ANNUAL REPORT **2011**

HYPO NOE
GRUPPE

GROUP FINANCIAL HIGHLIGHTS

EUR '000	2011	2010
IFRS consolidated income statement		
Net interest income	138,795	135,084
Credit provisions	-20,125	-17,731
Net fee and commission income	12,439	7,259
Net trading income	-900	16,091
General administrative expenses	-94,240	-81,930
Net other operating expenses/income	20,076	-47,622
Net gains or losses on financial assets	62,574	-3,525
Profit before tax	**118,619**	**7,626**
Income tax	-29,105	-500
Profit after tax	**89,514**	**7,126**
Non-controlling interests	-46	-41
Profit attributable to owners of the parent	**89,468**	**7,085**
IFRS consolidated statement of financial position		
Total assets	**13,233,058**	**12,004,451**
Loans and advances to customers	9,702,478	8,878,928
Financial assets	1,856,771	2,094,214
Deposits from customers	2,473,410	2,326,693
Debts evidenced by certificates	6,831,752	5,945,431
Consolidated regulatory capital resources (as defined by the Austrian Banking Act)		
Eligible core capital	486,265	452,140
Supplementary capital (tier 2 and tier 3)	205,000	231,941
Eligible capital under section 23 Austrian Banking Act	689,401	682,338
Assessment base under section 22(2) Austrian Banking Act	3,668,983	3,943,131
Surplus capital	373,904	347,901
Core capital ratio	13.25%	11.47%
Equity ratio	18.79%	17.30%
Ressourcen		
Average number of employees	658	604
Number of employees at end of year	670	640
Number of branches	28	28

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STATEMENT BY THE MANAGEMENT BOARD

"The HYPO NOE Group is fully aware of the responsibility it carries as the Lower Austrian state bank. That's why we will continue to do all in our power to be a reliable, expert, agile financial partner for our customers."

DYNAMIC, FLEXIBLE, FIT FOR THE FUTURE

2011 was a highly successful year for the HYPO NOE Group, despite the stresses on international financial markets caused by the Eurozone sovereign debt crisis. The profit attributable to owners of the parent of EUR 89.5 million (m) was the best result in our Group's history, while total assets were up by over ten percent year on year, to EUR 13.2 billion (bn).

It is not just our figures that show that the Bank is on the right course with its strategy of stability, closeness to customers and selective growth – a positive rating from Standard & Poor's sends the same message. During a period of widespread downgrades in September 2011, the HYPO NOE Group bucked the trend, and not only held on to its single A rating but also saw its outlook raised to "stable". The main reasons cited for this were our strong focus on our core business and our improved risk management system.

In terms of our organisational structures and processes, 2011 was a year of fine tuning across the entire Group. We made a major effort to exploit potential synergies and increase the efficiency of our internal processes, and successfully introduced some new initiatives.

To ensure that the Bank remains resilient and agile enough to meet any future challenges, we launched the Group-wide "Fit for the Future" project in 2011. The "F3" programme marks the beginning of a wide-ranging ongoing optimisation process. One of the main aims is to achieve a cost income ratio and a return on equity commensurate with risk, by increasing our profitability, and acting to enhance our efficiency.

We also made some organisational changes. Organisational units were established to accommodate new customer needs and regulatory issues, so as to tailor our services more precisely to the target client groups. And in line with our belief in putting the customer at the heart of everything we do, we have elevated the ombudsman function to Group level and given it a direct contact person.

On the infrastructure front, our new Group headquarters building in St Pölten is taking shape rapidly, and is due for completion in autumn 2012. This will promote efficient teamwork inside our organisation, in turn benefiting the 67,000 plus people who bank with us.

The Group's F3 programme will again set the tone for new developments at the Bank in 2012. We are working out to "keep fit" for our mission as the Lower Austrian state bank, and remain a reliable, expert and agile financial partner to our customers.

Peter Harold
Chairman of the
Management Board

Nikolai de Arnoldi
Member of the
Management Board

STRATEGY

Our Group markets itself as a single unit, under an umbrella brand. Within the Group, we offer bespoke solutions and products aimed at our chosen customer target groups. In order to provide a broad range of services, we cooperate with distribution and refinancing partners, and leverage synergies by networking within our organisation.

Working in tandem with HYPO NOE Leasing GmbH and HYPO NOE Real Consult GmbH, HYPO NOE Gruppe Bank AG provides the one-stop solutions that have made it the dominant force in the Lower Austrian public finance market.

HYPO NOE GRUPPE

Regional market leader in public finance (in tandem with HYPO NOE Real Consult and HYPO NOE Leasing)

HYPO NOE LANDESBANK Niederösterreich und Wien

- Universal bank operating in Lower Austria and Vienna
- Retail and business customers
- Professionals
- Doctors

HYPO NOE LEASING

- Custom finance models
- Real estate leasing
- Equipment leasing

HYPO NOE REAL CONSULT

- Property development
- Project management
- Property management

These business models drive our strategy of drawing on our core public finance expertise to selectively develop new markets, realigning our real estate business across the Group, and offering services tailored to the needs of our retail and business customer target groups.

Our geographical focus is based on our strength in the Lower Austrian public finance market and our goal of expanding into neighbouring Austrian federal states and other Danube countries. In our operations outside our home region, we are concentrating on our core business and on selective expansion in real estate finance.

HYPO NOE Gruppe Bank AG is now playing a key role in distributing our housing construction finance products in harness with HYPO NOE Landesbank AG. HYPO NOE Gruppe Bank AG provides the financial and legal framework for these activities, through its real estate subsidiaries and associates (housing cooperatives, Real Consult, Real Estate Advisory and project development companies). HYPO NOE Landesbank AG looks after sales, and cooperative and private housing construction finance. The local branch managers provide a one-stop service for local authorities.

Core business: the HYPO NOE Group's focus

	Austria	Target markets[1]	Opportunity markets[2]	
Core business	**Public finance** **Corporate & project finance** **Retail & SME finance (HYPO NOE Landesbank AG)**	**Public finance** **Corporate & project finance**	**Public finance** **Corporate & project finance**	Optimum financial solutions thanks to our extensive experience of serving the public sector in Austria and the extended Danube region. Financial solutions for publicly owned companies and projects, mainly involving renewable energy and social housing in Austria and the extended Danube region. The target segments are the private residential construction sector, and small and medium sized enterprises in Lower Austria.
Diversified business	**Real estate finance** & HYPO NOE Leasing & HYPO NOE Real Consult	**Real estate finance** & HYPO NOE Leasing & HYPO NOE Real Consult	**Real estate finance** & HYPO NOE Leasing & HYPO NOE Real Consult	Real estate finance services delivered at regional and national level, and abroad.
Group support services	**Institutional customers**			Specialisation in the arrangement of transactions with local, national and international banks.
Group support services	**Treasury**			Professional treasury management, which is fundamental to a bank's stability, and to good financial performance, as well as value creation and optimum liquidity management.

[1] Extended Danube region apart from Austria (Bulgaria, Germany, Hungary, Romania and Slovakia), as well as the Czech Republic and Poland
[2] West European highly industrialised countries and Americas

Geographical markets: Danube region strategy

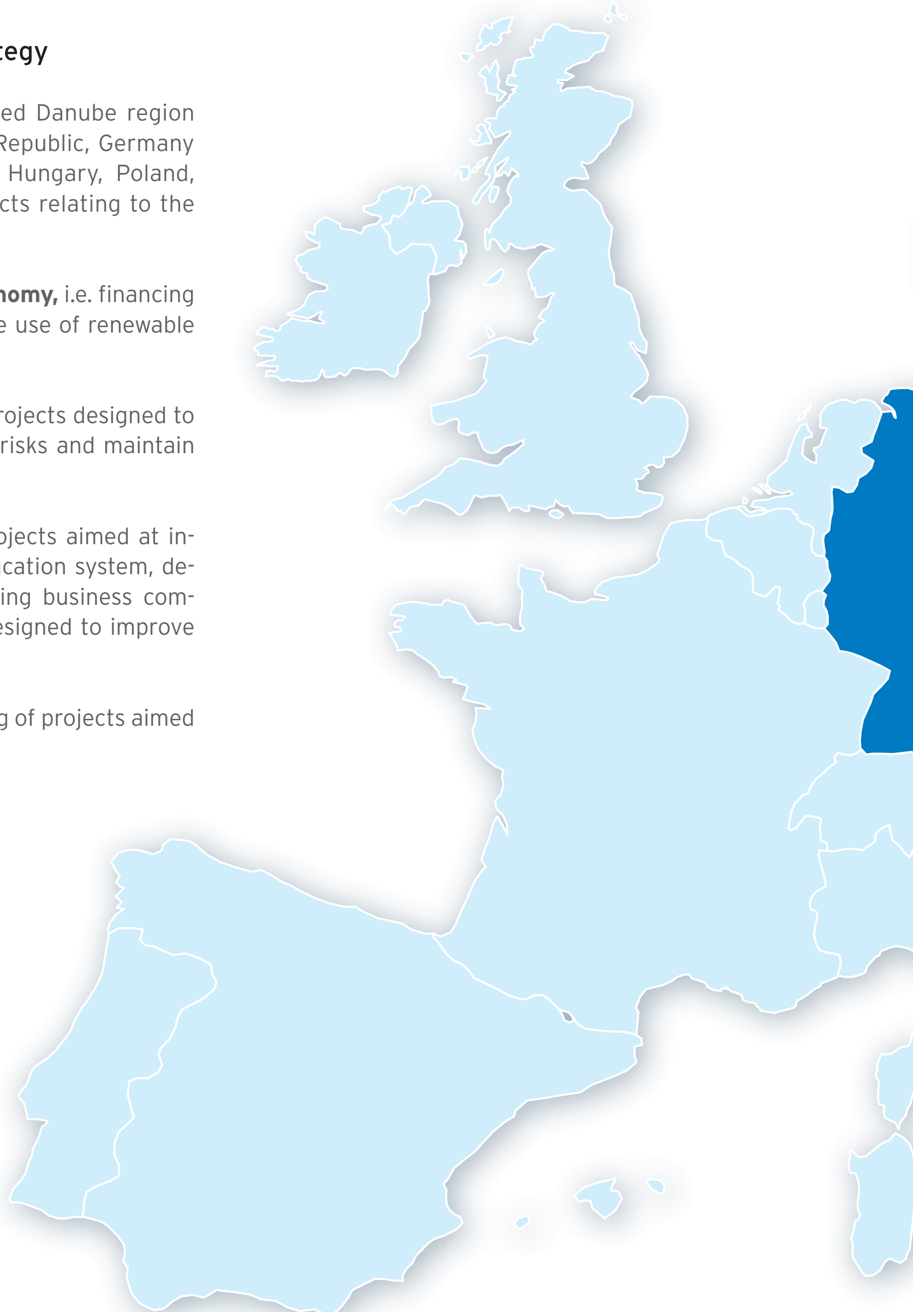
The HYPO NOE Group's strategy for the extended Danube region addresses seven countries: Bulgaria, the Czech Republic, Germany (particularly Baden-Württemberg and Bavaria), Hungary, Poland, Romania and Slovakia. The goal is to fund projects relating to the following areas:

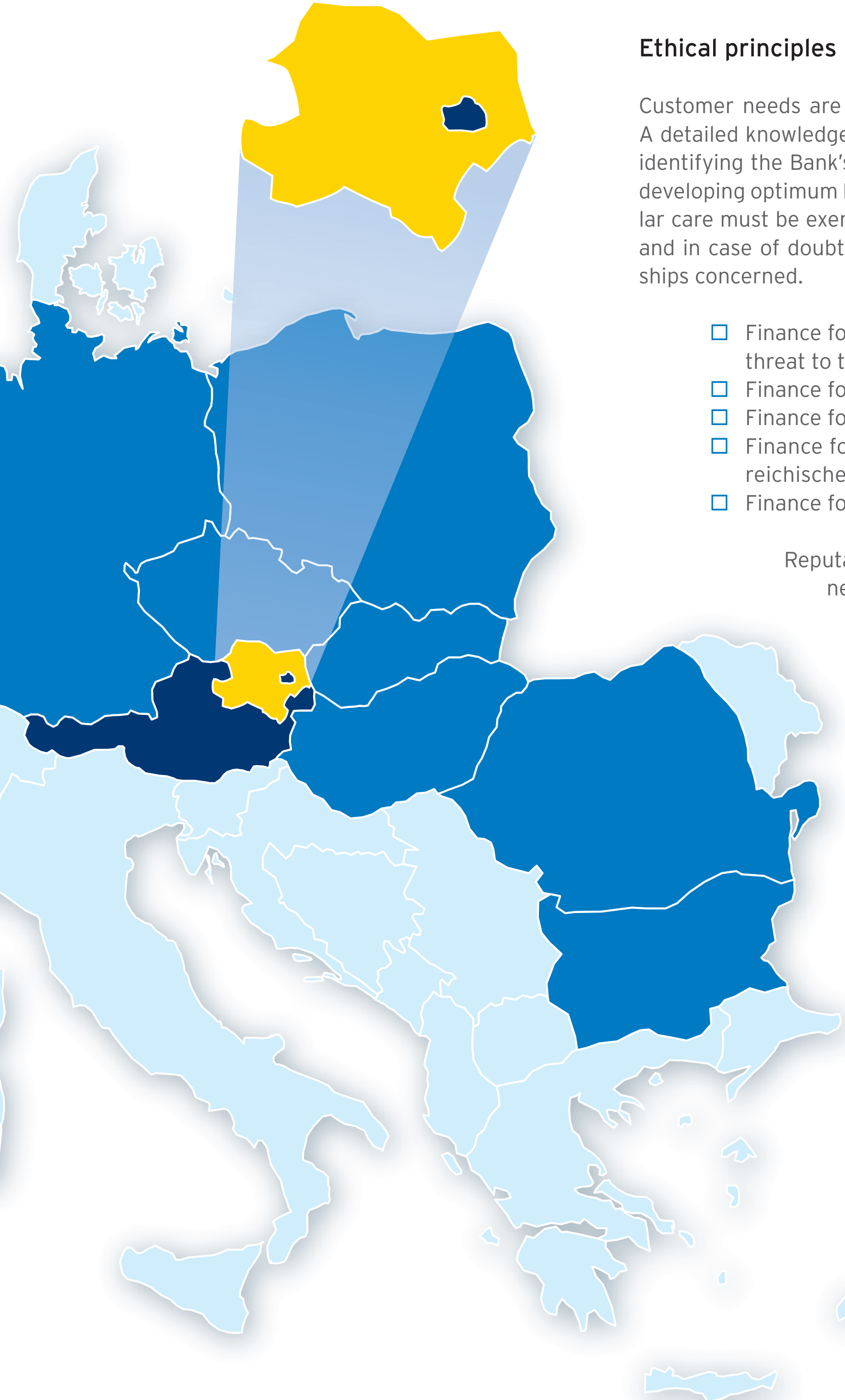
a) **International integration of the regional economy,** i.e. financing of projects targeted at promoting mobility, the use of renewable energy sources, culture and tourism.

b) **Environmental protection,** e.g. financing of projects designed to restore water quality, manage environmental risks and maintain biodiversity.

c) **Prosperity in the region,** i.e. financing of projects aimed at increasing research capacity, improving the education system, developing information technology and promoting business competitiveness – with top priority for projects designed to improve vocational training.

d) **Better government in the region,** i.e. financing of projects aimed at enhancing institutional capacity.





Ethical principles

Customer needs are central to everything the HYPO NOE Group does. A detailed knowledge of our target groups' business activities is vital to identifying the Bank's risk exposures and those of its customers, and to developing optimum lending structures. Across the entire Group, particular care must be exercised with regard to the following types of lending, and in case of doubt we refrain from engaging in the banking relationships concerned.

- Finance for transactions or investments that pose a potential threat to the environment (e.g. nuclear power)
- Finance for arms deals
- Finance for businesses involved in prostitution
- Finance for countries engaged in armed conflicts (Oesterreichische Kontrollbank country list)
- Finance for the betting and gaming industry

Reputational risks are particularly likely to arise in connection with borrowers operating in industries that are incompatible with the image and values of the HYPO NOE Group and its owner, the Lower Austrian state government. Here, too, particular care must be exercised, and in case of doubt the Bank refrains from business dealings with those concerned.

GROUP OPERATIONAL AND FINANCIAL REVIEW

ECONOMIC CLIMATE

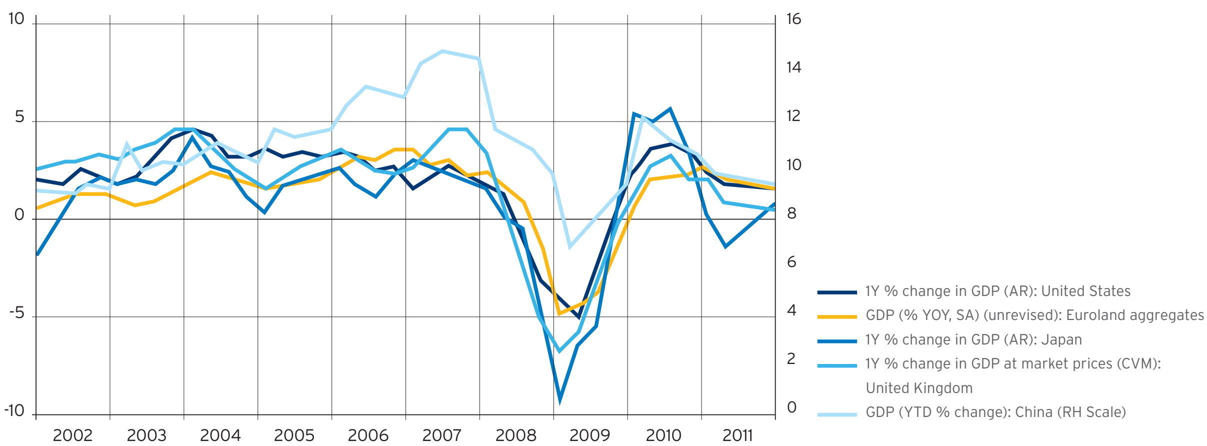
Global economic and financial market developments

The sovereign debt crisis in the Eurozone was again the dominant issue in 2011, and influenced both international financial markets and the real economy. The economic environment was also impacted by some exceptional events – notably the natural disaster in Japan and the "Jasmine Revolution" in some North African and Middle Eastern countries. In recent years the growing influence of political factors on economic and financial market trends has made it far harder to forecast future developments accurately, adding to the uncertainties faced by business leaders and market players.

This may at least partly explain why the highly bullish mood at the start of 2011 soured in the course of the year. The most rapid economic growth during the reporting period was the 0.8% quarter-on-quarter rate recorded in the first quarter. From the second quarter onwards the burdens imposed by deficit reduction programmes in a number of countries, loss of confidence in politicians' ability to solve the debt problem and the expiry of stimulus programmes increasingly made themselves felt. The strong run-up in commodity and particularly energy prices in the final quarter of 2010 and the first four months of 2011 also weighed heavily on economic activity. The disaster in Japan caused considerable disruption to the world economy due to the interruption of global supply chains. While most industrialised countries' central banks – with the exception of the European Central Bank (ECB) – kept interest rates at historic lows, their counterparts in the booming emerging market and developing countries maintained the restrictive stance they had adopted in 2010, and this, too, contributed to the slowdown.

However, the main factor driving economic trends in 2011 was the gravity of the solvency problems faced by a number of Eurozone countries. On the strength of continued strong economic data at the time, and accelerating inflation, the ECB decided to raise its policy rate to 1.5% in two 25 basis point steps, in April and July. The second half was to show how premature this move had been, with the economy relapsing into recession by the end of the year. The ECB reacted accordingly during the last two months of 2012, cutting the key rate to the 1.0% seen at the start of the year, and ramping up its liquidity injection measures by introducing an ultra-long, three-year tender and providing EUR 500bn on a full allotment basis, among other measures.

GDP growth



GDP growth: USA, Eurozone, Japan, UK and China

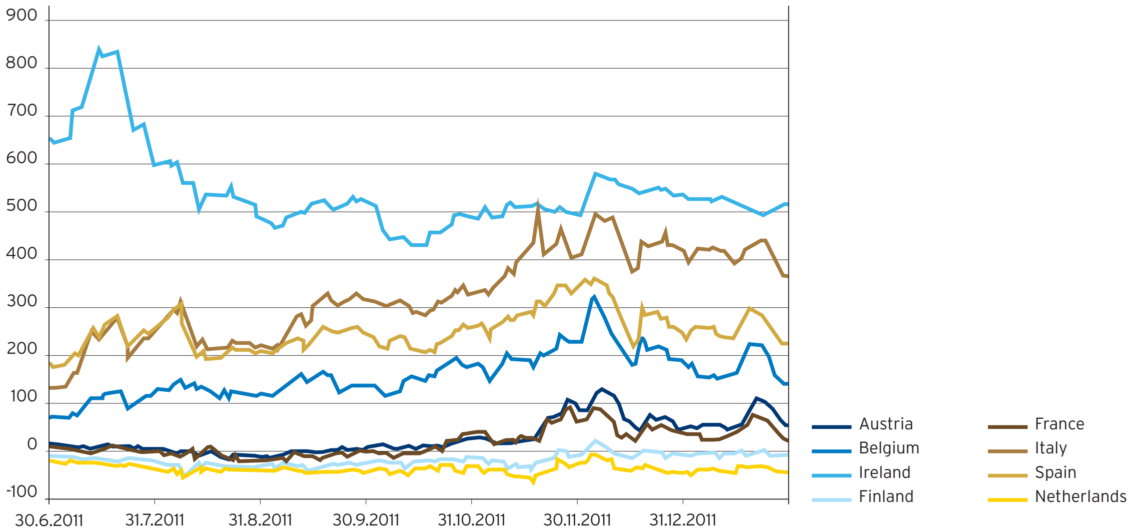
Source: Datastream

The bond market

The bond market moved in contrary directions in the two halves of the reporting period. While interest rates trended sharply upwards across all maturities in the first half of the year, yields slumped in the second half. Optimism on economic growth and gathering inflation fears held sway in the first six months. Both were supported by hard economic data, and as a result the ECB raised interest rates by 25 basis points in April. A second increase of equal size followed in July, although by then the sovereign debt crisis was already escalating dangerously. The mounting difficulties of south European EU member states sent yields into reverse, and by year end they were back to the historic lows of 2010. This trend was accompanied by growing expectations that the Eurozone would slide into recession by the turn of 2011/2012. During the latter part of the year attention shifted away from inflation, although the inflation rate reached the year's high during this period. In the autumn capital market players began to act on the assumption that key interest rates would fall – an expectation that was fulfilled by the ECB when it cut its main refinancing rate by a total of 50 basis points in November and December. The expansionary monetary policy pursued by the ECB of late has been accompanied by measures to boost liquidity including the reintroduction of long-term refinancing operations to assist commercial banks. For the first time in its history the ECB has conducted three-year tenders with full allotment.

Credit spread movements were almost entirely at the mercy of the Eurozone sovereign debt crisis. The lessons learned in 2010 were confirmed, and corporate bonds again held up better than bank paper during the reporting period. Spreads on corporate bonds issued by borrowers in peripheral countries were considerably wider than those on paper from issuers in core EU or non-EU countries.

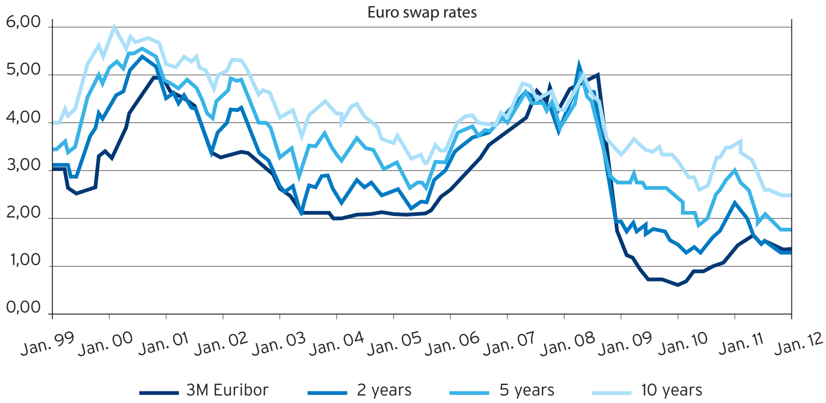
Asset swap spreads on selected Eurozone sovereign bonds
Maturing in approx. 5 years



Relative interest rate trends

Source: Bloomberg

Euro swap curve

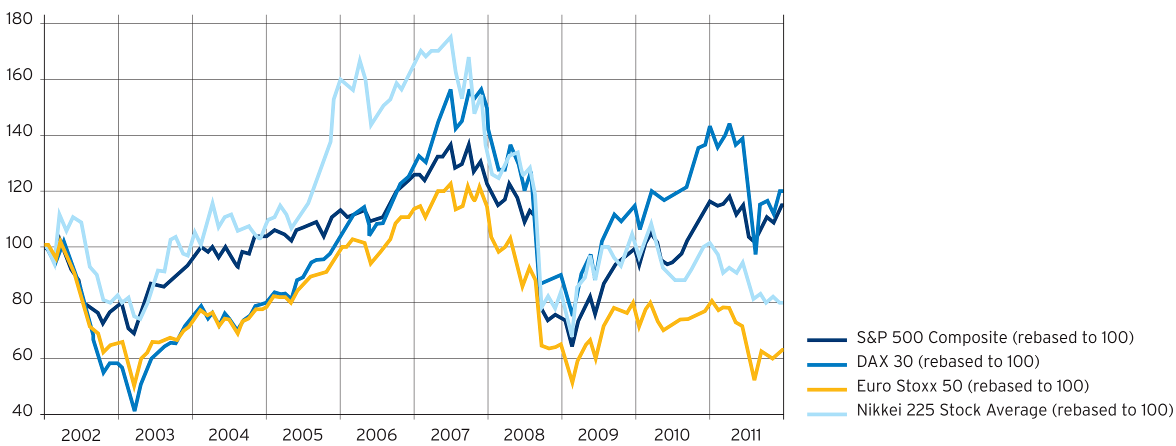


Source: Bloomberg

The equity market

After a comparatively bright start to the year investors rapidly became nervous, and a volatile, sideways pattern established itself despite predominantly good company data. Panic spread rapidly in August as fears of a global downturn gained the upper hand. Investors took fright at the prospect of a double dip recession not just in the Eurozone but in the USA, too, and of a hard landing for China. Only with growing indications towards the end of the year that these worries had been overdone did a rally set in. The world's major central banks sought to restore market confidence by taking concerted measures and adopting accommodative monetary policies, and were at least partly successful in this. Nevertheless, 2011 will go down in history as a poor year for the equity markets, and one of extreme volatility. With few exceptions, share indexes throughout the world recorded negative performances for the year.

Stock market performance



Stock index comparison (base year 2002)

Source: Datastream

FINANCIAL PERFORMANCE

Key developments in 2011

2011 was a very successful year for the HYPO NOE Group despite troubled international financial markets. The profit attributable to owners of the parent of EUR 89.5m (2010: EUR 7.1m) – our best result to date – mainly reflected a high earnings contribution from HYPO NOE Gruppe Bank AG, but HYPO NOE Landesbank AG and the leasing sub-group also delivered substantial profits.

Net interest income held up well, at EUR 138.8m (2010: EUR 135.1m) due to consistently low interest rates and volume growth.

The cost of risk in the Bank's lending business rose by EUR 2.4m to EUR 20.1m. The increase was mainly caused by write-offs of loans to Hungarian municipalities.

Net fee and commission income was up by EUR 5.2m to EUR 12.4m, lifted by higher income from payment transactions, and loans and advances.

There was a net trading loss of EUR 0.9m.

General administrative expenses were up by 15.0% to EUR 94.2m. Staff costs mounted by 10.6% to EUR 52.4m, and other administrative expenses by 14.5% to EUR 35.9m, while depreciation, amortisation and impairment climbed by EUR 2.7m. The rise in staff costs was largely driven by an increase of 54 in the average head count, to a total of 658. Higher other administrative expenses mainly arose from the introduction of a statutory financial stability contribution ("bank tax") in 2011, resulting in a payment of EUR 5.0m. Impairment losses on land were chiefly responsible for the increase in depreciation, amortisation and impairment.

Net other operating expense/income turned positive at EUR 20.1m (2010: EUR -47.6m). The change is largely explained by gains on currency translation reported under sundry other operating income.

Net gains or losses on financial assets were positive at EUR 62.2m. Gains on disposal, write-ups and measurement gains totalling EUR 94.0m were mainly attributable to the sale of the 1.17% interest in Raiffeisen Zentralbank AG, while the EUR 31.7m in losses on disposal and writedowns principally related to write-downs of Greek government bonds to fair value.

The profit before tax was EUR 118.6m – a gain of EUR 111.0m year on year (2010: EUR 7.6m).

This improvement was also reflected in the following financial performance indicators:

		2011	2010	2009	2008
Return on equity before tax	Profit before tax/ave. equity	**29.2%**	1.9%	6.8%	4.4%
Return on equity after tax	Profit after tax/ave. equity	**22.0%**	1.8%	5.5%	3.6%
Cost/income ratio	Operating expenses/operating income	**40.4%**	76.4%	57.3%	72.6%
Risk/earnings ratio	Credit provisions/net interest income	**14.5%**	13.1%	24.6%	17.2%

These ratios were mainly driven by the high net gains on financial assets.

Assets and liabilities

The Group's total assets grew by EUR 1.2bn or 10.2% year on year to stand at EUR 13.2bn as at the end of the reporting period, due to increases of EUR 0.8bn in loans and advances to customers and EUR 0.2bn in loans and advances to banks.

On the liabilities side of the balance sheet, debts evidenced by certificates were up by EUR 0.9bn, and deposits from customers by EUR 0.1bn. Deposits from banks fell by EUR 0.2bn.

Equity (IFRS)

IFRS consolidated equity including non-controlling interests was EU 431.1m – up by EUR 48.6m on 31 December 2010, largely as a result of the high profit for the year, which more than offset the increase in the AFS reserve for remeasurement of financial assets to fair value.

Equity (Austrian Banking Act)

Consolidated eligible capital as defined by the Austrian Banking Act was EUR 689.4m as at 31 December 2011 (2010: EUR 682.3m). Surplus capital was EUR 373.9m (2010: EUR 347.9m), compared to a capital requirement of EUR 315.5m (2010: EUR 334.4m). The core capital ratio stood at 13.25% (2010: 11.47%), and the equity ratio was 18.79% (2010: 17.30%).

OPERATIONAL PERFORMANCE

Gruppe Bank segment

Public Finance

Our Public Finance Department partners local and regional authorities, and public agencies, as well as infrastructure companies. The Public Finance team specialises in helping district and municipal councils, and state governments with all aspects of their finances, working in tandem with HYPO NOE Landesbank.

The department's stated aim is to provide a one-stop-shop for public sector construction, and this is reflected in the activities of its experts. An extensive product range, from medium and long-term loans through to bonds, purchase of receivables, and sale and leaseback arrangements enables it come up with ideal solutions for its clients. In 2011 there was also an increased call for alternative financing models due to the budget constraints faced by state governments and local authorities.

For instance, we succeeded in arranging public private partnerships for a variety of major healthcare and road projects. Operations in 2011 focused on the following areas of business:

Public finance

- Local publicly and semi-publicly owned businesses, and regional and local authorities and public agencies
- Project example: Krems an der Donau Riverboat Terminal and World Heritage Centre

Hard infrastructure

- Public transport and transport infrastructure
- Water supply, and wastewater and waste disposal infrastructure, and other municipal services, e.g. development of sections of municipal utility networks
- Energy infrastructure and environmental projects
  Project example: Eichgraben Municipal Centre

Social infrastructure

- Finance for investment in the healthcare sector: hospitals, and care and social facilities
  Project example: Zwettl clinic
- Public buildings: schools, universities, student hostels, museums and sports facilities

In 2011 the Public Finance team collaborated with group companies HYPO NOE Real Consult GmbH and HYPO NOE Leasing GmbH, and external strategic partners on bespoke financing solutions for projects of this kind. This enabled us to cement existing client relationships and open up new customer segments. The HYPO NOE Group's strong capital resources provide a solid foundation for the Bank to excel as an expert financing partner.

During the reporting period, total lending by our Public Finance Department rose by 12.6% to EUR 5,083.2m (2010: EUR 4,512.5m).

HYPO NOE Gruppe Bank will continue to focus on financial stability and dependability. In 2012 we will be looking to extend the progress made in 2011 whilst taking care not to overreach ourselves in the current adverse economic environment. Our relationships with construction groups and the operators of public infrastructure will again play a key role.

In international public financing activities, notable progress was made in expanding our portfolio without compromising quality. We stepped up our cooperation with multilateral financial institutions and development banks, such as Oesterreichische Kontrollbank (OeKB), Kreditanstalt für Wiederaufbau (KfW), the European Investment Bank (EIB), the European

Bank for Reconstruction and Development (EBRD), and arms of the World Bank Group including the Multilateral Investment Guarantee Agency (MIGA). Strategically, we will continue to focus on the extended Danube region; HYPO NOE Gruppe Bank already operates representative offices in the Czech Republic and Hungary.

Real Estate Finance

In 2011, we maintained our strategic focus on the extended Danube region, financing large-scale commercial projects in Austria, the Czech Republic, Germany and Slovakia. We also provided support to all of the Group's customers in other European markets, helping them to execute a number of successful ventures, such as the acquisition of a retail portfolio in Poland.

The appointment of a head of Group Real Estate Business in 2011 was a big step forward for our efforts to capitalise on synergies in this area. The year also saw the formation of a number of new real estate subsidiaries. All the real estate projects and financing activities are now handled by a single department, and looked after by staff the relevant specialist expertise.

The Real Estate Finance business model is based on the office, shopping centre, retail park, logistics facility and city hotel asset classes, and on relatively conservative lending terms. The key product used to fund these projects is conventional loan finance. The department works with Group Treasury to offer clients interest rate hedging instruments such as swaps and caps.

In 2012, we will continue to follow our policy of only executing projects that offer an adequate return on risk-adjusted capital (RORAC) and return on equity (ROE), and are undertaken with tried and trusted partners. The geographical focus remains on the Danube region and selected EU member states neighbouring Austria.

Corporate & Project Finance

In the second half of 2011 customer service, and our corporate and project finance expertise in Austria and core foreign markets were combined in a new department. The departmental merger will allow us to build on the good work done in the past, and to leverage synergies for our customers.

Corporate & Project Finance is committed to selective, risk-averse, profitable growth in Austria and abroad, and to providing comprehensive services for its existing customer portfolio. These will continue to be the priorities in 2012.

Our Austrian home market, and in particular Lower Austria, is central to the department's Danube region strategy, and a highly selective approach will be taken to transactions in other, high potential markets.

Corporate & Project Finance concentrates on the Austrian market, and especially flagship companies in Lower Austria. In other Danube region countries the focus is on transactions related to project finance for hard infrastructure and renewable energy. For some time now the department has specialised in funding wind farm and photovoltaic projects. Biomass and biogas energy play a very limited role due to the additional risks associated with the availability of feedstock. All of our activities in the renewable energy sector are concentrated on markets within the Danube region, where feed-in compensation schemes are in place. In order to be able to create optimum financing solutions for all its clients, the department maintains close relationships with financial institutions and export credit agencies that specialise in serving the sectors concerned.

Thanks to the expertise it has built up in corporate and project finance it can now also engage in loan syndication.

It aims to offer all its customers bespoke finance solutions for their investments, both in the corporate and the project finance segment. The HYPO NOE Group regards itself as an expert partner in investment matters.

The product portfolio across the entire financing spectrum has been widened accordingly, as has the expertise of our team. Our accumulated know-how, and our well established relationships with Austrian and international funding agencies and development banks, as well as our many contacts in the public sector, have played a key role in this.

