fair value on the balance sheet. The fair values of these financial instruments cannot be reliably determined, as these assets are not traded on an active market, comparable investments are not observable on a market and internal models are inadequate for valuation. These assets represent strategic investments of the Group. There is thus no intention to sell. In 2011, none of the investments, which were not measured at fair value, were sold.

Changes in the available-for-sale revaluation reserve were recorded directly in equity under other result. In 2011, this amount was EUR +12,453,000 (2010: EUR +3,220,000). In measuring available-for-sale assets, deferred taxes were directly deducted from the other result item. In the year under review, an amount of EUR –564,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2010: EUR 142,000). Impairment charges for these assets were recognised in the income statement in the item net result from other financial instruments under Note (11) and amounted to EUR –748,000 in 2011 (2010: EUR –10,536,000).

As a result of using hedge accounting, the changes in market value recorded under other result were reduced by the effective hedged fair value change of EUR –22,287,000 (2010: EUR 6,049,000) and recognised in the income statement under the result from hedge relationships.

(23) FINANCIAL ASSETS HELD TO MATURITY (HTM)

Financial assets held to maturity – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Debt securities of public issuers	182,758	250,342
Debt securities of other issuers	873,830	874,052
Deferred interest	23,201	24,757
Financial assets – held to maturity	**1,079,789**	**1,149,151**

In 2010, an impairment of EUR –3,960,000 (2009: EUR –2,951,000) was recognised and reported in the result from other financial instruments. Assets were cut by EUR 414,000 in the 2011 financial year as a result of the portfolio valuation allowance.

Financial assets held to maturity – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	330,290	308,688
Germany	99,910	176,752
Switzerland and Liechtenstein	35,362	26,067
Italy	39,065	59,750
Other foreign countries	575,162	577,894
Financial assets – held to maturity	**1,079,789**	**1,149,151**

(24) SHARES IN COMPANIES VALUED AT EQUITY

Change in shares in companies measured at equity

in ’000 EUR	2011	2010
Carrying value of holding 1 January	21,947	18,432
Attributable profit/loss	5,577	3,618
Change in the scope of consolidation	5,951	0
Appreciation in the value of investments	2,678	0
Change in capital	0	373
Dividends	–1,536	–476
Carrying value of holding 31 December	**34,617**	**21,947**

The difference between the carrying amount of holdings and pro rata equity in associated companies included in the consolidated financial statements applying the equity method was EUR 12,931,000 (2010: EUR 8,043,000). This difference was added to the value of the holdings and to retained earnings. Gains and losses on consolidated companies were recorded only on a pro rata basis in the income statement under the result from equity consolidation. In 2011, these gains and losses amounted to EUR 5,577,000 (2010: EUR 3,618,000). Further information on companies valued at equity is given under item VII.

(25) INVESTMENT PROPERTY

in ’000 EUR	31.12.2011	31.12.2010
Land portion	6,819	4,141
Buildings portion	30,969	28,422
Investment property	**37,788**	**32,563**

In 2011, the real estate portfolio comprised 57 properties in Austria, Switzerland, Germany and Italy (2010: 55). The portfolio contains both residential properties with a carrying amount of EUR 8,271,000 and commercial properties with a carrying amount of EUR 29,516,000. The current market value of our property portfolio is EUR 45,722,000 (2010: EUR 33,475,000).

There are no material restrictions as to the disposal of these assets. Nor are there any contractual obligations to purchase, construct or develop such properties. The development of investment property is shown in Note (31). Lease payments recognised for investment property are shown in Note (13).

(26) INTANGIBLE ASSETS

Intangible assets – breakdown by type

in ’000 EUR	31.12.2011	31.12.2010
Goodwill	6,396	0
Software acquired	1,672	1,556
Other intangible assets	2	4
Intangible assets	**8,070**	**1,560**

Goodwill of EUR 6,396,000 was capitalised as a result of the acquisition in HIL Mobilien GmbH. Since the acquisition was dealt with as at 31 October 2011, the timeframe was not sufficient to complete the work of allocating the purchase price by the balance sheet date. There may therefore be changes to goodwill. The goodwill is essentially based on anticipated future synergies, expected new business and the contractual cash flows from existing finance leases assumed as a result of the acquisition. HIL Mobilien GmbH and its subsidiaries were defined as a cash generating unit to determine the recoverable amount. Here, establishment of the recoverable amount is based on the value in use of the assets acquired. In establishing the value in use, future and anticipated contractual cash flows from existing finance leases are calculated. These are discounted to the measurement date using the financing interest rate agreed with the customer. The cash flows from the refinancing costs are also discounted at the agreed interest rate. Credit losses expected in future are stated as a global amount of 1% of the present values from movables and real estate leases. The global loan loss provisions stated in the balance sheet amount to 0.40% for movables leasing and 0.20% for real estate leasing. The management therefore presumes that the assumption made for establishing the value in use also covers particular credit risks that have not yet been recognised or occurred. Administrative costs are also stated at present value for existing leases at a figure of EUR 17.00 per lease and month. Recognition of these costs is based on past experience. The calculation of anticipated cash flow is based on existing finance leases. In real estate leasing, in particular, the terms exceed 5 years. The average remaining term of existing real estate leases amounts to 13.5 years.

The planned contractual net cash flows from finance leases less the present value of the funding costs, anticipated credit risk costs and administrative expenses broken down by terms are as follows.

in ’000 EUR	Moveable Property	Property
Up to 1 year	1,375	1,178
Up to 5 years	1,693	3,905
Over 5 years	405	6,151
Anticipated net cash flows	**3,473**	**11,234**

In establishing the anticipated net cash flows, no growth rates were assumed and there was no extrapolation. They are based solely on the contracts in place on the reporting date. Future cash flows were discounted using the interest rates in the leases. The average interest rate in real estate leasing is 3.872%. That of movables leasing is 3.413%.

The development of intangible assets is shown in Note (31).

(27) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – breakdown by type

in '000 EUR	31.12.2011	31.12.2010
Land without buildings	1,676	895
Land with buildings	7,827	7,499
Buildings	55,705	52,708
Operational and office equipment	4,931	5,112
Leased movables	409	165
Construction in progress	4	451
Property, plant and equipment	**70,552**	**66,830**

The development of property, plant and equipment is shown in Note (31).

(28) DEFERRED TAX ASSETS

In the table below, deferred tax liabilities are deducted from tax assets when they represent an asset in net terms in the respective tax entity.

in '000 EUR	31.12.2011	31.12.2010
Temporary differences from the measurement of financial instruments via other result	3,868	982
Temporary differences from writing-down assets	0	46
Temporary differences from provisions	460	490
Temporary differences from social capital	3,394	3,826
Temporary differences from impairments	2,636	3,099
Other temporary differences	517	0
From tax loss carryforwards	1,056	635
Deferred tax assets	**11,931**	**9,078**
Set-off of deferred taxes	–3,055	–3,904
Net deferred tax assets	**8,876**	**5,174**

Group companies hold unused tax loss carry-forwards in the amount of EUR 4,004,000 recognised as assets (2010: EUR 2,284,000). In addition, there are tax loss carryforwards of EUR 13,930,000 (2010: EUR 4,748,000) not recognised as assets in the Group. Deferred tax assets from the measurement of financial instruments designated as available-for-sale in equity are recognised directly under other result and thus also in equity. In 2011, deferred tax assets totalled EUR 3,868,000 (2010: EUR 982,000). The breakdown by maturity is shown in Note (45).

(29) NON-CURRENT ASSETS AVAILABLE FOR SALE

in '000 EUR	31.12.2011	31.12.2010
Available-for-sale real estate	4,750	8,903
Non-current assets available for sale	**4,750**	**8,903**

Non-current assets held for sale comprise properties, which are determined for sale from leases that have been cancelled or that have expired. Specific sales discussions regarding these properties have already been held with interested parties. The management assumes that the contract will be concluded and the transfer will take place by the end of 2012. A profit of EUR 346,000 was achieved from the sale in 2011. This is shown in the income statement in the item other income under Note (13). Non-current assets held for sale and the income and expenses resulting therefrom are recognised in the Corporate Center segment.

(30) OTHER ASSETS

in '000 EUR	31.12.2011	31.12.2010
Other real estate	32,655	23,312
Trade receivables	272	707
Check receivables	1,344	4
Other tax claims	4,677	4,827
Deferred loans and advances	6,971	17,789
Other assets	8,228	11,950
Other assets	**54,147**	**58,589**

Deferred and any other assets not falling into other asset categories are reported under other assets. Also shown in this account are properties constituting neither property, plant and equipment per IAS 16, investment property per IAS 40, nor non-current assets available for sale per IFRS 5. These properties are closely related to the realisation of collateral from the lending business. The breakdown by maturity is shown in Note (45). Impairment on the other real estate properties was recorded under other expenses (Note 14), which in 2011 came to EUR 1,150,000 (2010: EUR 0).

(31) STATEMENT OF CHANGES IN ASSETS

in '000 EUR 2010	Acquisition cost 01.01.	Currency trans-lation	Change in scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Acquisition cost 31.12.	Carrying amounts 31.12.
Software acquired	7,144	121	−21	614	−41	−12	7,805	1,556
Other intangible assets	448	1	−323	0	0	23	149	4
Intangible assets	**7,592**	**122**	**−344**	**614**	**−41**	**11**	**7,954**	**1,560**
Owner-occupied land and buildings	80,776	309	0	563	−3,632	2,177	80,193	60,207
Operational and office equipment	16,661	106	−175	1,224	−6,737	−22	11,057	5,112
Other property, plant and equipment	2,023	−2	0	361	−237	−283	1,862	1,511
Property, plant and equipment	**99,460**	**413**	**−175**	**2,148**	**−10,606**	**1,872**	**93,112**	**66,830**
Investment property	42,904	133	1	1,460	−2,437	−913	41,148	32,563
Total	**149,956**	**668**	**−518**	**4,222**	**−13,084**	**970**	**142,214**	**100,953**

in '000 EUR 2010	Cumulative deprecia-tion/amor-tisation 01.01.	Currency trans-lation	Change in scope of consoli-dation	Regular amortisa-tion	Less cumulative deprecia-tion/amor-tisation	Reclassifi-cations	Impair-ments	Cumulative deprecia-tion/amor-tisation 31.12.
Software acquired	−5,833	−55	21	−436	41	13	0	−6,249
Other intangible assets	−418	0	293	−7	0	−13	0	−145
Intangible assets	**−6,251**	**−55**	**314**	**−443**	**41**	**0**	**0**	**−6,394**
Owner-occupied land and buildings	−19,596	−62	0	−1,870	3,436	−1,894	0	−19,986
Operational and office equipment	−11,327	−44	159	−1,416	6,660	23	0	−5,945
Other property, plant and equipment	−520	0	0	−15	184	0	0	−351
Property, plant and equipment	**−31,443**	**−106**	**159**	**−3,301**	**10,280**	**−1,871**	**0**	**−26,282**
Investment property	−8,251	0	0	−970	470	166	0	−8,585
Total	**−45,945**	**−161**	**473**	**−4,714**	**10,791**	**−1,705**	**0**	**−41,261**

in '000 EUR 2011	Acquisition cost 01.01.	Currency trans-lation	Change in scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Acquisition cost 31.12.	Carrying amounts 31.12.
Goodwill	0	0	0	6,396	0	0	6,396	6,396
Software acquired	7,805	33	351	656	−2,133	20	6,732	1,672
Other intangible assets	149	0	0	0	0	−20	129	2
Intangible assets	**7,954**	**33**	**351**	**7,052**	**−2,133**	**0**	**13,257**	**8,070**
Owner-occupied land and buildings	80,193	57	3,867	1,188	0	451	85,756	63,532
Operational and office equipment	11,057	18	267	1,471	−1,153	0	11,660	4,931
Other property, plant and equipment	1,862	1	0	1,115	−98	−451	2,429	2,089
Property, plant and equipment	**93,112**	**76**	**4,134**	**3,774**	**−1,251**	**0**	**99,845**	**70,552**
Investment property	41,148	0	−3,867	4,536	−732	5,777	46,862	37,788
Total	**142,214**	**109**	**618**	**15,362**	**−4,116**	**5,777**	**159,964**	**116,410**

in '000 EUR 2011	Cumulative deprecia-tion/amor-tisation 01.01.	Currency trans-lation	Change in scope of consoli-dation	Regular amortisa-tion	Less cumulative deprecia-tion/amor-tisation	Reclassifi-cations	Impair-ments	Cumulative deprecia-tion/amor-tisation 31.12.
Goodwill	0	0	0	0	0	0	0	0
Software acquired	−6,249	−10	−323	−593	2,133	−18	0	−5,060
Other intangible assets	−145	0	0	0	0	18	0	−127
Intangible assets	**−6,394**	**−10**	**−323**	**−593**	**2,133**	**0**	**0**	**−5,187**
Owner-occupied land and buildings	−19,986	−15	−264	−1,959	0	0	0	−22,224
Operational and office equipment	−5,945	−10	−179	−1,486	891	0	0	−6,729
Other property, plant and equipment	−351	−1	0	−8	20	0	0	−340
Property, plant and equipment	**−26,282**	**−26**	**−443**	**−3,453**	**911**	**0**	**0**	**−29,293**
Investment property	−8,585	0	264	−923	100	70	0	−9,074
Total	**−41,261**	**−36**	**−502**	**−4,969**	**3,144**	**70**	**0**	**−43,554**

(32) AMOUNTS OWED TO BANKS (LAC)

Amounts owed to banks – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Interbank accounts	415,365	431,757
Money market borrowing	109,953	117,344
Loans from banks	107,166	244,268
Amounts owed to banks	**632,490**	**793,369**

Amounts owed to banks – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	61,977	259,912
Germany	197,937	185,352
Switzerland and Liechtenstein	111,757	148,096
Italy	0	4
Other foreign countries	260,819	200,005
Amounts owed to banks	**632,490**	**793,369**

(33) AMOUNTS OWED TO CUSTOMERS (LAC)

Amounts owed to customers – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Demand deposits	2,355,727	2,044,406
Time deposits	359,941	318,467
Savings deposits	689,041	735,198
Special-interest savings books	831,625	708,847
Amounts owed to customers	**4,236,334**	**3,806,918**

Amounts owed to customers – breakdown by region

in '000 EUR	31.12.2011	31.12.2010
Austria	2,940,122	2,606,194
Germany	618,774	660,539
Switzerland and Liechtenstein	270,307	257,883
Italy	7,266	4,084
Other foreign countries	399,865	278,218
Amounts owed to customers	**4,236,334**	**3,806,918**

Amounts owed to customers – breakdown by segment

in '000 EUR	31.12.2011	31.12.2010
Corporate Services	1,459,842	1,223,399
Private Customers	2,008,780	1,894,622
Financial Markets	428,840	334,557
Corporate Center	338,872	354,340
Amounts owed to customers	**4,236,334**	**3,806,918**

Amounts owed to customers – breakdown by industry

in '000 EUR	31.12.2011	31.12.2010
Public sector	129,092	67,307
Commerce	410,513	377,012
Industry	256,965	203,084
Trading	154,673	143,914
Tourism	39,711	27,633
Real estate	66,433	60,416
Other industries	648,758	600,351
Liberal professionals	103,504	119,995
Private households	1,888,856	1,761,269
Other	537,829	445,937
Amounts owed to customers	**4,236,334**	**3,806,918**

(34) LIABILITIES EVIDENCED BY CERTIFICATES (LAC)

The repurchase by the Group of outstanding bonds valued at EUR 183,343,000 was directly charged to liabilities evidenced by certificates (2010: EUR 294,598,000). In liabilities evidenced by certificates, the use of hedge accounting led to amortised cost of EUR 32,683,000 (2010: EUR 22,931,000) being adjusted by the hedged fair value of EUR –1,619,000 (2010: EUR –463,000).