In 2012 the Corporate & Project Finance team will remain a reliable and competent partner for clients across the Danube region. Expanding the department's quality loan portfolio will lay the groundwork for deeper international customer relationships and cooperation with international lenders.

Institutional Customers

In line with the Group's customer driven strategy, our relationships with institutional customers were given a new organisational framework in 2011. The goal is to offer comprehensive service with a single first point of contact for each customer. This will also make it easier to coordinate the activities abroad and develop this area of business in Austria, and new and existing foreign markets.

Last year the HYPO NOE Group successfully acted as a senior lead arranger and mandated lead arranger for transactions. Cooperation with multilateral lending institutions was stepped up in order to increase the range of refinancing options.

In 2012 the HYPO NOE Group will continue to systematically roll out its foreign market strategy and further fine tune services for institutional customers.

Treasury

Due to the turmoil on international financial markets liquidity and treasury management were pivotal to the Bank's operations.

Another successful international market transaction gave the Bank a solid long-term liquidity base. The excellent take-up of a EUR 500m issue of three-year covered bonds, rated Aaa by Moody's, was testament to the high level of interest from investors both in Austria and abroad. This well subscribed issue underlined the appeal of Austrian covered bonds in a volatile market environment. We were able to capitalise on this positive sentiment to generate more liquidity with private placements, mainly in the German speaking world. During the second half we introduced general collateral pooling, which offers significantly more attractive pricing than other options for short-term funding.

We pursued a strategy of cautious investment in our proprietary portfolio. The main focus was on covered bonds, which offer additional protection due to the cover funds, and are also a good way of improving liquidity ratios.

In 2012 there will again be a strong focus on maintaining long-term liquidity by means of covered bond issuance.

The capital market will continue to play a major role for us, but we will also tap alternative sources of finance. Given positive market sentiment, we plan to launch a benchmark-size covered bond issue in 2012. We also aim to broaden our investor base by increasing the number of visits to investors and presentations, in order to gain further traction for the Group's private placements.

ALM & Capital Management

In 2011 asset liability management was given an enhanced status by setting up the ALM & Capital Management Department.

The main focus of the department's activities is on:

- Actively managing the Bank-wide interest rate risk so as to improve the trade-off between return on equity and overall risk; and
- Optimising the use of equity – a scarce resource – by promoting the transactions that offer the best risk/return balance.

A consistently applied benchmark rate system for the market prices of instruments with matching maturities ensures that risks are correctly allocated to market units, and the overall maturity structure is explicitly presented.

In the first half of 2011, we took advantage of higher interest rates to selectively increase our exposure to interest rate risk, and in the second half we were able to use a variety of hedges to lock in satisfactory margins. Active management of interest rate risk made a significant positive contribution to the Bank's overall results.

Derivative financial instruments are used – mainly as hedges – to manage interest risk and the structure of the balance sheet.

The interest rate risk is low relative to regulatory requirements (maximum of 20% of eligible capital).

Public Loan Management

The Lower Austrian state government extends preferential loans to residents and businesses. HYPO NOE Gruppe Bank is the first point of contact for recipients of Lower Austrian subsidies with queries about account administration, account balances and repayments. It provides Lower Austrian owner-builders and the many housing cooperatives in the province with cheap and efficient loan management services. This includes sending them account information, instalment schedules and confirmations of payments from the tax authorities every year. Construction of a website for borrowers is currently under way. From 2013 on they will have convenient online access to account information and tax office confirmations going back several years. This will contribute to sustainable business practices by saving paper and the resources consumed by postal distribution, without reducing the level of service we provide. Alongside the correspondence that is sent out automatically, customer queries are answered individually by the customer adviser team at HYPO NOE Gruppe Bank.

The number of loan applications processed for the Lower Austrian state government rose again in 2011, and we now administer almost 300,000 direct loans with a total value of over EUR 6bn. The rest of the loans administered by us were from other state government funds, such as the Lower Austrian economic and tourism, school and kindergarten, water management and agricultural support funds.

HYPO NOE Gruppe Bank also maintains the accounts for many Lower Austrian state government grants, including those related to environmental protection, schools and kindergartens.

The Bank assists with a variety of state government home construction transactions, preparing detailed breakdowns of the existing loan portfolio, providing outsourced data processing, and generating analyses of the payment flows from individual loan tranches and deviations from the original repayment plans as part of its regular reporting to the investors. We expect to provide further services in this area in the coming years as part of a number of planned transactions.

Participations

HYPO NOE Gruppe Bank manages and coordinates the Group's equity investments. 2011 was a year of restructuring and other organisational measures. The investments were grouped in "clusters", according to their strategic significance. The core associates are banking or financial services companies, and as such are integral to HYPO NOE Gruppe Bank's operations. They make up the central cluster, and almost all are consolidated. The rest of the Group's holdings are divided into the five other clusters: non-core banking and financial services investments; property management and real estate project companies; vehicles that are related to the Hypo banking sector or fulfil service functions for the Bank; investments related to the Bank's role as the Lower Austrian state bank; and leasing companies. A manager from HYPO NOE Gruppe Bank is assigned to each core investment, acting as the link with the rest of the organisation.

One of the key events of the reporting period was the conclusion of a put option contract for the sale of our 25% interest in HYPO Capital Management AG. Following this, HYPO NOE Gruppe Bank sold its 1.17% interest in Raiffeisen Zentralbank Österreich AG (RZB) to existing RZB core shareholders.

Foreign branches

HYPO NOE Gruppe Bank AG had no foreign branches in 2011.

Branch offices

HYPO NOE Gruppe Bank AG has operated a branch office at Wipplingerstrasse 4, 1010 Vienna since 2008.

Landesbank segment

HYPO NOE Landesbank AG

For retail and business customers and professionals in its core markets – Lower Austria and Vienna – HYPO NOE Landesbank AG is a financially sound partner that knows its business. The bank focuses on finance for residential building, SMEs and the premium banking segment. Both loans and advances to customers and deposits from customers grew in the reporting period. The marginal decline in total assets to EUR 2.33bn (2010: EUR 2.34bn) was due to a reduction in interbank business, and loans and advances to customers climbed by 2.3% year on year. A large part of this lending was to private customers and professionals, who accounted for EUR 898.2m or 45.9% of all lending. Business customers (including home construction companies and housing associations) are another major source of lending business. HYPO NOE Landesbank is an important partner for small and medium-sized enterprises, and builders, and this area of business generated 3.7% lending growth and 54.1% of total loans and advances to customers in 2011.

Deposits from customers grew by 0.8% in the reporting period, to reach EUR 1.15bn. This reflected year-on-year increases of 0.6% and 1.1%, respectively, in savings deposits and current account deposits.

Debts evidenced by certificates rose by EUR 51.5m or 14.6% year on year (2010: 352.1m). Due to the current yield situation, with wide spreads between short and long-term interest rates, we were able to place short-term covered bonds. These were generally preferred to housing bonds, which tend to have longer maturities.

The EUR 1.62m drop in net interest income resulted from the reclassification of some sub-items to net fee and commission income.

The success of the bank's workout management activities is demonstrated by the sharp fall in impairments. As a result credit provisions were down by EUR 9.16m year on year.

HYPO NOE Landesbank stands for traditional values, stability and expertise. With HYPO NOE Gruppe Bank as its parent and the Lower Austrian state government as its owner, and with a management reinforced by the arrival of a second board member in mid-2011, the bank is well placed to nurture stable, long-term customer relationships. Experienced staff put together bespoke solutions designed to meet customers' highest expectations. Sustainability, reliability, customer focus and decisiveness are central to the bank's philosophy.

Leasing segment

HYPO NOE Leasing GmbH

HYPO NOE Leasing GmbH is the Group's product subsidiary for innovative finance solutions, and in particular for leasing. This business expanded in 2011 thanks to the team's specialist know-how. It focuses on lease financing for regional and local authorities, and public agencies, and its success in this area placed it on a still firmer footing. HYPO NOE Leasing is now the market leader in Austria, and wrote EUR 212m in real estate leasing and 42m in equipment leasing business in 2011.

The company's work with NÖ Landeskliniken-Holding is an excellent example of how to build on an existing customer relationship. In 2012 this client again charged HYPO NOE Leasing with structuring complex financial solutions for it.

During the year HYPO NOE Leasing designed specialised real estate and equipment lease structures as part of its product development responsibilities within the Group. Product development in 2011 also centred on leases combined with cost and completion date guarantees, and on energy efficient building. An example of a project in this area is the newly built Kindergarten im Stadtpark in Vienna.

Other segment

HYPO NOE Real Consult GmbH

HYPO NOE Real Consult GmbH has always concentrated on the Lower Austrian and Vienna markets.

Close cooperation with HYPO NOE Leasing, HYPO NOE Landesbank and HYPO NOE Gruppe Bank on lending, disposals and workout management continued in 2011.

Project management activities continued apace in 2011, with work commencing on many major construction projects and others topped out. Structural completions included the St. Pölten Stadium, the expansion of the IMC Krems campus, and a lab building at the Institute of Science and Technology (IST) Austria in Klosterneuburg.

Among the many examples of projects handed over on time and on budget and to excellent quality standards were: the University and Research Centre Tulln; the Schulzentrum Krems multi-school centre; the Norbertinum agricultural college in Tullnerbach; the Maria Enzersdorf child care centre; and the Krems World Heritage Centre.

The property management side of the business continued to grow. For example, the Lower Austrian state government awarded us the contract to manage the International Anti-Corruption Academy in Laxenburg.

In the autumn, Hausverwaltung Korneuburg awarded HYPO NOE Real Consult GmbH's property management arm the contract to manage about 480 housing units from 1 January 2012 onwards. A field office has been set up for this purpose. The real estate companies continued to perform well in 2011, and results were ahead of expectations.

Feasibility studies were carried out for a large number of property development projects, and some are now at the execution phase. These include developments in the Vienna's 16th and 17th districts, the Quadrant in St. Pölten and a property on Obere Donaustrasse in Vienna's second district.

There is also a pipeline of projects that are still at the appraisal stage.

Going forward, HYPO NOE Real Consult is in the running for contracts that will keep it busy for a long time to come if it wins them. There are also plans to expand HYPO NOE Real Consult's role as a channel for disposing of property on behalf of other Group companies.

HUMAN RESOURCES

In the current economic environment the central challenge for our HR management function is to support the continued improvement in the Bank's business performance. This includes optimising processes, and mounting training programmes that further our people's professional skills and personal development.

The strict legal and regulatory requirements to which the Bank is subject place heavy demands on both management and employees. The Bank's attractiveness as a secure and reliable employer is important to recruitment, but matters still more in terms of retaining existing staff. This means that one of the HR team's key tasks is to be a dependable partner for the Management Board, other executives and rank-and-file employees.

HR facts and figures

At year end 2011 the HYPO NOE Group had 670 employees (end-2010: 640), of whom 36 were on parental leave. The workforce had 332 male and 338 female members (end-2010: 306 male and 334 female). In terms of full-time equivalents (FTE), there were 629.4 employees at year end (end-2010: 601.6). The head count falls to 586.1 FTE as at 31 December 2011 if non-active employees are excluded.

Six staff members were employed at our representative offices abroad (2010: seven). In 2011 a total of 106 vacancies were filled internally (2010: 132).

The table below shows changes in employee numbers over time.

			HYPO NOE Gruppe Bank AG	HYPO NOE Landesbank AG	HYPO NOE Real Consult GmbH	HYPO NOE Leasing GmbH	HYPO NOE Group
		Total	152	341	22	29	544
	Head count	m	80	166	12	11	269
2008		f	72	175	10	18	275
	FTE	Total	146.7	319.5	20.7	26.1	513.0
	Ave.	Total	123.5	337.2	–	32.2	492.8
		Total	174	359	39	32	604
	Head count	m	87	176	19	11	293
2009		f	87	183	20	21	311
	FTE	Total	168.3	336.9	32.9	29.7	567.8
	Ave.	Total	164.2	353.2	36.2	30.3	583.8
		Total	241	324	41	34	640
	Head count	m	122	155	17	12	306
		f	119	169	24	22	334
2010		Total	229.5	301.6	38.8	31.7	601.6
	FTE	m	119.2	153.4	16.6	12.0	301.2
		f	110.3	148.2	22.2	19.7	300.4
	Ave.	Total	229.3	321.0	40.6	33.7	624.6
		Total	**268**	**326**	**43**	**33**	**670**
	Head count	**m**	**140**	**162**	**18**	**12**	**332**
		f	**128**	**164**	**25**	**21**	**338**
2011		**Total**	**253.2**	**304.2**	**41.3**	**30.6**	**629.4**
	FTE	**m**	**135.2**	**161.4**	**18.0**	**12.0**	**326.6**
		f	**118.0**	**142.8**	**23.3**	**18.6**	**302.7**
	Ave.	**Total**	**251.3**	**330.4**	**44.2**	**32.5**	**658.4**

Key: m = male, f = female, FTE = full time equivalent

Reorganisation

The changes at Management Board level in 2011 also led to a major reorganisation and clearer lines of responsibility. The new reporting level of corporate coordinator was introduced to create Group-wide remits for certain strategic issues. Separate organisational units were set up for some special tasks.

The strategic realignment of HYPO NOE Landesbank, approved shortly before the end of the year, brought extensive organisational changes and a broad-based sales drive, both of which will also be major features of 2012.

Changes to the Bank's remuneration policy to comply with the amendments to the Banking Act (transposition of CRD III) were implemented in 2011. The Supervisory Board established a Compensation Committee as required by the new legislation, and approved the principles of HYPO NOE Gruppe Bank's remuneration policy and the guidelines for variable compensation for identified staff. A new performance review format aligned to the revised remuneration policy was also introduced.

We also updated the job profile template used at HYPO NOE Gruppe Bank AG to bring it into line with modern HR management practices.

Staff development

Personal and professional development for executives and other staff members remains a high priority. 2011 saw the continuation of our established training programmes, as well as the launch of some new initiatives.

The Best of Leadership scheme, already in its third intake, is aimed at managers across the Group, and guides them through the challenges of taking up a new management position. Train the Trainer I and II, offering training in presentation techniques, were developed in collaboration with HYPO Bildung. Alongside the many external seminars, a number of internal training courses were held on topics of special interest. The Group induction course, conducted by internal trainers, was again completed successfully by a substantial number of employees in 2011.

The Business Theater programme was immensely successful. Facilitated by professional actors, this involved all staff from the back office departments, who created and performed scenes exploring central concerns of the Group in the context of six corporate values. These events generated a number of suggestions which are already being actioned.

A further highlight of 2011 was the successful internal communication events that brought staff from different parts of the Group together.

Outlook

For the Human Resources team like the Bank as a whole, the focus in 2012 will be on optimising our activities. This will begin with standard customer satisfaction surveys across the Group, taking in both internal and external customers. These are aimed at enhancing quality and identifying areas of operations where improvements are needed.

A multi-stage leadership development programme is planned as a follow-up to the leadership forum. The main objective will be to work out a common management approach.

Drawing on the results of staff development reviews, employees, their line managers and HR will work together to map out development activities tailored to individual needs.

RISK REPORT

The HYPO NOE Group defines risk as the possibility of unexpected, unfavourable future developments that could have adverse effects on the assets, earnings or liquidity of the Group or of individual Group companies.

All major business activities in pursuit of the Group's corporate strategic goals are planned to reflect strategic risk considerations, with very close attention to risk bearing capacity. The Group attaches particular importance to ensuring that risks are incurred only where the potential rewards are commensurate. Risks are not ends in themselves; they are assumed in the interests of value creation, and may therefore only be incurred where risk bearing capacity is sufficient and the return on risk capital is adequate. The refinement of instruments and processes designed to maintain an appropriate balance of risks and rewards is integral to the Group's long-term strategy.

The HYPO NOE Group also strives to maintain a healthy balance between risk bearing capacity and the risks incurred. The eligible risk coverage capital is very carefully defined, and the confidence level for risk quantification (i.e. the probability of loss) is set at a conservative level.

The disclosure of risks is based on the Group's internal risk management and risk reporting systems, and IFRS 7 Financial Instruments: Disclosures.

Risk management system

Achieving business success necessarily involves taking risks. The HYPO NOE Group practises active risk transformation – risks are incurred on the basis of considered decisions. The Group's risk management objectives are to identify, quantify and actively manage all types of banking risks (credit, interest rate, market, liquidity, operational and reputational risk).

Our organisational structure provides for a clear separation of the front and back office functions (four-eye principle) at every level up to the Management Board. The front office functions originate business and give initial clearance to transactions, while the back office functions cast a second vote (second opinion) that confers final approval. The unanimous approval of the front and back office functions is required for decisions going beyond the limits and collaterals established by staff members' decision-making authorities. There is also a clearly defined process for the approval of exposures requiring resolutions of the Group Supervisory Board.

In principle, all quantifiable risks throughout the HYPO NOE Group are subject to the Group-wide, uniform limit system, which is constantly monitored. No risk may be assumed unless a corresponding limit is in place. The Group-wide risk reporting system ensures that reporting of all risks is regular, timely and comprehensive. In addition to the ICAAP report, which provides an aggregated summary of all risks and their capital coverage, the Management and Supervisory boards receive separate, regular risk reports for each risk category which provide comprehensive information on current risk developments.

The disclosures required by sections 26 and 26a Austrian Banking Act in conjunction with the OffV (the FMA Disclosure Order) are on a consolidated basis for the HYPO NOE Group, in a separate document posted on our corporate website.

The rules and procedures for introducing new areas of business or products, and entering new markets, require detailed analysis in advance of the relevant business risks. Without exception, transactions entailing risks are only permitted if the risks are explicitly covered and authorised in the Group's risk documentation. We normally restrict our exposures to areas in which we have the necessary expertise to assess and manage the specific risks involved.

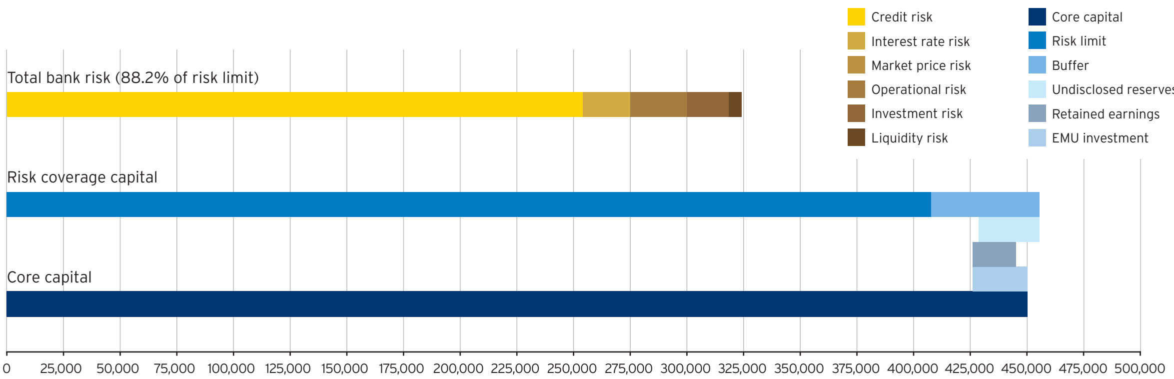
Aggregate risk management and risk bearing capacity (ICAAP)

The quantification and monitoring of total bank risk at portfolio level is the responsibility of the Group Strategic Risk Management Department, and encompasses the measurement, aggregation and analysis of all the risks assumed.

The HYPO NOE Group has observed the statutory requirements arising from Basel II since the start of 2008. Apart from calculating the minimum capital requirements on the basis of the standardised approach (Pillar 1 of the Basel II regulations), this mainly involves active management of all material risks as part of the Group's internal risk management process (Pillar 2, ICAAP) and compliance with the disclosure requirements (Pillar 3 of the Basel II regulations). The key elements of this ongoing process are the planning, aggregation, management and monitoring of all risks, assessment of the adequacy of economic capital in relation to the risk profile, and the use and ongoing refinement of appropriate risk management systems.

Maintenance of adequate risk bearing capacity is monitored by two control loops:
1) The economic capital management control loop is dedicated to creditor protection from a liquidation perspective. Risks are evaluated at a high confidence level (99.9% with a holding period of one year) and compared with the risk coverage capital available in the event of liquidation.
2) The going concern management control loop is designed to ensure that the Bank survives as a going concern. Risks are evaluated at a lower confidence level (95% with a holding period of one year) and compared with the realisable coverage capital available without endangering survival.

The HYPO NOE Group's risks and risk limits (including buffers) for the purposes of economic capital management as at 31 December 2011 are shown below:



In spite of the adverse market environment created by the financial crisis, the HYPO NOE Group's risk cover as at 31 December 2011 amounted to only 78.5% of the risk limit (including an adequate buffer), and was thus significantly better than at 31 December 2010 (88.2%).

Significant risk related developments in 2011

Risk management documentation

A major overhaul of the Group's risk management documentation system was carried out in the first half of 2011. The system is now reviewed at least once a year, and extended, adjusted to changed operating conditions or adapted to new developments in the HYPO NOE Group where necessary.

Bank-wide stress testing

The annual internal bank-wide stress test, carried out in consultation with the risk management and portfolio management functions during the first half of 2011, began with a wide-ranging economic analysis, and went on to map out scenarios relevant to the Group's business model (e.g. a government solvency crisis), and simulate their impact on credit, investment, interest rate and liquidity risk, at subsidiary and Group level, in terms of regulatory and economic risk-bearing capacity. The results were presented to management.

Exposure to PIIGS*, Cyprus and Hungary

Due to the Greek crisis the HYPO NOE Group is keeping a particularly close watch on developments in the Eurozone peripherals, and strict risk guidelines have been established for investments in these countries. The Group's exposure to borrowers in Greece, Ireland and Portugal did not increase in 2011. The Group reduced its exposure to Greece to a nominal EUR 30m. There is also an exposure to Portugal in the shape of bond holdings with a nominal value of EUR 5m. In addition, there is an outstanding loan to a Greek local authority in an amount of EUR 10m, for which provision has likewise been made.

The Group's holdings of Greek and Portuguese government bonds are classified as available for sale, and were therefore remeasured to fair value as at year end 2011.

There are no plans to increase our existing exposures to the PIIGS countries, Cyprus and Hungary, and all of these countries are blacklisted by our risk management system.

Basel III

We have made an early start to preparations for Basel III, and thorough examination of the issues raised by it is a top priority. In 2011 the focus was on compliance with the regulatory changes brought by CRD III, including the new rules on remuneration policies and practices. In addition, we evaluated the planned liquidity ratios and capital buffers, as well as the potential impact of CRD IV – particularly with regard to equity components and solvency.

Credit risk

Credit risk continues to reflect an increase in the probability of default by borrowers, particularly on the part of small and medium-sized businesses, and private customers.

As part of a project in 2011, the theoretical and technical requirements for the introduction of the F-IRB approach in the HYPO NOE Group in the medium term were evaluated, a system designed and the first steps taken towards introducing it. This decision was prompted by the need to achieve a uniform Group-wide approach and savings in regulatory capital requirements, and to improve credit risk management, as well as overall internal control and the associated processes.

Augustus Funding Limited

At the instigation of the income noteholder and in conjunction with the contractual partners, in the first quarter of 2011 all of Augustus' remaining liabilities (both senior and mezzanine financing) were retransferred to HYPO NOE Gruppe Bank without loss, in compliance with the terms (waterfall principle). HYPO NOE Gruppe Bank incurred no resultant losses in 2011.

Reputational risk

Towards the end of 2010 a project was initiated to integrate issues relating to reputational risk more fully with our business processes. The work will be completed in the first half of 2012.

*Portugal, Ireland, Italy, Greece and Spain

Outlook for 2012

The Bank's business performance in the first quarter of 2012 demonstrates the wisdom of the long-term strategic focus on acting as a specialist public finance and real estate lender, and financial service provider. The approach to new exposures will continue to be highly selective and attuned to the Group's risk bearing capacity.

Basel III

The main emphasis of Basel III related activities was on timely analysis of the potential impact of CRD IV, CRR I and the many EBA guidelines.

IFRS 9

International Financial Reporting Standard 9 Financial Instruments will replace the current standard, IAS 39 Financial Instruments: Recognition and Measurement. A project was launched in 2011 to ensure that consideration was given to all the issues raised by the new standard.

Credit risk

Continued refinement of the Group's credit risk management system is seen as a long-term growth driver. It includes improving organisational processes for the management of risk (watchlist and continuous evaluation of provisions), tighter monitoring, and active portfolio management (risk transfer and use of modern risk management techniques).

Central near-term challenges with regard to credit risk will be the financial crisis and its impact on the Eurozone peripherals, as well as default probability trends. Both higher risk provisions (increase in expected losses) and a rise in credit value at risk (unexpected loss) are to be expected. This has been taken into account in the budgetary planning process and, on the basis of an economic analysis, a conservative rating migration of existing customers and lower credit ratings for potential borrowers than in past years have been assumed. The Bank's risk bearing capacity has been calculated on the basis of these conservative assumptions. The monthly ICAAP and credit risk reporting analyse the changes in borrowers' credit ratings in the course of the year as a result of technical recalibration or migration.

Liquidity risk

The central liquidity management issues in 2012 will be: achieving compliance with the new supervisory review requirements; acting to meet the LCR and NSFR requirements; making previously fallow Group liquidity reserves marketable; and refining the liquidity and cost of liquidity models.

Risk management systems

In 2012 we will again be investing large amounts in IT infrastructure, as well as process, methodology and staff development, in order to ensure that our risk control systems remain compatible with the authorised levels of risk tolerance and our business objectives.

Credit risk

Credit risk is the risk of a deterioration in creditworthiness, and ultimately the risk of default by a counterparty. Credit risks are of various different types, depending on the products involved: loans involve classic credit risk, derivatives counterparty risk, and securities issuer risk. Credit risk also includes investment risks.

The HYPO NOE Group calculates regulatory capital for credit risks using the standardised approach required by section 22a Banking Act, and the "simple" credit risk mitigation method.

The internal risk management system uses the 25-level HYPO master scale, which is shown in condensed form below:

HYPO NOE Group master scale			Corresponding external ratings	
Grade	Rating	Rating grade	Moody's	S&P
Invest-ment	Top grade	1A–1E	Aaa–Aa3	AAA–AA-
	Excellent or very good	2A–2E	A1–Baa3	A+–BBB
Non-in-vestment	Good, medium or acceptable	3A–3E	Ba1–B1	BB+–B+
	Unsatisfactory	4A–4B	B2	B
	Watchlist	4C–4E	B3–C	B-–C
	Default	5A–5E	D	D

For internal credit ratings for customers, we use the Österreichische Volksbanken AG (VBAG) rating procedures. Since 1 April 2008 VBAG has been applying the F-IRB approach in accordance with section 22b Banking Act, and as a result it now has approved rating systems, which we also use. For private customers, the Group is currently employing an applications rating procedure together with behaviour rating for day-to-day evaluation. Business customers are assessed using different rating instruments for start-ups, businesses preparing accounts on a cash basis and those using accrual accounting. There is also a separate process for local authorities. Credit rating for specialised lending uses the slotting approach based on income-producing real estate (IPRE). Other customer categories are at present rated internally on the basis of analyses, external ratings, etc.

Internal ratings are generally used for credit risks and investment risks. Unrated customers are comparatively few, and they are constantly monitored. Unrated loans are generally assigned a conservative 4A rating.

Credit risk analysis

Lending is one of the HYPO NOE Group's core businesses, and assuming and managing credit risks, and keeping them within limits is among the Bank's core competencies. Lending activities, the valuation and classification of collateral, and credit ratings are all governed by strict organisational and substantive rules, the fundamental principles of which are set out in the Group Risk Manual. These rules establish the decision-making authorities, credit rating and collateral classification procedures, and guidelines for lending and loan management.

The operational credit risk management departments are responsible for the full range of activities related to the assessment, monitoring and management of all risks associated with on and off-balance sheet lending transactions at the individual customer level.

The main emphasis is on checking both the form and content of loan applications and providing the second opinions. The departments also have sole responsibility for the rating assessments (apart from those in the low-volume retail lending business).

The operational credit risk management departments are also responsible for monitoring early warning indicators (principally generated by the Credit Services Department) in order to identify potential problem customers as early as possible so as to initiate countermeasures in good time.

The Workout Management Department is responsible for the management of non-performing loans and provisioning (recognition of individual impairment allowances).

Below a certain rating level, exposures are classified as "watch loans", or transferred for intensive care by the Workout Management Department.

The HYPO NOE Group applies rigorous standards as to what constitutes default. All customers are immediately treated as in default if they meet one of the following criteria:

- Substantial loan more than 90 days overdue (regulatory definition);
- Recognition of an individual impairment allowance, or non-recognition where there is adequate collateral;
- Credit rating related restructuring;
- Insolvency, composition and bankruptcy;
- Loan writedowns or write-offs.

Risk provisions

Individual or collective impairment allowances are recognised for identifiable lending risks.

The individual impairment allowances are determined on the basis of an assessment of the customer's financial situation, taking into account the current valuations of collaterals, the repayment structure and maturities.

Future cash flows (anticipated repayments) are discounted using the original effective interest rate. If there are collaterals for receivables (e.g. charges on real property or guarantees), the future cash flows from their recoverable amounts less the selling costs must be deducted when measuring the impairment loss (paragraph AG84 IAS 39). Since paragraph 63 IAS 39 requires measurement of an impairment loss to reflect the present value of estimated future cash flows and their expected maturities, all expected interest payments must also be included.

The Group recognises collective impairment allowances for reductions in the value of the lending portfolio (losses incurred but not reported) as at the end of the reporting period. It is assumed that there are incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

To calculate these risk provisions, all loan items affecting credit risk that are measured at amortised cost (loans and receivables, and liabilities held to maturity), and all outstanding lending facilities and contingent liabilities are allocated either to HYPO NOE Gruppe Bank or to HYPO NOE Landesbank, in accordance with paragraph 64 IAS 39. The treatment of these provisions differentiates between the two banks, due to their varying risk profiles. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are measured at fair value. Intra-group lending ist not included because of their elimination due to IFRS consolidation. Housing construction loans backed by the Lower Austrian state government are likewise excluded.

Quantitative estimation is based on the expected loss, taking into account: (a) the unsecured exposure net of the market value of any collateral; (b) the historical probability of default (PD), i.e. the results of backtesting the rating system; (c) the loss given default (LGD) ratios for the individual portfolios; and (d) the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP). For reasons of prudence no cure factor is recognised.

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of 2A to 4E, using the HYPO NOE Group master scale referred to above. For 2011, the loss identification period was assumed to be four months for all loans.

The collective impairment allowance is calculated using the following formula:
Collective impairment allowance = (exposure + 50% range – fair value of collaterals) * PD * $_{\text{"Blanco"}}$ LGD * LIP

The collective impairment allowances are reported under "Risk provisions" on the assets side of the IFRS statement of financial position, and under "Credit provisions" on the equity and liabilities side.

Credit risk monitoring

The Group Strategic Risk Management Department is responsible for monitoring credit risk at the portfolio level. Credit facilities for own investments, money market deposits and derivatives are submitted to the Supervisory Board for authorisation twice a year. Compliance with the limits imposed is monitored on an ongoing basis, and reports are regularly submitted to the Supervisory Board. Approval for such credit lines is chiefly requested for sovereigns, new business from Austrian and international banking groups with good investment grade ratings, or existing customers with good ratings defined by the above master scale.

As regards individual customers, risk monitoring is the responsibility of the operational credit risk management department concerned, which verifies the credit ratings, monitors the blacklists drawn up by the Workout Management Department and processes loan applications potentially entailing significant risks. Where customers' situations require close observation, relationship managers are required to prepare reviews as necessary, and in all events at least once a year, irrespective of the amount of any liabilities and of the credit ratings. The reviews are submitted for the attention of the managers with the requisite decision-making authority. Customers giving cause for concern (where significant risk is involved) are monitored by the operational credit risk management departments. Where there is a significant deterioration in the risk situation, the exposures are transferred to the specialists in the Workout Management Department, who are not involved in front office approval.

Management is kept up to date with changes in credit risks by monthly credit risk reports, and regular or case-by-case reports on risk related issues (transfer of accounts to the collections function, overdraft trends, etc). There is also a regular report to management on the ten largest exposures in each strategic business. Management is comprehensively briefed about the Group's risk situation, including in-depth analysis of selected key points, at meetings of the Risk Management Committee (RICO), which are held at least six times per year.

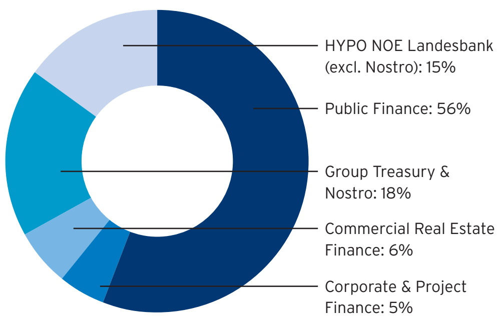
Credit risk management

The credit risk management system is based on the following control units*:

	Exposure in EUR '000	
Control units	**2011**	**2010**
Public Finance	7,770,134	6,980,312
Corporate & Project Finance	702,485	722,408
Commercial Real Estate Finance	873,998	773,381
Group Treasury & Nostro	2,422,928	2,860,680
HYPO NOE Landesbank (excl, Nostro)	2,062,831	2,042,237
Total	**13,832,376**	**13,379,017**

*The exposure volume is the exposure plus 50% of the unused agreed credit facility.
The financial risks are recognised at fair value.

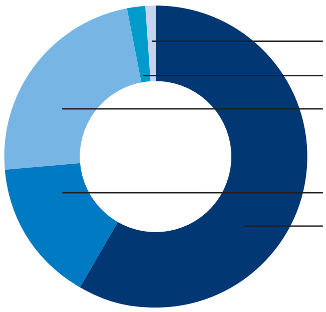
Exposures by financial control units as at 31 Dec. 2011



Exposures are also classified by credit ratings, as follows:

Rating categories	Exposure in EUR '000 2011	2010
1A – 1E*	7,853,861	7,713,921
2A – 2E	3,056,652	2,828,018
3A – 3E	2,224,318	2,285,910
4A – 4E	478,914	335,555
5A – 5E	218,631	215,613
Total	**13,832,376**	**13,379,017**
*Whereof 1A (PD=0.01%) EUR 5,730,524,000 (2010: EUR 5,320,347,000)		
Investment grade:	1A – 2E	
Default	5A – 5E	

Exposures by rating categories as at 31 Dec. 2011

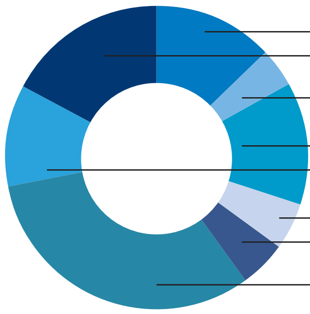


The credit risk management system also exerts control via the portfolio segments shown below*.

Segements	Exposure in EUR '000 2011	2010
Banks	1,842,124	1,949,595
Financial service companies	–	–
Governments	497,254	505,600
State governments and local authorities	1,865,034	1,528,211
Multilateral development banks	4,399	4,394
International organisations	–	–
Public sector entities	740,975	753,340
Special purpose finance (IPRE and project finance)	650,873	545,609
Business customers	4,376,747	4,623,769
Private customers	1,545,198	1,523,132
Church	1,447	1,560
Associations, insurance companies and leasing companies	2,308,325	1,943,807
Total	**13,832,376**	**13,379,017**

*The exposure volume is the exposure plus 50% of the unused agreed credit facility. The financial risks are recognised at fair value.