Liabilities evidenced by certificates – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Mortgage bonds	4,857	7,051
Municipal bonds	282,069	200,415
Medium-term fixed-rate notes	801	1,036
Bonds	532,771	607,837
Housing construction bonds	124,319	144,642
Bonds issued by Pfandbriefstellen	538,662	538,586
Deferred interest	5,631	6,605
Liabilities evidenced by certificates	**1,489,110**	**1,506,172**

(35) NEGATIVE MARKET VALUES OF HEDGES

Breakdown by type of hedge

in '000 EUR	31.12.2011	31.12.2010
Negative market values of fair value hedges	70,036	21,681
Deferred interest on derivative hedging instruments	14,400	11,710
Negative market values of hedges	**84,436**	**33,391**

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

in '000 EUR	31.12.2011	31.12.2010
Interest rate swaps	64,583	20,638
Cross-currency swaps	5,453	1,043
Negative market values from fair value hedges	**70,036**	**21,681**

The nominal values of the hedging instruments are shown in Note (19). The Group did not enter into any cash flow hedge positions in the reporting year or the previous year.

(36) TRADING LIABILITIES AND DERIVATIVES

Trading liabilities and derivatives – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Negative market values of derivative financial instruments	315,765	253,716
Deferred interest	11,460	27,762
Trading liabilities and derivatives	**327,225**	**281,478**

Negative market values from derivatives – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Interest rate swaps	201,497	166,948
Cross-currency swaps	77,582	43,387
Interest rate options	4,476	3,412
Interest rate futures	300	0
Interest rate derivatives	**283,855**	**213,747**
FX forward transactions	23,272	31,240
FX swaps	401	964
FX options	1,418	1,889
Currency derivatives	**25,091**	**34,093**
Stock index futures	12,750	11,649
Stock options	7,433	1,764
Derivatives on securities	**475**	**0**
Credit default swaps	6,344	5,876
Credit derivatives	**6,344**	**5,876**
Negative market values from derivatives	**315,765**	**253,716**

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

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

The repurchase by the Group of outstanding bonds valued at EUR 172,822,000 was directly charged to financial liabilities designated at fair value (2010: EUR 154,998,000).

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

in '000 EUR	31.12.2011	31.12.2010
Amounts owed to banks at fair value	141,395	139,201
Amounts owed to customers at fair value	499,184	486,750
Mortgage bonds at fair value	24,040	20,727
Municipal bonds at fair value	974,474	490,199
Bonds at fair value	3,832,435	3,710,651
Housing construction bonds at fair value	155,165	160,759
Bonds issued by Pfandbriefstellen at fair value	633,528	972,055
Subordinated capital at fair value	42,266	59,160
Supplementary capital at fair value	118,136	97,436
Deferred interest	84,394	86,317
Financial liabilities at fair value	**6,505,017**	**6,223,255**

Financial liabilities are designated at fair value primarily in private placements. Only a small portion of these liabilities are quoted on an exchange. Supplementary capital at fair value includes hybrid capital per Section 24 (2) no. 5 Austrian Banking Act carried at a fair value of EUR 99,147,000 (2010: EUR 84,468,000) which the Group can recognise as core capital in the narrower sense (Tier 1) – see Note (67) and carry at cost of EUR 109,780,000 (2010: EUR 101,243,000), up to 30% of core capital for regulatory purposes. The change from 2011 to 2010 was primarily due to exchange rate movements.

Notes on own credit risk

in '000 EUR	2011	2010
Carrying value	**6,420,623**	**6,136,938**
Repayment amount	5,959,589	5,893,662
Difference between carrying and repayment amount	461,034	243,276
Total change in market value	**459,124**	**245,737**
thereof due to market risk	466,422	254,236
thereof due to credit risk	–7,298	–8,499
Change in market value during the reporting period	**213,387**	**92,021**
thereof due to market risk	212,186	87,051
thereof due to credit risk	1,201	4,970

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

Changes in fair value due to credit risk are measured by means of a model in which fair value changes due to credit risk are deducted from the overall change in fair value.

(38) PROVISIONS

Provisions by type

in ’000 EUR	31.12.2011	31.12.2010
Severance provisions	13,174	12,373
Pension provisions	5,243	6,576
Service anniversary provisions	1,254	1,193
Social capital	**19,671**	**20,142**
Provisions for guarantees/ assumed liability	1,215	839
Provisions for credit risks	8,458	7,415
Provisions for ongoing litigation	2,363	2,140
Association obligation provisions	537	562
Other provisions	235	19
Other provisions	**12,808**	**10,975**
Provisions	**32,479**	**31,117**

Guarantees and warrantees are not shown on the balance sheet, but pose material credit risk. To cover this default risk, provisions are recognised for customers with specific worsening of credit ratings.

Credit risk provisions are similarly recognised to cover credit risk from unused credit lines. Unutilised credit commitments to customers represent contingent liabilities. As these are not shown on the balance sheet, risk can only be covered by provisions. As credit commitments per IAS 39.2(h) are concerned, IAS 37 applies.

Litigation provisions include expected costs for legal action and counsel and estimated payment obligations to plaintiffs. The time at which provisions are utilised depends on the time required for litigation.

Association obligation provisions include pension benefits due to employees of the Hypo Group. These are shown under provisions instead of social capital because no expense accrues to Group employees.

No specific assets or funding are in place for social capital. Income/expenses from the allocation/reversal of provisions are recorded directly in administrative expenses. For pension provisions, we are required by law to hold fixed interest securities backing pension plan participants’ pension entitlements.

The present value of the defined benefit obligations and the adjustments based on experience in the past five years amounted to.

in ’000 EUR	Present value	Adjustment
For 2011	5,243	–21.1%
For 2010	6,576	8.0%
For 2009	6,271	9.3%
For 2008	5,873	2.6%
For 2007	5,874	1.7%

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

Change in social capital

in ’000 EUR 2010	Severance provisions	Pension provisions	Service anniversary provisions	Total
Present value 1 January	10,625	6,271	1,001	17,897
Change in scope of consolidation	–17	0	0	–17
Years of service expense	576	0	89	665
Interest expense	446	242	43	731
Payments	–419	–462	–46	–927
Actuarial gains/losses	1,162	525	106	1,793
Present value 31 December	**12,373**	**6,576**	**1,193**	**20,142**

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

Change in other provisions

in '000 EUR 2010	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	61	6,366	1,821	579	166	8,993
Allocation	828	2,101	1,321	2	16	4,268
Use	0	–137	–388	–19	–31	–575
Reversal	–50	–915	–614	0	–18	–1,597
Change in scope of consolidation	0	0	0	0	–114	–114
Carrying value 31 December	**839**	**7,415**	**2,140**	**562**	**19**	**10,975**

in '000 EUR 2011	Guarantees and warranties	Credit risks	Ongoing litigation	Association obligations	Other	Total
Carrying value 1 January	839	7,415	2,140	562	19	10,975
Allocation	509	1,749	437	2	685	3,382
Use	0	–389	–204	–27	–948	–1,568
Reversal	–133	–317	–10	0	0	–460
Change in scope of consolidation	0	0	0	0	479	479
Carrying value 31 December	**1,215**	**8,458**	**2,363**	**537**	**235**	**12,808**

(39) TAX LIABILITIES

Tax liabilities – breakdown by type

in '000 EUR	31.12.2011	31.12.2010
Tax provision	5,076	9,345
Current tax liability	70	73
Tax liabilities	**5,146**	**9,418**

Change in tax provisions

in '000 EUR	2011	2010
Carrying value 1 January	9,345	5,349
Currency translation	13	77
Allocation	546	4,279
Use	–525	–261
Reversal	–4,383	–47
Change in scope of consolidation	80	–52
Carrying value 31 December	**5,076**	**9,345**

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

(40) DEFERRED TAX LIABILITIES

In the table below, deferred tax assets are deducted from tax liabilities when they represent a liability in net terms in the respective tax entity.

in '000 EUR	31.12.2011	31.12.2010
Temporary differences from the measurement of financial instruments via the income statement	2,992	3,446
Temporary differences from writing down assets	1,250	1,156
Temporary differences from social capital	55	52
Temporary differences from impairment	262	425
Other temporary differences	248	250
Deferred tax liabilities	**4,807**	**5,329**
Set-off of deferred taxes	–3,055	–3,904
Net deferred tax liabilities	**1,752**	**1,425**

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

(41) OTHER LIABILITIES

in '000 EUR	31.12.2011	31.12.2010
Liabilities in connection with social security	1,269	1,064
Other tax liabilities	7,634	7,849
Trade payables	7,948	3,735
Amounts owed to associates	0	366
Check liabilities	60	35
Deferred liabilities	544	110
Commercial code provisions	3,775	3,635
Exchange liabilities	121	0
Other liabilities	17,421	31,035
Other liabilities	**38,772**	**47,829**

(42) SUBORDINATED AND SUPPLEMENTARY CAPITAL (LAC)

Subordinated and supplementary capital – breakdown by type of business

in '000 EUR	31.12.2011	31.12.2010
Subordinated capital per Section 23 (8) BWG	149,832	149,802
Supplementary capital per Section 23 (7) BWG	87,260	89,841
Deferred interest	260	203
Subordinated and supplementary capital	**237,352**	**239,846**

Change in subordinated and supplementary capital

in '000 EUR	2011	2010
Balance 1 January	239,846	235,765
Additions	49	7,743
Repayments	–2,601	–3,699
Change in deferred interest	58	37
Balance 31 December	**237,352**	**239,846**

(43) SHAREHOLDERS' EQUITY

The subscribed capital consists of fully paid-in share capital of EUR 150,000,000 (2010: EUR 150,000,000). On 31 December 2011, 293,000 (2010: 293,000) shares with a nominal value of EUR 511.9454 were issued. The subscribed capital also includes the participation certificates issued in 2008 and fully paid-in in the amount of EUR 9,000,000 (2009: EUR 9,000,000). On 31 December 2011, 1,000,000 (2010: 1,000,000) participation certificates with a nominal value of EUR 9.00 were issued. The participation certificates have no term and are not repayable. Distribution is based on variable interest but can take place only if there is a sufficient distributable profit.

Market value changes of available-for-sale financial instruments shown directly under other result amounted to EUR –8,659,000 in 2011 (2010: EUR 3,220,000). Market value changes recorded were adjusted for deferred taxes. This adjustment amounted to EUR 2,886,000 in 2011 (2010: EUR –1,073,000). In the year under review, an amount of EUR –564,000 was reversed from the reserve on the income statement due to disposals of available-for-sale assets (2010: EUR 142,000).

Impairment on these assets was recorded under result from other financial instruments, affecting income. In 2011, an amount of EUR –748,000 was recorded on the income statement (2010: EUR –10,536,000).

Currency translation effects were also recorded directly under other result. In 2011, these amounted to EUR –163,000 (2010: EUR –164,000).

Of the consolidated net income after taxes of EUR 61,682,000 (2010: EUR 59,742,000), an amount of EUR 61,670,000 (2010: EUR 59,742,000) was attributable to shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and EUR 12,000 was attributable to non-controlling interests in subsidiaries (2010: EUR 0).

Retained earnings include the legal reserve. Reversals from the legal reserve in the amount of EUR 13,386,000 (2010: EUR 11,102,000) were in connection with the Austrian Stock Corporation Act (AktG). According to Section 183, reversals from the legal reserve are only permissible after the part of appropriated reserves exceeding 10% of the remaining share capital following the simplified capital reduction and all non-appropriated capital reserves as well as all retained earnings per the articles of association and other retained earnings have been reversed beforehand. Amounts from the reversal may not be used for payments to shareholders either or used for exempting shareholders from their obligation to make contributions.

Liable capital as per Section 23 (6) of the Austrian Banking Act is also reported under retained earnings. Reversals from liable capital in the amount of EUR 124,237,000 (2010: EUR 119,079,000) are subject to Section 23 (6) of the Austrian Banking Act. Accordingly, liable capital may only be reversed in as much as this is necessary to fulfil obligations in accordance with Section 93 or to cover losses that would otherwise have to be reported in the annual financial statements. Liable capital must be replenished to the extent of the amount reversed within the following five financial years at the latest.

Dividends of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The amount of dividends distributed by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft may not exceed the net income of EUR 4,500,000 recorded in the (separate) financial statements prepared in accordance with the Austrian Banking Act and the Austrian Corporate Code (2010: EUR 13,500,000).