Exposures by segments as at 31 Dec. 2010



Disclosures in accordance with IFRS 7

Credit risk mitigation

The measurement and classification of collateral are governed by strict organisational rules and procedures, which distinguish between the fair value of collateral recognised for regulatory purposes and its economic value. As a general rule the relationship manager checks the legal status and the economic value of the collateral when the application is received, at least once every year when the loan or facility comes up for reapproval, and whenever circumstances require. As part of the credit review process the operational credit risk management departments check the information, the assumptions and the underlying parameters. Balance sheet and off-balance sheet netting is not applied in the HYPO NOE Group. Provided that the legal requirements are fulfilled, the positive and negative fair value of individual derivatives held in connection with a single customer may be netted.

The principal categories of collateral admissible for Basel II purposes that are relevant to the HYPO NOE Group are guarantees (largely in the public sector), mortgages and other pledges. A considerable part of the lending concerned is represented by the purchase of subsidised home loans from the Lower Austrian state government. Additional security for this lending is provided by a guarantee from the state government, and the credit risk on these exposures is therefore not a cause for concern.

Gross exposures in the Group for purposes of para. 36(a) IFRS 7[9]

	31 Dec. 2011	31 Dec. 2010	Change
Cash and balances at central banks	78,739	39,613	39,126
Loans and advances to banks	583,997	432,511	151,486
Loans and advances to customers	9,702,478	8,878,928	823,550
Risk provisions	-104,006	-103,164	-842
Assets held for trading	471,080	240,174	230,906
Positive fair value of hedges (hedge accounting)	471,809	276,205	195,604
Financial assets held to maturity	15,031	70,106	-55,075
Available-for-sale financial assets	1,837,180	2,014,702	-177,522
Financial assets designated as at fair value through profit or loss	4,560	9,406	-4,846
Investments accounted for using the equity method	47,942	46,149	1,793
Investment property	43,411	24,443	18,968
Contingent liabilities			
Acceptances and endorsements	327	327	–
Liabilities arising from guarantees and furnishing of collateral	132,741	156,718	-23,977
Credit risk	1,284,930	1,650,398	-365,468
Total	**14,570,219**	**13,736,516**	**833,703**

[9] The amounts shown in the table are gross of collateral and other credit enhancements.

Disclosures of maturities, collaterals and impaired or past due financial assets

The table below shows the value of collateral as calculated for regulatory purposes. The receivables of the leasing subsidiary, amounting to approximately EUR 1,344,676thsd (2010: EUR 1,247,741thsd) are shown gross of collateral.

31 Dec. 2011 (EUR '000)	Not overdue	Overdue for 1–90 days	Overdue for more than 90 days	Total
Gross carrying amount (not individually impaired)	10,073,287	43,722	10,235	**10,127,244**
Gross carrying amount (individually impaired)	73,143	6,670	100,823	**180,636**
Collective impairment allowances	-4,814	-117	-67	**-4,998**
Individual impairment allowances	-31,921	-3,714	-63,374	**-99,008**
Net carrying amount	**10,109,696**	**46,562**	**47,617**	**10,203,874**

31 Dec. 2011 (EUR '000)	Gross carrying amount	Fair value of collateral received
Loans and advances to customers and banks, and debt instruments not past due or individually impaired	10,073,287	4,261,774
Loans and advances to customers and banks, and debt instruments overdue but not individually impaired	53,957	31,282
Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due)	180,636	41,538
Total	**10,307,880**	**4,334,594**

31 Dec. 2010 (EUR '000)	Not overdue	Overdue for 1–90 days	Overdue for more than 90 days	Total
Gross carrying amount (not individually impaired)	8,984,385	149,826	20,423	**9,154,633**
Gross carrying amount (individually impaired)	64,545	9,400	102,674	**176,619**
Collective impairment allowances	-5,601	-242	-1	**-5,844**
Individual impairment allowances	-29,836	-2,884	-64,601	**-97,320**
Net carrying amount	**9,013,701**	**156,101**	**58,495**	**9,228.298**

31 Dec. 2011 (EUR '000)	Gross carrying amount	Fair value of collateral received
Loans and advances to customers and banks, and debt instruments not past due or individually impaired	8,984,385	3,224,335
Loans and advances to customers and banks, and debt instruments overdue but not individually impaired	170,249	53,173
Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due)	176,619	37,361
Total	**9,331,253**	**3,314,870**

Collateral taken into possession in the meaning of paragraph 38 IFRS 7 represents rescue acquisitions where the intention is to dispose of the assets. For HYPO NOE Landesbank the value of such assets was EUR 36thsd (2010: EUR 680thsd). HYPO NOE Gruppe Bank undertook no such transactions in 2011 or 2010.

The tables below show risk provisions grouped by the maturities of the underlying transactions and segmented as required for regulatory reporting purposes.

31 Dec. 2011	Not overdue	Overdue for 1–90 days	Overdue for more than 90 days	Total
Risk provisions for customers: individual impairment allowances	**-31,921**	**-3,714**	**-63,374**	**-99,008**
Non-banks	-4,909	–	–	-4,909
Corporates	-15,582	-2,315	-32,402	-50,298
Private customers	-11,430	-1,399	-30,972	-43,801
Risk provisions for customers: collective impairment allowances	**-4,814**	**-117**	**-67**	**-4,998**
Total risk provisions for customers	**-36,735**	**-3,830**	**-63,441**	**-104,006**

31 Dec. 2010	Not overdue	Overdue for 1–90 days	Overdue for more than 90 days	Total
Risk provisions for customers: individual impairment allowances	**-29,836**	**-2,884**	**-64,601**	**-97,320**
Non-banks	–	–	-5,272	-5,272
Corporates	-17,195	-2,059	-27,627	-46,881
Private customers	-12,641	-824	-31,701	-45,167
Risk provisions for customers: collective impairment allowances	**-5,601**	**-242**	**-1**	**-5,844**
Total risk provisions for customers	**-35,437**	**-3,125**	**-64,601**	**-103,164**

Current risk situation

The Group's portfolio of loans and investments largely consists of low-risk loans to public sector borrowers such as sovereigns, the federal government, state governments and local authorities (and their associated enterprises), as well as loans to banks with good external ratings (predominantly own investments, derivatives and money market investments) and – generally well collateralised – loans to housing construction companies (both large housing associations and private sector). Within these low-risk areas there are nevertheless significant risk concentrations (unsecured lending per individual borrower) in the loan portfolio.

A considerable part of the lending concerned is represented by the purchase of subsidised home loans from the Lower Austrian state government. Additional security for this lending is provided by a guarantee from the state government, and the credit risk on these exposures is therefore not a cause for concern.

HYPO NOE Gruppe Bank also finances property projects with excellent or good credit ratings, as well as some public sector loans, infrastructure enterprises and foreign corporate customers. HYPO NOE Landesbank specialises in retail banking, large-scale housing construction (both housing associations and private sector housing) and SME finance.

The credit portfolio shows no notable concentrations of risk from a Group perspective. Most of the Bank's operations relate to lending to the Austrian public sector.

The HYPO NOE Group regularly calculates the statistically expected loss associated with credit risk exposures on the basis of the default probabilities and the collateral structure. The aim is to ensure that the expected loss on the overall portfolio is adequately covered by risk provisions, and that a conservative approach is taken to any possible shortfalls in risk coverage. As at year end 2011 there was no such shortfall at Group level.

Group Strategic Risk Management regularly checks the non-performing asset (NPA) ratios and NPA coverage of individual members of the Group. The NPA ratio is defined as the total exposure on all default (5A-5E rated) customers divided by total credit risk exposure. As at year end 2011 the HYPO NOE Group's NPA ratio was 1.95% (2010: 1.69%). The NPA coverage is defined as risk provisions (individual and collective impairment allowances, and credit provisions) divided by the total exposure on default customers (5A-5E rated). Group coverage at 31 December 2011 was 62.6% (2010: 56.1%).

The non performing loan (NPL) ratio, defined as total exposure on default customers (5A-5E rated) divided by total loans and advances to customers, is calculated at Group level. As at 31 December 2011 the HYPO NOE Group's NPL ratio was 2.14% (2010: 2.23%).

Interest rate risk

In its approach to the measurement and control of interest rate risk, the HYPO NOE Group uses both period net interest income risk and present value sensitivity to interest rate changes.

Interest rate risk management

The management of interest rate risk is the responsibility of the Group Treasury Department and the ALM & Capital Management Staff Unit. Fixed interest rate risk is mainly eliminated by the use of hedges, and strategic long-term interest positions are established as recommended by the ALM & Capital Management Staff Unit.

Monitoring and quantification of interest rate risk is the responsibility of a back office department, Group Strategic Risk Management. The calculations are made in the SAP banking system. They generate interest rate gap and sensitivity analyses. The internal interest rate risk is subject to an absolute limit, imposed on the acceptance of risk in the banking book during the annual risk budgeting process.

Interest rate risk management is active, and reflects current market conditions, taking into account limits and risks in combination with the Group's risk bearing capacity, and the interest rate structure and contribution.

Current risk situation

The Oesterreichische Nationalbank statistics indicate that in 2011 interest rate risk was moderate relative to the regulatory limit (20% of eligible capital), at 1.61% (2010: 2.91%).

Interest rate derivatives are used to hedge interest rate risks on own debt issues and on nostro securities and loans extended. Interest rate derivatives are at present used to hedge on-balance sheet positions, and therefore almost exclusively count as micro-hedges.

IFRS 7 requirements

As part of the HYPO NOE Group's risk monitoring activities, interest rate risk sensitivity is computed twice monthly using ten scenarios.

In addition to parallel shifts (100 and 200 base points), twists in the yield curve (both in money markets and in capital markets) are also modelled. The resulting effects on present value are regularly reported internally and reviewed by the Asset Liability Committee (ALCO).

The sensitivity analysis captures interest rates in a variety of currency areas as risk factors. This makes it possible to apply a constant, standard measure of risk to all interest rate sensitive products. The analysis enables interest rate risks in various areas of business to be compared, and positions aggregated and netted across the Bank as a whole. In addition, interest rate risk can be compared over time.

The following factors should be borne in mind with regard to the use of sensitivity analyses:

- The scenarios may be not be good indicators of future events – especially where these are extreme. This could lead to underestimation or overestimation of the risks.
- The assumptions about changes in the risk factors and the relationships between them (e.g. simultaneous twists in the euro and Swiss franc yield curves) may turn out to be false – particularly if extreme events occur. There is no standard methodology for developing interest rate scenarios, and applying other scenarios would generate different outputs.
- The scenarios applied do not provide any indications of the potential losses in situations that are not modelled by them.

The table below shows the results of the various interest rate scenarios for the HYPO NOE Group as a whole, and of observance of internal limits, as at 31 December 2011 (right-hand table: 31 Dec. 2010). There were no changes in the methodology applied and the assumptions made with regard to interest rate risk management during the reporting period.

Interest rate scenario, EUR '000 31 Dec. 2011	Negative change in present value	change in PV
Shift +100bp	-17,328	-17,328
Shift -100bp	17,849	
Shift +200bp	-33,575	-33,575
Shift -200bp	33,203	
Twist CM +100 bp	-2,994	-2,994
Twist CM -100 bp	-1,318	-1,318
Twist MM +100 bp	-14,272	-14,272
Twist MM -100 bp	11,611	
Twist 1d +100 bp 30y -250 bp	-1,707	-1,707
Twist 1d -100 bp 30y +250 bp	-2,014	-2,014
Internal risk		**-10,458**
Warning level (95% of limit)	**-39,900**	
Limit/utilisation (%)	**-42,000**	**24.90%**

Interest rate scenario, EUR '000 31 Dec. 2010	Negative change in present value	change in PV
Shift +100bp	-37,965	-37,965
Shift -100bp	41,732	
Shift +200bp	-72,283	-72,283
Shift -200bp	83,877	
Twist CM +100 bp	-12,273	-12,273
Twist CM -100 bp	13,786	
Twist MM +100 bp	-22,828	-22,828
Twist MM -100 bp	23,182	
Twist 1d +100 bp 30y -250 bp	-1,707	-1,707
Twist 1d -100 bp 30y +250 bp	-6,630	-6,630
Internal risk		**-30,396**
Warning level (95% of limit)	**-39,900**	
Limit /utilization (%)	**-42,000**	**72.37%**

Market risk

Market risks are the potential losses that may arise from negative changes in the fair value of positions held as a result of movements in exchange rates (currency risk), share prices, indexes or fund unit prices (equity risk), credit spreads (spread risk), or volatility (volatility risk).

Risk management

The organisation of treasury business is based on a clear operational and disciplinary separation of trading activities from processing and control. The division between the front and back office functions ensures that the four-eye principle is adhered to. Structures, decision-making authorities and processes are laid down by the authorisation rules, the minimum requirements for investment and trading activities, and the procedures for the introduction of new products.

Market risk may only be incurred within the authorised limits and with respect to authorised products.

IFRS 7 requirements
The HYPO NOE Group's conservative risk policies are underpinned by very strict limits on open currency positions. Exposure to currency risk is therefore negligible.

Current risk situation
The Group does not engage in any business that requires it to maintain a large trading book as defined by the Austrian Banking Act. It maintains a small trading book, subject to section 22q Banking Act.

The use of forex derivatives and matching currency refinancing to all intents and purposes eliminates the HYPO NOE Group's exposure to exchange risk. Where foreign currency exposures are not entirely covered they are subject to strict limits.

There are additional market risks – particularly in connection with the Group's own investments – which are managed on an ongoing basis in accordance with the risk management guidelines for investments.

The Bloomberg trading platform – a state-of-the-art system – has been in use for management of proprietary securities trading since 2008.

Liquidity risk

Liquidity risk is the danger that the HYPO NOE Group will be unable to meet its present and future payment obligations in full and on time, or may only be able to do so at prohibitive cost.

Liquidity risk management
The task of the liquidity risk management function is to identify, measure and manage the HYPO NOE Group's liquidity risk position. Different approaches are taken to short-term (up to and including one year) and long-term liquidity management. The Group's liquidity risk management system centres on:

- Regular analysis of the liquidity position;
- Reporting to the Management Board;
- Determination of the Bank's medium and long-term refinancing needs, and preparation of an issuance programme;
- Maintenance and development of the liquidity model and liquidity cost model;
- Regular reviewing and redetermination of internal transfer prices.

Group Treasury is responsible for tactical liquidity management. The issuance planning undertaken as part of the annual budgeting process plays a major role in the management of liquidity risk.

The Group is steadily refining its liquidity risk management system. During the report period the following progress was made:

- Introduction of a Group-wide liquidity contingency plan;
- Review and enhancement of the liquidity cost model, and completion of the liquidity cost determination process documentation;
- Refinement of the economic risk indicator used to model liquidity risk.

Short-term liquidity risk (up to one year)

Group Strategic Risk Management provides Group Treasury with a baseline and stress scenario for the next 12 months to assist it with its tactical liquidity management operations. These scenarios take account of contractual payment streams, as well as the expected proceeds of new issues, income from new business, extensions of repurchase agreements, and liquidity needs arising from terminations of existing contractual relationships.

The table below shows the expected liquidity gaps projected by the baseline scenario, the additional liquidity available from internal and external measures, and the liquidity position subsequent to those measures, for periods up to one year, as at the end of the reporting period, as well as the comparative figures for 2010.

As at 31 Dec. 2011 (EUR m)	Expected liquidity gap	Additional available liquidity	Liquidity position after measures taken
Up to one month	-1,149	2,014	865
Between one and three months	-417	454	37
Between three months and one year	-2,671	3,536	865
Total	**-4,237**	**6,004**	**1,767**

As at 31 Dec. 2010 (EUR m)	Expected liquidity gap	Additional available liquidity	Liquidity position after measures taken
Up to one month	-1,244	1,876	632
Between one and three months	-991	1,003	12
Between three months and one year	-1,206	1,895	689
Total	**-3,441**	**4,774**	**1,333**

The stress scenario envisages both bank-specific events (e.g. a rating downgrade) and market-wide shocks (e.g. persistent money or capital market dysfunctionality).

The liquidity management activities start with managing day-to-day payments, forecasting cash flows, and ensuring that the Group has access to collateralised refinancing from the ECB and other money market sources. With the euro crisis an ever-present concern, particular importance was attached to regular reporting to the Management Board on the status of intrayear liquidity management.

Long-term liquidity risk (more than one year)

To support strategic liquidity management and structural analysis of the liquidity risk position, the HYPO NOE Group analyses the expected capital flows over the entire maturities of on and off-balance sheet transactions. Group Strategic Risk Management monitors periodic and cumulative excess capital inflows and outflows, and reports on them internally on a fortnightly basis. These reports are the basis of the strategic liquidity management activities, and in particular of the Bank's issuance planning. At least once a year the Management Board reviews and approves the long-term refinancing and issuance plan.

Contingency plan

The liquidity contingency plan is aimed at maintaining efficient liquidity management even in a crisis-hit market environment. The Group has a liquidity contingency plan that governs the lines of responsibility in an emergency, the composition of the crisis teams, the internal and external communication channels, and the action to be taken if necessary. A crisis team would take control of liquidity management in an emergency, and in some cases would also decide on the action to be taken.

Current risk situation

The liquidity situation of the HYPO NOE Group is comfortable, in spite of the intensifying euro crisis during the reporting period. The Group has sufficient access to short-term funds, and recourse to long-term sources of finance is also possible despite the adverse market environment. In October 2011 the Group launched a highly successful benchmark-size bond issue. The three-year covered bond raised EUR 500m. The issue was oversubscribed within a few hours. We are giving high priority to issues with long maturities as issues of bonds backed by state governments are due to end in 2017.

The Bank has sufficient assets eligible as collateral for ECB tenders to replace all of its existing sources of short-term funding in the event that markets freeze up – further proof that the current liquidity position on a 12-month horizon is satisfactory.

During the reporting period the planned Basel III LCR and NSFR regulatory liquidity indicators were calculated on the basis of the final versions of the standards. They were reported to Group management and analysed, and action was taken to ensure that they will be met.

Analysis of the maturities of financial liabilities

The table below presents a maturity analysis of the earliest possible undiscounted contractual cash flows arising from non-derivative financial liabilities and off-balance sheet loan commitments as at 31 December 2011 and a year earlier. The cash flows comprise payments of interest as well as principal. In the case of liabilities with variable cash flows the future cash flows are calculated on the basis of forward rates.

Analysis of liabilities by maturities

(EUR '000)	31 Dec. 2011	31 Dec. 2010
Deposits from banks		
Repayable on demand or no fixed term	52,004	71,483
Up to 3 months	976,143	1,884,414
From 3 months to 1 year	488,900	29,475
From 1 to 5 years	219,960	–
Over 5 years	647,453	638,854
Total	**2,384,461**	**2,624,226**
Deposits from customers		
Repayable on demand or no fixed term	592,434	575,930
Up to 3 months	242,599	149,845
From 3 months to 1 year	252,725	219,261
From 1 to 5 years	441,832	392,420
Over 5 years	943,820	989,237
Total	**2,473,410**	**2,326,693**
Debts evidenced by certificates		
Repayable on demand or no fixed term	682	709
Up to 3 months	46,763	195,896
From 3 months to 1 year	989,493	15,126
From 1 to 5 years	2,284,511	1,932,882
Over 5 years	3,510,303	3,800,818
Total	**6,831,752**	**5,945,431**
Liabilities held for trading		
Repayable on demand or no fixed term	–	–
Up to 3 months	–	3,275
From 3 months to 1 year	262	4,233
From 1 to 5 years	6,708	13,743
Over 5 years	373,504	131,738
Total	**380,474**	**152,989**
Negative fair value of derivatives (hedge accounting)		
Repayable on demand or no fixed term	–	–
Up to 3 months	21	95
From 3 months to 1 year	819	3,376
From 1 to 5 years	37,872	29,597
Over 5 years	371,204	171,815
Total	**409,916**	**204,884**
Other liabilities (inc. economic hedges)		
Repayable on demand or no fixed term	–	–
Up to 3 months	425	37
From 3 months to 1 year	–	–
From 1 to 5 years	–	466
Over 5 years	–	–
Total	**425**	**504**
Other liabilities (excl. economic hedges)		
Repayable on demand or no fixed term	11,687	8,162
Up to 3 months	6,339	12,661
From 3 months to 1 year	12,371	12,218
From 1 to 5 years	14,649	13,875
Over 5 years	6,474	9,057
Total	**51,520**	**55,973**
Subordinated capital		
Repayable on demand or no fixed term	–	–
Up to 3 months	–	–
From 3 months to 1 year	–	–
From 1 to 5 years	–	–
Over 5 years	202,244	202,529
Total	**202,244**	**202,529**

Maturities of existing financial guarantees.

(EUR ’000)	31 Dec. 2011	31 Dec. 2010
Repayable on demand	2,096	3,040
Up to 3 months	152	3,957
From 3 months to 1 year	23,550	32,284
From 1 to 5 years	54,697	81,178
Over 5 years	52,247	36,586
Total	**132,741**	**157,045**

Operational risk

Operational risk is the danger of losses arising directly or indirectly from the inadequacy or failure of internal processes, people or systems, or from external events.

The precise identification and analysis of operational risks requires classification of risks by their causes. Risk categories are used to analyse the amounts, causes and effects of operational events. Information on potential risks is obtained by way of self-assessments, and information on losses is collected in a dedicated database.

Operational risks in the HYPO NOE Group are managed by means of regular adaptation and improvement of internal guidelines, and by contingency plans, the four-eye principle, staff training and development, and insurance of various risks.

Current risk situation

In 2011, in connection with the revision of the Group risk documentation the operational risk manual was also revised, and the resultant changes implemented Group wide. In addition, losses attributable to operational risk were systematically recorded, and staff training measures taken accordingly. The contingency plans were revised and added to as necessary as part of the business continuity management framework.

In 2011 a comprehensive operational risk self-assessment exercise was carried out at HYPO NOE Gruppe Bank, and the findings were evaluated and translated into specific actions. A number of other initiatives, including the identification of early warning and key risk indicators, ongoing process and system adjustments, and an assessment of the risks associated with internal service agreements, were taken during the year.

Reputational risk

The HYPO NOE Group attaches great importance to the avoidance of reputational risk, and it is therefore treated as a separate risk category. In making business decisions, great care is taken to avoid potential damage to the reputation of the HYPO NOE Group and the state of Lower Austria.

Reputational risk is the danger of direct or indirect harm to the Group’s reputation, and the opportunity costs entailed by such damage. Damage to the HYPO NOE Group’s reputation can occur through problems with stakeholders including customers, lenders, staff, business partners and the community. The reasons may lie in failure to live up to stakeholders’ expectations.

Fulfilling those expectations is essentially a matter of putting efficient business processes in place, and of sound risk monitoring and management. The HYPO NOE Group also takes care to avoid business policies and activities associated with unusual tax or legal risks, or with major environmental risks.

Other risks

"Other risks" consist largely of business risk (the danger of loss as a result of a deterioration in the economic environment and the Bank's business relationships) and strategic risks (the danger of losses arising from decisions concerning the Bank's strategic focus and business development). Our approaches to measuring these risks, based on those applied to credit or market risks, are being continuously improved.

Legal risks

Legal risks in connection with Augustus Funding Limited

Under a notice issued by the Austrian Financial Market Authority (FMA) on 1 June 2011, an adjusted interest penalty of EUR 57,865,612.58 was imposed on HYPO NOE Gruppe Bank AG by an FMA notice dated 21 July 2011. HYPO NOE Gruppe Bank AG lodged timely appeals against this notice with the Constitutional Court and the Administrative Court of Appeal. As these appeals have no suspensive effect, the Bank paid the above penalty on 31 August 2011. On 29 November 2011 the Constitutional Court refused to consider the appeal. The proceedings before the Administrative Court of Appeal are still pending.

The existing provision was used to pay the interest penalty, and the outstanding amount arising from the lower penalty under the adjustment notice was reversed through profit or loss.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (ICS)

INTERNAL AUDIT

The importance of internal audit as part of a bank's internal control systems is shown by the fact that it is one of the few functions that are statutory requirements under the Austrian Banking Act (section 42(1)).

Banks must establish an internal audit department that reports directly to senior management, and is exclusively devoted to comprehensive, ongoing review of the legality, orderliness and expediency of the operations of the entire enterprise. Internal audit must be adequately resourced to perform its role properly, taking account of the volume of business.

Internal auditing activities in the HYPO NOE Group are based on annual audit plans approved by the Group Management Board and the managements of the subsidiaries. These, in turn, form part of a multi-year audit road map. This ensures that the audit cycle takes in all areas of operations.

The main focus is on the auditing activities required by the law, and particularly close attention is also paid to the various categories of risk (risk based auditing), i.e. operational, market and credit risk, and to risk management as a whole, as well as efficiency and quality issues.

The purpose of our internal auditing activities is not only to identify weaknesses but also to provide independent and objective audit services and advice aimed at creating value, improving business processes, and thus enhancing the overall performance of the HYPO NOE Group.

In addition, the internal audit function assists the organisation in attaining its objectives by evaluating and helping to improve the effectiveness of its risk management, internal controls, and management and supervisory processes on the basis of a systematic and targeted approach.

A total of 35 audits were carried out in 2011. These included special audit assignments from the Management Board. As a rule the audit reports contain suggestions for improvements. Implementation of these recommendations is part of the quality assurance side of the auditing work.

The Management Board was notified of the audit findings orally and in writing, in a timely manner, and the Supervisory Board Audit Committee regularly received information in written and oral form; additionally, this was sent to the Supervisory Board itself in summarised form.

The Audit Department was also involved in a variety of projects. The other departments made heavy use of the Department's advisory services.

The provision of adequate human resources (and staff training and development), an audit culture that is in line with current knowledge and needs, and good networking within the organisation ensure that the Audit Department is able to deliver optimum performance and fulfil its responsibilities to the Group.

RELATIONSHIP BETWEEN THE ICS AND THE ACCOUNTING PROCESS

A high priority in 2011 was the ongoing development of methods for the identification, quantification, monitoring and management of operational risk, and of the ICS as a whole.

The ICS encompasses all of the control and audit activities directed to ensuring that our processes comply with the law and our internal standards, and are adhered to. Within the system, distinctions are drawn between risk management, internal audit, and the accounting activities and standards associated with the preparation of the annual financial statements.

The ICS ensures that business information is correctly captured, analysed and assessed, and incorporated in the Bank's accounting.

The main features of the Bank's internal control and risk management system and their interaction with the accounting process are summarised below.

The Management Board is responsible for designing and establishing an internal control and risk management system that meets the Bank's needs with regard to its accounting process.

The Group Accounting Department is responsible for all accounting matters and for issuing instructions designed to maintain compliance with Group-wide standards. Directives have been drawn up to assist it in performing its duties.

The ICS encompasses accounting related instructions and processes aimed at correct and appropriate recording of business transactions, including:

- The employment of the Group's assets;
- Recording of all the information required to draw up the annual financial statements;
- Prevention of unauthorised purchases and sales which could have a material impact on the annual results; and
- Establishment of risk based decision-making authorities and monitoring instruments.
- The chart of accounts is tailored to the special requirements of the Bank.
- Vouchers are stored according to systematic, chronological criteria, and provide an adequate audit trail.
- The processes involved in the preparation of the separate parent entity and consolidated financial statements, and parent and Group operational and financial reviews have been documented, as have the related risks and controls.
- The departments involved in the accounting process are adequately resourced in terms of the quantity and quality of their staff. Standardised training programmes ensure that staff have the necessary skills for their roles in the system. However, the bedrock of the control system is the integrity and ethical standards of the individual employees concerned. The example set by senior executives is extremely important.
- The functions of the main departments involved in the accounting process – Group Accounting and Controlling – are clearly demarcated.
- Departmental responsibilities are unambiguously assigned.
- The computer systems employed are protected against unauthorised access by appropriate security mechanisms.
- Accounting data is audited for its completeness and correctness on a sample basis.
- All data entry processes related to accounting are subject to the four-eye principle; checks are carried out by Group Accounting, or by trained staff in the various operational departments, in accordance with internal regulations.

- The computer centre validates posting lists, revenue reports, valuation lists and lists of Banking Act requirements, etc., and corrects them where necessary on a daily and monthly basis, subjecting them to automated checks. Group Accounting performs plausibility checks and prepares trial balances.
- Monthly reports are sent to the Oesterreichische Nationalbank in accordance with the statutory reporting requirements for banks. These are forwarded via the computer centre, and Group Accounting performs plausibility checks and corrects any errors.
- IT security checks are one of the cornerstones of the internal control system. Sensitive activities are firewalled by taking a restrictive approach to IT authorisations.
- Monitoring of the ICS takes place at different levels. Internal organisational arrangements underpin monitoring of the ICS at the process level. Supervisors ensure that controls are actually performed, for example, by performing spot checks.
- All internal audit activities are subject to Group-wide standards based on the Austrian Banking Act, the FMA Minimum Standards for Internal Auditing and international best practice.
- The independent internal audit function regularly reviews compliance by departments and other organisational units with the internal regulations. In terms of the accounting process, this meant that audits of Group accounting with regard to data quality and consistency, and Group compliance with the regulatory reporting standards for banking groups and subsidiaries formed part of the 2011 audit plan. The internal control system and operational risk were among other subjects addressed.
- The Management Board ensures that Group-wide monitoring of the ICS is in place by laying the organisational groundwork (designation of those responsible, creation of appropriate information systems, etc).
- The Supervisory Board Audit Committee exercises its oversight function by holding regular discussions on the current status of the ICS.

The ICS ensures that all transactions are properly recorded, processed and documented. It also makes sure that asset and liability items in the annual financial statements are recognised, reported and measured in accordance with the applicable legal and regulatory requirements.

The ICS is not set in stone, but is adapted to changed circumstances and requirements on an ongoing basis. Like any control system, however well it is resourced, operated and monitored the internal accounting control system can only provide an adequate and not an absolute assurance that its objectives will be attained. The identification of any changes required in the light of new risks, and ongoing monitoring of the system and assessment of its effectiveness is seen as a key task. The main priorities in this respect will be improving the effectiveness and efficiency of operational processes, minimising operational risk by making improvements to those processes, and refining the ICS.

Outlook for 2012

A major challenge in 2012 will be strengthening the ICS. This will be addressed by a Group-wide project focusing on processes and the inherent risks associated with them. Improvements to the effectiveness and efficiency of operational processes, minimisation of operational risk by making improvements to those processes, and refinements to the ICS are planned.

RESEARCH AND DEVELOPMENT

The main R&D goal for 2011 was to methodically analyse processes across the group and adapt them where appropriate. Management established the principle that all business processes throughout the Group are to be so designed that the Group acts as a single business.

The main focus was on customer facing processes. These were analysed in terms of customer friendliness, and optimised to achieve maximum closeness to the customer and minimum throughput times without compromising quality. With regard to internal processes, the priority was to achieve improved cost-benefit ratios in respect of the interfaces and process automation.

New products were developed in response to changes in market conditions and the legal environment. In addition, new partnerships were established and the existing product portfolio improved.

The Group-wide "Fit for the Future" project was also launched in 2011. The project is divided into three levels: customers and sales; process and throughput optimisation; and the expansion of IT automation. This will increase efficiency, bringing sustainable cost reductions.

GROUP OUTLOOK FOR 2012

Following a highly successful year in 2011, the HYPO NOE Group is entering the next reporting period in a stronger position, and with a clear focus on its core target groups and geographical markets. The financial burden imposed by the sovereign debt crisis and the resultant increased risk provisions were more than offset by one-off gains on the disposal of an investment. The strengths we have honed during the financial crisis, including solid capital resources and outstanding funding expertise, have given us a platform for continued selective expansion. We are pressing ahead relentlessly with the optimisation of Group structures and the roll-out of our umbrella brand.

We are cautiously optimistic about the economic climate. In our view the debt crisis faced by the Eurozone peripherals remains the chief downside risk to economic growth. However, the threat posed by the political flashpoints around the globe should not be underestimated. Meanwhile, the flooding of the capital markets by the major central banks could turn out to be a mixed blessing, as it runs the risk of exacerbating global imbalances and capital misallocation, and encouraging speculation. The ECB is widely expected to keep its low interest rate policy in place.

HYPO NOE Gruppe Bank AG will continue to focus on financial stability and reliability. In 2012 we will be looking to extend our recent progress whilst trimming our sails to the current adverse economic environment. Our banking relationships with regional and local government bodies, public corporations and the operators of public infrastructure will again play a key role.

The Bank will conduct annual reviews of the rapidly changing conditions in the financial services sector and the implications for its business model. Ongoing projects are already examining the implications of Basel III and IFRS 9. In the course of our planning activities economic capital is allocated to our risk exposures and lines of business. The managers responsible for the various business areas are required to aim for the right business mix to deliver the desired balance of risk and reward. These decisions feed into operational measures designed to promote business development in line with the Group's strategy. The plans for our businesses are as follows.

Our specialists in Public Finance will continue to offer bespoke solutions to meet the public sector's increasingly complex financing needs. We will expand our partnerships with international financial institutions and development banks. The strategic geographical markets for these activities are Austria and the extended Danube region.

Group Real Estate Business will remain true to its successful policy of collaborating with tried and tested partners, whilst paying close attention to balancing risk and rewards. The department's geographical focus is likewise on the Danube region and selected neighbouring EU member states.

In 2012 the Corporate & Project Finance Department will drive selective expansion of its high quality loan portfolio in Austria and the Danube region.

This will open the way for deeper customer relationships in Austria and abroad, and closer cooperation with international financial institutions.

Treasury will concentrate on safeguarding long-term liquidity and broadening the funding mix. These tasks will be made easier by the fact that S&P has left our A rating unchanged.

The capital market will continue to play a major role for us, although we will also tap alternative sources of finance. Given positive market sentiment, we plan to launch a benchmark-size covered bond issue in 2012. In addition, HYPO NOE Gruppe Bank will again be expanding its private placement programme. We are responding to the increased competition for deposits by offering a range of products that are tailored to the requirements of our customer target groups and meet their need for financial security.

In 2012 HYPO NOE Landesbank will be tightening its focus in terms of the customer target groups it sets out to serve, and the keynote themes of its marketing will be family and housing finance, education and health, in Lower Austria and Vienna. It plans to drive profitable retail and business banking growth whilst keeping a close watch on risk.

HYPO NOE Landesbank's organisational structure has been revamped, and Premium Banking and Housing Construction departments established to align it to the target group based approach.

HYPO NOE Leasing will be maintaining its successful emphasis on structured finance solutions and real estate and equipment leasing. In 2012 the leasing operation plans to expand its health service business, and develop new products for local authorities.

HYPO NOE Real Consult sets out to provide comprehensive property services, and acts as an expert, independent partner to its customers over the entire life cycle of their assets. Its extensive experience of construction and property management ensures that it will continue to meet its customers' high expectations, and act as a trendsetter in its market.

Efforts to improve profitability have now been systematised by the ongoing "Fit for the Future" programme. Great importance is also being attached to the new operating framework that will be created by Basel III and IFRS 9. The HYPO NOE Group's business model, based on pooling the expertise of the various businesses and marketing them under a strong umbrella brand, will again play a prominent role in our marketing in 2012.

EVENTS AFTER THE REPORTING PERIOD

It is not yet possible to gauge the full impact of the latest tax reform. While the effects will probably be minor in 2012, they are likely to be the dominant feature of 2013. Our public finance and real estate finance businesses, and our retail business with its subsidised retirement saving products will be affected. An increase in the bank tax is also expected this year.

The course of events with regard to the PIIGS countries, Hungary and Cyprus since the start of 2012 has been as follows.

In February 2012 the European Commission sharply reduced some of its growth forecasts for EU member states. The PIIGS countries – Portugal, Italy, Ireland, Greece and Spain – are thus likely to be faced with weaker export demand than was previously expected. Government austerity measures, anaemic consumer demand and risk-averse investor behaviour are hitting growth and tax revenues. As a result the budget targets of the governments concerned will be even harder to meet.

Since it is doubtful whether Portugal will be able to return to the capital markets in late 2013 as planned, a second aid package could be unavoidable. The Bank's Portuguese exposure was completely eliminated during the first quarter of this year.

In February 2012 the Irish government announced that a referendum on the Fiscal Compact Treaty would be held in late May or early June. If Irish voters do not back the treaty, the country could cease to qualify for support from the euro bailout fund.

Since November 2011 the Italian caretaker government has pushed through eight reform packages, the most recent of which was legislation for the wholesale deregulation of the service sector passed at the start of March. The administration's term of office is due to end in the spring of 2013.

The Greek parliament has passed the budget, and pension and administrative reforms that were conditions of the EUR 130bn aid package. On 9 March 2012 the Greek government announced that 85.8% of the private creditors had signed up to the debt "haircut". A high level of participation was another condition of the rescue. Our exposure to Greek debt was reduced by a nominal EUR 20m during the first quarter of 2012. We accepted the Greek government's debt swap offer of 24 February 2012 for the remaining EUR 10m within the deadline.

Spain has missed its 2011 budget deficit target by some way. The autonomous regions are largely to blame for this. The Madrid government would now like to negotiate softer spending targets with Brussels than those previously agreed.

Towards the end of 2011 Russia extended a EUR 2.5bn loan to Cyprus, which will enable the country to service its debts in 2012. Nevertheless, the Cypriot banking sector, with its strong ownership ties to Greece, is still very shaky. Support from the IMF and/or the EU could be needed this year.

The European Commission has announced that it is freezing about EUR 500m in funding for Hungary because of the country's repeated breaches of the stability pact. The Hungarian government succeeded in pushing the budget deficit below 3% of GDP in 2011, but this was achieved by one-off effects rather than long-term savings, and the deficit will probably be above 3% again in 2012.

St. Pölten, 29 March 2012
The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011 ACCORDING TO IFRS

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

Income statement (EUR '000)	Notes	2011	2010	Change
Interest and similar income	(7.1)	445,488	454,453	-8,965
thereof: Income from investments accounted for using the equity method		*5,222*	*3,931*	*1,291*
Interest and similar expense	(7.2)	-306,693	-319,369	12,676
Net interest income		**138,795**	**135,084**	**3,711**
Credit provisions	(7.4)	-20,125	-17,731	-2,394
Net interest income after credit provisions		**118,670**	**117,353**	**1,317**
Fee and commission income		15,551	10,446	5,105
Fee and commission expense		-3,112	-3,187	75
Net fee and commission income	(7.5)	**12,439**	**7,259**	**5,180**
Net trading income	(7.6)	-900	16,091	-16,991
General administrative expenses	(7.7)	-94,240	-81,930	-12,310
Net other operating expenses/income	(7.8)	20,076	-47,622	67,698
Net gains or losses on available-for-sale financial assets	(7.9)	62,036	1,094	60,942
Net gains or losses on financial assets designated as at fair value through profit or loss	(7.10)	158	336	-178
Net gains or losses on financial assets held to maturity	(7.11)	44	–	44
Net gains or losses on hedges	(7.12)	382	-4,939	5,321
Net gains or losses on other financial investments	(7.14)	-46	-16	-30
Profit before tax		**118,619**	**7,626**	**110,993**
Income tax	(7.15)	-29,105	-500	-28,605
Profit after tax		**89,514**	**7,126**	**82,388**
Non-controlling interests	(7.16)	-46	-41	-5
Profit attributable to owners of the parent		**89,468**	**7,085**	**82,383**

Other comprehensive income (EUR '000)	2011	2010
Profit attributable to owners of the parent	**89,468**	**7,085**
Change in available-for-sale financial instruments (after tax)	-41,940	-28,564
Change in available-for-sale financial instruments (before tax	*-55,920*	*-38,085*
Change in deferred tax	*13,980*	*9,521*
Change in actuarial gains or losses (after tax)	-1,811	-806
Change in actuarial gains or losses (before tax)	*-2,415*	*-1,075*
Change in deferred tax	*604*	*269*
Change in cash flow hedge (after tax)	1,672	285
Change in cash flow hedge (before tax)	*2,229*	*380*
Change in deferred tax	*-557*	*-95*
Other changes	–	-2
Changes in deferred tax on untaxed retained earnings	1,194	–
Total other comprehensive income	**-40,885**	**-29,087**
Total comprehensive income attributable to owners of the parent	**48,583**	**-22,002**

Other comprehensive income is attributable to the owners of the parent.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

Assets (EUR '000)	Notes	31 Dec. 2011	31 Dec. 2010	Change
Cash and balances at central banks	(8.1)	78,739	39,613	39,126
Loans and advances to banks	(8.3)	583,997	432,511	151,486
Loans and advances to customers	(8.4)	9,702,478	8,878,928	823,550
Risk provisions	(8.6)	-104,006	-103,164	-842
Assets held for trading	(8.7)	471,080	240,174	230,906
Positive fair value of hedges (hedge accounting)	(8.8)	471,809	276,205	195,604
Available-for-sale financial assets	(8.9, 8.15)	1,837,180	2,014,702	-177,522
Financial assets designated as at fair value through profit or loss	(8.10)	4,560	9,406	-4,846
Financial assets held to maturity	(8.11, 8.15)	15,031	70,106	-55,075
Investments accounted for using the equity method	(8.13, 8.15)	47,942	46,149	1,793
Investment property	(8.14, 8.15)	43,411	24,443	18,968
Intangible assets	(8.16)	765	1,033	-268
Property, plant and equipment	(8.16)	35,237	27,514	7,723
Current tax assets	(8.17)	4,068	4,529	-461
Deferred tax assets	(8.17)	19,214	21,452	-2,238
Other assets	(8.18)	21,553	20,850	703
Total assets		**13,233,058**	**12,004,451**	**1,228,607**

Equity and liabilities (EUR '000)				
Deposits from banks	(8.20)	2,384,461	2,624,226	-239,765
Deposits from customers	(8.21)	2,473,410	2,326,693	146,717
Debts evidenced by certificates	(8.22)	6,831,752	5,945,431	886,321
Liabilities held for trading	(8.23)	380,474	152,989	227,485
Negative fair value of hedges (hedge accounting)	(8.24)	409,916	204,380	205,536
Provisions	(8.25)	46,859	98,276	-51,417
Current tax liabilities	(8.26)	8,901	71	8,830
Deferred tax liabilities	(8.26)	11,961	10,890	1,071
Other liabilities	(8.27)	51,945	56,478	-4,533
Subordinated capital	(8.28)	202,244	202,529	-285
Equity (including minority interests)*	(8.29)	431,135	382,488	48,647
Owners' equity		430,608	382,026	48,582
Non-controlling interests		527	462	65
Total equity and liabilities		**13,233,058**	**12,004,451**	**1,228,607**

*A detailed presentation is given in the statement of changes in equity, overleaf.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 Dec. 2011 EUR '000	Balance at 1 Jan. 2011	Profit/loss after tax	Allocations	Reversals	Changes in scope of consolidation	Other comprehensive income	Transfers	Balance at 31 Dec. 2011
Share capital	51,981	–	–	–	12	–	-12	51,981
Capital reserves	191,824	–	–	–	–	–	–	191,824
Contributions towards a resolved capital increase	–	–	–	–	–	–	–	–
Retained earnings	258,740	–	34,956	-4,775	–	1,194	4,537	294,652
thereof leasing revaluation reserve	*185,300*	–	–	–	–	–	*3,515*	*188,815*
IAS 19 reserve	-1,628	–	–	–	–	-1,811	–	-3,439
Available-for-sale reserve	-46,300	–	–	–	–	-41,940	–	-88,240
Cash flow hedge reserve	920	–	–	–	–	1,672	–	2,592
Consolidated profit/loss	-70,586	89,467	-34,956	4,775	8	–	-4,545	-15,837
Differences arising on first-time adoption of IFRS (equity portion)	-2,924	–	–	–	–	–	–	-2,924
Parent Shareholders' Equity	**382,026**	**89,467**	**–**	**–**	**20**	**-40,885**	**-20**	**430,608**
Non-controlling interests	462	46	–	–	–	–	20	528
Total Equity	**382,488**	**89,513**	**–**	**–**	**20**	**-40,885**	**–**	**431,135**

31 Dec. 2010 EUR '000	Balance at 1 Jan. 2010	Profit/loss after tax	Allocations	Reversals	Changes in scope of consolidation	Other comprehensive income	Transfers	Balance at 31 Dec. 2010
Share capital	47,619	–	–	–	–	–	4,362	51,981
Capital reserves	166,102	–	–	–	–	–	25,722	191,824
Contributions towards a resolved capital increase	30,084	–	–	–	–	–	-30,084	–
Retained earnings	242,880	–	5,686	–	–	–	10,174	258,740
thereof leasing revaluation reserve	*180,966*	–	–	–	–	–	*4,334*	*185,300*
IAS 19 reserve	-822	–	–	–	–	-806	–	-1,628
Available-for-sale reserve	-17,736	–	–	–	–	-28,564	–	-46,300
Cash flow hedge reserve	635	–	–	–	–	285	–	920
Consolidated profit/loss	-61,810	7,085	-5,686	–	6	-2	-10,179	-70,586
Differences arising on first-time adoption of IFRS (equity portion)	-2,924	–	–	–	–	–	–	-2,924
Parent Shareholders' Equity	**404,028**	**7,085**	**–**	**–**	**6**	**-29,087**	**-5**	**382,026**
Non-controlling interests	415	41	–	–	–	–	6	462
Total Equity	**404,443**	**7,126**	**–**	**–**	**6**	**-29,087**	**–**	**382,488**

See Note 4.17 for a discussion of the relevant accounting policies, and Note 8.29 for additional information.
The reason for the cumulative losses reported under "Consolidated profit/loss" is the reporting of the leasing companies.
The corresponding differences between carrying amounts and present value are recognised in "Retained earnings".

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	31 Dec. 2011	31 Dec. 2010
Profit after tax (before non-controlling interests)	**89,514**	**7,126**
Non-cash comprehensive income items		
Amortisation and depreciation	43,134	5,911
Allocations to and reversals of provisions and risk provisions	-50,277	52,586
Gains on disposal of financial assets, and property, plant and equipment	-92,716	-2,745
Other adjustments	18,936	-7,709
Changes in assets and liabilities due to operating activities after adjustments for non-cash components		
Loans and advances to banks	-151,300	-56,687
Loans and advances to customers	-628,690	-258,397
Available-for-sale financial assets	143,588	99,566
Other operating assets	3,716	-7,635
Deposits from banks	-234,625	-409,888
Deposits from customers	117,924	-163,168
Debts evidenced by certificates	714,585	685,956
Other operating liabilities	-58,197	4,056
Cash flows from operating activities	**-84,407**	**-51,028**
Proceeds of sale of/redemption of:		
Financial assets held to maturity	55,041	28,945
Investments in associates	106,217	–
Property, plant and equipment, intangible assets and investment property	2,119	199
Purchase of:		
Investments in associates	-295	-247
Property, plant and equipment, intangible assets and investment property	-39,263	-8,565
Cash flows from investing activities	**123,818**	**20,331**
Subordinated debt	-285	-349
Cash flows from financing activities	**-285**	**-349**
Cash and cash equivalents at end of previous period	**39,613**	**70,658**
Net cash used in operating activities	-84,407	-51,028
Net cash from investing activities	123,818	20,331
Net cash used in financing activities	-285	-349
Cash and cash equivalents at end of period	**78,739**	**39,613**
Payments of taxes, interest and dividends		
Income tax paid	-3,088	-1,006
Interest received	432,952	308,422
Interest paid	-309,172	-226,469
Dividends received	1,976	2,934

Cash and cash equivalents consist of cash on hand and balances at central banks (Note 8.1).
For an explanation of the relevant accounting principles see Note 6.

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GOVERNING BODIES

1. General information

HYPO NOE Gruppe Bank AG, domiciled at Kremser Gasse 20, 3100 St. Pölten, Austria is the Group's parent bank. It is registered in the register of companies at the state/commercial court in St. Pölten, under FN 99073 x. HYPO NOE Gruppe Bank AG has been operating a branch at Wipplingerstrasse 4, 1010 Vienna since 2008.

HYPO NOE Gruppe Bank AG is one of Austria's largest Landesbanken (state banks), and provides a comprehensive range of financial services via its subsidiaries. As the parent company of a group that also includes **HYPO NOE Leasing GmbH** and **HYPO NOE Real Consult GmbH, HYPO NOE Gruppe Bank AG** mainly serves large state and local government clients. It specialises in providing services related to public finance, real estate finance and treasury for clients based in Austria and abroad. **HYPO NOE Landesbank AG** is a full-service bank for retail customers, professionals and business customers in Lower Austria and Vienna with 28 branches.

The 2011 consolidated financial statements will be published in the Wiener Zeitung on 27 April 2012, and posted under Investor Relations/Publications/Reports on the Group's site (www.hyponoe.at).

Readers are referred to the Group operational and financial review for information on key events during the reporting period.

2. Accounting principles

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2011 were drawn up in accordance with section 245a UGB (Austrian Business Code) and section 59a BWG (Banking Act), as well as Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. The statements were prepared on the basis of the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the Standing Interpretations-Committee (SIC) and the International Financial Reporting Committee (IFRIC).

The consolidated financial statements have been prepared in accordance with the IFRS/IAS standards and interpretations adopted and published by the European Union up to 31 December 2011, and applicable to the business activities of the HYPO NOE Group.

Amended standards applied to the 2011 financial statements

Apart from the Improvements to IFRSs, the following amended standards are relevant to the 2011 consolidated financial statements:

- IAS 24 Related Party Disclosures, effective for annual periods beginning on or after 1 January 2011
  This standard was adopted early, and it was applied to the financial statements for the year ended 31 December 2010.

- IAS 19 Employee Benefits, mandatory effective date: 1 January 2013
  The HYPO NOE Group has adopted the revised IAS 19 early, and it was applied to the financial statements for the year ended 31 December 2011. The amendments to the standard relate to the recognition of actuarial gains and losses in other comprehensive income (OCI) and the elimination of the "corridor" approach. The HYPO NOE Group's financial reporting was not affected by this change, as actuarial gains and losses were already shown in OCI before adoption of the revised standard. Another amendment concerns the expected returns (at the discount rate) on plan assets. The HYPO NOE Group does not have any plan assets. The additional disclosures required by the revised standard are already to be found in the notes to the 2011 financial statements.

New and amended standards not applied to the 2011 financial statements
The following standards which entered into effect in 2011 were not applied, as they were not relevant to any material transactions within the HYPO NOE Group. They might, however, affect the accounting treatment of future transactions or agreements.

- IFRIC 14 Prepayments of a Minimum Funding Requirement, mandatory effective date: 1 January 2011

- IFRS 1 First-time Adoption of International Financial Reporting Standards, mandatory effective date: 1 July 2011
  The amendments to IFRS 1 have no influence on the Group's consolidated financial statements, as it is not a first-time adopter.

New and amended standards not yet effective
The following IFRS standards and interpretations which have already been issued, but are not yet mandatory, are relevant to the consolidated financial statements, but have not been applied early:

- IAS 12/SIC 21 Income Taxes, mandatory effective date: 1 January 2012
  Under the amendments to IAS 12, the treatment of investment property (IAS 40) established by SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets is eliminated, and the other rules established by the interpretation, for property, plant and equipment, and intangible assets (revaluation model, IAS 16 and IAS 38), are included in IAS 12.
  As the HYPO NOE Group recognises assets at the carrying amounts when applying IAS 40, IAS 16 and IAS 38 the revaluation model is not relevant to the recognition of deferred tax.

- Presentation of Items of Other Comprehensive Income (amendments to IAS 1), mandatory effective date: 1 July 2012
  The Group's consolidated financial statements for 2012 will reflect the changes in the presentation of other comprehensive income introduced by these amendments.

- IFRS 10 Consolidated Financial Statements, mandatory effective date: 1 January 2013
  IFRS 10 creates a consistent definition of control, and thus a uniform basis for establishing whether a parent-subsidiary relationship exists, and for determining the scope of consolidation. This standard replaces IAS 27 Consolidated and Separate Financial Statements (2008) and SIC 12 Consolidation – Special Purpose Entities, both of which were relevant to the Group's financial reporting.
  As things stand it does not appear that this will result in any significant changes in the consolidation of the Group's financial statements.

- IFRS 11 Joint Arrangements, mandatory effective date: 1 January 2013
  IFRS establishes principles for financial reporting by parties to arrangements where there is joint control of a joint venture or joint operation. The new standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contribution by Venturers.
  The main change from IAS 31 is the elimination of proportionate consolidation as a method of accounting for joint ventures; in future, the equity method will have to be used.
  As the HYPO NOE Group does not employ proportionate consolidation, the new standard will not affect the manner in which it accounts for joint ventures.

- IFRS 12 Disclosure of Interest in Other Entities, mandatory effective date: 1 January 2013
  IFRS 12 governs the disclosures in the notes regarding subsidiaries, associates, unconsolidated structured entities and joint arrangements.
  The additional disclosure requirements will result in an increased administrative workload for the HYPO NOE Group.

- IAS 27 (2011) Separate Financial Statements, mandatory effective date: 1 January 2013
  IAS 27 has been revised to bring it into line with IFRS 10, IFRS 11 and IFRS 12.
  These adjustments will have no influence on the consolidated financial reporting of the HYPO NOE Group.

- IAS 28 (2011) Investments in Associates and Joint Ventures, mandatory effective date: 1 January 2013
  IAS 28 has been harmonised with IFRS 10, IFRS 11 and IFRS 12.
  These adjustments will have no influence on the consolidated financial reporting of the HYPO NOE Group.

- IFRS 13 Fair Value Measurement, mandatory effective date: 1 January 2013
  IFRS 13 provides a single definition of fair value, which was previously governed by a variety of standards. The focus is on the measurement of fair value. This new standard has resulted in the unification of the disclosures made in the notes, and in the provision of additional information.
  The augmented disclosures will result in an increased administrative workload for the HYPO NOE Group.

- Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32), mandatory effective date: 1 January 2014
  in conjunction with

- Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7), mandatory effective date: 1 January 2013

The IASB has introduced additional disclosure requirements to increase comparability with US GAAP. The offsetting model established by IAS 32 is retained as such, but the new disclosure requirements call for the statement of the gross amounts before offsetting and the net amounts after offsetting in the notes (paragraph 42, IAS 32).
The new requirements also affect financial instruments that are only subject to certain netting agreements, regardless of whether they are actually set off in the statement of financial position.

- IFRS 9 Financial Instruments, mandatory effective date: 1 January 2015
  On 16 December 2011 the IASB deferred initial application of this standard from 1 January 2013 to 1 January 2015. The background to this is the intention to ensure that all the provisions of IFRS 9 are applied simultaneously, as only the work on the recognition and measurement of financial instruments has so far been completed; impairment and hedge accounting are still being discussed as part of the IAS 39 replacement project. The Board has also decided to dispense with the restatement of comparative period figures on initial application of IFRS 9. Nevertheless, the latter will lead to additional disclosures under IFRS 7.

  IFRS 9 Financial Instruments: Classification and Measurement will bring considerable changes for the HYPO NOE Group with regard to the categorisation of financial instruments. The Group launched a classification and measurement project towards the end of 2011.

  At present there are four categories of financial assets: 1. at fair value through profit or loss (held for trading and fair value option); 2. held to maturity (HTM); 3. loans and receivables (LAR); and 4. available for sale (AFS). These will be replaced by two new categories: 1. amortised cost; and 2. at fair value. Classification will be according to the business model for managing the assets, and their characteristics. Measurement will be at amortised cost if an asset is held within a business model whose objective is to collect contractual cash flows, and if the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest. If it is not possible to identify these factors, the financial instruments will normally be measured at fair value through profit or loss.

  It will be necessary to recognise all equity instruments that are subject to IFRS 9 at fair value, and any subsequent gains or losses in profit or loss. Exemptions will be possible if the entity elects to recognise equity instruments at fair value through other comprehensive income. In this case dividends from the investment will have to be recognised in profit or loss.

  There will no longer be an obligation to separate embedded derivatives from the hosts. Embedded derivatives will be accounted for as combined instruments, and measured at fair value through profit or loss.

Exposure draft
An important exposure draft that will influence the Group's consolidated financial reporting if it is adopted is:

- IAS 17 Leases, originally due to enter into effect in the second quarter of 2011, but now deferred

  In July 2011 the IASB and FASB announced that they had decided to publish a new draft and again invite comments. It remains to be seen whether the standard will enter into effect in 2013 as planned.

3. Accounting and measurement policies

The consolidated financial statements of the HYPO NOE Group for the year ended 31 December 2011 comprise the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes. The segment information is contained in the notes.

The risk report forms part of the operational and financial review, prepared in compliance with section 267 UGB (Austrian Business Code).

These consolidated financial statements are based on the separate financial statements of all the consolidated Group companies as at 31 December 2011, drawn up in accordance with IFRS. The HYPO NOE Group applies uniform Group-wide accounting policies.

The consolidated financial statements have been prepared on a going concern basis.

The Group's significant accounting policies are discussed below.

The methods described are uniformly and consistently applied to these consolidated financial statements unless otherwise stated.

Income and expenses are recognised on an accrual basis. They are recorded and reported in the periods to which they are attributable. Premiums and discounts are amortised using the effective interest method; the accrued interest is included in the item under which the underlying financial instrument is carried.

All the estimates and judgements required by IFRS accounting are best estimates made in accordance with the relevant standards. The estimates are reviewed on an ongoing basis, and are based on experience and other factors including expectations regarding future events which appear reasonable under the circumstances. Particularly frequent use of estimates and assumptions was made when valuing investments, recognising deferred tax assets attributable to tax loss carry-forwards, and recognising credit provisions (estimating recoverable amounts and calculating default probabilities), as well as performing fair value measurement (on the basis of observable market data). Where heavy reliance on estimates was necessary, the assumptions made in respect of the items concerned are detailed in separate notes.

Mandatory disclosures under IFRS 7 that relate to the nature and extent of risks associated with financial instruments are also made in the risk report (pages 26ff). This forms part of the Group operational and financial review.

The reporting currency is the euro. All figures are presented in thousand euro (EUR thsd/EUR '000) unless otherwise stated. The tables below may contain rounding differences.

3.1 Basis of consolidation

The consolidated financial statements of the HYPO NOE Group include all the subsidiaries that are directly or indirectly controlled by the parent, and are material to the presentation of the Group's assets, finances and earnings. Apart from the parent, HYPO NOE Gruppe Bank AG, the statements include a total of 54 domestic subsidiaries in which the Group holds more than half of the voting power or which it controls by other means. A total of 47 domestic subsidiaries were included in consolidation in 2010.

In addition, 34 domestic companies are accounted for using the equity method. In 2010 the equity method was used to account for 34 domestic companies and one foreign entity in the Group's consolidated financial statements. The Group's holdings in these companies are set out in Note 3.2.

Subsidiaries are included in the consolidated financial statements at the date on which control is obtained. Control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Consolidation is performed in accordance with IFRS 3 Business Combinations, using the purchase method. The assets acquired and liabilities assumed are recognised at their acquisition date fair values. Any excess of the cost over the fair value of the net assets acquired is reported as goodwill. Negative differences are recognised immediately in profit or loss. The carrying value of the goodwill is tested for impairment at least once a year. Under IFRS 1, it is not necessary to apply IFRS 3 to business combinations that occurred before the effective date of IFRS 3. Because of this the consolidation method used for the UGB consolidated financial statements was applied. The cost of the investments was netted against the share of the carrying value of their equity held at the date of consolidation. The resultant positive and negative differences arising on consolidation were set off against the reserves and reported as a separate item, "Differences arising on first-time adoption of IFRS", in the statement of changes in equity.

The share of the equity and profit or loss of majority-owned subsidiaries of the HYPO NOE Group attributable to non-controlling interests is separately reported, respectively, as "Non-controlling interests" in the statement of changes in equity on page 62, and in the item of the same name, after net profit, in the statement of comprehensive income (Note 7.16). The results of subsidiaries acquired or divested during the year are recognised in the statement of comprehensive income, in accordance with the actual acquisition or disposal dates.

All material intra-group transactions are eliminated on consolidation.

The HYPO NOE Group does not apply proportionate consolidation.

Joint ventures (IAS 31) and associates (IAS 28) are accounted for using the equity method unless they are immaterial to the presentation of the Group's assets, finances and earnings, are not associated with risks and rewards of ownership, or are not-for-profit organisations (Note 3.2). If an entity accounted for using the equity method applies accounting policies diverging from those of the Group, adjustments are made to align the investee's accounting policies to the Group IFRS policies. Joint ventures and associates are reported under a separate item in the statement of financial position, "Investments accounted for using the equity method" (Note 8.13), and under "Income from investments accounted for using the equity method" as a sub-item of "Interest and similar income" (Note 7.1).

Interests in non-consolidated subsidiaries and other investments are measured at fair value or at amortised cost. Impairment is recognised immediately, and is reported under "Available-for-sale financial assets" (Notes 8.9. and 3.2).

Changes in 2011

Formations

The following new companies were included in the consolidated financial statements for the first time in 2011.

Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH was registered on 17 May 2011 as a wholly-owned subsidiary of HYPO NOE Real Consult GmbH.

Steinmüllergasse 64 Development GmbH was registered on 26 October 2011. NÖ Hypo Beteiligungsholding GmbH holds 97% of this company, and HYPO NOE Real Consult GmbH 3%.

HYPO Immobilien-Beteiligungsholding GmbH, a wholly-owned subsidiary of HYPO NOE Gruppe Bank AG, was registered on 25 October 2011.

The following companies were formed as wholly-owned subsidiaries of HYPO Immobilien-Beteiligungsholding:

- HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH, registered on 22 November 2011;
- HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH, registered on 23 November 2011;
- HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH, registered on 23 November 2011; and
- HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH, registered on 23 November 2011.

Acquisitions

NÖ Hypo Beteiligungsholding acquired a 50% interest in Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH from FELICE Immobilienentwicklung GmbH by notarial deed on 1 September 2011. The HYPO NOE Group accounts for this investment using the equity method.

Changes in holdings

The parent HYPO NOE Leasing GmbH sold 33.3% of HOSPES-Grundstückverwaltungs Gesellschaft m.b.H., previously a wholly-owned subsidiary, to the Immorent GmbH subholding on 15 September 2011. HOSPES-Grundstückverwaltungs Gesellschaft is still included in consolidation.

Deconsolidations

On 20 January 2011 the Group sold its 30% interest in HYPO Real Invest AG, which had been accounted for using the equity method, to IVG Immobilien AG, a listed German company.

During the first half of 2011 the words "In Voluntary Liquidation" were added to the name of Augustus Funding Limited, an entity accounted for using the equity method. The liquidation was completed, but had not been entered in the Irish register of companies by the end of the reporting period. Due to the return of the share capital, this company was deconsolidated.

3.2 Investments

The following consolidated, directly or indirectly held subsidiaries were included in the IFRS consolidated financial statements of HYPO NOE Gruppe Bank AG as at 31 December 2011:

Company name	Domicile	Holding	thereof indirect interest	End of reporting period	Segment
54 consolidated subsidiaries					
HYPO NOE Gruppe Bank AG	St. Pölten			31.12.2011	Gruppe Bank
HYPO NOE Landesbank AG	St. Pölten	100.00%	-	31.12.2011	Landesbank
HYPO NOE Leasing GmbH	St. Pölten	100.00%	-	31.12.2011	Leasing
CALCULATOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
CURIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
FAVIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. Verwaltungszentrum- Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
PROVENTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
Sana Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
Telos Mobilien - Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
Treisma Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
VIA-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
HYPO Niederösterreich-Immobilienleasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
HYPO Niederösterreichische Liegenschaft GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
NEUROM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING URBANITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
AELIUM Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING Landesklinken Equipment GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
Obere Donaustrasse 61 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
NÖ. HYPO LEASING AGILITAS Grundstücksvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
ALARIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
CALLIDUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
CLIVUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
COMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING FIRMITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING GERUSIA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
PINUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	99.00%	99.00%	31.12.2011	Leasing
NÖ. HYPO LEASING STRUCTOR Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
VIRTUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	65.00%	65.00%	31.12.2011	Leasing
VESCUM Grundstücksvermietungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
SATORIA Grundstückvermietung GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	66.67%	66.67%	31.12.2011	Leasing
Landeskrankenhaus Tulln-Immobilienvermietung Gesellschaft m.b.H.	St. Pölten	100.00%	56.42%	31.12.2011	Leasing
HYPO-REAL 93 Mobilien-Leasinggesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING DECUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	-	31.12.2011	Other
NÖ. HYPO LEASING MENTIO Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING NITOR Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
NÖ. HYPO LEASING MEATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
NÖ. HYPO LEASING ASTEWOG Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
NEMUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	75.00%	31.12.2011	Leasing
HYPO NOE Real Consult GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
HBV Beteiligungs-GmbH	St. Pölten	100.00%	-	31.12.2011	Other
ZELUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Leasing
Benkerwiese Verwaltungs-und Verwertungsgesellschaft m.b.H.	St. Pölten	100.00%	100.00%	31.12.2011	Other
Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
Steinmüllergasse 64 Development GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
HYPO Real Estate Advisory GmbH	St. Pölten	100.00%	10.00%	31.12.2011	Other
NÖ Hypo Beteiligungsholding GmbH	St. Pölten	100.00%	-	31.12.2011	Other
HYPO Immobilien-Beteiligungsholding GmbH	St. Pölten	100.00%	-	31.12.2011	Other
HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other
HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH	St. Pölten	100.00%	100.00%	31.12.2011	Other

The following Group investments were accounted for using the equity method:

*(EUR '000) Company name	Domicile	Holding	thereof indirect interest	IFRS share of equity	Share of profit or loss*	End of reporting period
21 joint ventures accounted for using the equity method in accordance with IAS 31						
CULINA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	511	4	31.12.2011
FACILITAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	75	–	31.12.2011
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	862	-48	31.12.2011
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	1,050	-62	31.12.2011
NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	179	–	31.12.2011
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	1,326	70	31.12.2011
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%	352	78	31.12.2011
Adoria Grundstückvermietungs Gesellschaft m.b.H.	Vienna	50.00%	25.00%	591	22	31.12.2011
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	238	-12	31.12.2011
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	50.00%	25.00%	50	–	31.12.2011
Aventin Grundstückverwaltungs Gesellschaft m.b.H.	Horn	50.00%	50.00%	1,443	58	31.12.2011
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	1,168	-24	31.12.2011
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	Stockerau	50.00%	50.00%	597	-381	31.12.2011
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.	Vienna	50.00%	50.00%	36	–	31.12.2011
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Vienna	50.00%	50.00%	882	51	31.12.2011
NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG	Vienna	50.00%	50.00%	65	24	31.12.2011
N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	316	-6	31.12.2011
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	260	-36	31.12.2011
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	33.30%	-	465	-48	31.12.2011
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.33%	-	195	5	31.12.2011
NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG	St. Pölten	50.00%	50.00%	1,026	46	31.12.2011
13 investments accounted for using the equity method in accordance with IAS 28						
Hotel- und Sportstätten- Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	45.41%	45.41%	591	14	31.12.2011
NÖ Beteiligungsfinanzierungen GmbH	Vienna	21.00%	21.00%	1,359	23	31.12.2011
Niederösterreichische Vorsorgekasse AG	St. Pölten	49.00%	-	1,371	185	31.12.2011
Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH	Vienna	50.00%	50.00%	–	-48	31.12.2011
Gemeinnützige Wohnungsgesellschaft „Austria" Aktiengesellschaft	Mödling	44.39%	44.39%	Included in EWU consolidated statements		
„Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	44.75%	44.75%			
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H	Mödling	42.60%	42.60%			
EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft (consolidated financial statement)	Vienna	44.79%	-	29,030	3,212	31.12.2011
HYPO Capital Management AG	Vienna	25.00%	-	2,382	1,493	31.12.2011
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Korneuburg	32.50%	-	1,004	247	31.12.2011
Bonitas Versicherungsservice Gesellschaft m.b.H.	St. Pölten	50.00%	50.00%	18	200	31.12.2011
KASERNEN Projektentwicklungs- und Beteiligungs GmbH	Vienna	25.00%	-	113	-6	31.12.2011
NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H.	St. Pölten	39.00%	39.00%	386	-134	31.12.2011
2 subsidiaries deconsolidated						
Augustus Funding Limited	Dublin				–	
HYPO Real Invest AG	Vienna				293	
Total			**(Note 8.13)**	**47,942**	**5,222**	**(Note 7.1)**

The following companies in which the Group holds interests of more than 50% were treated as AFS investments due to their being not-for-profit organisations, immaterial, or not associated with risks and rewards of ownership.

*(EUR '000) Company name	Domicile	Holding	thereof indirect interest	Registered capital*	Profit/loss reported in register of companies*	End of reporting period
Non-consolidated AFS investments (interest > 50%)						
Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-94	-42	31.12.2010
VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H.	St. Pölten	95.00%	95.00%	-6,934	-7,617	31.12.2010
WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-1,155	-164	31.12.2010
Liegenschaftsverwertung Felixdorf GmbH	St. Pölten	100.00%	100.00%	-1,238	-56	31.12.2010
Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH	St. Pölten	100.00%	100.00%	17	3	31.12.2010
NÖ Kulturwirtschaft GesmbH	St. Pölten	52.52%	52.52%	4,334	599	31.12.2010
Wohnpark Schrems Liegenschaftsverwertungs Gesellschaft m.b.H.	St. Pölten	100.00%	100.00%	-82	-26	31.12.2010

The following companies in which the Group holds 20–50% were recognised as AFS investments:

*(EUR '000) Company name	Domicile	Holding	thereof indirect interest	Registered capital*	Profit/loss reported in register of companies*	End of reporting period
Non-consolidated AFS investments (interest 20–50%)						
Psychosoziales Zentrum Schiltern Gesellschaft m.b.H.	Langenlois-Schiltern	26.67%	-	922	58	31.10.2010
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00%	-	12	-2	31.12.2010
NÖ. Landes-Sportschulanlagenbetriebsgesellschaft m.b.H.	St.Pölten	49.00%	49.00%	61	1	31.12.2010
Pöchlarner Kommunalimmobilienverwaltungs Gesellschaft m.b.H.	Pöchlarn	20.00%	20.00%	44	14	31.12.2010
Melker Kommunalimmobilienverwaltungs Gesellschaft m.b.H.	St.Pölten	20.00%	20.00%	45	112	31.12.2010
Loosdorfer Kommunalimmobilien Gesellschaft m.b.H.	Loosdorf	20.00%	20.00%	741	90	31.12.2010
Schwarzauer Kommunalimmobilienverwaltungs Gesellschaft m.b.H.	Schwarzau am Steinfelde	20.00%	20.00%	2,210	48	31.12.2010

3.3 Financial instruments

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.

IAS 39 requires the recognition of all financial assets and liabilities in the consolidated statement of financial position.

The regular way purchase or sale of derivatives and financial instruments is recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the transfer criteria established by IAS 39 are fulfilled. Financial liabilities are derecognised when they are extinguished or the obligations have expired.

Where financial instruments are accounted for at fair value, the latter is normally determined on the basis of quoted market prices. In the absence of a market price the future cash flows of a financial instrument are discounted to present value applying the relevant interest rate. Measurement is performed using standard financial valuation techniques. Options pricing models are used to value options and other financial instruments with similar characteristics, applying current market inputs. Amortised cost is used to measure equity instruments if the fair value is not reliably measurable. Financial instruments are initially recognised at fair value.