The net profit posted by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft for financial year 2011 was EUR 61,051,000 (2010: EUR 54,910,000). After the allocation of EUR 58,496,000 to reserves (2010: EUR 42,244,000) and adding net profit of EUR 1,945,000 carried forward (2010: EUR 833,000), accumulated profits available for appropriation totalled EUR 4,500,000 (2010: EUR 13,500,000). The proposal is advanced, subject to approval of the annual meeting of shareholders, that a dividend of EUR 9.00 be distributed per dividend-entitled share (2010: EUR 35.00) on share capital of EUR 150,000,000 (2010: EUR 150,000,000). The total dividend distribution was thus EUR 2,637,000 (2010: EUR 10,255,000) on 293,000 shares (2010: 293,000 shares). For the participation certificates issued in 2008, profits are distributed on the basis of a variable interest rate as long as interest payments are covered by previous-year profits.

(44) FOREIGN CURRENCY VOLUME AND FOREIGN-DENOMINATED ASSETS

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 10						
Cash and balances with central banks	126,752	131	11,462	6	101	138,452
Loans and advances to banks	929,646	88,491	353,107	21,565	27,440	1,420,249
Loans and advances to customers	5,465,370	110,153	2,194,308	107,336	78,226	7,955,393
Positive market values from hedging	3,895	60	569	0	7	4,531
Trading assets and derivatives	235,498	14,630	257,219	107,568	16,960	631,875
Financial assets – at fair value	1,247,685	46,785	172,725	29,219	12,238	1,508,652
Financial assets – available for sale	515,352	34,715	0	0	6,414	556,481
Financial assets – held to maturity	1,075,909	12,649	60,593	0	0	1,149,151
Shares in companies valued at equity	21,947	0	0	0	0	21,947
Investment property	32,563	0	0	0	0	32,563
Intangible assets	733	0	827	0	0	1,560
Property, plant and equipment	64,950	0	1,880	0	0	66,830
Tax assets	800	0	0	0	0	800
Deferred tax assets	5,174	0	0	0	0	5,174
Non-current assets available for sale	8,903	0	0	0	0	8,903
Other assets	51,644	2	149	6,535	259	58,589
Total assets	**9,786,821**	**307,616**	**3,052,839**	**272,229**	**141,645**	**13,561,150**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 10						
Amounts owed to banks	700,559	57,611	4,357	0	30,842	793,369
Amounts owed to customers	3,469,024	207,532	85,136	5,531	39,695	3,806,918
Liabilities evidenced by certificates	1,421,312	3,914	80,946	0	0	1,506,172
Negative market values from hedging	29,942	2,162	222	0	1,065	33,391
Trading liabilities and derivatives	158,690	14,409	54,963	44,707	8,709	281,478
Financial liabilities – at fair value	2,457,803	33,661	2,880,536	835,539	15,716	6,223,255
Provisions	31,117	0	0	0	0	31,117
Tax liabilities	8,843	0	575	0	0	9,418
Deferred tax liabilities	1,425	0	0	0	0	1,425
Other liabilities	46,483	124	748	0	474	47,829
Subordinated and supplementary capital	239,846	0	0	0	0	239,846
Shareholders' equity	584,899	0	2,033	0	0	586,932
Total liabilities and shareholders' equity	**9,149,943**	**319,413**	**3,109,516**	**885,777**	**96,501**	**13,561,150**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Assets as at 31 December 11						
Cash and balances with central banks	120,128	182	17,406	10	95	137,821
Loans and advances to banks	514,282	119,740	397,024	20,808	35,198	1,087,052
Loans and advances to customers	5,933,261	117,575	2,246,219	131,658	93,310	8,522,023
Positive market values of hedges	1,604	0	569	0	0	2,173
Trading assets and derivatives	350,976	4,314	320,238	126,178	4,976	806,682
Financial assets – at fair value	1,253,862	37,388	104,144	153,650	22,918	1,571,962
Financial assets – available for sale	741,080	38,606	4,289	0	7,079	791,054
Financial assets – held to maturity	994,391	15,942	69,456	0	0	1,079,789
Shares in companies valued at equity	34,617	0	0	0	0	34,617
Investment property	37,788	0	0	0	0	37,788
Intangible assets	6,806	0	1,264	0	0	8,070
Property, plant and equipment	68,832	0	1,720	0	0	70,552
Tax assets	1,112	0	0	0	136	1,248
Deferred tax assets	8,876	0	0	0	0	8,876
Non-current assets available for sale	4,750	0	0	0	0	4,750
Other assets	45,830	33	285	7,086	913	54,147
Total assets	**10,118,195**	**333,780**	**3,162,614**	**439,390**	**164,625**	**14,218,604**

in '000 EUR	EUR	USD	CHF	JPY	Other	Total
Liabilities and shareholders' equity as at 31 December 11						
Amounts owed to banks	576,396	40,143	504	329	15,118	632,490
Amounts owed to customers	3,786,417	301,323	100,013	2,666	45,915	4,236,334
Liabilities evidenced by certificates	1,283,959	3,166	201,985	0	0	1,489,110
Negative market values of hedges	70,897	5,424	2,630	0	5,485	84,436
Trading liabilities and derivatives	184,106	24,796	65,058	45,466	7,799	327,225
Financial liabilities – at fair value	2,760,635	35,101	3,099,254	593,497	16,530	6,505,017
Provisions	32,479	0	0	0	0	32,479
Tax liabilities	4,409	0	639	0	98	5,146
Deferred tax liabilities	1,752	0	0	0	0	1,752
Other liabilities	37,306	27	918	0	521	38,772
Subordinated and supplementary capital	237,352	0	0	0	0	237,352
Shareholders' equity	626,285	0	1,750	0	456	628,491
Total liabilities and shareholders' equity	**9,601,993**	**409,980**	**3,472,751**	**641,958**	**91,922**	**14,218,604**

The difference between assets and liabilities in individual currencies does not represent the Group's foreign currency position per Section 26 of the Austrian Banking Act, old version. Open foreign currency positions are hedged using derivative financial instruments including currency swaps and cross-currency swaps. These hedges are carried at market value rather than nominal value on the IFRS balance sheet. At 31 December 2011, the total of all open foreign currency positions per Section 26 of the Austrian Banking Act was EUR 1,554,000 (2010: EUR 530,000).

Foreign-denominated assets and liabilities

in '000 EUR	31.12.2011	31.12.2010
Foreign assets	5,107,300	5,101,431
Foreign liabilities	8,147,478	8,130,018

(45) MATURITIES

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Assets as at 31 December 10							
Cash and balances with central banks	113,697	0	0	0	0	24,755	138,452
Loans and advances to banks	132,673	513,758	237,565	250,623	285,630	0	1,420,249
Loans and advances to customers	1,917,848	561,010	396,525	1,723,478	3,254,264	102,268	7,955,393
Positive market values of hedges	1	0	21	2,293	2,216	0	4,531
Trading assets and derivatives	114	51,275	36,779	147,694	393,696	2,317	631,875
Financial assets – at fair value	0	55,578	111,385	576,948	719,542	45,199	1,508,652
Financial assets – available for sale	0	35,158	35,130	237,191	206,344	42,658	556,481
Financial assets – held to maturity	0	56,542	257,046	523,070	312,493	0	1,149,151
Shares in companies valued at equity	0	0	0	0	0	21,947	21,947
Investment property	0	0	0	0	0	32,563	32,563
Intangible assets	0	0	0	0	0	1,560	1,560
Property, plant and equipment	0	0	0	0	0	66,830	66,830
Tax assets	0	0	1	799	0	0	800
Deferred tax assets	465	267	2,090	–111	2,827	–364	5,174
Non-current assets available for sale	0	0	8,903	0	0	0	8,903
Other assets	29,692	1,542	1,511	326	8,929	16,589	58,589
Total assets	**2,194,490**	**1,275,130**	**1,086,956**	**3,462,311**	**5,185,941**	**356,322**	**13,561,150**

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Liabilities and shareholders' equity as at 31 December 10							
Amounts owed to banks	487,805	108,525	134,737	62,302	0	0	793,369
Amounts owed to customers	2,719,888	118,971	462,077	421,857	84,125	0	3,806,918
Liabilities evidenced by certificates	158	63,105	6,978	403,207	1,032,724	0	1,506,172
Negative market values of hedges	0	0	88	10,708	22,595	0	33,391
Trading liabilities and derivatives	98	26,704	15,262	68,393	171,021	0	281,478
Financial liabilities – at fair value	0	321,151	72,027	1,595,087	4,150,092	84,898	6,223,255
Provisions	5	132	1,469	9,171	18,792	1,548	31,117
Tax liabilities	442	10	8,966	0	0	0	9,418
Deferred tax liabilities	0	0	0	0	948	477	1,425
Other liabilities	24,089	10,645	5,376	6,775	766	178	47,829
Subordinated and supplementary capital	0	0	0	0	239,846	0	239,846
Shareholders' equity	0	0	0	0	0	586,932	586,932
Total liabilities and shareholders' equity	**3,232,485**	**649,243**	**706,980**	**2,577,500**	**5,720,909**	**674,033**	**13,561,150**

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Assets as at 31 December 11							
Cash and balances with central banks	113,949	0	0	0	0	23,872	137,821
Loans and advances to banks	105,194	137,746	226,112	465,128	152,872	0	1,087,052
Loans and advances to customers	1,714,902	609,443	505,894	2,065,066	3,516,932	109,786	8,522,023
Positive market values of hedges	0	0	0	1,431	742	0	2,173
Trading assets and derivatives	0	24,758	18,457	258,024	502,602	2,841	806,682
Financial assets – at fair value	0	42,035	69,155	549,670	871,406	39,696	1,571,962
Financial assets – available for sale	0	52,553	63,371	361,258	271,505	42,367	791,054
Financial assets – held to maturity	0	68,518	183,591	500,513	327,167	0	1,079,789
Shares in companies valued at equity	0	0	0	0	0	34,617	34,617
Investment property	0	0	0	0	0	37,788	37,788
Intangible assets	0	0	0	0	0	8,070	8,070
Property, plant and equipment	0	0	0	0	0	70,552	70,552
Tax assets	0	0	657	591	0	0	1,248
Deferred tax assets	0	2,225	–1,071	2,433	4,220	1,069	8,876
Non-current assets available for sale	0	0	4,750	0	0	0	4,750
Other assets	11,562	980	3,108	124	4,722	33,651	54,147
Total assets	**1,945,607**	**938,258**	**1,074,024**	**4,204,238**	**5,652,168**	**404,309**	**14,218,604**

in '000 EUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Without maturity	Total
Liabilities and shareholders' equity as at 31 December 10							
Amounts owed to banks	464,632	63,857	91,771	11,288	942	0	632,490
Amounts owed to customers	2,624,409	151,139	605,835	448,675	401,569	4,707	4,236,334
Liabilities evidenced by certificates	155	4,439	8,463	645,373	830,680	0	1,489,110
Negative market values of hedges	0	314	192	31,451	52,479	0	84,436
Trading liabilities and derivatives	0	22,697	24,758	86,862	192,908	0	327,225
Financial liabilities – at fair value	0	42,777	144,804	2,558,514	3,659,331	99,591	6,505,017
Provisions	0	88	1,689	13,099	16,100	1,503	32,479
Tax liabilities	100	0	5,046	0	0	0	5,146
Deferred tax liabilities	0	0	0	0	1,081	671	1,752
Other liabilities	23,568	7,605	4,479	2,896	136	88	38,772
Subordinated and supplementary capital	0	0	0	0	237,352	0	237,352
Shareholders' equity	0	0	0	0	0	628,491	628,491
Total liabilities and shareholders' equity	**3,112,864**	**292,916**	**887,037**	**3,798,158**	**5,392,578**	**735,051**	**14,218,604**

D. ADDITIONAL IFRS DISCLOSURES

(46) DISCLOSURES ON THE CASH FLOW STATEMENT

The indirect method is used in preparing the cash flow statement. With this method, net cash flow from operating activities is determined based on consolidated net profit after adding expenses and deducting income not affecting cash flow. Also, all expenses and income not attributable to operating activities that did affect cash flow are factored out. These payments are tracked under cash flow from investing or financing activities.

Of interest received totalling EUR 355,941,000 (2010: EUR 255,892,000), the amount of EUR 254,917,000 (2010: EUR 160,808,000) was attributable to operating activities, and EUR 101,024,000 (2010: EUR 95,084,000) to investing activities. Dividends and profit distributions received fall under investing activities. Of interest paid totalling EUR 167,105,000 (2010: EUR 119,703,000), the amount of EUR 162,657,000 (2010: EUR 114,347,000) was attributable to operating activities, and EUR 4,448,000 (2010: EUR 5,356,000) to financing activities. Income tax paid is attributable to operating activities.

74% of the shares in HIL Mobilien GmbH (previously Hypo SüdLeasing) were acquired in 2011. 13.288% of the shares in HYPO EQUITY Unternehmensbeteiligungen AG were also acquired. An amount of EUR 14,092,000 was paid for the acquisition of these shares. These amounts represent cash equivalents and were allocated to investment activities in the cash flow statement. Control of the company was obtained through the acquisition of HIL Mobilien GmbH. The amount of cash and cash equivalents in HIL Mobilien GmbH and its investments amounted to EUR 1,000 at the time of the acquisition. As a result of the acquisition, receivables from finance leases of EUR 404,613,000 and loans and advances to banks of EUR 1,262,000 were acquired. Tax assets amounted to EUR 998,000 and the remaining assets EUR 196,000. The vast majority of the companies' liabilities are to the Group and amounted to EUR 381,410,000 at the time of the acquisition. There were also amounts owed to customers from advance payments on leased items under construction of EUR 15,184,000, tax liabilities of EUR 454,000, provisions of EUR 177,000 and other liabilities of EUR 7,650,000.