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where market prices are available they are used to estimate fair value. In the absence of market prices, accepted, industry-standard valuation models are employed. The present value of derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. Over the counter (OTC) currency and interest rate options are measured using option pricing models such as the Black Scholes, Hull White or LIBOR market model (Note 10.3).

3.4 Financial assets

IAS 39 classifies financial assets into the following four categories:

(1) Loans and receivables (LAR)
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (Notes 8.3 and 8.4).

Loans and receivables are measured at amortised cost (gross), and impairments to them as credit provisions, under "Risk provisions" (Note 8.6).

(2) Assets held for trading (HFT)
Financial instruments acquired for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as assets held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the assets classified in this way represent the positive fair value attributable to derivatives used for interest rate or foreign exchange related transactions, and other derivative transactions such as share price and index-linked transactions and credit derivatives (Note 8.7).

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 7.6).

(3) Available-for-sale (AFS) financial assets
This is a residual category to which all financial assets are assigned that are not classified under another category.

In the case of the HYPO NOE Group these are shares and other variable income securities, bonds, public debt certificates and other fixed income securities, holdings in non-consolidated subsidiaries (over 50%), holdings in associates (20–50%) and other investments (less than 20%) (see Note 8.9.).

Subsequent measurement is at fair value. Measurement gains and losses are recognised directly in equity, in the revaluation reserve (AFS reserve) (statement of changes in equity, page 62 and "Other comprehensive income" in the statement of comprehensive income, page 60). Market prices are applied to the determination of fair value. If fair value is not reliably measurable the carrying amount is applied. In the event of disposal of the asset, the difference from the carrying amount recognised in equity, under the AFS reserve (revaluation reserve), is reversed in the statement of comprehensive income. Gains and losses are reversed over the remaining life of the asset using the effective interest method. In the event of credit-related impairment, an impairment loss is recognised (Note 7.9.). In the event of reversal of impairment losses, equity instruments are revalued via the AFS reserve, and debt instruments via the statement of comprehensive income.

4. Financial assets designated as at fair value through profit or loss (FVPL)
When the fair value option (FVO) is taken, financial assets that are not held for trading are irrevocably assigned to this category, and are subsequently measured at value fair through profit or loss (Note 8.10).

However, this classification may only be made if:
a.) The financial instrument contains one or more significant embedded derivatives;
b.) It eliminates or significantly reduces a measurement or recognition inconsistency;
c.) A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss. The HYPO NOE Group classifies the items reported as "Net gains or losses on financial assets (debt instruments)" in this way (Note 7.10).

5. Financial assets held to maturity (HTM)
Financial assets with fixed or determinable payments and fixed maturities normally meet the criteria for assignment to this category. In the case of the Bank it consists entirely of bonds, public debt certificates and other fixed income securities (Note 8.11).

Designation of investments as held to maturity requires an intention and ability to hold these financial instruments until maturity.

Measurement is at amortised cost, and gains and losses are amortised over the remaining lives of the assets using the effective interest method. Any impairment losses are recognised in profit or loss. This was not necessary in 2011.

3.5 Financial liabilities

IAS 39 classifies financial liabilities into the following four categories:

1. Other liabilities
This category comprises the financial liabilities, including debt evidenced by certificates, for which the option of measurement at fair value through profit or loss was not taken (liabilities at cost [LAC]) (Notes 8.20, 8.21 and 8.22).

Measurement is normally at amortised cost. Gains and losses are amortised over the remaining lives of the liabilities using the effective interest method, and are taken to interest expense.

2. Liabilities held for trading (HFT)
Financial instruments purchased for the purpose of reselling them in the near term, or forming part of a portfolio that the entity intends to resell in the near term with the objective of generating a profit, must be classified as liabilities held for trading. This category also includes all derivatives other than those used as hedging instruments.

In the HYPO NOE Group most of the liabilities classified in this way represent the negative fair value attributable to derivatives used for interest rate or foreign exchange related transactions and other derivative transactions such as share price and index-linked transactions, and credit derivatives (Note 8.23).

Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss (Note 7.6).

3. Financial liabilities designated as at fair value through profit or loss (FVPL)
When the fair value option (FVO) is taken, financial liabilities that are not held for trading are irrevocably assigned to this category, and subsequently measured at value fair through profit or loss. However, this classification may only be made if:
a.) The financial instrument contains one or more significant embedded derivatives;
b.) It eliminates or significantly reduces a measurement or recognition inconsistency;
c.) A group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
Measurement is at fair value. Realised gains and losses, and measurement gains and losses are recognised in profit or loss.

The Bank has no liabilities assigned to this category.

3.6 Embedded derivatives

Financial instruments are referred to as "structured products" where they consist of a host contract and multiple embedded derivatives, and the latter are an integral component of the contract and cannot be separately traded. IAS 39 states that embedded derivatives must be separated from the host contracts and accounted for as independent derivatives if:

- The structured financial instrument is not measured at fair value through profit or loss;
- The economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract;
- The terms of the embedded derivatives meet the definition of a derivative.

Measurement gains and losses are recognised in the statement of comprehensive income. Derivatives that are not subject to the separation requirement are measured together with the host contract, in accordance with the general rules for the category concerned.

3.7 Hedge accounting

Derivatives are measured at fair value. Measurement gains and losses are recognised in profit or loss unless the derivative in question meets the criteria for IFRS cash flow hedge accounting.

The IFRS hedge accounting rules govern the measurement of derivatives that are purchased to hedge an underlying transaction. The latter is classified into one of the above categories. A hedging relationship exists where the underlying and hedging transaction and the hedged risk are designated. The hedging relationship is regarded as highly effective if the fair value or cash flow changes in the underlying and the hedge largely offset each other (hedge ratio of 80–125%). The effectiveness of the hedge must be reliably measurable, and is monitored throughout the annual reporting period.

- Fair value hedge: a hedge of the exposure of assets and liabilities to changes in fair value. Gains and losses on measurement of the derivative and underlying are reported in the statement of comprehensive income, under "Net gains or losses on hedges" (Note 7.12).
- Cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to an identifiable and determinable risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss.
  The effective portion of the change in fair value is recognised in the statement of comprehensive income, under "Change in cash flow hedge" (page 60). The gain or loss attributable to the ineffective portion is immediately recognised in profit or loss and reported in the statement of comprehensive income, under "Net gains or losses on hedges" (Note 7.12).

The HYPO NOE Group mainly uses fair value hedges. These are employed to hedge the fair value of both assets and liabilities (underlyings). The risks hedged are interest rate and currency risks. In addition, cash flow hedges are used to hedge the risk of fluctuations in cash flows (interest payments) from assets and liabilities (underlyings).

Measurement of customer swaps in the HYPO NOE Group
Customer swaps for which there are no market prices from observable current market transactions in the same instruments are measured using an internal model, taking account of credit spreads, as well as liquidity and equity costs. The credit spreads are determined according to standard risk cost at matching maturities, on the basis of the instruments' internal ratings, and taking due account of multi-year cumulative default probabilities and the supervisory loss given default, which are normally taken into consideration when pricing loans. The liquidity costs arise from the anticipated need to refinance cash collaterals associated with such transactions where these are not furnished by the customer. These costs are computed on the basis of maturity-specific rates, according to the current liquidity cost matrix for unsecured refinancing. The finance costs are computed on the basis of projected regulatory capital consumption.

Analyses of hedges by the underlying transactions hedged are shown in "Positive fair value of hedges (hedge accounting)" (Note 8.8) and "Negative fair value of hedges (hedge accounting)" (Note 8.24).

3.8 Lease accounting

Treatment where the Bank is the lessor
The main determinant of the classification of, and hence the method of accounting for leases is not the legal ownership of the leased property but the substance of the lease. If substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, then under IAS 17 the lease is a finance lease; otherwise it is an operating lease. Most of the lease agreements concluded by the HYPO NOE Group as a lessor are classifiable as finance leases. Consequently, instead of recognising the assets, the present value of the future lease payments is reported under "Loans and advances to customers", taking account of any residual values (Note 8.5). Lease payments received are apportioned between the finance charge, recognised in profit or loss, and the reduction in the outstanding liability.

Treatment where the Bank is the lessee
All the lease agreements concluded by the HYPO NOE Group as a lessee are operating leases. This means that leased vehicles are not stated as assets in the consolidated statement of financial position. The lease instalments are recognised as general administrative expenses (Note 7.7).

3.9 Investment property

Land and buildings held to earn rentals or for capital appreciation are classified as investment property. In cases of mixed occupation, significant parts of land and buildings used by third parties are reported as investment property provided that the conditions for separate letting or sale are met (Note 8.14).

Investment property is measured at cost. Depreciation is on a straight-line basis, over the normal useful lives of the assets. The following useful lives, which correspond to the actual useful lives of the properties concerned, are applied:

- Land and buildings 25–50 years

Rental income, depreciation, gains and losses on disposal, and any impairment are recognised in profit or loss (Notes 7.1 and 7.13).

Fair value is determined internally by HYPO NOE Leasing, by capitalising the future lease income on the basis of the lease agreements and comparing it with the carrying amounts (Note 10.3.1). There are no independent valuations.

3.10 Risk provisions

Individual or collective impairment allowances are recognised for identifiable lending risks. Attention is drawn to the risk report included in the operational and financial review.

Individual impairment allowances are recognised on the basis of assessment of the borrower's financial position, paying special attention to the Group Credit Risk Analysis Department's current view of the value of the collaterals, and the repayment terms and maturities.

Future cash flows (repayments expected) are discounted using the original effective interest rate. If there is collateral for the amount receivable under the loan (e.g. charges on real property or guarantees), in calculating the amounts of any provision the expected proceeds of realisation of any securities net of costs of realisation are to be taken into account as future cash flows (AG84 IAS 39). Since the present value of all future cash flows and their expected due dates must be taken into account when calculating impairments in accordance with paragraph 63 IAS 39, all expected interest payments must also be included.

The Group recognises collective impairment allowances for reductions in the value of the lending portfolio (losses incurred but not reported) as at the end of the reporting period. It is assumed that there are incurred but unreported losses in respect of a given percentage of customers without default ratings at the end of the reporting period.

To calculate these risk provisions, all loan items affecting credit risk that are measured at amortised cost (loans and receivables, and liabilities held to maturity), and all outstanding lending facilities and contingent liabilities are allocated either to HYPO NOE Gruppe Bank or to HYPO NOE Landesbank, in accordance with paragraph 64 IAS 39. The treatment of these provisions differentiates between the two banks, due to the latter's varying risk profiles. Financial instruments that are not classified as held to maturity and derivatives do not form part of the calculations, as they are measured at fair value. Intra-group lending is not included because of their elimination due to IFRS consolidation.

Housing construction loans backed by the Lower Austrian state government are likewise excluded. The calculations are based on the expected loss, taking into account: (a) the unsecured exposure net of the market value of any collateral; (b) the historical probability of default (PD), i.e. the results of backtesting the rating system; (c) the loss given default (LGD) ratios for the individual portfolios; and (d) the period of time between occurrence of the loss and its identification, i.e. the loss identification period (LIP). For reasons of prudence no cure factor is recognised.

The collective impairment allowance is calculated for loans and advances to banks and customers with internal ratings of 2A to 4E, using the HYPO NOE Group master scale described above. For 2011, the loss identification period is assumed to be four months for all loans.

The provision is calculated using the following formula:
Collective impairment allowance =
(exposure + 50% range – fair value of collaterals) * PD * $_{\text{"Blanco"}}$ LGD * LIP

Total risk provision in respect of loans and advances carried as assets is disclosed as a deduction on the assets side of the consolidated statement of financial position, as a deduction after "Loans and advances to banks" and "Loans and advances to customers" (Note 8.6). The risk provisions for off balance sheet transactions are included in the "Provisions" item (Note 8.25). Allocations to and reversals of impairment allowances and risk provisions arising from the lending business are reported in the statement of comprehensive income, under "Credit provisions" (see Note 7.4 for a detailed analysis).

Note 8.6 Risk provisions and credit provisions provides quantified and narrative disclosures on the individual and collective customer impairment allowances. Impairment of AFS assets is discussed under Note 3.4.3 Available-for-sale (AFS) financial assets.

A summary of all impairment losses recognised in accordance with IFRS 7 is set out in Note 7.3. Further information on credit risk and gross exposure is given in the risk report contained in the operational and financial review.

3.11 Repurchase agreements

Repurchase agreements are agreements under which the transferor transfers the legal title to assets to the transferee for a specified period, for consideration.

At the same time it is agreed that the assets will be retransferred to the transferor at a later date, in return for an agreed sum. IAS 39 requires the transferor to continue to recognise the assets if it retains substantially all the risks and rewards of ownership. The transferor recognises a liability, and the transferee a receivable, equal to the amount received/paid. In 2011 the HYPO NOE Group entered into repurchase agreements as a transferor. The amounts concerned are detailed in Note 8.20.

3.12 Currency translation

In compliance with IAS 21, monetary assets and liabilities denominated in foreign currencies, non-monetary items measured at fair value, and unsettled cash transactions are translated at the mid spot rate, and unsettled forward transactions at the mid forward rate ruling at the end of the reporting period.

Non-monetary assets and liabilities carried at amortised cost are stated at the buying rate.

As all the subsidiaries present their financial statements in euro it was not necessary to translate any statements drawn up in foreign currencies into the reporting currency, the euro.

4. Notes to individual items of the consolidated financial statements

4.1 Cash

"Cash and balances at central banks" refers to cash on hand and balances at central banks that are repayable on demand. The balances are stated at nominal value (Note 8.1).

Interest income is reported under "Interest and similar income" (see Note 7.1. for a detailed analysis).

4.2 Loans and advances

The "Loans and advances to banks" and "Loans and advances to customers" items largely relate to loans, lease receivables, overnight money and time deposits, and unlisted securities. They include accrued interest but are gross of impairment losses (Notes 8.3 and 8.4). Measurement is at amortised cost and the net present value of lease receivables. Interest income is reported under "Interest and similar income" (see Note 7.1. for a detailed breakdown).

4.3 Assets held for trading

Assets held for trading relate exclusively to the positive fair value of derivatives which are not held as hedges.

This item comprises the positive fair value of derivative financial instruments measured at fair value (Note 8.7).

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" statement of comprehensive income item (see Note 7.6 for a detailed analysis).

4.4 Positive and negative fair value of hedges (hedge accounting)

The positive and negative fair value of hedges is reported separately, on the assets, and equity and liabilities sides of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39 (Notes 8.8 and 8.24). Measurement gains and losses on fair value hedges are recognised in profit or loss, under "Net gains or losses on hedges" (see detailed presentation under Note 7.12). Current income from hedges is reported under "Interest and similar income" (see Note 7.1 for a detailed analysis).

4.5 Available-for-sale (AFS) financial assets

The item mainly relates to bonds and other fixed income securities. It also includes AFS equities and other variable income securities, holdings in non-consolidated subsidiaries and equity interests not held for sale (Note 8.9).

Measurement gains and losses are reported under equity, net of deferred tax, as an available-for-sale reserve (statement of changes in equity, page 62, and "Other comprehensive income" in the statement of comprehensive income, page 60). Gains and losses on disposal, and measurement gains and losses are recorded under "Net gains and losses on available-for-sale assets" (see Note 7.9 for a detailed analysis).

4.6 Financial assets designated as at fair value through profit or loss

Derivatives for which the fair value option is taken (FVO derivatives) are also reported under this item when they are used to hedge such underlying transactions. The item is confined to financial assets that were designated as at fair value through profit or loss on initial recognition (Note 8.10).

In the HYPO NOE Group this item includes debt instruments managed by the former HYPO Absolute Return fund, which management designated as at fair value through profit or loss on initial recognition.

4.7 Financial assets held to maturity

Bonds held to maturity are reported under this item. These are measured at amortised cost (Note 8.11).

Impairments are recognised in profit or loss, under the "Net gains or losses on financial assets held to maturity" item. In 2011 the earnings contribution from gains on disposal of HTM assets (Note 7.11) was immaterial.

4.8 Investments accounted for using the equity method

Investments in associates and joint ventures are recognised at cost, and are included in the consolidated statement of financial position at the date on which a significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity (see Notes 8.13. and 3.2). The Bank's share of the annual profit or loss is recorded under "Income from investments accounted for using the equity method", which is a sub-item of "Interest and similar income" (Note 7.1).

4.9 Intangible assets, and property, plant and equipment

Intangible assets with determinable useful lives, acquired for consideration, are stated at cost less straight-line amortisation. As at the end of the reporting period there were no internally generated intangible assets with reliably measurable development costs that were expected to generate future economic benefits.

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment. Property, plant and equipment is measured at cost less depreciation.

Note 8.16 gives a breakdown of intangible assets, and property, plant and equipment. Depreciation and amortisation are on a straight-line basis, over the normal useful lives of the assets. The following useful lives are applied:

☐ Land and buildings	25–50 years
☐ Equipment, fixtures and furnishings	4–10 years
☐ Computer software and hardware	3–4 years

Impairment losses are recognised whenever there are indications of impairment. Depreciation and amortisation, and impairments are reported in the statement of comprehensive income (see Note 7.7 and the detailed disclosures in Note 7.7.3). Gains and losses on disposal of property, plant and equipment are recognised under "Net other operating expenses/income" (Note 7.8).

4.10 Tax assets and liabilities

Since 2008 use has been made of the option of group taxation. HYPO NOE Gruppe Bank AG acts as the tax group parent company. To this end the parent concluded group taxation agreements governing tax contributions, reporting duties and due dates with each group member.

Current and deferred tax assets and liabilities are reported under the respective items in the consolidated statement of financial position (Notes 8.17 and 8.26).

Current tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, on the basis of the current tax rates.

Deferred tax assets and liabilities are measured according to the balance sheet liability method, whereby the tax base of an asset is compared with the IFRS carrying amount, and deferred tax recognised for the temporary difference. If a tax liability is probable when the temporary difference reverses, a deferred tax liability is recognised. Deferred tax assets are recognised for temporary differences that result in tax reductions when they reverse. Offsetting of deferred tax assets and liabilities is performed on a company by company basis. Pursuant to IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised for tax loss carryforwards if it is probable that sufficient taxable profit will be available. The carrying amounts of deferred tax assets arising from tax loss carryforwards and temporary differences are reviewed at the end of each reporting period. The recognition and reversal of deferred tax assets and liabilities is either in profit or loss, under "Income tax", or in equity (Note 7.15) if the item itself is recognised outside profit or loss (e.g. the revaluation reserve for AFS financial instruments).

4.11 Other assets

The "Other assets" item (Note 8.18) largely relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), and derivatives used in connection with banking book management. Accruals and deferrals, and other non-bank receivables are stated at nominal value.

The positive fair value of financial instruments is reported under "Other assets" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management.

Gains and losses on the measurement and disposal of hedges are reported under "Net gains or losses on hedges" (Note 7.12) in the statement of comprehensive income.

4.12 Deposits from banks and customers, and debts evidenced by certificates

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (Notes 8.20, 8.21 and 8.22). Gains and losses on debts evidenced by certificates are amortised over the maturities of the liabilities.

Where hedge accounting is applied, the movements in the fair value of the underlying are recognised in profit or loss, under "Net gains or losses on hedges" (Note 7.12).

4.13 Liabilities held for trading

The negative fair value of derivatives held for trading that are measured at fair value is disclosed under this item (Note 8.23).

Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" income statement item (see Note 7.6 for a detailed analysis).

4.14 Provisions

The following items are reported under "Provisions" (Note 8.25):

- Long-term provisions for pensions and similar obligations; and
- Other provisions.

Long-term provisions for pensions and similar obligations

There are both defined contribution and defined benefit plans in the HYPO NOE Group. Under the defined contribution schemes defined contributions are paid to an external fund. As the employer has no legal or other obligation to make additional payments, there is no need to recognise a provision.

There are also defined benefit pension, and termination and jubilee benefit commitments. These plans are "unfunded", in that the benefits are entirely internally funded. The long-term employee benefit provisions are measured using the projected unit credit method, in accordance with IAS 19. Future obligations are measured on the basis of a report by an independent actuary. Recognition in the consolidated statement of financial position is according to the present value of the defined benefit obligation. Actuarial gains and losses on the termination benefit and pension provision are recognised in equity, under the "IAS 19 reserve" item in the statement of changes in equity, and in the statement of comprehensive income, under "Other comprehensive income" (page 60). However, actuarial gains and losses on the jubilee benefit provision are shown under "General administrative expenses" in the statement of comprehensive income (Note 7.7).

Measurement of the long-term employee benefit provisions is based on the statutory retirement ages of 60 for women and 65 for men.

The discount rate applied to measurement at the end of the reporting period was 5.1% p.a. (2010: 4.7%). Future salary increases of 4.0% p.a. (2010: 3.5%) and future pension increases of 4.0% p.a. (2010: 3.5% p.a.) were assumed. Downward adjustments of the provisions are not made for employee turnover.

Measurement is based on the biometric estimates contained in the latest Austrian actuarial table for pension insurance, the AVÖ 2008 – P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler, Angestelltenbestand.

Other provisions

"Other provisions" are recognised when there is a present obligation as a result of a past event, it is probable that it will be necessary to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Long-term provisions are discounted if the effect is material. The measurement of contingent liabilities and impending losses is based on best estimates in accordance with paragraphs 36ff. IAS 37.

Contingent liabilities are recognised in respect of off-balance sheet liabilities such as those arising from guarantees and pledging of collaterals.

Restructuring provisions were not recognised.

Allocations to and reversals of "Other provisions" are mainly shown under "Net other operating expenses/income" (Note 7.8). Movements in provisions for credit risks are reported in the statement of comprehensive income under "Credit provisions" (Note 7.4).

4.15 Other liabilities

"Other liabilities" (Note 8.27) are stated at amortised cost where they relate to accruals and deferrals or "Sundry other liabilities". The negative fair value of financial instruments is reported under "Other liabilities" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management. Gains and losses on measurement are reported under "Net gains or losses on hedges" (Note 7.12) in the statement of comprehensive income.

4.16 Subordinated capital

Subordinated liabilities as defined by Austrian banking legislation are reported as subordinated capital (Note 8.28).

Subordinated liabilities are certificated or uncertificated liabilities which, in the event of liquidation or insolvency, are subordinated to the claims of other creditors. Interest expense is reported under "Interest and similar expense" (see Note 7.2. for a detailed breakdown).

4.17 Equity (including non-controlling interests)

"Share capital" is the capital paid in by the shareholders in accordance with the articles of association.

The "Capital reserves" contain the share premiums paid in excess of nominal value when shares are issued.

As was the case a year earlier, at 31 December 2011 there were 7,150,000 registered shares of no par value in issue. Of these, 70.49% or 5,040,000 shares were held by NÖ Landes-Beteiligungsholding GmbH and 29.51% or 2,110,000 shares by NÖ BET GmbH. At year-end 2011 the share capital (issued capital) of HYPO NOE Gruppe Bank AG was also unchanged, at EUR 51,980,500.

The Annual General Meeting held on 24 April 2009 authorised the Management Board to increase the Company's share capital by EUR 6,906,500, from a nominal amount of EUR 47,618,500 to EUR 54,525,000, subject to the approval of the Supervisory Board, not later than 31 December 2012, by issuing an additional 950,000 registered shares of no par value. The authorised capital of EUR 54,525,000 is divided into 7,500,000 registered shares. Each no par share represents an equal portion of the share capital. A capital increase, by 600,000 registered no par shares, was registered on 10 February 2010. No further capital increase was effected in 2011.

The retained earnings reserves required by statute and the articles of association, and the other retained earnings, as well as the liability reserve pursuant to section 23(6) Banking Act, the general banking risk fund, the differences between carrying amounts and present value (leasing companies) and the untaxed reserves (net of deferred tax) are reported under "Retained earnings".

The "IAS 19 reserve" item comprises the actuarial gains and losses on the long-term employee benefit provisions (pensions and termination benefits), net of deferred tax.

The "Available-for-sale reserve" contains the measurement gains and losses (net of deferred tax) on financial assets classified as available for sale.

The financial instruments attributable to the cash flow hedge category (net of deferred tax) are reported under the "Cash flow hedge reserve" item.

The accumulated profit or loss brought forward, and the annual profit or loss and dividends are shown under "Consolidated profit/loss".

The "Differences arising on first-time adoption of IFRS" item records the differences arising on consolidation which were offset against equity prior to first-time adoption of IFRS.

Non-controlling interests in subsidiaries are reported as a separate equity item, in accordance with IAS 1.
Note 8.29 contains disclosures on equity; the consolidated statement of changes in equity is on page 62.

5. Segment information

The bank's segment reporting is in accordance with IFRS 8. The segment information is derived from the quarterly reports drawn up by the Management Board, which is the "chief operating decision maker" as defined by paragraph 7 IFRS 8.

The information provided on individual segments is drawn from the IFRS financial statements of the companies attributed to those segments. The same accounting policies as those described in Note 2 Accounting policies are applied to the preparation of these statements.

The four segments, which are based on the structure of the Group's business activities, are as follows:

Gruppe Bank
This segment aggregates the revenue and expenses derived from relationships with large customers – chiefly state and local government clients (public finance, real estate and treasury business).

Landesbank
This segment mainly serves retail and business customers, focusing on housing finance and finance for large non-profit housing associations.

Leasing
This segment groups together the subsidiaries that operate in the leasing business (see Note 3.8 Lease accounting). These are IFRS subgroup financial statements for 37 (2010: 37) consolidated subsidiaries.

Other & Consolidation
This segment is used to provide information on 15 (2010: eight) subsidiaries which are neither leasing companies nor banks, as well as consolidation adjustments. The following companies were also included in the Other & Consolidation segment in 2011 due to their formation during the year:

- Orchisgasse 66 Liegenschaftserrichtungs- und -verwertungs GmbH
- Steinmüllergasse 64 Development GmbH
- HYPO Immobilien-Beteiligungsholding GmbH
- HYPO Alpha Immobilienerrichtungs- und Verwertungs GmbH
- HYPO Beta Immobilienerrichtungs- und Verwertungs GmbH
- HYPO Gamma Immobilienerrichtungs- und Verwertungs GmbH
- HYPO Delta Immobilienerrichtungs- und Verwertungs GmbH

See Note 9 for additional detailed information on segment profit or loss, and assets and liabilities, as well as descriptive information. Note 3.2 Investments contains a table listing the subsidiaries and showing the segments they are assigned to.

6. Consolidated statement of cash flows

The consolidated statement of cash flows in accordance with IAS 7 shows the change in cash and cash equivalents held by the HYPO NOE Group due to the cash flows from operating, investing and financing activities (see page 63). It is presented according to the indirect method.

The cash flows from operating activities in the main relate to cash inflows and outflows arising from loans and advances to banks and customers, and from available-for-sale financial assets, as well as deposits from banks and customers, and debts evidenced by certificates.

The cash flows from investing activities largely concern cash inflows and outflows arising from property, plant and equipment, and financial assets held to maturity.

Cash and cash equivalents consist of cash on hand and balances at central banks repayable on demand.

7. Notes to the statement of comprehensive income

7.1 Interest and similar income

Interest income of EUR 5,550thsd (2010: EUR 4,049thsd) from individually impaired loans was recognised for the reporting period.

The "Income from investments accounted for using the equity method" sub-item reflects the disposal of the 30% interest in HYPO Real Invest AG, an entity accounted for using the equity method, for EUR 293thsd, as well as the recognition of impairment of EUR 25thsd in respect of the Franz-Glaser-Gasse 28 Immoblienentwicklung GmbH acquisition.

7.1.a Interest and similar income

EUR '000	2011	2010
Interest income from:		
Cash and balances at central banks	284	234
Loans and advances to banks	8,470	10,200
Loans and advances to customers	230,961	201,544
Interest rate derivatives (economic hedges)	–	175
Bonds, public debt certificates and other fixed-income securities	72,557	65,803
Hedges (hedge accounting)	85,586	122,466
Other interest income	28,956	38,192
thereof: income from investments accounted for using the equity method	*5,222*	*3,931*
thereof: income from investment property:	*215*	*302*
rental income	*971*	*800*
depreciation	*-756*	*-498*
Current income from:		
Leases	16,762	12,905
Shares and other variable income securities	1	970
Investments in associates	1,911	1,964
Total	**445,488**	**454,453**

7.1.b Interest and similar income by IAS 39 measurement categories

EUR '000	2011	2010
Interest and similar income from:		
Loans and receivables (LAR)	245,496	222,833
Available-for-sale (AFS) assets	73,362	66,923
Assets held to maturity (HTM)	843	1,522
Assets measured using the fair value option (FVO)	265	291
Assets held for trading (HFT)	14,725	18,392
Interest rate derivatives (economic hedges)	–	175
Impaired loans and advances (unwinding)	243	303
Hedges (hedge accounting)	85,586	122,466
Interest income attributable to other periods	259	283
Income from investments accounted for using the equity method	5,222	3,931
Income from investment property:	215	302
rental income	*971*	*800*
depreciation	*-756*	*-498*
Current lease income	16,762	12,905
Current origination and commitment fees (IAS 18)	2,510	4,127
Total	**445,488**	**454,453**

7.2 Interest and similar expense

7.2.a Interest and similar expense

EUR '000	2011	2010
Interest expense on:		
Liabilities to central banks	-5,735	-12,640
Deposits from banks	-24,510	-7,917
Deposits from customers	-44,944	-41,901
Debts evidenced by certificates	-171,751	-154,787
Subordinated capital	-4,762	-5,106
Interest rate derivatives (economic hedges)	–	-642
Hedges (hedge accounting)	-40,348	-76,856
Other interest expense	-14,643	-19,520
Total	**-306,693**	**-319,369**

7.2.b Interest and similar expense by IAS 39 measurement categories

EUR '000	2011	2010
Interest expense on:		
Financial liabilities measured at amortised cost (LAC)	-252,042	-222,549
Financial liabilities held for trading (HFT)	-14,303	-19,322
Interest rate derivatives (economic hedges)	–	-642
Hedges (hedge accounting)	-40,348	-76,856
Total	**-306,693**	**-319,369**

7.3 Impairment losses (summary table)

2011 EUR '000		(-)	(+)	Total recognised in reporting period
Impairment losses on financial assets not measured at fair value through profit or loss:		**-58,322**	**12,299**	**-46,023**
Available-for-sale (AFS) financial assets	(7.9)	-30,589	105	-30,484
Loans and receivables (LAR) measured at amortised cost (inc. finance leases)	(7.4)	-27,733	12,194	-15,539
Impairments according to IAS 36		**-2,476**	–	**-2,476**
Property, plant and equipment	(7.7.3)	-2,451	–	-2,451
Investments accounted for using the equity method	(7.1)	-25	–	-25
Total		**-60,798**	**12,299**	**-48,499**

2010 EUR '000		(-)	(+)	Total recognised in reporting period
Impairment losses on financial assets not measured at fair value through profit or loss:		**-34,243**	**15,234**	**-19,009**
Available-for-sale (AFS) financial assets	(7.9)	-1,707	191	-1,516
Loans and receivables (LAR) measured at amortised cost (inc. finance leases)	(7.4)	-32,536	15,043	-17,493
Impairments according to IAS 36		–	–	–
Property, plant and equipment		–	–	–
Investments accounted for using the equity method		–	–	–
Total		**-34,243**	**15,234**	**-19,009**

7.4 Credit provisions

The risk provisions for on and off-balance sheet transactions are made up as follows:

EUR '000		2011	2010
Allocations to:		**-26,502**	**-32,235**
Individual impairment allowances	(7.3)	-20,403	-30,274
Collective impairment allowances	(7.3)	-1,350	-1,566
Other credit provisions		-4,749	-395
Reversals of:		**11,700**	**14,742**
Individual impairment allowances	(7.3)	9,342	11,736
Collective impairment allowances	(7.3)	2,195	2,849
Other credit provisions		163	157
Receipts from impaired assets	(7.3)	**657**	**458**
Direct write-offs	(7.3)	**-5,980**	**-696**
Total		**-20,125**	**-17,731**

The increase in the "Direct write-offs" item resulted from the write-off of loans to Hungarian municipalities.

7.5 Net fee and commission income

EUR '000	2011	2010
Fee and commission income from:	**15,551**	**10,446**
Loans and advances	2,453	179
Securities and custody account business	3,016	3,908
Payment transactions	5,995	2,453
Foreign exchange, foreign notes and coins, and precious metals	252	266
Other services	3,274	3,248
Diversification	557	386
Other fee and commission income	4	6
Fee and commission expense arising from:	**-3,112**	**-3,187**
Loans and advances	-112	-74
Securities and custody account business	-1,382	-2,171
Payment transactions	-1,216	-560
Other services	-22	-23
Diversification	-380	-359
Total	**12,439**	**7,259**

7.6 Net trading income

EUR '000	2011	2010
Interest rate transactions	-2,237	7,082
Foreign exchange transactions	268	8,669
Other transactions	1,069	340
Total	**-900**	**16,091**

7.7 General administrative expenses

General administrative expenses comprise staff costs, other administrative expenses, and depreciation, amortisation and impairment. These items were as follows:

EUR '000	2011	2010
Staff costs	-52,406	-47,367
Other administrative expenses	-35,920	-31,362
Depreciation, amortisation and impairment	-5,915	-3,201
Total	**-94,240**	**-81,930**

Due to the large number of sub-items there are rounding differences (see Note 3).

7.7.1 Staff costs

EUR '000	2011	2010
Wages and salaries	-39,555	-35,464
Social security costs	-8,317	-7,468
Cost of voluntary employee benefits	-1,287	-1,091
Retirement benefit costs	-2,003	-2,203
Termination benefit costs	-1,244	-1,141
thereof expenses for provident fund	*-382*	*-324*
Total	**-52,406**	**-47,367**

	2011	2010
Average number of employees (inc. staff on parental leave)	658	604

EUR '000	2011	2010
Salaries of Management Board members	**-844**	**-585**
Supervisory Board members' attendance fees (non-employees)	**-83**	**-84**
Supervisory Board members' salaries	**-393**	**-342**
Remuneration of key management personnel (other than the Management Board of the parent)	**-9,104**	**-4,851**
current remuneration	*-7,282*	*-3,458*
short-term employee benefits	*-1,241*	*-903*
post-employment benefits	*-477*	*-251*
other long-term benefits	*-4*	*2*
provision for termination benefits	*-98*	*-241*

Short-term employee benefits paid to Supervisory Board members employed by the Company totalled EUR 449thsd, of which EUR 393thsd were salaries. The following benefits were paid to Supervisory Board members employed by the Company in 2011: EUR 49thsd in post-employment benefits and EUR 16thsd in termination benefits.

The "Supervisory board members' expenses" item forms part of "Other administrative expenses", but is shown in the supplementary information on staff costs in the interests of clarity.

In 1997 HYPO NOE Gruppe Bank AG and HYPO NOE Landesbank AG negotiated a works agreement on the provision of retirement, invalidity and surviving dependants' pensions by a pension fund. HYPO NOE Leasing GmbH also concluded such an agreement in 2009.

In order to implement these agreements, pension fund contracts were made with Viktoria Volksbanken Pensionskassen AG.

Under these the employer is obliged to contribute 2.7% (including administrative costs and insurance tax) of employees' eligible salaries to the fund. The percentages applicable to senior management personnel are 4%, 6% and 10%. The employer's contributions vest five years after payments begin. Eligibility for employer's contributions is conditional on five years' service; eligible pre-service time is counted.

In 2011 an "identified staff" group of employees was designated and adopted by the Compensation Committee in compliance with the new legal framework governing variable remuneration at banks created by CRD III and section 39b Austrian Banking Act. A distinction is drawn between "identified staff" and "identified staff with less material impact". These two employee groups will in future make up "key management". As a result, the latter personnel category has grown as compared to 2010. The figures for the comparative period have not been adjusted.