(47) CONTINGENT LIABILITIES AND CREDIT RISKS

Contingent liabilities

in '000 EUR	31.12.2011	31.12.2010
Liabilities from financial guarantees	478,854	420,977
Other contingent liabilities	24,879	89,938
Contingent liabilities	**503,733**	**510,915**

Liabilities from financial guarantees represent commitments to assume liability to third parties for our customers. If the guarantee holder fails to meet its contractual obligations, the beneficiary may utilise the financial guarantee from the Bank. The Bank in turn has recourse claims against its customers. Recording contingent liabilities in connection with financial guarantees is very difficult, as utilisation of the guarantee cannot be foreseen nor the amount in question reliably estimated. Other contingent liabilities concern certain fiduciary transactions and documentary letters of credit.

In addition to the contingent liabilities described above, there are the following other contingent liabilities:

- **Obligation from the membership required under Section 93 of the Austrian Banking Act of deposit insurance company "Hypo-Haftungs-Gesellschaft m.b.H."**
  If this deposit insurance is utilised, the contribution for the individual bank in line with Section 93a (1) Austrian Banking Act is a maximum of 1.5% (2010: 1.5%) of the assessment basis in line with Section 22 (2) BWG at the last balance sheet date, and thus amounts to EUR 109,637,000 for the Bank (2010: EUR 102,723,000).

- **Liability for the liabilities of "Pfandbriefstelle der österreichischen Landes-Hypothekenbanken"**
  All eight affiliated banks (Hypothekenbank Vorarlberg, Tirol, Salzburg, Oberösterreich, Niederösterreich, Burgenland, Steiermark and Kärnten) have joint and several liability for these liabilities. In addition, the banks' guarantors (the states of Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Burgenland, Styria and Carinthia) have joint and several liability – unlimited for liabilities incurred up to 2 April 2003 and limited for liabilities incurred after 2 April 2003 and up to 1 April 2007 – if maturity does not exceed 30 September 2017. Pfandbriefstelle bonds held in trust by Hypothekenbank Vorarlberg amount to EUR 1,135,393,000 (2010: EUR 1,496,394,000).

Credit risks per Section 51 (14) Austrian Banking Act

in '000 EUR	31.12.2011	31.12.2010
Credit commitments and unused credit lines	1,603,943	1,408,297
Credit risks	**1,603,943**	**1,408,297**

These credit risks include credit extended but not yet disbursed to customers, both loan commitments and unused credit lines. Credit risks are carried at nominal value.

(48) INTEREST-FREE LOANS AND ADVANCES

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to banks	63,918	7,898
Loans and advances to customers	73,845	91,198
Interest-free loans and advances	**137,763**	**99,096**

Interest-free loans and advances to banks mainly represent credit balances at clearing houses and unsettled transactions on which interest is not credited. Loans and advances to customers are classified as interest-free when interest is no longer deemed collectible in future periods. Sufficient valuation allowances have already been recognised for these loans and advances.

(49) COLLATERAL

Assets provided as collateral

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to banks	377,963	57,960
Loans and advances to customers	2,561,815	2,795,168
Financial assets – at fair value	386,057	565,984
Financial assets – available for sale	675,125	414,333
Financial assets – held to maturity	764,999	903,305
Assets provided as collateral	**4,765,959**	**4,736,750**
thereof covered pool for mortgage bonds	1,580,770	1,440,665
thereof covered pool for public-sector covered bonds	894,336	2,002,387

The collateral holder is not entitled to sell or repledge the collateral listed. Accordingly, there were no balance sheet reclassifications for the collateral provided. Loans and advances to banks include collateral deposits from other banks provided for derivatives. The covered pool for issued mortgage bonds and public sector covered bonds is shown under loans and advances to customers. Assets at fair value and assets held to maturity provided as collateral relate to a securities account at Österreichische Kontrollbank required for eligibility for central bank funding from Oesterreichische Nationalbank.

As collateral holder, the Bank does not hold collateral which it is permitted to sell in the absence of default by the owner or repledge without the owner's permission.

(50) SUBORDINATED ASSETS

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to banks	35,628	34,375
Loans and advances to customers	8,664	12,167
Financial assets – at fair value	48,810	63,052
Financial assets – available for sale	19,871	20,596
Financial assets – held to maturity	14,422	3,955
Subordinated assets	**127,395**	**134,145**

(51) FIDUCIARY TRANSACTIONS

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to customers	66,481	75,820
Fiduciary assets	**66,481**	**75,820**
Amounts owed to banks	48,464	55,927
Amounts owed to customers	18,236	19,936
Fiduciary liabilities	**66,700**	**75,863**

(52) GENUINE REPURCHASE AGREEMENTS

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

(53) RELATED PARTY DISCLOSURES

Related parties include:

- The owners, as stated below,
- Vorarlberger Landesbank-Holding and Austria Beteiligungsgesellschaft mbH,
- The Managing and Supervisory Board members of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft and their immediate family members,
- Managing directors of consolidated subsidiaries and their immediate family members,
- Management personnel of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft per Section 80 AktG and their immediate family members,
- Statutory representatives and supervisory board members of significant shareholders,
- Subsidiaries and other companies in which Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft holds an equity stake.

Advances, credit and assumed liabilities

At the end of the year, Managing Board members and managing directors as well as their immediate family members had advances, credit and assumed liabilities from the Bank outstanding in the amount of EUR 3,200,000 (2010: EUR 2,235,000), granted at the customary terms and conditions for Bank employees. At the end of the year Supervisory Board members as well as their immediate family members and companies for which they are personally liable had advances, credit and assumed liabilities from the Bank outstanding in the amount of EUR 2,615,000 (2010: EUR 1,744,000), granted at the customary terms and conditions for Bank employees.

Remuneration

The remuneration packages of Managing Board members consist of a fixed salary and a variable bonus. In some cases, managing directors and managerial personnel receive bonuses on terms individually determined by the Managing Board. No share-based pay arrangements are in place.

The amounts paid by Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft in 2011 for the three active Managing Board members are shown below.

in '000 EUR	2011	2010
Jodok Simma	325	321
Johannes Hefel	222	229
Michael Grahammer	222	220
Managing Board remuneration	**769**	**770**

Remuneration paid to related parties

in '000 EUR	2011	2010
Managing Board members and managing directors	1,688	1,364
Retired Managing Board members and survivors	156	196
Managerial personnel	4,378	3,845
Supervisory Board members	163	127
Remuneration paid to related parties	**6,385**	**5,532**

Severance and pensions

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

in '000 EUR	2011	2010
Managing Board members and managing directors	4	129
Pensioners	1,455	719
Managerial personnel	486	498
Other active employees	–416	2,537
Expenses for severance and pensions for related parties	**1,529**	**3,883**

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

Business relationships with affiliated companies

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to customers	20,871	25,555
Loans and advances	**20,871**	**25,555**
Amounts owed to customers	1,788	157
Liabilities	**1,788**	**157**

Transactions with affiliated companies include firstly loans and credit and business current accounts for our subsidiaries. Loans and advances have interest rates between 0% and 1.875%, with the majority being non-interest-bearing. Liabilities have an interest rate of 0.25%. In addition, the existing impairment on a loan of EUR 1,717,000 was reversed by EUR 1,715,000 to EUR 2,000.

Business relationships with associated companies

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to customers	32,541	494,973
Financial assets	1,064	0
Loans and advances	**33,605**	**494,973**
Amounts owed to banks	282	1,478
Amounts owed to customers	2,949	15,062
Trading liabilities and derivatives	1	0
Liabilities	**3,232**	**16,540**

Transactions with associated companies include loans, cash advances, credit, business current accounts, savings deposits and time deposits. These transactions are concluded at standard market conditions. Warranties of EUR 0 were assumed for associated companies (2010: EUR 15,000).

Business relationships with shareholders

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to banks	43,593	22,423
Loans and advances to customers	60,751	59,972
Trading assets and derivatives	52,525	58,176
Financial assets	61,008	18,740
Loans and advances	**217,877**	**159,311**
Amounts owed to banks	20,286	78,727
Amounts owed to customers	31,157	4,185
Trading liabilities and derivatives	70,865	35,871
Liabilities	**122,308**	**118,783**

Transactions with shareholders with significant influence primarily include loans, cash advances, credit, business current accounts, savings deposits and time deposits. We also transacted derivatives with a nominal value of EUR 1,883,577,000 (2010: EUR 1,359,851,000) with Landesbank Baden-Württemberg to hedge against market price risks. The positive market values from derivatives are hedged as part of the cash collateral. For the remaining loans and advances, there is generally no collateral. All transactions were concluded at standard market conditions.

Shareholders of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft at 31 December

Shareholders	Interest	Voting rights
Vorarlberger Landesbank-Holding	74.9997%	74.9997%
Austria Beteiligungsgesellschaft mbH	25.0003%	25.0003%
Landesbank Baden-Württemberg	16.6669%	
Landeskreditbank Baden-Württemberg Förderbank	8.3334%	
Share capital	**100.0000%**	**100.0000%**

Because of its competence as a housing bank, Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft has been appointed by the state of Vorarlberg to administer the state housing construction fund. The Bank pays the state a liability fee of EUR 1,453,000 for the financial backing of the state of Vorarlberg (2010: EUR 1,453,000). The Group is not in a lasting business relationship with Austria Beteiligungsgesellschaft mbH. Numerous transactions typical of a banking relationship have been conducted with Landesbank Baden-Württemberg.

Business relationship with state-related companies

in '000 EUR	31.12.2011	31.12.2010
Loans and advances to customers	78,650	61,304
Loans and advances	**78,650**	**61,304**
Amounts owed to customers	54,014	8,857
Liabilities	**54,014**	**8,857**

Transactions with state-related companies include firstly loans and credit as well as business current accounts and time deposits. These transactions were concluded at standard market conditions.

(54) SHARE-BASED PAY ARRANGEMENTS

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

(55) HUMAN RESOURCES

	2011	2010
Full-time salaried staff	655	638
Part-time salaried staff	56	53
Apprentices	9	10
Full-time other employees	4	4
Average number of employees	**724**	**705**

(56) EVENTS AFTER THE REPORTING DATE

In addition to the package of austerity measures aimed at reducing public sector debt announced by the federal government, the specific repercussions of which cannot be estimated at the time of publication of the financial statements, the rating agency Moody's announced on 15 February 2012, that the ratings of some banks were being looked at because of the reassessment of the states following the downgrading of the Republic of Austria. Our rating remained unchanged at A1. However, the outlook for our rating was assessed as negative.

E. SEGMENT REPORTING

Reporting by business segment

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Net interest income	2011	71,714	33,554	38,110	31,648	175,026
	2010	67,200	29,871	27,409	27,395	151,875
Loan loss provisions	2011	–19,693	–4,831	1,679	–2,728	–25,573
	2010	–12,216	–4,049	22	–9,561	–25,804
Net fee and commission income	2011	13,718	16,464	6,376	3,349	39,907
	2010	15,637	16,676	4,471	3,095	39,879
Result from hedge relationships	2011	0	0	–639	0	–639
	2010	0	0	5	0	5
Net trading result	2011	3,055	1,624	–24,603	–1,000	–20,924
	2010	1,515	1,510	3,575	–489	6,111
Result from other financial instruments	2011	0	0	–10,184	–127	–10,311
	2010	256	0	–24,292	541	–23,495
Administrative expenses	2011	–25,550	–35,662	–10,448	–8,010	–79,670
	2010	–25,815	–39,863	–6,367	–7,076	–79,121
Other income	2011	231	354	42	12,678	13,305
	2010	701	323	6	12,283	13,313
Other expenses	2011	–2,096	–872	–3,303	–12,326	–18,597
	2010	–150	–126	–115	–9,480	–9,871
Result from equity consolidation	2011	0	0	0	8,766	8,766
	2010	0	0	0	3,619	3,619
Earnings before taxes	**2011**	**41,379**	**10,631**	**–2,970**	**32,250**	**81,290**
	2010	**47,128**	**4,342**	**4,714**	**20,327**	**76,511**
Assets	2011	5,407,927	1,720,962	5,626,347	1,463,368	14,218,604
	2010	4,909,514	1,658,213	5,051,691	1,941,732	13,561,150
Liabilities and shareholders' equity	2011	1,874,615	2,655,042	9,352,885	336,062	14,218,604
	2010	1,620,207	2,579,076	8,602,985	758,882	13,561,150
Liabilities	2011	1,584,074	2,496,517	9,211,359	298,163	13,590,113
	2010	1,364,787	2,429,574	8,456,096	723,761	12,974,218

For business management purposes, the Group is organised in business units based on customer groups and product groups and comprises the four reportable business segments described below. No business segments were combined to form these reportable business segments. The earnings before taxes of the business units are monitored separately by the management in order to make decisions on the allocation of resources and to determine the profitability of the units. The development of the segments is assessed based on earnings before taxes and is measured in accordance with earnings before taxes in the consolidated financial statements.

Corporate Customers
This business segment is comprised of customers active in commerce, manufacturing and trade. Large, midsized and smaller corporations are included in this segment. Additionally, income and expenses resulting from business relationships with public sector entities (federal, state and local governments) are included in this segment. Customers of the St. Gallen branch are also allocated to this segment irrespective of the type of customer and sector. Not included are independent contractors who are the only employee of their own business. In terms of product groups, this segment includes loans, credit, cash advances, current accounts, demand deposits, term deposits and savings deposits provided to the customer groups described above. Net commission income also includes the income from custodian business with these customer groups.

Private Customers
Included in this segment are all employees (private households) and some self-employed individuals (independent contractors). This segment does not reflect private households or independent contractors who are customers of the St. Gallen branch, as these are all recognised in the Corporate Services segment. Income contributions from insurance companies and pension funds are also included under this segment. Not included in this segment are private individuals closely associated with a company (corporate customer) as owner or shareholder. In terms of product groups, this segment includes loans, credit, cash advances, current accounts, demand deposits, term deposits and savings deposits provided to the customer groups described above. Net commission income also includes the income from custodian business with these customer groups.