7.7.2 Other administrative expenses

EUR '000	2011	2010
Premises	-5,901	-6,062
Office and communication expenses	-1,626	-1,751
IT expenses	-6,096	-5,937
Legal and consultancy costs	-4,087	-3,522
Advertising and entertainment costs	-5,813	-5,979
Cost of transfers of liability	-1,714	-1,509
Other administrative expenses	-10,683	-6,602
Total	**-35,920**	**-31,362**

EUR '000	2011	2010
Auditing expenses		
Annual audit	-593	-390
Other auditing services	-425	-111
Tax advice	-9	-15
Other services	-220	-309

EUR '000	2011	2010
Sundry other administrative expenses:		
Financial stability contribution	-5,047	–
Cost of compliance with company law	-906	-579
Training costs	-799	-760
Vehicle and fleet expenses	-874	-790
Insurance	-266	-242
Travel expenses	-323	-403
Cost of information procurement and payment transactions	-505	-1,341
Sundry administrative expenses	-1,963	-2,487
Total	**-10,683**	**-6,602**

During the reporting period a statutory financial stability contribution ("bank tax"), levied on banks' total assets, was introduced. Rental and lease commitments will amount to EUR 1,968thsd in 2012 (2011: EUR 1,541thsd) and EUR 7,798thsd during the 2012–2016 period.

7.7.3 Depreciation, amortisation and impairment

EUR '000		2011	2010
Depreciation and amortisation:	(8.16)	**-3,464**	**-3,201**
Intangible assets		-618	-485
Buildings used by Group companies		-301	-305
Equipment, fixtures and furnishings (including low value assets)		-2,545	-2,411
Impairment	(8.16)	**-2,451**	**–**
Land		-2,451	–
Total		**-5,915**	**-3,201**

7.8 Net other operating expenses/income

EUR '000	2011	2010
Other rental income	**340**	**328**
Gains/losses on	**90**	**62**
disposal of intangible assets, and property, plant and equipment	90	62
Gains/losses on recognition and reversal of provisions	**371**	**-47,739**
Sundry other operating expenses/income:	**19,275**	**-273**
Sundry other operating income	20,801	9,982
Sundry other operating expenses	-1,525	-10,255
Total	**20,076**	**-47,622**

The main changes in "Net other operating expenses/income" as between 2010 and 2011 arose from movements in the "Other provisions" (see Note 8.25.1). "Sundry other operating expenses/income" includes a net gain of EUR 10,652thsd (2010: EUR -8,782thsd) on currency translation (see Note 7.13). This item also includes EUR 7,537thsd (2010: EUR 7,359thsd) in administrative and brokerage fees.

7.9 Net gains or losses on available-for-sale financial assets

EUR '000		2011	2010
Income from financial assets		**93,749**	**7,270**
Gains on disposal	(7.13)	93,644	7,079
Write-ups	(7.3)	105	191
Expenses arising from financial assets		**-31,713**	**-6,176**
Losses on disposal	(7.13)	-1,124	-4,469
Impairment losses	(7.3)	-30,589	-1,707
Total		**62,036**	**1,094**

The year-on-year increase in "Gains on disposal" is largely a reflection of the sale of the 1.17% shareholding in Raiffeisen Zentralbank AG (RZB).

"Impairment losses" includes impairments to Greek and Portuguese sovereign bonds, which are shown in detail in the tables below.

Greece

ISIN	Security	Due	Desig-nated as	Face value	Currency	Amortised cost	Price	Fair value	Impair-ment	Carrying amount
GR0114023485	6.1% GREECE 10–15	20 Aug. 2015	AFS	20,000	EUR '000	20,000	24.05	4,810	-15,224	4,810
GR0124028623	3.6% GREECE 06/16	20 Jul. 2016	AFS	10,000	EUR '000	9,919	24.00	2,400	-7,519	2,400
GR0124028623	3.6% GREECE 06/16	20 Jul. 2016	AFS	10,000	EUR '000	10,000	52.16	5,216	-4,619	– *
Total				**40,000**		**39,919**		**12,426**	**-27,362**	**7,210**

* Sold in the third quarter of 2011

The Greek exposure was reduced by a nominal amount of EUR 20,000thsd in the first quarter of 2012. The Bank has accepted the exchange option for the remaining Greek exposure of EUR 10,000thsd.

Portugal

ISIN	Security	Due	Desig-nated as	Face value	Currency	Amortised cost	Price	Fair value	Impair-ment	Carrying amount
PTOTECOE0029	4.8% Portugal 10–20	20 Jun. 2016	AFS	5,000	EUR '000	5,000	56.00	2,800	-2,266	2,800
Total				**5,000**		**5,000**		**2,800**	**-2,266**	**2,800**

The Portuguese exposure was completely unwound in the first quarter of 2012.

7.10 Net gains or losses on financial assets designated as at fair value through profit or loss

EUR '000	2011	2010
Net gains or losses on financial assets	**158**	**336**
Debt instruments	158	336
Total	**158**	**336**

7.11 Net gains or losses on financial assets held to maturity

EUR '000	2011	2010
Income from financial assets	**44**	**–**
Gains on disposal/redemption	44	–
Total	**44**	**–**

7.12 Net gains or losses on hedges

Gains or losses on the hedged items attributable to the hedged risk and to remeasurement of hedging instruments at fair value (hedge accounting) are recognised under this item. It also includes gains or losses on derivative financial instruments used for economic hedges in connection with banking book management.

EUR '000	2011	2010
Hedge accounting	**1,190**	**-5,599**
Gains or losses on hedged items	12,054	-53,162
Gains or losses on hedging instruments	-10,864	47,563
Other derivative financial instruments (economic hedges)	**-807**	**660**
Foreign exchange transactions	-807	660
Total	**382**	**-4,939**

7.13 Net gains or losses on financial assets and liabilities

EUR '000		2011	2010
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net		**92,627**	**2,683**
Available-for-sale financial assets	(7.9)	92,520	2,610
Loans and receivables (inc. finance leases)	(7.14)	18	–
Financial assets held to maturity	(7.11)	44	–
Other		45	73
Gains (losses) on financial assets held for trading, net	(7.6)	**-900**	**16,091**
Interest rate instruments and related derivatives		-2,237	7,082
Foreign exchange trading		268	8,669
Other (including hybrid derivatives)		1,069	340
Gains and losses on financial assets and liabilities measured at fair value through profit or loss	(7.10)	**158**	**336**
Gains (losses) on hedge accounting, net	(7.12)	**382**	**-4,939**
Gains (losses) on currency translation, net	(7.8)	**10,652**	**-8,782**
Total		**102,919**	**5,389**

7.14 Net gains or losses on other financial investments

EUR '000	2011	2010
Net gains or losses on receivables and promissory notes	**18**	**–**
Investment property	**-212**	**-148**
Proceeds of disposals	1,857	724
Carrying amounts of disposals	-1,812	-652
Let investment property	-252	-216
Vacant investment property	-5	-4
Net gains or losses on other financial investments	**148**	**132**
Other income from other financial assets	148	132
Total	**-46**	**-16**

7.15 Income tax

This item includes all taxes payable on profits for the reporting period.

EUR '000	2011	2010
Current income tax	-10,575	-456
Deferred income tax	-18,530	-44
Total	**-29,105**	**-500**

A reconciliation of the expense that would result from applying the standard rate of corporation tax to the actual reported tax expense is shown below.

EUR '000	2011	2010
Profit before tax	118,619	7,626
x income tax rate	25%	25%
= anticipated income tax expense	**-29,655**	**-1,906**
Tax deductions	**1,205**	**735**
Tax-free income from investments	1,374	356
Other tax-free income	-169	379
Additions to tax liability	**-1,486**	**-420**
Non-deductible expenses	-1,486	-420
Tax effects of other differences	**830**	**1,092**
Adjustments to and non-recognition of deferred tax	565	590
Previous years	326	535
Prepayments	-6	-10
Other adjustments	-56	-24
Total	**-29,105**	**-500**

A total of EUR 15,220thsd in deferred tax credits (2010: EUR 9,695thsd) was credited directly to equity.

Deferred tax recognised directly in equity	**2011**	**2010**
Actuarial gains/losses in accordance with IAS 19	604	269
Available-for-sale (AFS) financial instruments	13,980	9,521
Cash flow hedge (effective portion)	-557	-95
Untaxed retained earnings	1,194	–
Total	**15,220**	**9,695**

Notes 8.17 and 8.26 provide a detailed analysis of the deferred tax assets and liabilities.

7.16 Non-controlling interests

EUR '000	2011	2010
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	-52	-41
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	6	–
Total	**-46**	**-41**

The parent Hypo NOE Leasing GmbH sold 33.3% of its wholly owned subsidiary HOSPES-Grundstückverwaltungs Gesellschaft m.b.H. to the Immorent GmbH sub-holding company with effect from 15 September 2011. The book loss on this transaction was EUR 8thsd. The company is still consolidated and forms part of the Leasing segment. Since 15 September 2011 the non-controlling interest has been accounted for.

8. Notes to the statement of financial position

8.1 Cash and balances at central banks

This item relates to cash on hand and balances at central banks that are repayable on demand. The balances are stated at nominal value.

EUR '000	2011	2010
Cash on hand	12,853	13,264
Balances at central banks	65,886	26,349
Total	**78,739**	**39,613**

8.2 Loans and advances

The "Loans and advances to banks" (Note 8.3) and "Loans and advances to customers" (Note 8.4) items largely relate to loans, lease receivables, overnight money and time deposits, and unlisted securities.

8.3 Loans and advances to banks

EUR '000	2011	2010
Domestic banks	111,209	114,356
Foreign banks		
Central and Eastern Europe (CEE)	57,384	52,441
Rest of the world (ROW)	415,404	265,714
Total	**583,997**	**432,511**

8.4 Loans and advances to customers

8.4.1 Customer group analysis

EUR '000	2011	2010
Public sector customers	5,083,150	4,515,212
Business customers	1,647,368	1,565,311
Housing associations	1,236,914	1,217,219
Retail customers	1,624,799	1,462,096
Professionals	110,247	119,090
Total	**9,702,478**	**8,878,928**

8.4.2 Geographical analysis

EUR '000	2011	2010
Domestic customers	8,187,506	7,433,058
Foreign customers		
Central and Eastern Europe (CEE)	598,937	524,130
Rest of the world (ROW)	916,035	921,740
Total	**9,702,478**	**8,878,928**

8.5 Finance lease disclosures

EUR '000	2011	2010
Gross investment	**1,446,381**	**1,418,408**
Minimum lease payments	1,353,451	1,334,613
up to 1 year	81,816	72,033
from 1–5 years	300,987	296,523
over 5 years	970,648	966,058
Unguaranteed residual value	92,930	83,795
Unearned finance income	**-254,424**	**-238,529**
up to 1 year	-20,000	-14,971
from 1–5 years	-80,760	-72,778
over 5 years	-153,664	-150,781
Net investment	**1,191,957**	**1,179,879**

Net investment in finance leases is stated under "Loans and advances to customers". See explanatory Note 3.8 above for a description of the accounting policies applied to this item.

The Lower Austrian state government, and Lower Austrian local authorities and off-budget agencies account for approx. 99% of the finance leases written.

The rest of the lessees concerned are business customers, other public agencies and associations.

About 95% of the lease assets in question are property, but a small amount of equipment is also involved – often directly related to the real estate financed by the leases.

Most of the leased properties are hospitals, care homes, office buildings and schools, while the equipment largely relates to furnishings treated as separate assets, and to medical equipment.

No collective impairment allowances are recognised in respect of outstanding minimum lease payments.

EUR '000	2011	2010
Minimum lease payments	1,353,451	1,334,613
Unearned finance income	-254,424	-238,529
Net present value of minimum lease payments	**1,099,027**	**1,096,084**
Unguaranteed residual value	92,930	83,795
Net investment	**1,191,957**	**1,179,879**

8.6 Risk provisions and credit provisions

The loans and advances to customers include EUR 118,115thsd in interest-free loans and advances, of which EUR 67,978thsd was impaired as at the end of the reporting period (2010: 102,184thsd; EUR 62,184thsd in impairments).

8.6.1 Analysis of risk provisions and credit provisions by customer groups

"Unwinding" refers to interest income from impaired loans and advances.

The "Other changes" column reflects customer reclassifications, e.g. from retail to business where customers enter self-employment, or vice versa (e.g. when self-employment ceases due to retirement).

EUR '000	As at 1 Jan. 2011	Allocations	Reversals	Utilisation	Unwinding	Exchange differences	Other changes	As at 31 Dec. 2011
Risk provisions for customers: individual impairment allowances	**-97,320**	**-20,403**	**9,342**	**9,132**	**243**	**-2**	**–**	**-99,008**
Public sector customers	-5,635	–	338	102	94	–	–	-5,101
Business customers	-53,750	-13,701	4,660	7,019	144	-2	22	-55,608
Housing associations	-156	-4	16	–	–	–	129	-14
Retail customers	-33,380	-5,683	3,739	1,734	5	–	-494	-34,079
Professionals	-4,399	-1,016	588	277	–	–	343	-4,206
Risk provisions for customers: collective impairment allowances	**-5,844**	**-1,350**	**2,195**	**–**	**–**	**–**	**–**	**-4,998**
Subtotal: risk provisions for customers	**-103,164**	**-21,753**	**11,537**	**9,132**	**243**	**-2**	**–**	**-104,006**
Credit provisions	-5,795	-4,749	163	206	–	9	–	-10,165
Total	**-108,959**	**-26,502**	**11,700**	**9,338**	**243**	**7**	**–**	**-114,171**

EUR '000	As at 1 Jan. 2010	Allocations	Reversals	Utilisation	Unwinding	Exchange differences	Other changes	As at 31 Dec. 2010
Risk provisions for customers: individual impairment allowances	**-83,548**	**-30,274**	**11,735**	**5,108**	**303**	**-644**	**–**	**-97,320**
Public sector customers	-11,332	–	5,638	611	92	-644	–	-5,635
Business customers	-41,963	-19,121	2,119	3,470	–	–	1,745	-53,750
Housing associations	-135	-23	1	–	180	–	-180	-156
Retail customers	-27,020	-9,744	3,762	1,021	30	–	-1,431	-33,380
Professionals	-3,098	-1,386	214	6	–	–	-134	-4,399
Risk provisions for customers: collective impairment allowances	**-7,127**	**-1,566**	**2,849**	**–**	**–**	**–**	**–**	**-5,844**
Subtotal: risk provisions for customers	**-90,675**	**-31,840**	**14,585**	**5,108**	**303**	**-644**	**–**	**-103,164**
Credit provisions	-5,557	-395	157	–	–	–	–	-5,795
Total	**-96,232**	**-32,234**	**14,741**	**5,108**	**303**	**-644**	**–**	**-108,959**

8.6.2 Geographical analysis of risk provisions

EUR '000	2011	2010
Domestic	-99,483	-93,723
Foreign		
Central and Eastern Europe (CEE)	-1,005	-2,417
Rest of the world (ROW)	-3,518	-7,024
Total risk provisions	**-104,006**	**-103,164**

8.6.3 Analysis of risk provisions according to regulatory reporting segmentation

EUR '000	As at 1 Jan. 2011	Allocations	Reversals	Utilisation	Unwinding	Exchange differences	Other Changes	As at 31 Dec. 2011
Risk provisions for customers: individual impairment allowances	**-97,320**	**-20,403**	**9,342**	**9,132**	**243**	**-2**	**–**	**-99,008**
Non credit institutions	-5,272	–	338	102	85	–	-162	-4,909
Corporates	-53,065	-13,359	4,384	7,000	153	-2	4,592	-50,298
Retail	-38,983	-7,044	4,620	2,030	5	–	-4,429	-43,801
Risk provisions for customers: collective impairment allowances	**-5,844**	**-1,350**	**2,195**	**–**	**–**	**–**	**–**	**-4,998**
Total risk provisions	**-103,164**	**-21,753**	**11,537**	**9,132**	**243**	**-2**	**–**	**-104,006**

EUR '000	As at 1 Jan. 2010	Allocations	Reversals	Utilisation	Unwinding	Exchange differences	Other Changes	As at 31 Dec. 2010
Risk provisions for customers: individual impairment allowances	**-83,548**	**-30,274**	**11,735**	**5,108**	**303**	**-644**	**–**	**-97,320**
Non credit institutions	-6,032	–	483	–	113	–	163	-5,272
Corporates	-41,251	-17,650	9,016	3,946	189	-644	-6,671	-53,065
Retail	-36,265	-12,624	2,236	1,162	–	–	6,508	-38,983
Risk provisions for customers: collective impairment allowances	**-7,127**	**-1,566**	**2,849**	**–**	**–**	**–**	**–**	**-5,844**
Total risk provisions	**-90,675**	**-31,840**	**14,585**	**5,108**	**303**	**-644**	**–**	**-103,164**

8.6.4 Analysis of risk provisions for customers by maturities of underlying transactions (regulatory reporting segmentation)

31 Dec. 2011 EUR '000	Not past due	Less than 90 days overdue	More than 90 days overdue	Total
Risk provisions for customers: individual impairment allowances	**-31,921**	**-3,714**	**-63,374**	**-99,008**
Non credit institutions	-4,909	–	–	-4,909
Corporates	-15,582	-2,315	-32,402	-50,298
Retail	-11,430	-1,399	-30,972	-43,801
Risk provisions for customers: collective impairment allowances	**-4,814**	**-117**	**-67**	**-4,998**
Total risk provisions	**-36,735**	**-3,830**	**-63,441**	**-104,006**

31 Dec. 2010 EUR '000	Not past due	Less than 90 days overdue	More than 90 days overdue	Total
Risk provisions for customers: individual impairment allowances	**-29,836**	**-2,884**	**-64,601**	**-97,320**
Non credit institutions	–	–	-5,272	-5,272
Corporates	-17,195	-2,059	-27,627	-46,881
Retail	-12,641	-824	-31,701	-45,167
Risk provisions for customers: collective impairment allowances	**-5,601**	**-242**	**-1**	**-5,844**
Total risk provisions	**-35,437**	**-3,125**	**-64,601**	**-103,164**

8.6.5 Disclosures of maturities and collaterals in accordance with IFRS 7

The table below shows the value of collateral as calculated for regulatory purposes. The receivables of the leasing subsidiary, amounting to some EUR 1,344,676thsd (2010: EUR 1,247,741thsd), are shown without collateral.

Further information on credit risk is given in the risk report contained in the operational and financial review.

31 Dec. 2011 EUR '000	Gross carrying amount (not individually impaired)	Gross carrying amount (individually impaired)	Collective impairment allowances	Individual impairment allowances	Net carrying amount
Not past due	10,073,287	73,143	-4,814	-31,921	10,109,696
Less than 90 days overdue	43,722	6,670	-117	-3,714	46,562
90 or more days overdue	10,235	100,823	-67	-63,374	47,617
Total	**10,127,244**	**180,636**	**-4,998**	**-99,008**	**10,203,874**

31 Dec. 2011 EUR '000	Gross carrying amount	Fair value of collateral received
Loans and advances to customers and banks, debt instruments not past due or individually impaired	10,073,287	4,261,774
Loans and advances to customers and banks, and debt instruments overdue but not individually impaired	53,957	31,282
Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due)	180,636	41,538
Total	**10,307,880**	**4,334,594**

31 Dec. 2010 EUR '000	Gross carrying amount (not individually impaired)	Gross carrying amount (individually impaired)	Collective impairment allowances	Individual impairment allowances	Net carrying amount
Not past due	8,984,385	64,545	-5,601	-29,836	9,013,701
Less than 90 days overdue	149,826	9,400	-242	-2,884	156,101
90 or more days overdue	20,423	102,674	-1	-64,601	58,495
Total	**9,154,633**	**176,619**	**-5,844**	**-97,320**	**9,228,298**

31 Dec. 2010 EUR '000	Gross carrying amount	Fair value of collateral received
Loans and advances to customers and banks, debt instruments not past due or individually impaired	8,984,385	3,224,335
Loans and advances to customers and banks, and debt instruments overdue but not individually impaired	170,249	53,173
Loans and advances to customers and banks, and debt instruments individually impaired (overdue and not past due)	176,619	37,361
Total	**9,331,253**	**3,314,870**

8.7 Assets held for trading

This item comprises the positive fair value of derivative financial instruments measured at fair value.

EUR '000	**31 Dec. 2011**	**31 Dec. 2010**
Positive fair value of derivatives held for trading (banking book)		
Interest rate derivatives	446,749	214,949
Foreign exchange derivatives	10,581	11,880
Other assets held for trading	13,750	13,345
Total	**471,080**	**240,174**

8.8 Positive fair value of hedges (hedge accounting)

The positive and negative fair value of hedges is reported separately, on the assets, and equity and liabilities sides of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39.

The positive fair value of hedges is classified according to the nature of the underlying transactions, as follows:

EUR '000	31 Dec. 2011	31 Dec. 2010
Assets	**7,127**	**13,172**
Loans and advances to banks	145	355
Loans and advances to customers	1,052	6,368
Financial assets	5,931	6,450
Liabilities	**464,682**	**263,032**
Deposits from banks	739	3,947
Deposits from customers	98,220	66,238
Debts evidenced by certificates	365,723	192,847
Total	**471,809**	**276,205**

8.9 Available-for-sale financial assets

This item mainly relates to bonds and other fixed income securities. It also includes AFS equities and other variable income securities, holdings in non-consolidated subsidiaries, and equity interests not held for sale.

EUR '000	31 Dec. 2011	31 Dec. 2010
Shares and other variable income securities	125	24,878
Bonds, public debt certificates and other fixed income securities	1,831,482	1,966,909
Interests in non-consolidated subsidiaries (over 50%)	226	226
Interests in associates (20–50%)	475	465
Other investments	4,872	22,224
Total	**1,837,180**	**2,014,702**

The decline in the "Other investments" item is chiefly due to the disposal of the 1.17% interest in Raiffeisen Zentralbank Österreich AG (RZB).

8.10 Financial assets designated as at fair value through profit or loss

EUR '000	31 Dec. 2011	31 Dec. 2010
Bonds, public debt certificates and other fixed income securities	4,560	9,406
Total	**4,560**	**9,406**

8.11 Financial assets held to maturity

Bonds held to maturity are reported under this item.

EUR '000	31 Dec. 2011	31 Dec. 2010
Bonds, public debt certificates and other fixed income securities	15,031	70,106
Total	**15,031**	**70,106**

8.12 Analysis of financial assets according to the classification of the BWG (Austrian Banking Act)

Listed securities:

EUR '000	31 Dec. 2011	31 Dec. 2010
Bonds, public debt certificates and other fixed income securities	1,266,339	1,398,859
Shares and other variable income securities	78	247

8.13 Investments accounted for using the equity method

Investments in associates and joint ventures are recognised at cost, and are included in the consolidated statement of financial position at the date on which a significant influence is obtained. In subsequent periods the carrying amount of the holdings is adjusted for changes in equity (see Notes 3.1. Basis of consolidation and 3.2 Investments).

The "Income from investments accounted for using the equity method" sub-item of "Interest and similar income" (Note 7.1) reflects the Company's share of associates' profits, and the EUR 293thsd in proceeds from the disposal of the 30% interest in HYPO Real Invest AG, an entity accounted for using the equity method, as well as the recognition of impairment of EUR 25thsd in respect of the Franz-Glaser-Gasse 28 Immoblienentwicklung GmbH acquisition.

EUR '000	31 Dec. 2011	31 Dec. 2010
Banks	2,730	2,543
Non-banks	45,212	43,606
Total	**47,942**	**46,149**

Pursuant to paragraph 30 IAS 28, there are no unrealised period or cumulative losses on investments accounted for using the equity method.

As in the previous period, none of the investments accounted for using the equity method was listed as of the end of the reporting period.

Analysis of the total loans and advances, deposits, and operating income and expense of joint ventures pursuant to paragraph 56 IAS 31 (see Note 3.2 for a table of joint ventures and holdings in them):

EUR '000	31 Dec. 2011	31 Dec. 2010
Loans and advances	176,424	154,799
Deposits	157,026	133,586
Operating income	859	1,803
Operating expense	-1,043	-1,036

8.14 Investment property

Land and buildings held to earn rentals or for capital appreciation are reported under this item (see Note 3.9).

Rental income during the reporting period was EUR 971thsd (2010: EUR 800thsd).

EUR '000	31 Dec. 2011	31 Dec. 2010
Investment property	43,411	24,443

The additions are largely due to the business model of the new real estate companies (see Note 3.1).

Movements in the properties held as financial investments are shown in the table below (Note 8.15).

8.15 Movements in financial assets

The "Available-for-sale financial assets" item in the statement of movements in financial assets comprises holdings in non-consolidated subsidiaries (over 50%), holdings in associates (20–50%) and other investments.

EUR '000	Carrying amount					Depreciation and valuations (+/-) of investments accounted for by the equity method						Amortised cost	
	As at 1 Jan. 2011	Additions	Subsequent acquisition costs	Disposals	As at 31 Dec. 2011	As at 1 Jan. 2011	Depreciation and valuations (+/-) of investments accounted for using the equity method	Impairments	Write-ups	Disposals	As at 31 Dec. 2011	1 Jan. 2011	31 Dec. 2011
Financial assets held to maturity (Note 8.11)	70,063	–	–	-55,033	15,031	43	–	–	–	-43	–	70,106	15,031
Available-for-sale financial assets (Note 8.9)	28,319	257	–	-20,827	7,748	-5,403	–	-961	–	4,189	-2,175	22,915	5,573
Investments accounted for using the equity method (Note 8.13)	12,846	48	–	-150	12,743	33,304	1,921	-25	–	–	35,199	46,149	47,942
Investment property (Note 8.14)	28,317	21,536	1	-2,541	47,313	-3,874	-756	–	–	728	-3,901	24,443	43,411
Total financial investments	**139,545**	**21,840**	**1**	**-78,551**	**82,835**	**24,070**	**1,165**	**-986**	**–**	**4,874**	**29,123**	**163,614**	**111,957**

EUR '000	Carrying amount					Depreciation and valuations (+/-) of investments accounted for by the equity method						Amortised cost	
	As at 1 Jan. 2010	Additions	Subsequent acquisition costs	Disposals	As at 31 Dec. 2010	As at 1 Jan. 2010	Depreciation and valuations (+/-) of investments accounted for using the equity method	Impairments	Write-ups	Disposals	As at 31 Dec. 2010	1 Jan. 2010	31 Dec. 2010
Financial assets held to maturity (Note 8.11)	98,964	39	–	-28,940	70,063	–	–	–	43	–	43	98,964	70,106
Available-for-sale financial assets (Note 8.9)	28,072	247	–	–	28,319	-4,061	–	-1,342	–	–	-5,403	24,010	22,915
Investments accounted for using the equity method (Note 8.13)	12,846	–	–	–	12,846	30,835	2,514	–	–	-46	33,304	43,681	46,149
Investment property (Note 8.14)	27,367	2,455	42	-1,547	28,317	-3,289	-498	–	–	-86	-3,874	24,078	24,443
Total financial investments	**167,248**	**2,741**	**42**	**-30,487**	**139,545**	**23,485**	**2,016**	**-1,342**	**43**	**-132**	**24,070**	**190,733**	**163,614**

8.16 Intangible assets, and property, plant and equipment

Land and buildings, and equipment, fixtures and furnishings used by the HYPO NOE Group in the course of its own business activities are reported as property, plant and equipment.

EUR '000	31 Dec. 2011	31 Dec. 2010
Intangible assets		
Software	765	1,033
Total intangible assets	**765**	**1,033**
Property, plant and equipment		
Land and buildings	25,739	19,181
IT equipment	757	495
Equipment, fixtures and furnishings	8,741	7,838
Total property, plant and equipment	**35,237**	**27,514**

The increase in the "Land and buildings" item is due to an addition to assets in the course of construction, in the shape of the HYPO NOE headquarters building in St. Pölten – a self-managed project.

EUR '000	Carrying amount					Depreciation and valuations (+/-) of investments accounted for using the equity method						Amortised cost	
	As at 1 Jan. 2011	Additions	Disposals	Reclassifications	As at 31 Dec. 2011	As at 1 Jan. 2011	Amortisation/ depreciation	–	Disposals	Reclassifications	As at 31 Dec. 2011	1 Jan. 2011	31 Dec. 2011
Intangible assets													
Software	4,065	350	–	–	4,415	-3,032	-618	–	–	–	-3,650	1,033	765
Other	32	–	–	–	32	-32	–	–	–	–	-32	–	–
Total intangible assets	**4,097**	**350**	**–**	**–**	**4,447**	**-3,064**	**-618**	**–**	**–**	**–**	**-3,683**	**1,033**	**765**
Property, plant and equipment													
Land and buildings	28,492	9,309	–	–	37,801	-9,310	-301	-2,451	–	–	-12,062	19,181	25,739
IT equipment	4,167	695	-543	–	4,319	-3,672	-433	–	543	–	-3,562	495	757
Equipment, fixtures and furnishings	24,580	3,281	-870	–	26,990	-16,742	-2,107	–	599	–	-18,250	7,838	8,741
Other property, plant and equipment	57	–	–	–	57	-57	–	–	–	–	-57	–	–
Total property, plant and equipment	**57,295**	**13,285**	**-1,413**	**–**	**69,167**	**-29,781**	**-2,840**	**-2,451**	**1,142**	**–**	**-33,930**	**27,514**	**35,237**

Impairment relates to land in Lower Austria owned by the Bank. The carrying amount of the land was EUR 7,535thsd (2010: 9,306thsd) as at the end of the reporting period.

EUR '000	Carrying amount					Depreciation and valuations (+/-) of investments accounted for using the equity method						Amortised cost	
	As at 1 Jan. 2010	Additions	Disposals	Reclassifications	As at 31 Dec. 2010	As at 1 Jan. 2010	Amortisation/ depreciation	–	Disposals	Reclassifications	As at 31 Dec. 2010	1 Jan. 2010	31 Dec. 2010
Intangible assets													
Software	3,613	463	-11	–	4,065	-2,553	-485	–	6	–	-3,032	1,059	1,033
Other	32	–	–	–	32	-32	–	–	–	–	-32	–	–
Property, plant and equipment													
Land and buildings	24,488	4,004	–	–	28,492	-9,005	-305	–	–	–	-9,310	15,483	19,181
IT equipment	3,864	320	-75	58	4,167	-3,261	-404	–	50	-57	-3,672	603	495
Equipment, fixtures and furnishings	22,662	2,645	-724	-3	24,580	-14,814	-1,993	–	63	2	-16,742	7,848	7,838
Other property, plant and equipment	57	–	–	–	57	-57	–	–	–	–	-57	–	–
Total property, plant and equipment	**51,071**	**6,968**	**-800**	**55**	**57,295**	**-27,136**	**-2,703**	**–**	**113**	**-55**	**-29,781**	**23,935**	**27,514**

8.17 Tax assets

See explanatory Note 4.10 Tax assets and liabilities for a discussion of income tax.

EUR '000	31 Dec. 2011	31 Dec. 2010
Current tax assets	4,068	4,529
Deferred tax assets	19,214	21,452
Total	**23,282**	**25,981**

Deferred tax liabilities were recognised in respect of the following items:

EUR '000	31 Dec. 2011	31 Dec. 2010
Loans and advances to banks	94	141
Risk provisions	–	1,477
Financial investments	11,688	7,471
Property, plant and equipment	222	101
Deposits from banks	–	693
Deposits from customers	23,787	16,588
Debts evidenced by certificates	88,040	45,106
Liabilities held for trading	95,119	38,328
Negative fair value of hedges (hedge accounting)	102,479	52,636
Provisions	–	3,171
Other liabilities	1,009	2,890
Subordinated capital	309	383
Tax loss carryforwards	3,381	5,467
Deferred tax assets before offsetting	**326,127**	**174,453**
Less deferred tax liabilities	-306,914	-153,001
Reported net deferred tax assets	**19,214**	**21,452**

No deferred tax assets were recognised in respect of EUR 11,561 (2010: EUR 12,708thsd) in tax loss carryforwards.

8.18 Other assets

The "Other assets" item chiefly relates to accruals and deferrals, other non-bank receivables (e.g. trade receivables and amounts due from the tax authorities in respect of other taxes), and derivatives used in connection with banking book management.

The positive fair value of derivative financial instruments is reported under "Other assets" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management.

EUR '000	31 Dec. 2011	31 Dec. 2010
Deferred items	2.383	1.791
Other receivables and assets:	19,020	18,023
thereof: value added tax (VAT) and other tax credits (other than income tax)	*8,514*	*3,820*
property classified as inventory	*4,624*	–
trade receivables	*1,249*	*8,798*
emergency acquisitions held for sale	*36*	*680*
Positive fair value of derivatives	150	1,036
Total	**21,553**	**20,850**

Properties owned by new real estate subsidiaries (see Note 3.1 Basis of consolidation) are reported under the "Property classified as inventory" item.

8.19 Deposits

Deposits from banks and customers, including debts evidenced by certificates, are carried at amortised cost (Notes 8.20, 8.21 and 8.22).

8.20 Deposits from banks

EUR '000	31 Dec. 2011	31 Dec. 2010
Domestic banks	1,656,345	1,689,734
Foreign banks		
Central and Eastern Europe (CEE)	45,008	–
Rest of the world (ROW)	683,108	934,492
Total	**2,384,461**	**2,624,226**

Deposits from banks include repurchase agreements entered into by the Bank as a transferor.

Repurchase agreements entered into as a transferor
Assets were loaned subject to contractual obligations to return them, as described by example AG51(a) IAS 39. The Bank, as the transferor, retained substantially all the risks and rewards of ownership.

These transactions were largely tri-party repos and collateralised loans from the ECB and the Oesterreichische Nationalbank.

EUR '000	31 Dec. 2011	31 Dec. 2010
Liabilities to banks under repo agreements	950,000	1,354,987

8.21 Deposits from customers

8.21.1 Customer group analysis

EUR '000	31 Dec. 2011	31 Dec. 2010
Savings deposits	**780,002**	**775,156**
Demand and time deposits	**1,693,408**	**1,551,537**
Public sector customers	186,220	167,628
Business customers	1,214,770	1,088,157
Housing associations	47,779	50,326
Retail customers	210,775	203,825
Professionals	33,864	41,601
Total	**2,473,410**	**2,326,693**

8.21.2 Geographical analysis

EUR '000	31 Dec. 2011	31 Dec. 2010
Domestic customers	1,421,985	1,398,564
Foreign customers		
Central and Eastern Europe (CEE)	9,680	9,433
Rest of the world (ROW)	1,041,745	918,696
Total	**2,473,410**	**2,326,693**

8.22 Debts evidenced by certificates

EUR '000	31 Dec. 2011	31 Dec. 2010
Covered and municipal bonds	2,633,854	1,812,519
Other bonds	4,197,395	4,131,159
Profit-sharing certificates	503	1,753
Total	**6,831,752**	**5,945,431**

8.23 Liabilities held for trading

The negative fair value of derivatives held for trading that are measured at fair value is disclosed under this item. Realised gains and losses, and measurement gains and losses are reported under the "Net trading income" item in the statement of comprehensive income (see Note 7.6 for a detailed analysis).

EUR '000	31 Dec. 2011	31 Dec. 2010
Negative fair value of derivatives (banking book):		
Interest rate derivatives	358,159	128,935
Foreign exchange derivatives	8,991	10,648
Other liabilities held for trading	13,324	13,406
Total	**380,474**	**152,989**

8.24 Negative fair value of hedges (hedge accounting)

The negative fair value of hedges is reported separately, on the equity and liabilities side of the consolidated statement of financial position, provided that they qualify for hedge accounting under IAS 39.