Financial Markets
Financial and trading assets, derivative financial instruments, the issuance business and profit/loss from interbank relationships are shown in this business segment. Custodian banking profit/loss is also categorised under this segment. In terms of product groups, this segment primarily includes financial assets in the form of securities

and in a few cases promissory notes. Funds raised from issues of securities and a few large-volume term deposits are also allocated to the Financial Markets segment. Net commission income also includes the income from custodian business in connection with the custodian bank function.

Corporate Center
All banking transactions with our subsidiaries and associated companies are reported under this segment. In addition, income from business not representing banking transactions is allocated to this segment, such as leasing business, insurance brokerage, leasing and utilisation of real estate properties, real estate brokerage, facility management services, other services and income from subsidiaries and holdings.

Internal reporting is based on these segments and on both the Austrian Corporate Code and IFRS, meaning that a separate reconciliation statement is not required. Liabilities shown in the segments include both liabilities, provisions and social capital and also subordinated and supplementary capital. A breakdown of sales by product and service or by groups of related products and services is not provided due to the excessive implementation cost necessary for computation of this data.

Net interest income by segment is computed using the internationally accepted Schierenbeck market interest rate method. In this method, the effective interest rate is benchmarked against a reference interest rate, for both receivables and payables. The calculated amount is credited to the individual segments. The structural contribution determined from the maturity transformation is assigned to the Financial Markets segment. For this reason it is not possible to show interest income and expenses separately. Because income and expenses per segment are calculated directly, there are no transactions or offsetting between the segments. An amount of EUR 34,617,000 was included in total assets for the Corporate Centre segment from consolidation using the equity method (2010: EUR 21,947,000).

Impairments and impairment reversals

in '000 EUR		Corporate Customers	Private Customers	Financial Markets	Corporate Center	Total
Recognition of impairments	2011	–30,669	–7,017	–12,542	–8,738	–58,966
	2010	–28,194	–6,726	–27,276	–7,787	–69,983
Reversals of impairments	2011	10,764	2,043	2,375	4,496	19,678
	2010	13,405	2,289	56	2,300	18,050

Reporting by region

in '000 EUR		Austria	Other countries	Total
Net interest income	2011	141,194	33,832	175,026
	2010	131,668	20,207	151,875
Loan loss provisions	2011	–22,502	–3,071	–25,573
	2010	–19,874	–5,930	–25,804
Net fee and commission income	2011	39,136	771	39,907
	2010	38,879	1,000	39,879
Result from hedge relationships	2011	–639	0	–639
	2010	5	0	5
Net trading result	2011	–20,545	–379	–20,924
	2010	3,096	3,015	6,111
Result from other financial instruments	2011	–10,311	0	–10,311
	2010	–23,495	0	–23,495
Administrative expenses	2011	–70,268	–9,402	–79,670
	2010	–69,761	–9,360	–79,121
Other income	2011	4,724	8,581	13,305
	2010	4,537	8,776	13,313
Other expenses	2011	–8,995	–9,602	–18,597
	2010	–2,547	–7,324	–9,871
Result from equity consolidation	2011	8,765	1	8,766
	2010	3,619	0	3,619
Earnings before taxes	**2011**	**60,559**	**20,731**	**81,290**
	2010	**66,127**	**10,384**	**76,511**
Assets	2011	12,698,708	1,519,896	14,218,604
	2010	12,100,293	1,460,857	13,561,150
Liabilities and shareholders' equity	2011	13,994,000	224,604	14,218,604
	2010	13,324,130	237,020	13,561,150

F. SPECIAL DISCLOSURES ON FINANCIAL INSTRUMENTS

(57) EARNINGS BY MEASUREMENT CLASSIFICATION

Earnings by category L&R

in '000 EUR	2011	2010
Interest and similar income	221,686	173,547
Net interest income	**221,686**	**173,547**
Impairment losses	–46,641	–50,946
Reversed impairments	18,837	16,440
Realised losses	–1,188	–2,367
Realised gains	3,203	1,444
Net result from hedging	–325	19
Total	**195,572**	**138,137**

Earnings by category HFT

in '000 EUR	2011	2010
Interest and similar income	5,770	8,143
Net interest income	**5,770**	**8,143**
Write-downs	–377	–6
Write-ups	112	167
Realised gains	13	275
Net result from trading	3,745	6,454
Measurement result – derivatives	192,040	198,222
Total	**201,303**	**213,255**

Earnings by category AFV

in '000 EUR	2011	2010
Interest and similar income	43,793	40,950
Net interest income	**43,793**	**40,950**
Write-downs	–35,819	–8,540
Write-ups	45,746	29,554
Realised losses	–12,034	–1,203
Realised gains	9,132	232
Total	**50,818**	**60,993**

Earnings by category HTM

in '000 EUR	2011	2010
Interest and similar income	39,025	42,627
Net interest income	**39,025**	**42,627**
Impairment losses	–5,797	–3,960
Realised losses	–518	–696
Realised gains	119	668
Total	**32,829**	**38,639**

Earnings by category AFS

in '000 EUR	2011	2010
Interest and similar income	24,020	17,426
Net interest income	**24,020**	**17,426**
Impairment losses	–2,662	–10,536
Reversed impairments	60	31
Realised losses	–62	–144
Realised gains	1,486	3,390
Net result from hedging	–312	–19
Total	**22,530**	**10,148**
Gains/losses shown in other result	–11,545	4,293

Earnings by category LAC

in '000 EUR	2011	2010
Interest and similar expenses	–84,101	–79,372
Net interest income	**–84,101**	**–79,372**
Write-downs	–625	–669
Write-ups	69	3
Realised losses	–337	–4
Realised gains	188	716
Net result from hedging	–2	5
Total	**–84,808**	**–79,321**

Earnings by category LHFT

in '000 EUR	2011	2010
Interest and similar expenses	–23,637	–18,850
Net interest income	**–23,637**	**–18,850**
Measurement result – derivatives	–8,605	–126,780
Total	**–32,242**	**–145,630**

Earnings by category LAFV

in '000 EUR	2011	2010
Interest and similar expenses	–51,530	–32,596
Net interest income	**–51,530**	**–32,596**
Write-downs	–238,879	–124,061
Write-ups	19,446	25,356
Realised losses	–4,571	–2,771
Realised gains	9,126	9,212
Total	**–266,408**	**–124,860**

(58) DISCLOSURES ON FAIR VALUES

in '000 EUR	31.12.2010	
	Fair Value	Carrying value
Assets		
Cash and balances with central banks	138,452	138,452
Loans and advances to banks	1,400,718	1,420,249
Loans and advances to customers	7,995,326	7,955,393
Positive market values of hedges	4,531	4,531
Trading assets and derivatives	631,875	631,875
Financial assets – at fair value	1,508,652	1,508,652
Financial assets – available for sale	556,481	556,481
Financial assets – held to maturity	1,149,972	1,149,151
Liabilities		
Amounts owed to banks	804,822	793,369
Amounts owed to customers	3,821,559	3,806,918
Liabilities evidenced by certificates	1,414,563	1,506,172
Negative market values of hedges	33,391	33,391
Trading liabilities and derivatives	281,478	281,478
Financial liabilities – at fair value	6,223,255	6,223,255
Subordinated and supplementary capital	225,258	239,846

in '000 EUR	31.12.2011	
	Fair Value	Carrying value
Assets		
Cash and balances with central banks	137,821	137,821
Loans and advances to banks	1,081,619	1,087,052
Loans and advances to customers	8,550,084	8,522,023
Positive market values of hedges	2,173	2,173
Trading assets and derivatives	806,682	806,682
Financial assets – at fair value	1,571,962	1,571,962
Financial assets – available for sale	791,054	791,054
Financial assets – held to maturity	1,106,314	1,079,789
Liabilities		
Amounts owed to banks	631,285	632,490
Amounts owed to customers	4,265,897	4,236,334
Liabilities evidenced by certificates	1,469,006	1,489,110
Negative market values of hedges	84,436	84,436
Trading liabilities and derivatives	327,225	327,225
Financial liabilities – at fair value	6,505,017	6,505,017
Subordinated and supplementary capital	234,885	237,352

Loans and advances to banks primarily relate to interbank transactions, the current carrying values of which largely correspond to fair value. For fixed-rate transactions with banks, fair value is determined based on expected future cash flows.

For loans and advances to customers, the fair value of fixed-rate transactions is also determined based on expected future cash flows, applying current market interest rates.

For financial assets held to maturity (HTM), fair value is determined based on available market price data and quotes. If the market price of an asset cannot be reliably determined at the reporting date, fair value is determined based on the market prices of similar financial instruments with comparable yields, credit risk and maturity.

Because amounts owed to banks represent exclusively interbank transactions, the carrying value largely corresponds to fair value. The fair value of fixed-rate transactions is calculated based on expected future cash flows, applying current market interest rates.

With amounts owed to customers without a specified maturity at variable rates, the repayment amount recognised largely corresponds to current market value. For fixed-rate positions, fair value is determined based on discounted cash flows.

The fair value of liabilities evidenced by certificates and subordinated and supplementary capital was determined based on available market prices and quotes. If market prices for these assets were unavailable, measurement was performed at fair value based on discounted future cash flows, applying current market interest rates.

To the extent available, fair values recorded in the financial statements were determined exclusively using valuation methods involving comparison with prices of comparable instruments in observable market transactions.

Fair value hierarchy per IFRS 7.27A:

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

The fair values of financial instruments classified as Level 3 in the amount of EUR 16,154,000 (2010: EUR 42,269,000) are based on indicative price data from counterparties and other institutional pricing providers. The Group checks these values, but does not employ its own computation model. Sensitivity analysis is thus not relevant for these financial instruments.
An internal valuation model was used to determine the fair value of financial instruments amounting to EUR 651,616,000 (2010: EUR 484,151,000). This group of financial instruments is valued using the recognised DCF method, in which expected cash flows are first discounted applying the risk-free swap curve.

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

This weighting method is commonly used in the financial industry in a range of different approaches for determining parameters. Spreads for intermediate levels and lower ratings are calculated by linear interpolation (or extrapolation) using the Moody's WARF table. A spread premium of two rating levels is assigned for subordinated bonds. If a 127-day average had been applied instead of the 254-day average, this would have deducted EUR –5,462,000 (2010: addition of EUR 130,000) from the income statement factoring out deferred tax effects and decreased the valuation reserve, directly in equity, by EUR –820,000 (2010: increase of EUR 14,000). If the observation period was limited to the last 30 days, this would have deducted EUR –11,805,000 (2010: addition of EUR 469,000) from the income statement factoring out deferred tax effects and decreased the revaluation reserve under other result by EUR –1,408,000 (2010: increase of EUR 26,000).

The changes in fair value shown in the table below constitute gains and losses. The change in the fair value of financial assets – at fair value of EUR 146,545,000 (2010: EUR 29,780,000) was recognised in the income statement under the net trading result. The change in the fair value of financial assets – available for sale of EUR –6,391,000 (2010: EUR 723,000) was recognised as expense of EUR –669,000 (2010: EUR –741,000) in the income statement in the item for net result from other financial instruments and of EUR –5,722,000 (2010: EUR 1,464,000) in other result.

Fair value hierarchy

in '000 EUR 31.12.2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative hedging instruments	0	4,531	0	4,531
Trading assets, derivatives	4,439	627,436	0	631,875
Financial assets – at fair value	8,690	1,021,324	478,638	1,508,652
Financial assets – available for sale	500,484	0	55,997	556,481
Total assets	**513,613**	**1,653,291**	**534,635**	**2,701,539**
Derivative hedging instruments	0	33,391	0	33,391
Trading liabilities, derivatives	0	281,478	0	281,478
Financial liabilities – at fair value	0	6,223,255	0	6,223,255
Total liabilities	**0**	**6,538,124**	**0**	**6,538,124**

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

Changes in Level 3 financial instruments

in '000 EUR 2010	Starting balance	Purchases/ issues	Sales/ repay-ments	Additions from Level 1 and Level 2	Reclassifi-cation to Level 1 and Level 2	Fair value change	Final balance
Financial assets – at fair value	493,015	137,326	–97,411	3,228	–87,300	29,780	478,638
Financial assets – available for sale	59,048	12,468	–3,317	0	–12,925	723	55,997
Total assets	**552,063**	**149,794**	**–100,728**	**3,228**	**–100,225**	**30,503**	**534,635**

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

(59) IMPAIRMENTS AND IMPAIRMENT REVERSALS

Recognition of impairments

in '000 EUR	2011	2010
Loans and advances to customers	–46,641	–50,946
Financial assets – available for sale	–2,662	–10,536
Financial assets – held to maturity	–5,797	–3,960
Total	**–55,100**	**–65,442**

Reversals of impairment

in '000 EUR	2011	2010
Loans and advances to customers	18,837	16,440
Financial assets – available for sale	59	31
Total	**18,896**	**16,471**

(60) RECATEGORISED ASSETS

Disclosures re recategorised securities in the period from 2008 to 2009

There was no recategorisation of financial assets in 2011. In 2008 and 2009, 65 securities with a market value of EUR 368,632,000 on the date of recategorisation and 12 securities with a market value on the date of recategorisation of EUR 360,000,000 respectively were reclassified from the category AFS to the category L&R. The carrying values and market values of all previously reclassified financial instruments as at 31 December 2011 are shown below.

in '000 EUR 31.12.2011	Carrying value	Market value
Loans and advances to banks	135,236	130,371
Loans and advances to customers	68,162	67,673
Total	**203,398**	**198,044**

in '000 EUR 31.12.2011	Amortised cost	Revaluation reserve[1]
Loans and advances to banks	135,236	–90
Loans and advances to customers	68,162	–696
Total	**203,398**	**–786**

[1] adjusted for deferred tax effects

The actual gains, losses, income and expenses from reclassified financial instruments recorded on the consolidated financial statements are shown below.

in '000 EUR	2011	2010
Net interest income	17	8
Net result from financial instruments	762	–9,426
Taxes on income	–195	2,355
Recording in AFS reserve directly in equity[1]	485	1,253
Gain/loss – after reclassification	**1,069**	**–5,810**

[1] adjusted for deferred tax effects

In 2011, impairment in the amount of EUR 907,000 (2010: EUR 9,527,000) was recognised for securities recategorised in 2008. In 2011, impairment created in previous years amounting to EUR 1,690,000 (2010: EUR 0) was reversed following a recovery in the market. The effect of reversals from the revaluation reserve as a result of maturity and the expiration of recategorised securities held is offset by the discounting at the recategorisation date of the remeasured amortised cost of the reclassified securities recorded in the result from other financial instruments.