The negative fair value of hedges is classified according to the nature of the underlying transactions, as follows:

EUR '000	31 Dec. 2011	31 Dec. 2010
Assets	**403,116**	**180,761**
Loans and advances to customers	331,295	142,047
Available-for-sale financial assets	71,821	38,714
Liabilities	**6,800**	**23,619**
Deposits from banks	1,046	932
Debts evidenced by certificates	5,754	22,687
Total	**409,916**	**204,380**

8.25 Provisions

The following items are reported under "Provisions":
- Long-term provisions for pensions and similar obligations; and
- Other provisions.

EUR '000	31 Dec. 2011	31 Dec. 2010
Employee benefit provisions	**35,938**	**33,819**
Provisions for pensions	25,801	24,328
Provisions for termination benefits	8,889	8,305
Provisions for jubilee benefits	1,248	1,186
Credit provisions	**10,165**	**5,795**
Other provisions	**756**	**58,662**
Total	**46,859**	**98,276**

8.25.1 Movements in provisions

The "Provisions" item relates to provisions for obligations which will probably need to be settled by an outflow of resources.

EUR '000	As at 1 Jan. 2011	Utilisation	Reversals	Allocations	Discount unwinding effect	As at 31 Dec. 2011
Employee benefit provisions	**33,819**	**-2,479**	–	**587**	**4,010**	**35,938**
Provisions for pensions	24,328	-1,790	–	31	3,231	25,801
Provisions for termination benefits	8,305	-600	–	445	739	8,889
Provisions for jubilee benefits	1,186	-88	–	112	39	1,248
Credit provisions	**5,795**	**-215**	**-163**	**4,749**	–	**10,165**
Other provisions	**58,662**	**-58,049**	**-181**	**323**	–	**756**
Total	**98,276**	**-60,742**	**-344**	**5,659**	**4,010**	**46,859**

Provision was made for an interest penalty of EUR 57,934thsd imposed by notice of the Austrian Financial Market Authority. This is reported under utilisation in the "Other provisions" item.

EUR '000	As at 1 Jan. 2010	Utilisation	Reversals	Allocations	Discount unwinding effect	As at 31 Dec. 2010
Employee benefit provisions	**32,800**	**-2,559**	–	**514**	**3,065**	**33,819**
Provisions for pensions	24,451	-1,826	–	24	1,679	24,328
Provisions for termination benefits	7,423	-719	–	426	1,174	8,305
Provisions for jubilee benefits	926	-15	–	63	212	1,186
Credit provisions	**5,557**	–	**-157**	**395**	–	**5,795**
Other provisions	**20,964**	**-10,511**	**-3,200**	**51,409**	–	**58,662**
Total	**59,321**	**-13,071**	**-3,357**	**52,318**	**3,065**	**98,276**

8.25.2 Disclosures on employee benefit obligation

Defined benefit obligation (DBO) is the present value of the benefit entitlements earned by employees up to the end of the reporting period.

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Present value of DBO at 31 Dec. 2006	**23,597**	**8,867**	**1,029**	**33,493**
Changes in scope of consolidation	–	-830	-143	-973
Current service cost	40	516	60	616
Interest cost	1,124	415	45	1,584
Payments	-2,098	-556	-37	-2,691
Actuarial gains and losses recognised in profit or loss	–	–	-91	-91
Actuarial gains and losses not recognised in profit or loss	1,795	722	–	2,517
Present value of DBO at 31 Dec. 2007	**24,458**	**9,134**	**863**	**34,455**
Current service cost	51	547	65	663
Interest cost	1,267	490	46	1,804
Payments	-1,936	-1,465	-63	-3,464
Actuarial gains and losses recognised in profit or loss	–	–	-112	-112
Actuarial gains and losses not recognised in profit or loss	2,430	-1,563	–	867
Present value of DBO at 31 Dec. 2008	**26,270**	**7,143**	**800**	**34,213**
Current service cost	31	420	67	517
Interest cost	1,512	435	52	1,999
Payments	-1,887	-593	-92	-2,572
Actuarial gains and losses recognised in profit or loss	–	–	100	100
Actuarial gains and losses not recognised in profit or loss	-1,475	18	–	-1,457
Present value of DBO at 31 Dec. 2009	**24,451**	**7,423**	**926**	**32,800**
Current service cost	24	426	63	514
Interest cost	1,346	432	50	1,828
Payments	-1,826	-719	-15	-2,559
Actuarial gains and losses recognised in profit or loss	–	–	162	162
Actuarial gains and losses not recognised in profit or loss	333	742	–	1,075
Present value of DBO at 31 Dec. 2010	**24,328**	**8,305**	**1,187**	**33,819**
Changes in scope of consolidation	–	–	16	16
Current service cost	31	445	95	571
Interest cost	1,145	411	60	1,616
Payments	-1,789	-600	-89	-2,478
Actuarial gains and losses recognised in profit or loss	–	–	-21	-21
Actuarial gains and losses not recognised in profit or loss	2,087	328	–	2,415
Present value of DBO at 31 Dec. 2011	**25,801**	**8,889**	**1,249**	**35,938**

The average duration of the pension obligation is 16.6 years.

Assumptions underlying employee benefit calculations

EUR '000	Provisions for pensions	Provisions for termination benefits	Provisions for jubilee benefits	Total
Benefit obligation at 31 Dec. 2011: 5.1% discount rate				
DBO	25,801	8,889	1,248	35,938
Current service cost (2012e)	31	485	103	620
Interest cost (2012e)	1,317	478	69	1,864
thereof members of the supervisory and management boards				
DBO	*384*	*781*	*28*	*1,193*
Current service cost	*11*	*12*	*1*	*23*
Interest cost	*20*	*40*	*2*	*62*
Benefit obligation at 31 Dec. 2011: 6.1% discount rate				
DBO	23,304	8,059	1,128	32,491
Current service cost (2012e)	27	435	88	550
Interest cost (2012e)	1,423	518	74	2,015
Benefit obligation at 31 Dec. 2011: 4.1% discount rate				
DBO	28,792	9,867	1,392	40,052
Current service cost (2012e)	37	545	123	705
Interest cost (2012e)	1,182	427	62	1,671
Benefit obligation at 31 Dec. 2011: 4.7% discount rate (same rate as in 2010)				
DBO	23,275	8,729	1,234	33,239
Current service cost (2012e)	32	476	102	609
Interest cost (2012e)	1,095	433	63	1,591

Paragraph 120A(q) IAS 19 is inapplicable as there are no plan assets.

8.26 Tax liabilities

See explanatory Note 4.10 Tax assets and liabilities for a discussion of income tax.

EUR '000	31 Dec. 2011	31 Dec. 2010
Current tax liabilities	8,901	71
Deferred tax liabilities	11,961	10,890
Total	**20,862**	**10,961**

The deferred tax liabilities are the potential additional tax burden due to temporary differences between the IFRS carrying amounts of assets and liabilities, and the tax bases.

Deferred tax liabilities were recognised in respect of the following statement of financial position items:

EUR '000	31 Dec. 2011	31 Dec. 2010
Loans and advances to customers	16,281	14,617
Deferred tax liabilities before offsetting	**16,281**	**14,617**
Less deferred tax liabilities	-4,320	-3,728
Reported net deferred tax liabilities	**11,961**	**10,890**

Deferred tax assets are only set off against deferred tax liabilities of the same entities.

8.27 Other liabilities

The negative fair value of financial instruments is reported under "Other liabilities" if they do not qualify for hedge accounting and instead represent economic hedges used in connection with banking book management.

EUR '000	**31 Dec. 2011**	**31 Dec. 2010**
Deferred items	10,966	10,548
Sundry other liabilities	40,554	45,426
thereof: trade payables	*10,706*	*18,084*
outstanding invoices	*6,617*	*6,611*
VAT and other tax liabilities (other than income tax)	*5,190*	*4,505*
legal and consultancy costs	*1,203*	*1,594*
Negative fair value of derivatives	425	504
Total	**51,945**	**56,478**

8.28 Subordinated capital

Subordinated liabilities as defined by Austrian banking legislation are reported as subordinated capital.

EUR '000	**31 Dec. 2011**	**31 Dec. 2010**
Subordinated capital	202,244	202,529

8.29 Equity

Note 4.17 contains a discussion of equity.

The table below provides a summarised view of the Company's equity. The detailed consolidated statement of changes in equity is on page 62.

EUR '000	**31 Dec. 2011**	**31 Dec. 2010**
Share capital	51,981	51,981
Capital reserves	191,824	191,824
thereof: appropriated reserve	*94,624*	*94,624*
unappropriated reserve	*97,200*	*97,200*
Revaluation surplus	-89,087	-47,008
Retained earnings	275,891	185,229
Parent shareholders' equity	**430,608**	**382,026**
Non-controlling interests	527	462
Total	**431,135**	**382,488**

8.30 Consolidated capital resources and regulatory capital adequacy requirements

The HYPO NOE Group is a banking group as defined by section 30 Austrian Banking Act. Under section 22(1) Banking Act, banking groups must at all times, as a minimum, have capital resources equal to the amounts set out in sections 22(1) (1–5) of the Act. The HYPO NOE Group is currently subject to regulatory capital requirements in respect of its credit and operational risk.

Credit risk is measured in accordance with the standardised approach set out in section 22a Banking Act, as well as the current exposure method under section 22(5)(2) of the Act in the case of derivatives in the meaning of Annex 2 to section 22 of the Act.

The basic indicator approach is applied to the measurement of operational risk in accordance with section 22j Banking Act.

Group Accounting calculates regulatory capital in the meaning of sections 23 and 24 Banking Act.

The scope of consolidation in accordance with IAS/IFRS differs from that of the banking group under section 30 Banking Act. The Act requires the inclusion of credit institutions, financial institutions and companies providing banking-related services in consolidation where control exists. Companies under common management are accounted for by proportionate consolidation, and those not under common management using the equity method.

In contrast to Banking Act requirements, other, non-banking companies are also consolidated in accordance with IAS 27. Joint ventures are accounted for using the equity method in the IFRS consolidated financial reporting (see Note 3.2). The capital resources of the HYPO NOE Group, calculated in accordance with the requirements of the Austrian Banking Act, had the following components:

EUR ’000	31 Dec. 2011	31 Dec. 2010
Share capital	51,981	51,981
Reserves, differences and non-controlling interests	436,905	402,929
Intangible assets	-757	-1,027
Core capital (tier 1 capital)	**488,129**	**453,883**
Deductions pursuant to sections 23(13) and 29 (1-2) Banking Act	-1,864	-1,743
Eligible core capital	**486,265**	**452,140**
Undisclosed reserves in the meaning of section 57(1) Banking Act	5,000	5,000
Eligible subordinated debt according to section 23(8) Banking Act	200,000	226,941
Supplementary capital (tier 2)	**205,000**	**231,941**
Deductions pursuant to sections 23(13) and 29 (1-2) Banking Act	-1,864	-1,743
Eligible supplementary capital (after deductions)	**203,136**	**230,198**
Total eligible core capital	**689,401**	**682,338**
Capital requirement	**315,497**	**334,437**
Surplus capital	**373,904**	**347,901**
Coverage ratio	218.51%	204.03%
Core capital ratio	13.25%	11.47%
Equity ratio	18.79%	17.30%

Movements in the risk-weighted assessment base as defined by the Banking Act and the resultant capital requirements were as follows:

EUR ’000	31 Dec. 2011	31 Dec. 2010
Risk weighted assessment base according to section 22(2) Banking Act	3.668,983	3.943,131
thereof 8% minimum capital requirement	293,518	315,450
Capital requirement for operational risk	21,979	18,987
Total capital requirement	**315,497**	**334,437**

9. Segment information

The four segments, which are based on the structure of the Group's business activities, are as follows:

Gruppe Bank
This segment aggregates the income and expense items related to relationships with large customers – chiefly state and local government clients (public finance, real estate and treasury business).

Landesbank
This segment mainly serves retail and business customers, focusing on housing finance and finance for large non-profit housing associations.

Leasing
This segment groups together the subsidiaries that operate in the leasing business (see Note 3.3 Lease accounting). These are IFRS subgroup financial statements for 37 (2010: 37) consolidated subsidiaries.

Other & Consolidation
This segment is used to provide information on 15 subsidiaries which are neither leasing companies nor banks, as well as consolidation adjustments.

The detailed assignment of companies to segments is shown in Note 3.2 Investments, and the Bank's segment reporting is also discussed in Note 5.

9.1 Business segment information

The internal segmental reporting ends with "Profit before tax". "Income tax" and "Non-controlling interests", in the Total column, reconcile the segmental analysis with the items in the consolidated financial statements. The presentation in the notes was adjusted to the internal reporting.

9.1.1 Segment profit or loss

2011 EUR '000	Gruppe Bank	Landesbank	Leasing	Other & Consolidation	Total
Interest and similar income	393,681	80,974	18,846	-48,012	445,488
thereof investments accounted for using the equity method	*5,443*	*223*	*-397*	*-48*	*5,222*
Interest and similar expense	-294,776	-37,219	-15,904	41,206	-306,693
Credit provisions	-10,182	-9,943	–	–	-20,125
Net interest income after risk provisions	**88,723**	**33,812**	**2,942**	**-6,806**	**118,670**
Net fee and commission income	3,682	8,789	-31	–	12,439
Net trading income	-1,449	549	–	–	-900
General administrative expenses	-54,911	-40,727	-3,574	4,971	-94,240
Net other operating expense/income	16,715	1,424	5,405	-3,468	20,076
Net gains or losses on financial assets	61,996	247	-7	2	62,238
Net gains or losses on hedges	490	-108	–	–	382
Net gains or losses on other financial investments	18	–	46	-109	-46
Profit before tax	**115,264**	**3,986**	**4,780**	**-5,411**	**118,619**
Income tax					-29,105
Profit after tax					**89,514**
Non-controlling interests					-46
Profit attributable to owners of the parent					**89,468**

Gruppe Bank
In 2011 the Gruppe Bank segment again recorded high net interest income, while "Net gains or losses on financial assets" reflected one-time gains on the disposal of the 1.17% interest in Raiffeisen Zentralbank AG and heavy impairments on Greek and Portuguese securities classified as AFS assets, which were remeasured to fair value as at the end of the reporting period.

Landesbank
In contrast to the previous year's figures, the Landesbank segment's results for 2011 show stable income from its core business (net interest income, and net fee and commission income) and a marked reduction in credit provision charges thanks to good workout management.

Leasing
Prevailing interest rates have a major influence on the operating profits of the Leasing segment, as the interest rate effect alters the capital and interest components of the annuities.

NOE HYPO Leasing GmbH registered an encouraging increase in service income in 2011.

Other & Consolidation
The increase in the loss recorded by the Other & Consolidation segment is chiefly attributable to the higher dividend payments.

2010 EUR '000	Gruppe Bank	Landesbank	Leasing	Other & Consolidation	Total
Interest and similar income	390,854	76,795	15,780	-28,976	454,453
thereof investments accounted for using the equity method	*3,545*	*161*	*224*	*–*	*3,931*
Interest and similar expense	-303,515	-31,440	-11,214	26,800	-319,369
Credit provisions	1,581	-19,103	-209	–	-17,731
Net interest income after risk provisions	**88,919**	**26,253**	**4,357**	**-2,176**	**117,353**
Net fee and commission income	1,911	5,380	-32	–	7,259
Net trading income	15,675	416	–	–	16,091
General administrative expenses	-40,717	-37,959	-4,163	909	-81,930
Net other operating expense/income	-52,239	1,175	3,568	-127	-47,622
Net gains or losses on financial assets	1,493	-48	–	-15	1,430
Net gains or losses on hedges	-5,406	467	–	–	-4,939
Net gains or losses on other financial investments	–	–	73	-89	-16
Profit before tax	**9,636**	**-4,315**	**3,803**	**-1,498**	**7,626**
Income tax					-500
Profit after tax					**7,126**
Non-controlling interests					-41
Profit attributable to owners of the parent					**7,085**

9.1.2 Segment assets and liabilities

Although HYPO NOE Landesbank has a profit and loss transfer agreement with HYPO NOE Gruppe Bank AG, the deferred tax arising from temporary differences is attributed to the Landesbank segment.

31 Dec. 2011 EUR '000	Gruppe Bank	Landesbank	Leasing	Other & Consolidation	Total
Assets					
Cash and balances at central banks	53,411	25,328	–	–	78,739
Loans and advances to banks	1,145,086	70,523	53,175	-684,786	583,997
Loans and advances to customers	7,769,141	1,958,530	1,344,676	-1,369,869	9,702,478
Risk provisions	-22,528	-80,688	-790	–	-104,006
Assets held for trading	471,079	237	–	-236	471,080
Positive fair value of hedges (hedge accounting)	464,152	23,273	–	-15,615	471,809
Available-for-sale financial assets	1,943,959	318,689	6,263	-431,732	1,837,180
Financial assets designated as at fair value through profit or loss	4,560	–	–	–	4,560
Financial assets held to maturity	15,031	–	–	–	15,031
Investments accounted for using the equity method	34,147	1,377	12,418	–	47,942
Investment property	–	–	244	43,167	43,411
Intangible assets	541	74	142	8	765
Property, plant and equipment	6,899	5,945	568	21,826	35,237
Tax assets	17,926	3,873	1,295	187	23,282
Other assets	9,537	4,485	47,635	-40,104	21,553
Total assets	**11,912,940**	**2,331,645**	**1,465,626**	**-2,477,154**	**13,233,058**
Equity and liabilities					
Deposits from banks	2,383,737	603,818	1,318,906	-1,922,000	2,384,461
Deposits from customers	1,390,362	1,146,116	357	-63,425	2,473,410
Debts evidenced by certificates	6,719,575	403,558	503	-291,885	6,831,752
Liabilities held for trading	380,484	226	–	-236	380,474
Negative fair value of hedges (hedge accounting)	417,067	8,464	–	-15,615	409,916
Provisions	34,539	11,483	474	364	46,859
Tax liabilities	8,850	–	11,961	51	20,862
Other liabilities	24,057	14,307	17,271	-3,690	51,945
Subordinated capital	190,707	51,537	–	-40,000	202,244
Equity (inc. non-controlling interests)	363,562	92,137	116,154	-140,718	431,135
Parent shareholders' equity	363,562	92,137	115,626	-140,718	430,608
Non-controlling interests	–	–	527	–	527
Total equity and liabilities	**11,912,940**	**2,331,645**	**1,465,626**	**-2,477,154**	**13,233,058**

31 Dec. 2010 EUR '000	**Gruppe Bank**	**Landesbank**	**Leasing**	**Other & Consolidation**	**Total**
Assets					
Cash and balances at central banks	147	39,466	–	–	39,613
Loans and advances to banks	1,049,106	55,128	64,169	-735,892	432,511
Loans and advances to customers	6,956,855	1,915,094	1,247,741	-1,240,763	8,878,928
Risk provisions	-22,938	-79,435	-790	–	-103,164
Assets held for trading	240,172	324	–	-323	240,174
Positive fair value of hedges (hedge accounting)	272,022	10,346	–	-6,163	276,205
Available-for-sale financial assets	2,122,322	367,802	6,251	-481,672	2,014,702
Financial assets designated as at fair value through profit or loss	9,406	–	–	–	9,406
Financial assets held to maturity	55,083	15,023	–	–	70,106
Investments accounted for using the equity method	31,077	1,357	13,715	1	46,149
Investment property	–	–	2,123	22,320	24,443
Intangible assets	888	20	119	6	1,033
Property, plant and equipment	6,607	5,180	593	15,134	27,514
Tax assets	20,090	3,298	2,490	103	25,981
Other assets	20,313	5,854	43,740	-49,058	20,850
Total assets	**10,761,149**	**2,339,457**	**1,380,151**	**-2,476,306**	**12,004,451**
Equity and liabilities					
Deposits from banks	2,592,571	675,350	1,228,073	-1,871,768	2,624,226
Deposits from customers	1,259,556	1,137,378	396	-70,637	2,326,693
Debts evidenced by certificates	5,933,668	352,071	1,753	-342,060	5,945,431
Liabilities held for trading	152,991	321	–	-323	152,989
Negative fair value of hedges (hedge accounting)	196,556	13,988	–	-6,163	204,380
Provisions	90,052	7,408	500	316	98,276
Tax liabilities	–	–	10,890	71	10,961
Other liabilities	29,173	9,076	21,635	-3,405	56,478
Subordinated capital	190,703	51,826	–	-40,000	202,529
Equity (inc. non-controlling interests)	315,879	92,040	116,903	-142,334	382,488
Parent shareholders' equity	315,879	92,040	116,441	-142,334	382,026
Non-controlling interests	–	–	462	–	462
Total equity and liabilities	**10,761,149**	**2,339,457**	**1,380,151**	**-2,476,306**	**12,004,451**

9.2 Geographical information

The main balance sheet items are broken down into domestic and foreign business.

EUR '000	**31 Dec. 2011**		**31 Dec. 2010**	
	Domestic	Foreign	Domestic	Foreign
Loans and advances to banks	111,209	472,788	114,356	318,155
Loans and advances to customers	8,187,506	1,514,972	7,433,058	1,445,870
Available-for-sale financial assets	839,498	997,682	1,028,499	986,203
Financial assets designated as at fair value through profit or loss	4,056	504	4,095	5,310
Financial assets held to maturity	–	15,031	–	70,106
Deposits from banks	1,656,345	728,116	1,689,734	934,492
Deposits from customers	1,421,985	1,051,425	1,398,563	928,129
Debts evidenced by certificates	2,695,457	4,136,295	1,997,413	3,948,019

The geographical presentation analyses the debts evidenced by certificates that relate to listed securities by the countries of issue.

10. Supplementary information

10.1 Analysis of assets by maturities

EUR '000	31 Dec. 2011	31 Dec. 2010
Loans and advances to banks		
Repayable on demand	177,210	143,490
Up to 3 months	224,395	109,975
From 3 months to 1 year	7,606	21,469
From 1 to 5 years	47,917	30,561
Over 5 years	126,869	127,016
Total	**583,997**	**432,511**
Loans and advances to customers		
Repayable on demand	227,421	185,407
Up to 3 months	301,588	303,593
From 3 months to 1 year	703,358	555,908
From 1 to 5 years	2,801,705	2,431,489
Over 5 years	5,668,406	5,402,530
Total	**9,702,478**	**8,878,928**
Assets held for trading		
Repayable on demand	–	–
Up to 3 months	–	4,115
From 3 months to 1 year	286	4,173
From 1 to 5 years	8,434	14,687
Over 5 years	462,359	217,199
Total	**471,080**	**240,174**
Financial assets (held to maturity, available for sale or designated as at fair value through profit or loss)		
Repayable on demand or no fixed term	19,357	128,089
Up to 3 months	32,234	135,901
From 3 months to 1 year	168,933	234,181
From 1 to 5 years	702,493	598,616
Over 5 years	933,754	997,427
Total	**1,856,770**	**2,094,214**
Positive fair value of derivatives (hedge accounting and economic hedges)		
Repayable on demand	–	–
Up to 3 months	294	977
From 3 months to 1 year	16,086	244
From 1 to 5 years	96,931	35,353
Over 5 years	358,648	240,666
Total	**471,959**	**277,240**
Other assets (inc. economic hedges)		
Repayable on demand or no fixed term	9,842	5,137
Up to 3 months	9,137	11,132
From 3 months to 1 year	608	1,267
From 1 to 5 years	700	2,583
Over 5 years	1,267	732
Total	**21,555**	**20,850**

10.2 Analysis of liabilities by maturities

EUR '000	31 Dec. 2011	31 Dec. 2010
Deposits from banks		
Repayable on demand or no fixed term	52,004	71,483
Up to 3 months	976,143	1,884,414
From 3 months to 1 year	488,900	29,475
From 1 to 5 years	219,960	–
Over 5 years	647,453	638,854
Total	**2,384,461**	**2,624,226**
Deposits from customers		
Repayable on demand or no fixed term	592,434	575,930
Up to 3 months	242,599	149,845
From 3 months to 1 year	252,725	219,261
From 1 to 5 years	441,832	392,420
Over 5 years	943,820	989,237
Total	**2,473,410**	**2,326,693**
Debts evidenced by certificates		
Repayable on demand or no fixed term	682	709
Up to 3 months	46,763	195,896
From 3 months to 1 year	989,493	15,126
From 1 to 5 years	2,284,511	1,932,882
Over 5 years	3,510,303	3,800,818
Total	**6,831,752**	**5,945,431**
Liabilities held for trading		
Repayable on demand or no fixed term	–	–
Up to 3 months	–	3,275
From 3 months to 1 year	262	4,233
From 1 to 5 years	6,708	13,743
Over 5 years	373,504	131,738
Total	**380,474**	**152,989**
Negative fair value of derivatives (hedge accounting and economic hedges)		
Repayable on demand or no fixed term	–	–
Up to 3 months	446	95
From 3 months to 1 year	819	3,376
From 1 to 5 years	37,872	29,597
Over 5 years	371,204	171,815
Total	**410,341**	**204,884**
Other liabilities (inc. economic hedges)		
Repayable on demand or no fixed term	11,687	8,162
Up to 3 months	6,764	12,698
From 3 months to 1 year	12,371	12,218
From 1 to 5 years	14,649	14,341
Over 5 years	6,474	9,057
Total	**51,945**	**56,476**
Subordinated capital		
Repayable on demand or no fixed term	–	–
Up to 3 months	–	–
From 3 months to 1 year	–	–
From 1 to 5 years	–	–
Over 5 years	202,244	202,529
Total	**202,244**	**202,529**

10.3 Fair value disclosures in accordance with IFRS 7

The disclosures regarding the nature and extent of the risks associated with financial instruments (paragraphs 31–42 IFRS 7), the sensitivity analysis and the other disclosures required by IFRS 7 form part of the risk report contained in the operational and financial review.

All the obligations to pay principal and interest were met during the reporting period, and there were no indications of defaults as at the end of the reporting period.

10.3.1 Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where market prices are available they are used to estimate fair value. In the absence of market prices, accepted, industry-standard valuation models are employed. The present value of derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. OTC currency and interest rate options are measured using option pricing models such as the Black Scholes, Hull White or LIBOR market models.

EUR '000	31 Dec. 2011		31 Dec. 2010	
	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Loans and advances to banks	583,546	583,997	456,337	432,511
Loans and advances to customers	9,718,140	9,702,478	9,468,493	8,878,928
Risk provisions – individual impairment allowances		-99,008		-97,320
Assets held for trading	471,080	471,080	240,174	240,174
Positive fair value of hedges	471,809	471,809	276,205	276,205
Financial assets designated as at fair value through profit or loss	4,560	4,560	9,406	9,406
Available-for-sale financial assets	1,837,180	1,837,180	2,014,702	2,014,702
Financial assets held to maturity	15,041	15,031	70,589	70,106
Investments accounted for using the equity method	47,942	47,942	46,149	46,149
Investment property	44,431	43,411	25,455	24,443
Property, plant and equipment: land and buildings (excluding assets in the course of construction)	12,994	12,994	15,066	15,066
Sundry other assets	21,555	21,553	20,850	20,850
Total assets	**13,228,276**	**13,113,026**	**12,643,426**	**11,931,220**
Liabilities				
Deposits from banks	2,358,550	2,384,461	2,624,978	2,624,226
Deposits from customers	2,500,668	2,473,410	2,377,983	2,326,694
Debts evidenced by certificates	7,482,017	6,831,752	6,215,997	5,945,432
Liabilities held for trading	380,474	380,474	152,989	152,989
Negative fair value of hedges	409,916	409,916	204,380	204,380
Other liabilities	51,945	51,945	56,476	56,476
Subordinated capital	203,187	202,244	202,529	202,529
Total liabilities	**13,386,758**	**12,734,202**	**11,835,332**	**11,512,726**

Reference is made to explanatory Note 3.9 for information on the fair value measurement of investment property (IAS 40).

The year-on-year changes in fair value are principally due to volume effects, but also stem from improvements in fair value measurement.

10.3.2 Fair Value hierarchy level

IFRS 7 applies to the categories of financial instruments established by IAS 39, as well as those recognised in accordance with other standards, and unrecognised instruments. Under IFRS 7 these financial instruments must be grouped into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of the instruments concerned.

Fair value measurements must be classified using a fair value hierarchy with the following levels:

Level 1: Quoted prices in active markets
These are quoted prices in active markets for identical assets or liabilities, and mainly apply to exchange-traded underlying instruments and derivatives.

Level 2: Valuation techniques based on observable inputs
Here, measurement is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This chiefly applies to OTC derivatives (assets and liabilities held for trading, and hedges) and unlisted securities.

Level 3: Valuation techniques not based on observable inputs
Inputs for the asset or liability that are not based on observable market data (unobservable inputs). In this model measurement is based on management's assumptions and assessments, which depend on the price transparency and complexity of the financial instrument. This mainly applies to asset-backed securities and investments (see Note 3.2 for a list of AFS investments in which the Group holds interests of over 20%).

31 Dec. 2011 EUR '000		Fair value measurement			
	Total fair value	Level 1	Level 2	Level 3	FV of items at cost
Assets					
Loans and advances to banks	583,546	–	–	–	583,546
Loans and advances to customers	9,718,140	–	–	–	9,718,140
Assets held for trading	471,080	–	16,196	454,883	–
Positive fair value of hedges	471,809	–	471,809	–	–
Financial assets designated as at fair value through profit or loss	4,560	–	4,560	–	–
Available-for-sale financial assets	1,837,180	920,725	904,595	11,859	–
Financial assets held to maturity	15,041	–	–	–	15,041
Investments accounted for using the equity method	47,942	–	–	–	47,942
Investment property	44,431	–	–	–	44,431
Property, plant and equipment: Land and buildings (excluding assets in the course of construction)	12,994	–	–	–	12,994
Sundry other assets	21,555	–	150	–	21,405
Total assets	**13,228,276**	**920,725**	**1,397,310**	**466,742**	**10,443,499**
Liabilities					
Deposits from banks	2,358,550	–	–	–	2,358,550
Deposits from customers	2,500,668	–	–	–	2,500,668
Debts evidenced by certificates	7,482,017	–	–	–	7,482,017
Liabilities held for trading	380,474	–	367,151	13,324	–
Negative fair value of hedges	409,916	–	409,916	–	–
Other liabilities	51,945	–	425	–	51,520
Subordinated capital	203,187	–	–	–	203,187
Total liabilities	**13,386,758**	**–**	**777,492**	**13,324**	**12,595,943**

There were no material reclassifications from Level 1 to Level 2, or from Level 2 to Level 1 in 2011. The changes in the amounts at Level 1 and Level 2 largely relate to new and matured transactions, and disposals. Note 10.3.3 Fair value hierarchy: Level 3 disclosures contains detailed information on Level 3 of the fair value hierarchy.

31 Dec. 2010 EUR '000		**Fair value measurement**			
	Total fair value	**Level 1**	**Level 2**	**Level 3**	**FV of items at cost**
Assets					
Loans and advances to banks	456,337	–	–	–	456,337
Loans and advances to customers	9,468,493	–	–	–	9,468,493
Assets held for trading	240,174	–	18,001	222,173	–
Positive fair value of hedges	276,205	–	276,205	–	–
Financial assets designated as at fair value through profit or loss	9,406	–	9,406	–	–
Available-for-sale financial assets	2,014,702	836,657	1,143,735	34,310	–
Financial assets held to maturity	70,589	–	–	–	70,589
Investments accounted for using the equity method	46,149	–	–	–	46,149
Investment property	25,455	–	–	–	25,455
Property, plant and equipment: Land and buildings (excluding assets in the course of construction)	15,066	–	–	–	15,066
Sundry other assets	20,850	–	1,036	–	19,814
Total assets	**12,643,426**	**836,657**	**1,448,382**	**256,483**	**10,101,904**
Liabilities					
Deposits from banks	2,624,978	–	–	–	2,624,978
Deposits from customers	2,377,983	–	–	–	2,377,983
Debts evidenced by certificates	6,215,997	–	–	–	6,215,997
Liabilities held for trading	152,989	–	139,583	13,406	–
Negative fair value of hedges	204,380	–	204,380	–	–
Other liabilities	56,476	–	504	–	55,973
Subordinated capital	202,529	–	–	–	202,529
Total liabilities	**11,835,332**	**–**	**344,466**	**13,406**	**11,477,459**

10.3.3 Fair value hierarchy: Level 3 disclosures

EUR '000		Gains or losses							
	As at 1 Jan. 2011	in profit or loss	in other comprehensive income	Purchases	Issues	Settlements	Transfers to/ out of Level 3	As at 31 Dec. 2011	Gains/losses recognised in profit and loss for assets held at end of period
Assets									
Assets held for trading	222,173	232,710	–	–	–	–	–	454,883	236,584
Available-for-sale financial assets	34,310	-542	283	257	–	-22,449	–	11,859	-542
Total assets	**256,483**	**232,168**	**283**	**257**	**–**	**-22,449**	**–**	**466,742**	**236,042**
Liabilities									
Liabilities held for trading	13,406	-83	–	–	–	–	–	13,324	-3,292
Total liabilities	**13,406**	**-83**	**–**	**–**	**–**	**–**	**–**	**13,324**	**-3,292**

The loss on existing Level 3 assets, at EUR 542thsd (2010: EUR 342thsd), is shown under "Net gains and losses on available-for-sale financial assets" (Note 7.9). The gain of EUR 236,584thsd (2010: EUR 105,598thsd) on assets held for trading and the loss of EUR 3,292thsd (2010: EUR 13,406thsd) on liabilities held for trading are reported under "Net trading income" (Note 7.6).

EUR '000		Gains or losses							
	As at 1 Jan. 2011	in profit or loss	in other comprehensive income	Purchases	Issues	Settlements	Transfers to/ out of Level 3	As at 31 Dec. 2011	Gains/losses recognised in profit and loss for assets held at end of period
Assets									
Assets held for trading	–	90,137	–	–	–	–	132,036	222,173	105,598
Available-for-sale financial assets	39,751	1,476	797	–	247	-7,961	–	34,310	-342
Total assets	**39,751**	**91,613**	**797**	**–**	**247**	**-7,961**	**132,036**	**256,483**	**105,256**
Liabilities									
Liabilities held for trading	–	-2,055	–	–	–	–	15,461	13,406	-13,406
Total liabilities	**–**	**-2,055**	**–**	**–**	**–**	**–**	**15,461**	**13,406**	**-13,406**

10.4 Derivatives

Virtually all of the derivative financial instruments are hedges of the Bank's own assets and liabilities, or customer derivatives.

Most hedging activities related to interest rate and exchange risk in respect of the Bank's own issues and securities, and promissory notes including certificates of deposit. Interest rate and cross currency swaps were used to hedge these instruments from the time of designation through to the maturity of the underlying transaction in question. Customer derivatives and related hedges are classified as held for trading.

Currency swaps and forwards are used as economic hedges for currency positions.

There are also bought and sold put options on own securities and issues in circulation, and a bought put option on an investment.

The cumulative dollar offset method is used for retrospective measurement of hedge effectiveness, and regression analysis for prospective measurement.

Where market prices are available they are used to estimate fair value. In the absence of market prices, accepted, industry-standard valuation models are employed. The present value of linear derivatives (e.g. interest rate swaps, cross currency swaps, FX forwards and forward rate agreements) is calculated by discounting the replicating cash flows. OTC currency and interest rate options are measured using option pricing models such as the Black Scholes, Hull White or LIBOR market models.

10.4.1 Derivatives: nominal and fair value

	31 Dec. 2011			**31 Dec. 2010**		
		Fair value			Fair value	
EUR '000	Nominal value	Positive	Negative	Nominal value	Positive	Negative
Interest rate risk						
Interest rate swaps	13,637,281	827,658	759,528	13,793,242	437,134	326,031
Basis swaps	1,175,705	20,181	3,849	–	–	–
Options on interest rate instruments	675,781	15,293	14,855	841,295	16,108	16,166
Other similar contracts	20,000	9,556	–	20,000	7,640	–
Total	**15,508,767**	**872,688**	**778,232**	**14,654,537**	**460,881**	**342,197**
Currency risk						
Cross-currency (interest rate) swaps	375,798	69,295	11,911	475,431	52,676	12,905
Forward exchange operations	111,028	351	584	304,008	3,261	2,693
Total	**486,825**	**69,646**	**12,495**	**779,439**	**55,937**	**15,598**
Share price and index-linked transactions						
Equity and other index-linked options	7,501	705	88	7,501	596	78
Total	**7,501**	**705**	**88**	**7,501**	**596**	**78**

10.4.2 Derivatives: nominal value by maturities

31 Dec. 2011 EUR '000	Total	Remaining terms to maturity Up to 3 months	Between 3 months and 1 year	1–5 years	Over 5 years
Interest rate risk					
Interest rate swaps	13,637,281	4,000	657,140	3,041,314	9,934,827
Basis swaps	1,175,705	50,000	292,500	237,590	595,615
Options on interest rate instruments	675,781	–	–	34,741	641,040
Other similar contracts	20,000	–	–	–	20,000
Total	**15,508,767**	**54,000**	**949,640**	**3,313,645**	**11,191,482**
Currency risk					
Cross-currency (interest rate) swaps	375,798	–	123,396	82,662	169,739
Forward exchange operations	111,028	92,704	18,323	–	–
Total	**486,825**	**92,704**	**141,719**	**82,662**	**169,739**
Share price and index-linked transactions					
Equity and other index-linked options	7,501	–	5,500	2,001	–
Total	**7,501**	**–**	**5,500**	**2,001**	**–**

31 Dec. 2010 EUR '000	Total	Remaining terms to maturity Up to 3 months	Between 3 months and 1 year	1–5 years	Over 5 years
Interest rate risk					
Interest rate swaps	13,793,242	378,768	168,958	2,468,128	10,777,388
Options on interest rate instruments	841,295	–	200,000	489,549	151,746
Other similar contracts	20,000	–	–	–	20,000
Total	**14,654,537**	**378,768**	**368,958**	**2,957,677**	**10,949,134**
Currency risk					
Cross-currency (interest rate) swaps	475,431	115,048	6,400	173,613	180,370
Forward exchange operations	304,008	304,008	–	–	–
Total	**779,439**	**419,056**	**6,400**	**173,613**	**180,370**
Share price and index-linked transactions					
Equity and other index-linked options	7,501	–	–	7,501	–
Total	**7,501**	**–**	**–**	**7,501**	**–**

10.5 Analyses of assets and liabilities by IAS 39 measurement categories and currencies

10.5.1 Analysis of assets and liabilities by IAS 39 measurement categories

31 Dec. 2011 EUR '000	Loans and receivables (LAR)	Liabilities measured at amortised cost (LAC)	Held for trading (HFT)	Designated as at fair value through profit or loss (FVPL)	Available for sale (AFS)	Held to maturity (HTM)	Fair value hedge	Cash flow hedge	Financial assets/liabilites at cost (at amortised cost)	Total
Cash and balances at central banks	–	–	–	–	–	–	–	–	78,739	78,739
Loans and advances to banks	583,997	–	–	–	–	–	–	–	–	583,997
Loans and advances to customers	9,702,478	–	–	–	–	–	–	–	–	9,702,478
Risk provisions	-104,006	–	–	–	–	–	–	–	–	-104,006
Assets held for trading	–	–	471,080	–	–	–	–	–	–	471,080
Positive fair value of hedges	–	–	–	–	–	–	468,353	3,456	–	471,809
Available-for-sale financial assets	–	–	–	–	1,837,180	–	–	–	–	1,837,180
Financial assets designated as at fair value through profit or loss	–	–	–	4,560	–	–	–	–	–	4,560
Financial assets held to maturity	–	–	–	–	–	15,031	–	–	–	15,031
Investments accounted for using the equity method	–	–	–	–	–	–	–	–	47,942	47,942
Investment property	–	–	–	–	–	–	–	–	43,411	43,411
Positive fair value of banking book derivatives[1]	–	–	150	–	–	–	–	–	–	150
Other financial assets[1]	19,022	–	–	–	–	–	–	–	–	19,022
Total financial assets	**10,201,491**	**–**	**471,230**	**4,560**	**1,837,180**	**15,031**	**468,353**	**3,456**	**170,092**	**13,171,393**
Deposits from banks	–	2,384,461	–	–	–	–	–	–	–	2,384,461
Deposits from customers	–	2,473,410	–	–	–	–	–	–	–	2,473,410
Debts evidenced by certificates	–	6,831,752	–	–	–	–	–	–	–	6,831,752
Liabilities held for trading	–	–	380,474	–	–	–	–	–	–	380,474
Negative fair value of hedges	–	–	–	–	–	–	409,916	–	–	409,916
Subordinated capital	–	202,244	–	–	–	–	–	–	–	202,244
Negative fair value of banking book derivatives[1]	–	–	425	–	–	–	–	–	–	425
Other financial liabilities[1]	–	40,554	–	–	–	–	–	–	–	40,554
Total financial liabilities	**–**	**11,932,421**	**380,899**	**–**	**–**	**–**	**409,916**	**–**	**–**	**12,723,236**

31 Dec. 2010 EUR '000										
Cash and balances at central banks	–	–	–	–	–	–	–	–	39,613	39,613
Loans and advances to banks	432,511	–	–	–	–	–	–	–	–	432,511
Loans and advances to customers	8,878,928	–	–	–	–	–	–	–	–	8,878,928
Risk provisions	-103,164	–	–	–	–	–	–	–	–	-103,164
Assets held for trading	–	–	240,174	–	–	–	–	–	–	240,174
Positive fair value of hedges	–	–	–	–	–	–	274,978	1,227	–	276,205
Available-for-sale financial assets	–	–	–	–	2,014,702	–	–	–	–	2,014,702
Financial assets designated as at fair value through profit or loss	–	–	–	9,406	–	–	–	–	–	9,406
Financial assets held to maturity	–	–	–	–	–	70,106	–	–	–	70,106
Investments accounted for using the equity method	–	–	–	–	–	–	–	–	46,149	46,149
Investment property	–	–	–	–	–	–	–	–	24,443	24,443
Positive fair value of banking book derivatives[1]	–	–	1,036	–	–	–	–	–	–	1,036
Other financial assets[1]	18,023	–	–	–	–	–	–	–	–	18,023
Total financial assets	**9,226,298**	**–**	**241,210**	**9,406**	**2,014,702**	**70,106**	**274,978**	**1,227**	**110,205**	**11,948,132**
Deposits from banks	–	2,624,226	–	–	–	–	–	–	–	2,624,226
Deposits from customers	–	2,326,693	–	–	–	–	–	–	–	2,326,693
Debts evidenced by certificates	–	5,945,431	–	–	–	–	–	–	–	5,945,431
Liabilities held for trading	–	–	152,989	–	–	–	–	–	–	152,989
Negative fair value of hedges	–	–	–	–	–	–	204,380	–	–	204,380
Subordinated capital	–	202,529	–	–	–	–	–	–	–	202,529
Negative fair value of banking book derivatives[1]	–	–	504	–	–	–	–	–	–	504
Other financial liabilities[1]	–	45,424	–	–	–	–	–	–	–	45,424
Total financial liabilities	**–**	**11,144,303**	**153,493**	**–**	**–**	**–**	**204,380**	**–**	**–**	**11,502,176**

[1]Shown under "Other assets" or "Other liabilities" in the statement of financial position.

10.5.2 Analysis of assets and liabilities by currencies

31 Dec. 2011 EUR '000	CHF	USD	JPY	CZK	PLN	SEK	HUF	GBP	EUR	Other currencies	Total
Cash and balances at central banks	24	27	3	4	–	6	5	12	78,637	22	78,739
Loans and advances to banks	38,449	500	577	535	410	285	911	357	541,711	263	583,997
Loans and advances to customers	752,792	1,797	15,864	7,205	6,836	9,858	–	51,744	8,856,382	–	9,702,478
Risk provisions	-10,518	–	-1,116	–	-7	-4	–	-77	-92,284	–	-104,006
Assets held for trading	8,918	–	1,147	–	314	–	–	–	460,701	–	471,080
Positive fair value of hedges	143,427	501	49,478	–	–	–	–	–	278,403	–	471,809
Available-for-sale financial assets	–	25,642	–	–	–	–	–	–	1,811,538	–	1,837,180
Financial assets designated as at fair value through profit or loss	0	–	–	–	–	–	–	–	4,560	–	4,560
Financial assets held to maturity	–	–	–	–	–	–	–	–	15,031	–	15,031
Investments accounted for using the equity method	–	–	–	–	–	–	–	–	47,942	–	47,942
Investment property	2,860	–	–	–	–	–	–	–	40,551	–	43,411
Intangible assets	–	–	–	–	–	–	–	–	765	–	765
Property, plant and equipment	–	–	–	–	–	–	–	–	35,237	–	35,237
Tax assets	–	–	–	–	–	–	–	–	23,282	–	23,282
Other assets	142	69	–	–	–	–	–	2	21,340	–	21,554
Total assets	**936,094**	**28,536**	**65,953**	**7,743**	**7,554**	**10,146**	**915**	**52,038**	**12,123,794**	**284**	**13,233,058**

31 Dec. 2010 EUR '000	CHF	USD	JPY	CZK	PLN	SEK	HUF	GBP	EUR	Other currencies	Total
Deposits from banks	30,169	18	-18	–	–	–	–	–	2,354,291	–	2,384,461
Deposits from customers	68,645	1,545	107,244	278	–	104	3,114	7	2,292,279	194	2,473,410
Debts evidenced by certificates	1,643,484	7,499	41,721	–	12,743	–	–	–	5,126,305	–	6,831,752
Liabilities held for trading	2,272	–	–	–	–	–	159	–	378,043	–	380,474
Negative fair value of hedges	13,822	657	–	–	–	–	–	–	395,437	–	409,916
Provisions	–	–	–	–	–	–	–	–	46,859	–	46,859
Tax liabilities	–	–	–	–	–	–	–	–	20,862	–	20,862
Other liabilities	–	56	230	2	–	70	–	–	51,587	–	51,945
Subordinated capital	–	–	–	–	–	–	–	–	202,244	–	202,244
Equity (inc. non-controlling interests)	–	–	–	–	–	–	–	–	431,135	–	431,135
Total liabilities	**1,758,392**	**9,775**	**149,177**	**279**	**12,743**	**174**	**3,274**	**7**	**11,299,042**	**194**	**13,233,058**

31 Dec. 2010 EUR '000	CHF	USD	JPY	CZK	PLN	SEK	HUF	GBP	EUR	Other currencies	Total
Cash and balances at central banks	28	37	–	5	2	1	3	8	39,498	30	39,613
Loans and advances to banks	64,838	2,521	3,286	933	300	192	284	194	359,762	200	432,511
Loans and advances to customers	840,794	2,179	15,152	8,714	–	9,799	–	34,535	7,967,754	–	8,878,928
Risk provisions	-9,212	–	-2,224	–	–	–	–	–	-91,728	–	-103,164
Assets held for trading	7,951	2,691	1,985	–	1,209	–	–	–	226,338	–	240,174
Positive fair value of hedges	78,718	797	36,693	–	–	–	–	–	159,997	–	276,205
Available-for-sale financial assets	–	29,784	45,911	–	–	–	76	–	1,938,931	–	2,014,702
Financial assets designated as at fair value through profit or loss	–	–	–	–	–	–	–	–	9,406	–	9,406
Financial assets held to maturity	–	–	–	–	–	–	–	–	70,106	–	70,106
Investments accounted for using the equity method	–	–	–	–	–	–	–	–	46,149	–	46,149
Investment property	2,936	–	–	–	–	–	–	–	21,507	–	24,443
Intangible assets	–	–	–	–	–	–	–	–	1,033	–	1,033
Property, plant and equipment	–	–	–	–	–	–	–	–	27,514	–	27,514
Tax assets	–	–	–	–	–	–	–	–	25,981	–	25,981
Other assets	2,021	2,818	21	–	–	–	51	307	15,631	–	20,850
Total assets	**988,073**	**40,827**	**100,825**	**9,653**	**1,511**	**9,993**	**415**	**35,045**	**10,817,879**	**230**	**12,004,451**

31 Dec. 2010 EUR '000	CHF	USD	JPY	CZK	PLN	SEK	HUF	GBP	EUR	Other currencies	Total
Deposits from banks	40,197	5	-17	–	–	–	–	–	2,584,038	3	2,624,226
Deposits from customers	66,564	1,514	70,457	613	–	–	3,250	7	2,184,211	78	2,326,693
Debts evidenced by certificates	1,542,356	8,461	226,486	–	12,222	–	–	–	4,155,907	–	5,945,431
Liabilities held for trading	1,245	–	619	–	–	–	–	–	151,125	–	152,989
Negative fair value of hedges	381	912	–	–	–	–	–	–	203,087	–	204,380
Provisions	–	–	–	–	–	–	–	–	98,276	–	98,276
Tax liabilities	–	–	–	–	–	–	–	–	10,961	–	10,961
Other liabilities	5,843	2,644	–	11	–	45	7	1	47,925	2	56,478
Subordinated capital	–	–	–	–	–	–	–	–	202,529	–	202,529
Equity (inc. non-controlling interests)	–	–	–	–	–	–	–	–	382,488	–	382,488
Total liabilities	**1,656,586**	**13,536**	**297,545**	**623**	**12,222**	**45**	**3,257**	**8**	**10,020,547**	**83**	**12,004,451**

10.6 Disclosures on related party relationships

31 Dec. 2011 EUR ’000	Non-consolidated subsidiaries (>50%)	Associates	Investments accounted for using the equity method	Key management personnel
Loans and advances to banks	–	–	1	–
Loans and advances to customers	103,064	12,868	159,359	1,953
Equity instruments (shareholdings, etc.)	226	475	47,942	–
Deposits from banks	–	–	333	–
Deposits from customers	2,456	851	5,468	5,497
31 Dec. 2010 EUR ’000				
Loans and advances to banks	–	–	–	–
Loans and advances to customers	98,777	15,474	245,798	1,055
Equity instruments (shareholdings, etc.)	226	465	46,149	–
Deposits from banks	–	–	216	–
Deposits from customers	2,976	292	9,048	1,986

The transfer prices charged to each other by HYPO NOE Gruppe AG and related parties are at normal market levels. The non-consolidated subsidiaries and investments accounted for using the equity method are set out in Note 3.2 Investments.

The Lower Austrian state government holds a direct interest of 70.49% in HYPO NOE Gruppe Bank AG via NÖ Landes-Beteiligungsholding GmbH, and an indirect interest of 29.51% via NÖ BET GmbH.

Relationships with non-consolidated subsidiaries and associates
The Chairman of the Management Board, Dr. Peter Harold, is a member of the supervisory board of NÖ Kulturwirtschaft GesmbH, St. Pölten.

Members of the Bank’s key management personnel hold office in the following companies: Castellum Schallaburg Grundstückvermietungs Gesellschaft m.b.H., VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H., WPS-Wirtschaftspark Sieghartskirchen Gesellschaft m.b.H., Liegenschaftsverwertung Felixdorf GmbH, Wilax Wien-Laxenburg NÖ Veranstaltungs Gesellschaft mbH, NÖ Kulturwirtschaft GesmbH, Melker Kommunalimmobilienverwaltungs Gesellschaft m.b.H., and Wohnpark Schrems Liegenschaftsverwertungs Gesellschaft m.b.H. – all domiciled in St. Pölten – as well as Pöchlarner Kommunalimmobilienverwaltungs Gesellschaft m.b.H., Pöchlarn, Loosdorfer Kommunalimmobilien Gesellschaft m.b.H., Loosdorf, and Schwarzauer Kommunalimmobilienverwaltungs Gesellschaft m.b.H., Schwarzau am Steinfelde.

A member of the key management personnel serves on the supervisory board of VIA DOMINORUM Grundstückverwertungs Gesellschaft m.b.H., St. Pölten.

Relationships with entities accounted for using the equity method
The Chairman of the Management Board, Dr. Peter Harold, chairs the supervisory board of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, Vienna, and the supervisory boards of its subsidiaries “Wohnungseigentümer” Gemeinnützige Wohnbaugesellschaft m.b.H., Mödling, GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H., Maria Enzersdorf am Gebirge, and Gemeinnützige Wohnungsgesellschaft “Austria” Aktiengesellschaft, Mödling. Dr. Harold is also a member of the supervisory board of Niederösterreichische Vorsorgekasse AG, St. Pölten.

The other member of the Management Board, Nikolai de Arnoldi is the chairman of Niederösterreichische Vorsorgekasse AG, St. Pölten.

Members of the Bank’s key management personnel hold office on the management boards of Niederösterreichische Vorsorgekasse AG, St. Pölten and EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, Vienna.

Members of the Bank’s key management personnel are chief executives at the following companies:
CULINA Grundstückvermietungs Gesellschaft m.b.H., FACILITAS Grundstückvermietungs Gesellschaft m.b.H., FORIS Grundstückvermietungs Gesellschaft m.b.H.,VALET-Grundstückverwaltungs Gesellschaft m.b.H., NÖ. HYPO LEASING - Sparkasse Region St. Pölten Grundstückvermietungs Gesellschaft m.b.H., LITUS Grundstückvermietungs Gesellschaft m.b.H., CONATUS Grundstückvermietungs Gesellschaft m.b.H., UNDA Grundstückvermietungs Gesellschaft m.b.H., Palatin Grundstückverwaltungs Gesellschaft m.b.H., and NÖ. Landeshauptstadt - Planungsgesellschaft m.b.H. – all domiciled in St. Pölten – as well as TRABITUS Grundstückvermietungs Gesellschaft m.b.H., Adoria Grundstückvermietungs Gesellschaft m.b.H., Esquilin Grundstücksverwaltungs Gesellschaft m.b.H., Purge Grundstücksverwaltungs-Gesellschaft m.b.H., Viminal Grundstückverwaltungs Gesellschaft m.b.H., N.Ö. Gemeindegebäudeleasing Gesellschaft m.b.H., N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H., NÖ-KL Kom-

munalgebäudeleasing Gesellschaft m.b.H., Quirinal Grundstücksverwaltungs Gesellschaft m.b.H., Franz-Glaser-Gasse 28 Immobilienentwicklung GmbH – all domiciled in Vienna – and Aventin Grundstückverwaltungs Gesellschaft m.b.H., Horn.

Members of the Bank's key management personnel are authorised signatories at the following companies:
CULINA Grundstückvermietungs Gesellschaft m.b.H., FORIS Grundstückvermietungs Gesellschaft m.b.H., VALET-Grundstückverwaltungs Gesellschaft m.b.H., Hotel- und Sportstätten-Beteiligungs-,Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG, NÖ.HYPO LEASING - Sparkasse Region St.Pölten Grundstückvermietungs Gesellschaft m.b.H., LITUS Grundstückvermietungs Gesellschaft m.b.H., CONATUS Grundstückvermietungs Gesellschaft m.b.H., Palatin Grundstückverwaltungs Gesellschaft m.b.H. – all domiciled in St. Pölten – as well as Adoria Grundstückvermietungs Gesellschaft m.b.H., Esquilin Grundstücksverwaltungs Gesellschaft m.b.H., Viminal Grundstückverwaltungs Gesellschaft m.b.H. – all domiciled in Vienna – and Aventin Grundstückverwaltungs Gesellschaft m.b.H., Horn.

Members of key management hold office with NÖ Raiffeisen Kommunalprojekte Service Gesellschaft m.b.H. & NÖ.HYPO Leasinggesellschaft m.b.H. - Strahlentherapie OG and NÖ. HYPO Leasing und Raiffeisen-Immobilien-Leasing Traisenhaus GesmbH & Co OG, both St. Pölten.

Members of key management are members, chairmen or deputy chairmen of the supervisory boards of the following companies:
NÖ Beteiligungsfinanzierungen GmbH, HYPO Capital Management AG, EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft – all domiciled in Vienna – as well as Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft and "Wohnungseigentümer" Gemeinnützige Wohnbauggesellschaft m.b.H. – both domiciled in Mödling – and GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H., Maria Enzersdorf am Gebirge.

The chairman of the Supervisory Board is the deputy chairman of the supervisory boards of EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft, Vienna and its subsidiaries "Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H., Mödling, GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H., Maria Enzersdorf am Gebirge, and Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft, Mödling.

Relationships with parent companies
A member of the Supervisory Board chairs the supervisory board of NÖ Landes-Beteiligungsholding GmbH, St. Pölten. A supervisory commissioner of the Bank is the chief executive of NÖ BET GmbH and NÖ Landes-Beteiligungsholding GmbH, both domiciled in St. Pölten.

Relationships with subsidiaries of the parent companies and companies owned by the Lower Austrian state government
A member of the Bank's key management personnel is the chief executive of Landesimmobiliengesellschaft m.b.H., St. Pölten.

The deputy chairman of the Supervisory Board is the chairman of the supervisory board of EVN AG, Maria Enzersdorf, and a member of the supervisory board of Flughafen Wien AG (the operator of Vienna International Airport).

A member of the Supervisory Board is the chairman of the supervisory boards of EBG MedAustron GmbH, Wiener Neustadt and ecoplus.Niederösterreichs Wirtschaftsagentur GmbH, St. Pölten, and deputy chairman of the supervisory board of N. vest Unternehmensfinanzierungen des Landes Niederösterreich GmbH, St. Pölten and of Fachhochschule Wiener Neustadt für Wirtschaft und Technik Gesellschaft m.b.H., Wiener Neustadt; he is also a member of the supervisory board of RIZ Niederösterreichs Gründeragentur Ges.m.b.H., Wiener Neustadt.

A supervisory commissioner of the Bank is the chief executive of NÖ Holding GmbH and NÖ Immobilien Holding GmbH – both domiciled in St. Pölten – and chairman of the supervisory board of Land Niederösterreich Finanz- und Beteiligungsmanagement GmbH, St. Pölten, as well as deputy chairman of the supervisory boards of EBG MedAustron GmbH, Wiener Neustadt and tecnet equity NÖ Technologiebeteiligungs-Invest GmbH, St. Pölten, and a member of the supervisory board of EVN AG, Maria Enzersdorf.

Additional disclosures
Due to his office as a mayor, a member of the Supervisory Board has business dealings with the HYPO NOE Group regarding loans to his local authority.

In 2011 an "identified staff" group of employees was designated and adopted by the Compensation Committee in compliance with the new legal framework governing variable remuneration at banks created by CRD III and section 39b Austrian Banking Act. A distinction is drawn between "identified staff" and "identified staff with less material impact". These two employee groups will in future make up "key management". As a result, the latter personnel category has grown as compared to 2010. The figures for the comparative period have not been adjusted.

10.7 Assets pledged as collateral

Assets have been pledged as collateral for liabilities and contingent liabilities in the amounts shown below:

EUR '000	31 Dec. 2011	31 Dec. 2010
Debts evidenced by certificates	4,313,619	3,453,395
Total	**4,313,619**	**3,453,395**

The following assets were received as collateral for the above liabilities:

EUR '000	31 Dec. 2011	31 Dec. 2010
Loans and advances to customers	4,313,619	3,453,395
Total	**4,313,619**	**3,453,395**

10.8 Trust transactions

In accordance with IFRS, trust transactions entered into by the HYPO NOE Group in its own name but for the account of third parties are not shown in the statement of financial position. Any commissions are reported under "Net fee and commission income" in the comprehensive income statement (Note 7.5, "Other fee and commission income and "Other fee and commission expense").

An analysis of trust transactions not disclosed in the statement of financial position is shown below.

EUR '000	31 Dec. 2011	31 Dec. 2010
Assets held in trust		
Loans and advances to customers	2,266	2,392
Total	**2,266**	**2,392**
Liabilities held in trust		
Deposits from banks	2,266	2,392
Total	**2,266**	**2,392**

10.9 Contingent liabilities, credit risk and latent legal risk

10.9.1 Contingent liabilities

EUR '000	31 Dec. 2011	31 Dec. 2010
Acceptances and endorsements	327	327
Liabilities arising from guarantees and furnishing of collateral	132,741	156,718

10.9.2 Credit risk

EUR '000	31 Dec. 2011	31 Dec. 2010
Credit risk	1,284,930	1,650,398

10.9.3 Legal risks

Legal risks in connection with Augustus Funding Limited
On 21 July 2011 an interest penalty of EUR 57,934thsd was imposed on HYPO NOE Gruppe Bank AG by notice of the Austrian Financial Market Authority. HYPO NOE Gruppe Bank AG has lodged timely appeals against this notice with the Constitutional Court and the Administrative Court of Appeal. As these appeals have no suspensive effect, the Bank paid the above interest penalty on 31 August 2011. On 29 November 2011 the Constitutional Court refused to consider the appeal. The proceedings before the Administrative Court of Appeal are still pending.

The existing provision was used to pay the interest penalty, and the outstanding amount arising from the lower penalty under the notice was reversed through profit or loss (see Note 8.25.1 Movements in provisions).

10.10 Mortgage banking in accordance with the Pfandbriefgesetz (Covered Bond Act)

31 Dec. 2011 EUR '000	Coverage required for debts evidenced by certificates	Coverage of: Loans	Financial instruments	Surplus coverage
Covered bonds	46,993	1,128,879	10,000	1,091,886
Public sector covered bonds	2,548,959	3,221,733	124,010	796,784
Total	**2,595,952**	**4,350,612**	**134,010**	**1,888,670**

31 Dec. 2010 EUR '000	Coverage required for debts evidenced by certificates	Coverage of: Loans	Financial instruments	Surplus coverage
Covered bonds	38,576	843,810	1,000	806,234
Public sector covered bonds	1,785,642	2,647,161	262,533	1,124,052
Total	**1,824,218**	**3,490,971**	**263,533**	**1,930,286**

10.11 Supplementary disclosure pursuant to section 237(8a) Austrian Business Code in conjunction with section 64(1) Banking Act

Joint and several liability for Pfandbriefstelle issuance

Under section 2(1) Pfandbriefstelle-Gesetz (Pfandbriefstelle Act), as a member bank of Pfandbriefstelle der österreichischen Landes-Hypothekenbanken HYPO NOE Gruppe Bank AG is jointly and severally liable, together with the other members, for all the liabilities of Pfandbriefstelle. This liability is the same for all the member banks listed in section 1(2) of Pfandbriefstelle's articles of association and their universal successors. Under section 2(2) Pfandbriefstelle Act the members' guarantors (the respective state governments) are likewise jointly and severally liable for all liabilities incurred up to 2 April 2003, and for all liabilities incurred after that date where the maturities do not extend beyond 30 September 2017. According to Pfandbriefstelle's statutory audit report, the guarantors' liabilities as at year-end 2011 were EUR 9,043,020thsd (31 Dec. 2010: EUR 10,280,452thsd). This is approximately equal to the entire liabilities of Pfandbriefstelle as at 31 December 2011. Taking into account the funds raised by Pfandbriefstelle and lent on to HYPO NOE Gruppe Bank AG, which totalled EUR 932,401thsd at the end of the reporting period (31 Dec. 2010: EUR 1,081,982thsd), this yields an amount of EUR 8,110,619thsd (2010: EUR 9,198,470thsd) which must be disclosed pursuant to section 237(8a) Austrian Business Code.

Contingent liability of the state of Lower Austria

Under section 1356 ABGB (Civil Code), the Province of Lower Austria is liable, as the deficiency guarantor, for all the liabilities incurred by HYPO NOE Gruppe Bank AG up to and including 2 April 2003. Liabilities incurred between 3 April 2003 and 1 April 2007 are covered by the state government guarantee unless their maturities extend beyond 30 September 2017. The guarantee does not cover liabilities incurred after 1 April 2007 or falling due after 30 September 2017. As at 31 December 2011 state government guarantees of issues, deposits and other liabilities such as subordinated and supplementary capital totalled EUR 5,840,357thsd (2010: EUR 5,840,357thsd).

10.12 Events after the reporting period

The full impact of this year's tax reform remains to be seen. While the effects will probably be modest this year, they are likely to be the dominant feature of 2013. Our public finance and real estate finance businesses, and our retail business with its subsidised retirement saving products will be affected. An increase in the bank tax is also expected this year.

Developments with regard to the PIIGS countries, Hungary and Cyprus since the start of 2012 have been as follows.

In February 2012 the European Commission downgraded its growth forecasts for the EU. The so-called PIIGS countries – Portugal, Italy, Ireland, Greece and Spain – are thus likely to be confronted with weaker export demand than was previously anticipated. Government austerity programmes, weak consumer demand and risk-averse investor behaviour are depressing growth and tax revenues. As a result. the governments' budget targets will be still more difficult to meet.

It remains questionable whether Portugal will be able to return to the capital markets towards the end of 2013, meaning that a second aid package could be necessary. The Group's Portuguese exposure was completely eliminated during the first quarter of 2012.

In February 2012 the Irish government announced that a referendum on the Fiscal Compact Treaty would be held in late May or early June. If Irish voters reject the treaty, the country could lose its access to the euro bailout fund.

Since November 2011 the Italian caretaker government has pushed through eight reform packages, the most recent of which was a comprehensive overhaul of the service sector passed at the start of March. The government's term of office is due to end in the spring of 2013.

The Greek parliament has met the conditions attached to the EUR 130bn aid package by passing the necessary budget, pension and administrative reform legislation. The country's private creditors have until 8 March to state whether they will sign up to the debt haircut. A high level of participation is crucial to the success of the rescue programme. The Bank's exposure to Greek debt was reduced by a nominal amount of EUR 20m during the first quarter of 2012. We accepted the Greek government's debt swap offer of 24 February 2012 for the remaining EUR 10m within the deadline.

Spain has missed its 2011 budget deficit target by a wide margin. The autonomous regions are largely responsible for this. The government would now like to renegotiate or water down the spending targets agreed with Brussels.

Near the end of 2011 Russia lent Cyprus EUR 2.5bn. This will enable the country to service its debts in 2012. Nevertheless, the Cypriot banking sector, with its strong ties with Greece, is still very shaky. Support from the IMF and/or the EU could be needed this year.

The European Commission has announced that it will block about EUR 500m of funds for Hungary. The reason given is the country's repeated infringement of the stability pact. Hungary pushed its budget deficit to below 3% of GDP in 2011, but this was only achieved by one-time effects rather than sustainable measures, and the deficit is likely to top 3% again in 2012.

10.13 Governing bodies of HYPO NOE Gruppe Bank AG

The following persons were members of the Management and Supervisory boards during the reporting period:

Management Board
Peter Harold, Chairman
Nikolai de Arnoldi, member
Günther Ritzberger, MBA, member (until 30 April 2011)

Supervisory Board
Herbert Fichta, Chairman (until 31 December 2011)
Burkhard Hofer, Deputy Chairman (until 31 December 2011; Chairman since 1 January 2012)
Michael Lentsch (Deputy Chairman since 1 January 2012)
Willibald Eigner (until 31 December 2011)
Klaus Schneeberger
Karl Schlögl
Karl Sonnweber
Engelbert Josef Dockner (since 1 January 2012)
Hubert Schultes (since 1 January 2012)

Delegated by the Works Council
Hermann Haitzer
Peter Böhm
Franz Gyöngyösi
Franz Siegl

State commissioners
Michael Svoboda, Federal Ministry of Finance (until 31 December 2011)
Franz Ternyak, Federal Accounting Agency
Hans Georg Kramer, CFP, Federal Ministry of Finance (since 1 January 2012)

Supervisory commissioners
Reinhard Meissl, office of the Lower Austrian state government
Helmut Frank, office of the Lower Austrian state government

St. Pölten, 29 March 2012
The Management Board

Peter Harold
Chairman of the Management Board

Nikolai de Arnoldi
Member of the Management Board

DECLARATION BY THE COMPANY'S LEGAL REPRESENTATIVES

We hereby confirm that to the best of our knowledge the consolidated financial statements of HYPO NOE Gruppe Bank AG give a true and fair view of the Company's assets, finances and earnings to the maximum extent possible, in conformity with the relevant accounting standards, that the operational and financial review presents the course of the Company's business, and its results and financial condition in such a manner as to give a true and fair view of the Company's assets, finances and earnings, and that that review describes the principal risks and uncertainties to which the Company is exposed.

St. Pölten, 29 March 2012
The Management Board

Peter Harold
Chairman of the Management Board

Responsible for
Sales, Treasury, Participations, Organisation & IT,
Business Development, Human Resources,
Controlling, Communications and Audit

Nikolai de Arnoldi
Member of the Management Board

Responsible for Risk Management,
Accounting, Legal, Credit and Treasury Services

AUDITORS' REPORT

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of HYPO NOE Gruppe Bank AG (formerly HYPO Investmentbank AG), St. Pölten for the year ended 31 December 2011. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2011, and the statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, as well as the notes thereto.

Management's responsibility for the consolidated annual financial statements and for the accounting system
The Company's management is responsible for the accounting system and fair presentation of these consolidated annual financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining an internal control system, where 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; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibilities, and description of the nature 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 the laws and regulations applicable in Austria, as well as the 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 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 judgement, including the auditor's assessment of the risks of material misstatement, 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 the accounting policies used and the reasonableness of the 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 sound 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 the legal requirements, and give a true and fair view of the financial position of the Group as at 31 December 2011 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Opinion on the Group operational and financial review
Pursuant to statutory provisions, the Group operational and financial review is to be audited as to whether it is consistent with the consolidated financial statements and as to whether any additional disclosures it contains are not misleading with respect to the Group's position. The auditor's report must also contain a statement as to whether the Group operational and financial review is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a(2) UGB (Austrian Business Code) are appropriate.

In our opinion the Group operational and financial review is consistent with the consolidated financial statements. The disclosures pursuant to section 243a(2) Austrian Business Code are appropriate.

Vienna, 5 April 2012

Deloitte Audit Wirtschaftsprüfungs GmbH

Bruno Moritz m.p.
Tax consultant

Thomas Becker m.p.
Certified public accountant

Peter Bitzyk m.p.
Certified public accountant

The consolidated financial statements bearing our audit opinion may only be published or transmitted in the version certified by us. This audit opinion relates exclusively to the complete German language consolidated financial statements, and operational and financial review. The provisions of section 281(2) Austrian Business Code apply to other versions.

REPORT OF THE SUPERVISORY BOARD

In 2011 the Supervisory Board discharged the duties incumbent upon it by virtue of the law and the articles of association, and was kept regularly informed by the Management Board on the course of business and the state of the Bank's affairs.

The accounts and records, and the **annual financial statements, as well as the operational and financial review** to the extent that it discusses the financial statements, have been audited by the independent auditors Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit gave rise to no objections and the statutory requirements were fully complied with, the auditors issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings, is in agreement with the annual financial statements for the year ended 31 December 2011 and the operational and financial review, including the dividend recommendation, submitted to it by the Management Board, and hereby approves the 2011 annual financial statements in accordance with section 96(4) Aktiengesetz (Austrian Companies Act).

The auditors Deloitte Audit Wirtschaftsprüfungs GmbH audited the **2011 consolidated financial statements** for compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board which are applicable in the EU, and the Group operational and financial review for compliance with the Austrian Business Code. The audit gave rise to no objections and the auditors found that the statutory requirements had been fully complied with. In the opinion of the auditors the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) applicable in the EU. The auditors confirmed that the Group operational and financial review is consistent with the consolidated financial statements, such that the statutory requirements for exemption from the obligation to prepare consolidated financial statements according to Austrian law are fulfilled, and issued an unqualified audit certificate. The Supervisory Board concurred with the audit findings.

St. Pölten, 19 April 2012
The Supervisory Board

Burkhard Hofer
Chairman

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