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

Simulation without reclassification of the years 2008 and 2009

in '000 EUR	2011	2010
Net interest income	17	8
Net result from financial instruments	762	–9,426
Taxes on income	–195	2,355
Recording in AFS reserve directly in equity[1]	–3,467	9,698
Gain/loss – after reclassification	**–2,883**	**2,635**

[1] adjusted for deferred tax effects

If the assets had not been reclassified, the main impact would have been on the adjustment of the revaluation reserve directly in equity. This effect does not result from the reclassification of securities in 2009, but rather the ABS products reclassified in 2008. To the extent no impairment of these securities was identified upon close review, we would have recorded the decline in value directly in equity in the revaluation reserve, adjusted for deferred tax effects.

(61) FINANCIAL INSTRUMENTS – BY CATEGORY

Financial instruments per measurement category are presented by category in the item in the Notes corresponding to the balance sheet item since we already distinguish the measurement categories pursuant to IAS 39 in the balance sheet items.

G. FINANCIAL RISKS AND RISK MANAGEMENT

The full disclosure on the organisational structure, risk management and the risk capital situation (per Section 26 Austrian Banking Act and the Disclosure Implementation Regulation – Off-VO) are posted on the internet at www.hypovbg.at

(62) OVERALL RISK MANAGEMENT

The Bank's operations involve the following risks:

- Kredit risk: This includes the counterparty default risk, as well as the risk of deteriorating credit standing. Risks may also result from the use of credit risk mitigation methods.
- Market risks: The common characteristic of these risks is that they result from price changes in money and capital markets. Market price risks are categorised as interest rate, spread change, stock price, foreign currency or commodity risks.
- Liquidity risk: Liquidity risks can be broken down into maturity and retrieval risks, structural liquidity risk (rollover financing risk), and market liquidity risk. Maturity risk is an unplanned extension of maturities in the lending business. Retrieval risk is the risk that credit commitments are unexpectedly utilised or deposits withdrawn. As a result, a bank may no longer be able to fully meet its payment obligations. Structural liquidity risk arises from the possibility that the required roll-over financing may only be available at less favourable conditions, or not at all. Market liquidity risk is in evidence when positions can only be sold immediately by taking a loss.
- Operational risk: This includes the risk of direct or indirect losses caused by human error, process deficits, technological failure, or external influence. Operational risks also include legal risk.
- Other risks: These include above all those types of risks for which only rudimentary or no quantification methods exist. Specifically, strategic, reputation, equity, performance and business risks may be classified as other risks.

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

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

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

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

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

(63) MARKET RISK

The purpose of the Bank's Asset & Liability Management is the optimal management of market risks. The strict separation of trading units and risk control ensures the objective assessment of risks incurred and the early identification of unfavourable developments. Group Risk Controlling analyses risks daily, reporting its results to the units responsible.

The Bank maintains a small trading portfolio per Section 22q of the Austrian Banking Act with a focus on customer service.

The Bank employs a uniform reference interest rate system for the market interest rate method as part of Asset & Liability Management. The reference interest rate applied determines the distribution of interest income and expenses among branch offices and Treasury. Reference rates are thus determined by the Managing Board annually as a central controlling instrument. The fixed rate periods selected are regularly reviewed and adjusted as necessary, particularly for products without a contractual maturity (savings and current accounts).

Three methods are employed as part of market risk measurement conducted centrally by the Bank:

- Value at risk
- Change in the present value of Bank equity in stress tests
- Simulations of structural contribution (earnings perspective)

Value at risk indicates the maximum loss at a given probability and holding period. The Bank measures value at risk using SAP software. The Bank conducts simulation using the following historical parameters:

Historical simulation parameters	
Historical period	250 trading days
Holding period	10 trading days
Confidence level	99%

The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis within the ICAAP process framework. In addition, limits are defined for various yield curves, currency pairs and equity position risks, among other things.

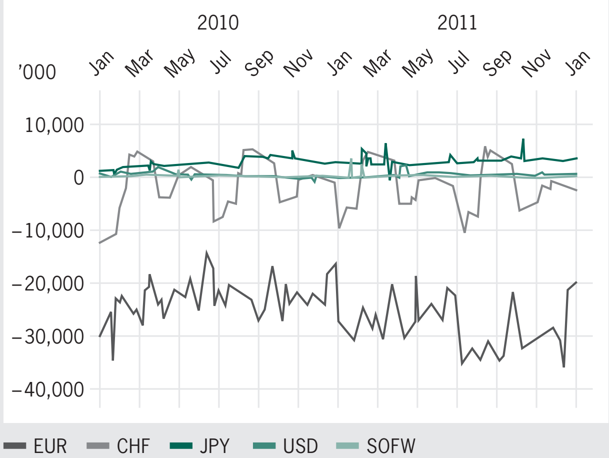
The Bank conducts stress testing to identify potential losses in the event of extreme market movements. The purpose of stress testing is to compensate for inadequacies of the value at risk concept. Stress test results for each risk type are added as absolute figures whether positive or negative to obtain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

The Bank applies risk-adjusted yield curves to calculate present value figures. In addition to present value figures, the Bank conducts gap analyses on a weekly or monthly basis to manage fixed rate periods with reference to the money and capital markets.

Foreign currency risk is relatively small, as the Bank always hedges open positions. The Bank is subject to very little equity position risk. The largest position is held in a fund which has a stop-loss trigger in place. Otherwise the Bank only holds equities as part of benchmark portfolios used in asset management. The volume is minimal.

The VaR for individual risk types and the change in present value as a consequence of 200 basis point shift in yield curves over the past two years is shown below.

Change in loss in present value resulting from a 200 basis point shift



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

in '000 EUR 2010	Mean value of VaR Total	Mean value of VaR interest	Mean value of VaR FX	Mean value of VaR shares
January	4,857	4,549	817	2,159
February	4,635	3,937	621	1,691
March	5,034	3,716	478	411
April	5,210	3,680	436	329
May	6,621	3,814	587	314
June	5,921	3,655	679	347
July	5,373	3,576	897	368
August	5,326	4,327	893	355
September	5,216	4,270	1,101	378
October	4,927	4,068	830	365
November	5,268	3,973	949	356
December	6,911	4,825	1,094	311

in '000 EUR 2011	Mean value of VaR Total	Mean value of VaR interest	Mean value of VaR FX	Mean value of VaR shares
January	7,343	4,930	634	352
February	8,084	5,834	831	349
March	7,996	5,616	1,678	308
April	8,095	6,112	1,001	322
May	7,239	5,342	479	317
June	6,491	5,111	512	317
July	6,455	5,637	538	294
August	7,009	7,455	801	288
September	8,611	8,593	936	296
October	9,654	8,785	556	359
November	11,669	9,470	727	364
December	12,651	9,204	647	399

(64) CREDIT RISK

The Bank's medium-term credit risk objectives and policies are set forth in a written risk strategy. They represent the result of an analysis factoring in the overall bank strategy, business policy requirements, risk adequacy and lending risks. Based upon these, specific medium-term objectives are established concerning portfolio structure as well as clear limits for all relevant risks (large positions, foreign currency components etc.).

The lending risk principles are:

- Each borrower's credit standing must be checked and a rating assigned to each corporate customer of the bank and each business partner in the treasury.
- All credit decisions are subject to the dual control principle. The second opinion on the decision must be given by Risk Management, with few exceptions.
- The Bank must avoid cluster risks within the portfolio.
- The Bank changes rates on loans, which reflect the credit quality of the customers.
- The Bank should attempt to obtain higher collateral for low rating classes.
- For loans in foreign currency, exchange rate risk must be minimised by obtaining higher collateral, particularly with low credit ratings.
- The Bank manages the credit portfolio on overall bank level by diversifying and avoiding cluster risks and implementing measures to prevent the occurrence of major losses.

The Bank calculates the expected loss (EL) for the overall credit portfolio. The Bank employs a proprietary computer model based on the Capital Requirements Directive or Basel II IRB approach to calculate economic capital (unexpected losses, UL).

The Bank limits business in countries where systematic or transfer risk cannot be eliminated. To this end the Managing Board issues annual country limits, which are continuously monitored. Banks are assigned separate limits. Banks are key business partners for money market and derivative trading, for example, to whom large volumes of extremely short-term are issued. These limits are also continuously monitored. High limits and limit utilisation are reported annually to the Supervisory Board.

An array of rating modules specifically configured for the different customer segments are employed in the corporate customer business for measuring factors related to the credit standing. These systems meet Basel II requirements for internal rating systems and the Minimum Standards for the Credit Business applying to risk classification methods. Borrowers are thus rated on a 25-level scale (1a to 5e), the last five ratings (5a to 5e) being default levels. The individual ratings reflect estimated one-year default probabilities. The treasury generally has access to external ratings. If no external ratings are available for a business partner, then Risk Management produces an internal rating. The external ratings were allocated to the internal rating scale. Rating class 1 is only envisaged for business partners with a very good external rating from a rating agency.

Credit decisions are subject to the dual control principle. Policies are in place for each area to govern rating and volume authorisations for Front Office and Risk Management. In most cases approval from Risk Management is required.

The Bank employs the IRB default definition per Basel II for identifying default events. All rating tools feature functionalities for recording default events. When a default event occurs, the customer in question is assigned a default rating (rating class 5). The Bank has an early warning event recovery system to clearly identify payments which are 90 days past due. The system triggers a standardised workflow requiring Front Office and Risk Management to address late payment cases. Cases that have not been resolved within 90 days are forwarded to Central Credit Management (restructuring).

The Bank fully addresses specific banking risks through conservative credit approval policies, strict valuation rules for loans and advances and prudent recognition of specific valuation allowances. Specific valuation allowances are recognised for credit risks in connection with loans and advances to customers and banks in accordance with uniform Group criteria. Loan loss provisions are recognised in the estimated amount of credit and interest losses. A loan is to be recognised as impaired when it is likely based on objective factors that not all interest and repayment obligations will be met in accordance with the contract. The impairment amount is the difference between the carrying value of the loan and the present value of expected future cash flows, factoring in the present value of collateral. The total amount of loan loss provisions for loans and advances on the balance sheet is charged against loans and advances to banks and customers. Loan loss provisions for off-balance sheet items (guaranteed credit, endorsement guarantee liabilities, credit commitments) are shown as credit risk provisions. Irrecoverable loans are written off directly. Recoveries on loans previously written off are recognised in the income statement. The subsidiaries generally use the same rating tools as the parent company. This provides for uniform credit ratings Group-wide. The total exposure includes balance sheet loans and advances but also contingent liabilities such as loan commitments or liabilities.

Segments broken down by rating (maximum default risk)

in '000 EUR 31.12.2010		Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Unrated	Total
Exposure	Corporate Customers	923,689	1,774,318	2,986,326	326,708	186,420	229,041	6,426,502
	Private Customers	399	253,050	742,985	11,798	51,812	695,514	1,755,558
	Financial Markets	4,297,110	627,564	177,555	15,665	975	205,728	5,324,597
	Corporate Center	72,771	181,945	1,251,748	62,653	102,242	361,515	2,032,874
Total exposure		**5,293,969**	**2,836,877**	**5,158,614**	**416,824**	**341,449**	**1,491,798**	**15,539,531**

in '000 EUR 31.12.2011		Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Unrated	Total
Exposure	Corporate Customers	1,077,785	1,914,223	3,279,330	362,479	150,859	316,900	7,101,576
	Private Customers	1,580	309,746	846,140	17,305	55,514	613,258	1,843,543
	Financial Markets	4,296,832	727,547	159,459	16,415	3	201,295	5,401,551
	Corporate Center	12,329	360,180	726,799	80,403	107,980	662,807	1,950,498
Total exposure		**5,388,526**	**3,311,696**	**5,011,728**	**476,602**	**314,356**	**1,794,260**	**16,297,168**

Regions broken down by rating (maximum default risk)

in '000 EUR 31.12.2010	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Unrated	Total
Austria	2,348,702	1,544,654	3,461,501	231,242	171,801	1,011,266	8,769,166
Italy	165,739	132,054	666,154	66,694	106,286	123,990	1,260,917
Germany	752,912	525,620	445,601	22,282	43,856	132,786	1,923,057
Switzerland and Liechtenstein	273,933	141,325	308,230	58,720	18,342	197,149	997,699
Other foreign countries	1,752,683	493,224	277,128	37,886	1,164	26,607	2,588,692
Total exposure	**5,293,969**	**2,836,877**	**5,158,614**	**416,824**	**341,449**	**1,491,798**	**15,539,531**

in '000 EUR 31.12.2011	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Unrated	Total
Austria	2,484,866	1,727,876	3,405,497	258,558	129,389	1,271,029	9,277,215
Italy	82,889	229,083	648,511	83,460	110,512	123,479	1,277,934
Germany	738,983	611,478	487,498	22,022	53,194	103,065	2,016,240
Switzerland and Liechtenstein	166,948	160,337	271,242	74,975	20,763	248,488	942,753
Other foreign countries	1,914,840	582,922	198,980	37,587	498	48,199	2,783,026
Total exposure	**5,388,526**	**3,311,696**	**5,011,728**	**476,602**	**314,356**	**1,794,260**	**16,297,168**

Industries (maximum default risk)

in '000 EUR	31.12.2011	31.12.2010
Financial intermediaries	4,397,641	4,945,474
Consumers/private customers	1,958,286	1,999,832
Public sector	1,923,916	1,693,455
Real estate	1,613,080	1,444,185
Services	1,389,252	1,294,327
Trading	996,582	870,665
Metals/machinery	540,033	504,673
Construction	533,661	445,929
Transport/communications	474,885	304,768
Tourism	425,189	426,190
Water and energy utilities	370,877	329,497
Other goods	298,928	232,048
Vehicle construction	233,677	180,508
Petroleum, plastics	220,793	179,908
Other industries	920,368	688,072
Total	**16,297,168**	**15,539,531**

Exposure in rating class 5

in '000 EUR		31.12.2011	31.12.2010
Corporate Customers			
	Exposure	150,859	186,420
	Value adjustments	53,834	49,007
Private Customers			
	Exposure	55,514	51,812
	Value adjustments	19,360	18,409
Financial Markets			
	Exposure	3	975
	Value adjustments	0	0
Corporate Center			
	Exposure	107,980	102,242
	Value adjustments	10,336	2,669
Total	**Exposure**	**314,356**	**341,449**
Total	**Value adjustments**	**83,530**	**70,085**

Non-performing loans
The Group designates loans 90 days past due and interest-free loans and advances with a default rating as non-performing loans. At the end of 2011, no bonds were included therein. These amounted to EUR 255,800,000 (2010: EUR 245,800,000) as at 31 December 2011, accounting for 1.57% (2010: 1.55%) of the maximum default risk.

Collateral
Traceable and uniform collateral valuation policies are in place governing the measurement and acceptance of collateral. Collateral is monitored on a periodic basis to ensure that it retains value. The measurement of collateral is generally a back-office function, but large loans are handled by an instance uninvolved in the lending process.

The main type of collateral obtained is real estate. Valuations are regularly reviewed. Operational processes ensure that collateral can be used for capital calculation. Loans larger than EUR 3,000,000 are reassessed by independent specialists within a period not exceeding three years. Hypo Immobilien & Leasing GmbH operates as a service provider in this business to ensure uniform, independent valuation.

Collateral tied to a specific individual is only counted when the guarantor or liable party – in most cases public sector organisations and banks – has an excellent credit standing. Discounts are applied to the current market value of financial collateral as a buffer against unexpected volatility. Furthermore, such collateral must be sufficiently liquid so it can be disposed.

Other collateral is only accepted if it is assured of retaining value and enforceability is in place.

Hypo Immobilien Besitz GmbH handles the realisation of defaulted loans and advances backed by mortgages. During the period under review, Hypo Immobilien Besitz GmbH acquired 6 (2010: 6) real estate properties under these circumstances at a cost of EUR 3,796,000 (2010: EUR 2,027,000).

Depending on the market situation, it may not be easy to convert the property acquired into cash. Following acquisition, Hypo Immobilien Besitz GmbH prepares an analysis which investigates whether a sale or a long-term let is more advantageous. In the event of a sale strategy, the company will attempt to sell the property as quickly as possible taking account of the revenues generated. In the event of a letting strategy, the property is permanently classified as investment property within the Group.

As a result of restructuring measures, an exposure of EUR 5,430,000 was rated as healthy in 2011 (2010: EUR 7,335,000). This allowed the reversal of EUR 1,644,000 in loan loss provisions in 2011 (2010: EUR 1,143,000).

Past due but non-impaired receivables

Length of time overdue	31.12.2011 Exposure in '000 EUR	31.12.2010 Exposure in '000 EUR
less than 1 day	15,814,917	15,027,993
1 to 60 days	151,549	157,838
61 to 90 days	16,346	12,251
Total	**15,982,812**	**15,198,082**

(65) LIQUIDITY RISK

Liquidity risk management is conducted to ensure the Bank's ability to pay its obligations at all times (operating liquidity) and simultaneously minimise costs associated with holding cash. The Bank monitors its liquidity buffer on an ongoing basis. This includes instruments and markets available for refinancing and disposable assets (tactical liquidity management). Strategic liquidity management involves management of the maturities of the Bank's assets and liabilities and implementation of a corresponding issuance strategy. Monitoring involves gap analyses and forecasting necessary issue volume for the calendar year. The Bank conducts stress testing to identify potential sources of risk. Contingency plans are in place to ensure the Bank's continued solvency in the event of a liquidity crunch.

The Bank employs the following control instruments to identify and contain liquidity risks:

Operational
- Limiting weekly liquidity gaps on the money market
- Ratio of amounts payable and receivable within three months

Strategic
- Limiting cumulative annual liquidity gaps in the capital market
- Forecasting necessary issue volume for the calendar year
- Liquidity value at risk

Stress testing
- Liquidity needs versus buffer in crisis situation

Being aware of the key significance of the capital markets for funding, the Bank actively manages the maturities of its loans with respect to the discontinuation of the state guarantee. Road shows are regularly conducted to cultivate and establish relationships with investors. The Bank strives for diversification of instruments and investors as part of its issuance policy.

The Bank's liquidity buffer is large enough at all times to accommodate the utilisation of credit commitments (utilisation risk), and ensure that expected payments not received (retrieval risk) do not compromise solvency. In addition, the Bank currently hardly utilises the OeNB's marginal lending facility, the SNB repo system and the money market. Liquidity is thus sufficient at all times to avoid bottlenecks in the event of a crisis.

Hypo Landesbank Vorarlberg complied in full with the liquidity regulations outlined in the Austrian Banking Act. The Bank has no other cash flow risks other than those specified above.

Maturity profile money market	**Assets**		**Liabilities**		
per 31.12.2010 in '000 EUR	**Assets**	**Derivatives**	**Liabilities**	**Derivatives**	**Total**
January 2011	903,114	832,398	–1,020,174	–824,538	–109,200
February 2011	224,920	783,471	–417,742	–751,166	–160,517
March 2011	329,044	642,076	–311,732	–618,728	40,660
April 2011	190,065	82,834	–152,728	–71,825	48,346
May 2011	232,915	246,264	–121,663	–228,539	128,977
June 2011	257,747	74,232	–106,208	–82,139	143,632
July 2011	129,658	21,271	–133,194	–13,676	4,059
August 2011	147,348	31,951	–116,317	–18,187	44,795
September 2011	247,500	51,960	–131,605	–42,727	125,128
October 2011	96,639	33,124	–104,129	–35,309	–9,675
November 2011	118,582	20,176	–118,558	–10,834	9,366
December 2011	192,583	21,514	–162,890	–22,435	28,772

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

Maturity profile capital market	Assets		Liabilities		
per 31.12.2010 in '000 EUR	Assets	Derivatives	Liabilities	Derivatives	Total
2011	3,070,114	2,841,269	−2,926,540	−2,720,103	264,740
2012	1,495,713	345,004	−1,164,186	−276,359	400,172
2013	1,508,073	223,156	−1,006,518	−184,747	539,964
2014	1,130,289	225,847	−904,291	−209,881	241,964
2015	1,153,590	246,134	−1,099,732	−256,244	43,748
2016	1,059,079	398,584	−1,362,146	−369,065	−273,548
2017	1,070,599	397,122	−3,639,395	−331,308	−2,502,982
2018	594,119	57,906	−314,564	−65,692	271,769
2019	586,587	132,022	−399,041	−153,057	166,511
2020	577,183	69,506	−177,837	−81,098	387,754
2021	453,893	29,190	−181,204	−37,565	264,314
2022	403,563	25,266	−111,199	−33,650	283,980

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

(66) OPERATIONAL RISK (OR)

Operational risks are minimised in the Bank in all divisions through clear distribution of responsibilities and written procedural instructions. The Bank has written emergency plans in place and a crisis management manual is made available to all employees. Employees regularly receive training to ensure preparedness for crisis events. The Bank has critically studied all internal workflows several times within the framework of functional reviews.

Operational losses are tracked in a database. Operational losses are categorised in this database. Quality assurance is performed by Operational Risk Managers who review each loss. The recognition of losses is ensured, for example, through the fact that it is required for a necessary entry. The database content is analysed for the quarterly OR reports.

Data protection and security measures are a high priority for the Bank, which is why a range of controls and monitoring processes are in place ensuring that entrusted data remains confidential. Internal Audit conducts both regular and unannounced audits to ensure adherence with procedures.

Significant transactions and decisions are without exception subject to control review. Well-trained and conscientious employees are of great importance to the Bank. The internal Legal Department carefully determines contract design in consultation with specialised external counsel and university professors to minimise legal risks.

(67) CONSOLIDATED CAPITAL AND REGULATORY CAPITAL REQUIREMENTS

Capital management

The Group's capital management objectives and requirements include:

- Compliance with regulatory capital requirements under Basel II
- Maintaining a going concern
- Managing shareholder distributions
- Maintaining a solid capital base for expansion

Capital adequacy is continuously monitored in accordance with Basel II and EU rules adopted by the Republic of Austria. The Group reports this data monthly to the Oesterreichische Nationalbank. The Austrian Banking Act (BWG) requires banks at all times to maintain attributable capital equal to a minimum 8% of risk-weighted assets. The Bank met the regulatory capital requirements both in the year under review and the previous year.

The amount of regulatory capital held by the Group is determined by Central Accounting and consists of two Tiers.

Tier 1 capital
Includes share capital, capital reserves, retained earnings and differences from capital consolidation. Specific types of supplementary capital (hybrid capital) also comprise the Group's Tier 1 capital, as per Section 24 Austrian Banking Act. The carrying values of intangible assets are still deducted from Tier 1 capital.

Tier 2 capital
Consists primarily of upper Tier 2 bonds with a sufficient remaining term to maturity and subordinated securities. Undisclosed reserves not shown on the balance sheet can be included in Tier 2 capital.

Attributable capital is calculated as the sum of Tier 1 and Tier 2 capital less the carrying value of holdings in which a 10% to 50% stake is held. The table below shows the capital requirements for Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft pursuant to Section 22 of the Austrian Banking Act at the 2011 and 2010 reporting dates, and the breakdown of the Group's capital as at 31 December 2011 and 31 December 2010.

Pillar 2 of Basel II requires banks additionally to demonstrate their capital adequacy on the basis of internal models. This is to ensure in particular that risks are considered which receive no capital requirements under Pillar 1. Such risks include interest rate risk in the banking book. The Bank employs the Internal Capital Adequacy Assessment Process (ICAAP) to identify, quantify, aggregate and monitor all major risks. The Bank calculates economic capital requirements for each of these risks. The Bank allocates a capital buffer if economic capital requirements cannot be calculated. The available risk coverage potential is distributed across organisational units and risk types in annual planning.

By using the Capital Adequacy Process, the Bank ensures that risk limits are complied with and that risks taken are covered by existing coverage potential. The Bank applies a confidence level of 99.95% and a holding period of one year in the Capital Adequacy Process. Correlations between individual risk types are not taken into consideration. The Capital Adequacy Process calculation is performed monthly.

The Bank's credit risk calculation of economic capital is based on the Basel II IRB approach. With this approach, the consumption of economic capital depends on the volume, collateral and rating of the debtor. Value at risk is employed in the ICAAP for the management of market risk. The VaR limit defines the maximum loss the Bank is prepared to absorb under normal market conditions. The Managing Board defines the global VaR limit on an annual basis. In addition, limits are defined for various yield curves, currency pairs or equity position risks.

The Bank calculates economic capital for operational risk using the Pillar 1 basic indicator approach. This value is further increased for ICAAP to reflect the stricter requirements than those imposed by regulatory provisions. To quantify structural liquidity risk, Hypo Landesbank Vorarlberg calculates liquidity VaR based on the ICAAP guidelines of the Austria Financial Market Authority/Austrian National Bank. A PD-LGD method is used for shareholder risk, and a capital buffer is recognised for other risks.

Capital requirements per Section 22 Austrian Banking Act

in '000 EUR	31.12.2011	31.12.2010
Assessment basis per Section 22 Austrian Banking Act	**7,932,346**	**7,326,872**
Capital resource requirement for solvency	634,588	586,150
Capital requirement for settlement risk	0	0
Capital requirement for position risks	0	0
Capital resource requirement for operational risk	27,320	25,868
Total capital resource requirements	**661,908**	**612,018**

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

in '000 EUR	31.12.2011	31.12.2010
Core capital (Tier 1)	**721,725**	**662,556**
Paid-in capital	159,000	159,000
Capital reserves	27,579	27,579
Retained earnings	291,742	238,390
Liable capital	124,237	119,079
Minority interests per Section 24 (2) no. 1 Austrian Banking Act	109,859	101,243
Consolidation per Section 24 (2) no. 2 Austrian Banking Act	10,952	18,605
Intangible assets	−1,644	−1,340
Supplementary capital resources (Tier 2)	**333,560**	**338,102**
Supplementary capital	105,236	102,192
Remeasurement reserve	40,324	30,110
Subordinated capital	188,000	205,800
Deductions	−3,506	−3,558
Attributable capital resources (Tier 1 plus Tier 2 minus deductions)	**1,051,779**	**997,100**
Assessment basis (banking book)	**7,932,346**	**7,326,872**
Core capital ratio (banking book)	9.10%	9.04%
Solvency ratio (banking book)	13.26%	13.61%
Assessment basis (modified)	**8,273,850**	**7,650,225**
Core capital ratio	8.72%	8.66%
Solvency ratio	12.71%	13.03%

H. DISCLOSURES PERTAINING TO AUSTRIAN LAW

(68) AUSTRIAN LAW

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

(69) ADDITIONAL DISCLOSURES IN LINE WITH THE AUSTRIAN BANKING ACT

The difference between carrying value and lower repayment amount per Section 56 (2) Austrian Banking Act was EUR 24,674,000 (2010: EUR 25,675,000). The projected repayment of principal for 2012 is EUR 746,302,000 (2011: EUR 800,403,000). At 31 December 2011, supplementary and subordinated capital in the portfolio securities totalled EUR 0 (2010: EUR 0). In the coming year, liabilities evidenced by certificates and LAFV liabilities evidenced by certificates in the nominal amount of EUR 200,117,000 (2010: EUR 445,322,000) mature and are due for repayment.

(70) AUDITOR'S FEE PER AUSTRIAN CORPORATE CODE

The table below provides a breakdown of fees paid to Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Straße 19 – IZD-Tower, 1220 Vienna per Section 266 no. 11 UGB.

in '000 EUR	2011	2010
Expenses for auditing the consolidated financial statements	32	32
Expenses for other auditing services	144	137
Expenses for other services	22	7
Total fees	**198**	**176**

(71) BREAKDOWN OF SECURITIES PER AUSTRIAN BANKING ACT

A breakdown of securities per Section 64 (1) nos. 10 and 11 Austrian Banking Act as at 31 December 2011 is provided below.

in '000 EUR	Not listed 31.12.2011	Listed 31.12.2011	Not listed 31.12.2010	Listed 31.12.2010	Total 31.12.2011	Total 31.12.2010
Bonds – AFV	185,310	647,149	46,463	683,821	832,459	730,284
Bonds – AFS	11,885	713,149	1,962	492,929	725,034	494,891
Bonds – HTM	32,511	1,024,077	20,178	1,104,216	1,056,588	1,124,394
Shares – HFT	2,692	149	2,186	131	2,841	2,317
Shares – AFV	24,060	20,401	24,635	25,425	44,461	50,060
Shares – AFS	20,880	9,260	22,159	9,040	30,140	31,199
Equity investments	21,384	0	21,135	0	21,384	21,135
Investments in affiliated companies	104	0	164	0	104	164
Total securities	**298,826**	**2,414,185**	**138,882**	**2,315,562**	**2,713,011**	**2,454,444**

In the interest of improved transparency and informational value of the breakdown of securities, loans and advances to banks and customers were excluded from bonds at fair value.

VI. MANAGING BOARD/SUPERVISORY BOARD

SUPERVISORY BOARD

Kurt Rupp
Chairman
Managing Board Chairman (retired), Bregenz

Norbert Metzler
Deputy Chairman
Management consultant, Alberschwende

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

Albert Büchele
Agriculturist, Hard

Elmar Geiger
Managing Director of EHG-Stahlzentrum GmbH & Co OG, Dornbirn

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

Andrea Kaufmann
Member of the Vorarlberg government, Bregenz

Christian Konzett
Lawyer, Bludenz

Klaus Martin
Provincial Official (retired), Feldkirch

Nicolas Stieger
Lawyer, Bregenz

Bernhard Egger
Works Council delegate

Bernhard Köb
Works Council delegate

Elmar Köck
Works Council delegate

Veronika Moosbrugger
Works Council delegate

Cornelia Vonach
Works Council delegate (since 20 May 2011)

Rudolf Wüstner
Works Council delegate (until 19 May 2011)

MANAGING BOARD

Jodok Simma
CEO, Chairman Managing Board, Bregenz

Michael Grahammer
Member Managing Board, Dornbirn

Johannes Hefel
Member Managing Board, Schwarzach

VII. SUBSIDIARIES AND HOLDINGS

a) Companies fully consolidated in the consolidated financial statements:

Company name, place	Percentage of capital	Date of financial reporting
"Hypo-Rent" Leasing- und Beteiligungsgesellschaft mbH, Bregenz	100.00%	31.12.2011
Hypo Vorarlberg Capital Finance (Jersey) Limited, GB-St. Helier, Jersey	100.00%	31.12.2011
LD-Leasing GmbH, Dornbirn	100.00%	31.12.2011
Hypo Vorarlberg Leasing AG, IT-Bozen	100.00%	31.12.2011
Hypo Vorarlberg Holding (Italien) – GmbH, IT-Bozen	100.00%	31.12.2011
Hypo-Vorarlberg GmbH, IT-Bozen	100.00%	31.12.2011
IMMOLEAS Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2011
Hypo Immobilien Besitz GmbH, Dornbirn	100.00%	31.12.2011
"Immoleas IV" Leasinggesellschaft m.b.H., Dornbirn	100.00%	31.12.2011
Hypo Immobilienleasing Gesellschaft m.b.H., Dornbirn	100.00%	31.12.2011
"HERA" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2011
Hypo Informatikgesellschaft m.b.H., Bregenz	100.00%	31.12.2011
Hypo Immobilien Bankgebäudemanagement GmbH, Dornbirn	100.00%	31.12.2011
Hypo Versicherungsmakler GmbH, Dornbirn	100.00%	31.12.2011
Hypo Immobilien Investment GmbH, Dornbirn	100.00%	31.12.2011
Hypo Immobilien & Leasing GmbH, Dornbirn (previously Hypo Immobilien GmbH)	100.00%	31.12.2011
HIL Mobilien GmbH, Dornbirn (previously Hypo SüdLeasing GmbH)	100.00%	31.12.2011
HIL Beteiligungs GmbH, Dornbirn (previously Hypo SüdLeasing Beteiligungs GmbH)	100.00%	31.12.2011
HIL Immobilien GmbH, Dornbirn (previously Hypo SüdLeasing Immobilien GmbH)	100.00%	31.12.2011
HIL ALPHA Mobilienverwaltung GmbH, Dornbirn (previously Hypo SüdLeasing ALPHA Mobilienverwaltung GmbH)	100.00%	31.12.2011
HIL BETA Mobilienverwaltung GmbH, Dornbirn (previously Hypo SüdLeasing BETA Mobilienverwertung GmbH)	100.00%	31.12.2011
HIL EPSILON Mobilienleasing GmbH, Dornbirn (previously Hypo SüdLeasing EPSILON Mobilienleasing GmbH)	100.00%	31.12.2011
HIL Car Fleet GmbH, Dornbirn (previously Hypo SüdLeasing Car Fleet GmbH)	100.00%	31.12.2011
HIL Real Estate alpha GmbH, Dornbirn (previously Hypo SüdLeasing Real Estate alpha GmbH)	100.00%	31.12.2011
HIL Real Estate Austria Holding, Dornbirn (previously Hypo SüdLeasing Real Estate Austria Holding GmbH)	100.00%	31.12.2011
HIL Real Estate International Holding GmbH, Dornbirn (previously Hypo SüdLeasing Real Estate International Holding GmbH)	100.00%	31.12.2011
"Mongala" Beteiligungsverwaltung GmbH, Dornbirn	100.00%	31.12.2011
Inprox Michle HIL s.r.o., CZ-Prag (previously INPROX Praha Michle – Hypo SüdLeasing, s.r.o.)	100.00%	31.12.2011
Inprox Letnany HIL s.r.o., CZ-Prag (previously INPROX Praha Letňany – Hypo SüdLeasing, s.r.o.)	100.00%	31.12.2011
Inprox GY HIL Kft.; HU-Budapest (previously INPROX GY Kft.)	100.00%	31.12.2011
Inprox BP XX. HIL Kft. HU-Budapest (previously INPROX BP XX – Hypo SüdLeasing Kft.)	100.00%	31.12.2011
HSL Logisztika Hungary Kft, HU-Budapest	100.00%	31.12.2011
"HO-IMMOTREU" Grundstücksverwaltungsgesellschaft m.b.H., Dornbirn	100.00%	31.12.2011
HSL-Lindner Traktorenleasing GmbH, Dornbirn	74.99%	31.12.2011

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

Company name, place in '000 EUR	Percentage of capital	Equity	Total assets	Liabilities	Sales revenues
HTV KAPPA Immobilienleasing GmbH, Dornbirn	50.00%	0	12,412	12,412	0
Silvretta-Center Leasing GmbH, Bregenz	50.00%	651	5,112	4,461	457
HYPO EQUITY Unternehmensbeteiligungen AG, Bregenz	43.29%	69,535	110,216	40,681	968
MASTERINVEST Kapitalanlage GmbH, Wien	37.50%	4,395	7,452	3,057	89
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H., Dornbirn	33.33%	302	1,385	1,083	–9
VKL II Grundverwertungsgesellschaft m.b.H., Dornbirn	33.33%	1,031	2,530	1,499	16
VKL III Gebäudeleasing-Gesellschaft m.b.H., Dornbirn	33.33%	4,921	4,927	6	111
VKL IV Leasinggesellschaft mbH, Dornbirn	33.33%	431	19,245	18,814	7
VKL V Immobilien Leasinggesellschaft m.b.H., Dornbirn	33.33%	10	12,065	12,055	–180
"Seestadt Bregenz" Besitz- und Verwaltungsgesellschaft mbH, Bregenz	20.00%	1,556	8,775	7,219	301

With the exception of HYPO EQUITY Unternehmensbeteiligungen AG, all companies included in the consolidated financial statements according to the equity method are based on separate financial statements as at 31 December 2011. The financial statements of HYPO EQUITY Unternehmensbeteiligungen AG were prepared as at 30 September 2011 and included in the consolidated financial statements on this basis, since this company's financial year differs from the calendar year. Preparation of interim financial statements was waived.

The sales revenue shown in the table for 'Seestadt Bregenz' Besitz- und Verwaltungsgesellschaft mbH and Silvretta-Center Leasing GmbH represents rental income, as the purpose of the company is rental and leasing. For the other companies, net interest income is shown under sales revenue.

MANAGING BOARD DECLARATION

We confirm that to the best of our knowledge that the consolidated financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report presents business events, business results and the Group's position so as to provide a true and fair view of the Group's assets and liabilities, financial condition, and results of operation, and that the Group management report outlines the principal risks and uncertainties to which the Group is exposed.

We confirm that to the best of our knowledge the parent company's financial statements prepared in accordance with applicable accounting standards provide a true and fair view of the parent company's assets and liabilities, financial condition, and results of operation, and that the management report presents business events, business results and the parent company's position so as to provide a true and fair view of its assets and liabilities, financial condition, and results of operation, and that the management report outlines the principal risks and uncertainties to which the parent company is exposed.

Bregenz, 23 March 2012

Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

The members of the Managing Board

Jodok Simma
CEO, Chairman of the Managing Board

Michael Grahammer
Managing Board member

Johannes Hefel
Managing Board member

REPORT OF THE SUPERVISORY BOARD

On an ongoing basis, the Supervisory Board monitors the managerial activities of the Managing Board within the framework established by law, the articles of association and the Supervisory Board rules of procedure. The Supervisory Board convened for five meetings at which it discussed the Managing Board reports pertaining to important plans, the position and development of the Bank, its subsidiaries and holdings. The Supervisory Board adopted the planning for financial year 2011, taking into consideration the Bank's strategic alignment jointly determined by the Supervisory and Managing Boards, and adopted the necessary resolutions.

Audit Committee

The Audit Committee of the Supervisory Board held two meetings in 2011 to perform its extended control tasks to monitor the effectiveness of the internal control system, risk management system and Internal Audit. It dealt particularly intensively with financial reporting in the annual and quarterly financial statements.

Corporate Governance Code

The Supervisory Board reviewed and discussed with the Managing Board business events requiring Supervisory Board approval pursuant to laws, the articles of association and/or the rules of procedure, granting approval accordingly. The Supervisory Board employed the Corporate Governance Code as a guideline in its activities.

Audit

The 2011 financial statements and management report were audited by Ernst & Young, Steuerberatungs- und Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, appointed by the annual meeting of shareholders to audit the financial statements and Bank books. As indicated by the unqualified audit opinion given by this company, the financial statements and management report conform to legal requirements. The 2011 consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). They were also audited by Ernst & Young, Steuerberatungs- und Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, and issued with an unqualified audit opinion. The Supervisory Board acknowledged and approved the consolidated financial statements including the Group management report. The Supervisory Board will formally adopt the relevant resolutions when the written audit reports are presented and have been discussed in detail.

Thanks and recognition

The Supervisory Board would like to express its thanks and recognition towards the members of the Managing Board, the managers and above all the employees for their excellent achievements in the financial year 2011.

Bregenz, March 2012

Chairman of the Supervisory Board
Kurt Rupp

AUDITOR'S REPORT (TRANSLATION [1])

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft, Bregenz, for the fiscal year from January 1, 2011 to December 31, 2011. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2011, and the notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System
The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Accounting Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2011 and of its financial performance and its cash flows for the fiscal year from January 1, 2011 to December 31, 2011 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate. In our opinion, the consolidated management report is consistent with the consolidated financial statements.

The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 23 March 2012

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Ernst Schönhuber mp
Certified Auditor

Elisabeth Glaser mp
Certified Auditor

[1] This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the consolidated financial statements and the consolidated management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

BRANCH OFFICES/ SUBSIDIARIES

HEADQUARTERS

Bregenz
Hypo-Passage 1

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

Rainer Terwart
Key Account Manager

Markus Schmid
Head of Corporate Customer Centre Germany

Bregenz Private Customers Branch Office
Christian Brun
Branch Office Head,
Bregenz Private Customers

Raymond Plankel
Head of Private Customers

Stephan Bohle
Head of Private Banking

Private Banking Plus Branch Office
Stefan Schmitt
Head of Private Banking Plus

Financial Intermediaries Branch Office
Christoph Schwaninger
Head of Financial Intermediaries

Internal Departments

Martin Baldauf
Head of Accounting, Securities Settlement

Johann Berchtold
Head of Information Technology, Organisation, Payment Transactions

Klaus Diem
Head of Legal Department

Stefan Germann
Head of Credit Management Corporate Services

Florian Gorbach
Head of Treasury

Martin Heinzle
Head of Credit Management Private Customers

Egon Helbok
Head of Human Resources

Peter Holzer
Head of Controlling

Martha Huster
Ombudsperson

Reinhard Kaindl
Head of Compliance

Gerhard Kalb
Head of Payment Transactions

German Kohler
Head of Corporate and Internal Audit

Roswitha Nenning
Head of Marketing and Communication

Herbert Nitz
Head of Sales Private Customers

Karl-Heinz Rossmann
Head of Sales Corporate Services

Roland Rupprechter
Head of Portfolio and Asset Management

Claudia S. Schauer
Head of Marketing

Emmerich Schneider
Head of Participation Administration

Markus Seeger
Head of Group Risk Controlling

BRANCH OFFICES

Bregenz Vorkloster
Heldendankstrasse 33
Udo Seidl, Branch Office Manager

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

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

Dornbirn Messepark
Messestrasse 2
Stephan Spies, Branch Office Manager

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

Feldkirch
Neustadt 23
Jochen Egger, Branch Office Head and Head of Corporate Services
Erich Vonbank, Branch Office Manager Private Customers

Feldkirch Landeskrankenhaus
Carinagasse 47 – 49
Stefan Kreiner, Branch Office Manager

Gaschurn
Schulstrasse 6b
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