HYPO GROUP
ALPE ADRIA

Group Annual Report 2008

Hypo Group Alpe Adria

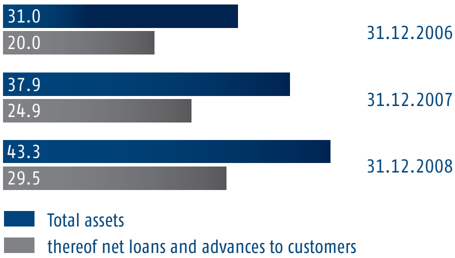
Key data based on IFRS Financial Statements

Hypo Alpe-Adria-Bank International AG (Group)

in EUR m

	2008	2007	2006
Income statement	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**
Net interest income	702.2	599.2	506.3
Net fee and commission income	117.6	121.3	90.6
Risk provisions on loans and advances	–533.3	–274.1	–127.1
Operating expenses (general administrative expenses)	–585.6	–491.1	–418.6
Operating result	–473.5	–114.0	141.8
Result before tax	–472.4	–56.1	141.6
Result after tax	–518.3	–70.3	100.9
Consolidated net income (after minority interests)	–519.7	3.1	83.5
Balance sheet	**31.12.**	**31.12.**	**31.12.**
Loans and advances to customers	30,566.7	25,650.7	20,495.9
Liabilities to customers	8,716.9	8,473.6	6,626.5
Liabilities evidenced by certificates and subordinated capital	23,005.8	21,615.9	18,704.4
Equity (incl. minority interests)	2,529.8	1,659.1	875.9
Total assets	43,336.1	37,938.5	31,007.0
Risk-weighted assets (banking book)	32,831.6	28,246.6	22,009.9
Key figures	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**
Return on equity (ROE) before tax	n.a.	n.a.	19.1 %
Return on equity (ROE) after tax	n.a.	n.a.	13.6 %
Return on equity (ROE) after tax and minority interests	n.a.	n.a.	22.0 %
Cost/income ratio	90.7 %	75.4 %	60.9 %
Net interest income/Ø risk-weighted assets (banking book)	2.4 %	2.4 %	3.3 %
Risk/earnings ratio	75.9 %	45.7 %	25.1 %
Risk/Ø risk-weighted assets (banking book)	1.8 %	1.1 %	0.9 %
Return on assets (ROA) before tax	n.a.	n.a.	0.6 %
Return on assets (ROA) after tax and minority interests	n.a.	n.a.	0.3 %
Bank specific figures	**31.12.**	**31.12.**	**31.12.**
Own capital funds acc. to BWG	4,173.2	2,872.2	1,989.8
Own capital funds requirement acc. to BWG	2,796.8	2,295.6	1,785.6
Surplus capital	1,376.4	576.6	204.2
Tier 1 capital	2,746.5	1,769.4	1,178.2
Tier 1 ratio (banking book)	8.3 %	6.3 %	5.4 %
Own capital funds ratio – total (solvency ratio)	11.9 %	10.0 %	8.9 %
Moody's rating	**31.12.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	A2	A2	Aa2
Long-term (liabilities covered by statutory guarantee)	Aa2	Aa2	Aa2
Short-term	P-1	P-1	P-1
Bank Financial Strength Rating	D–	D–	D–
Employees & outlets	**31.12.**	**31.12.**	**31.12.**
Employees at closing date	8,114	7,542	6,468
in core business	7,552	6,963	6,138
in other business	562	579	330
Employees average	7,867	7,109	6,108
in core business	7,274	6,536	5,681
in other business	592	573	427
Number of outlets	384	342	327
Austrian	39	40	40
Foreign Countries	345	302	287

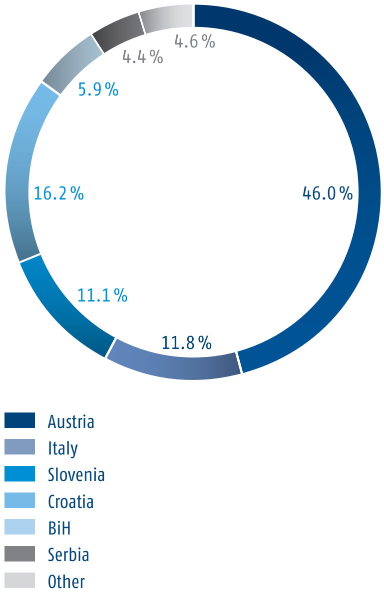
Total assets
in EUR bn



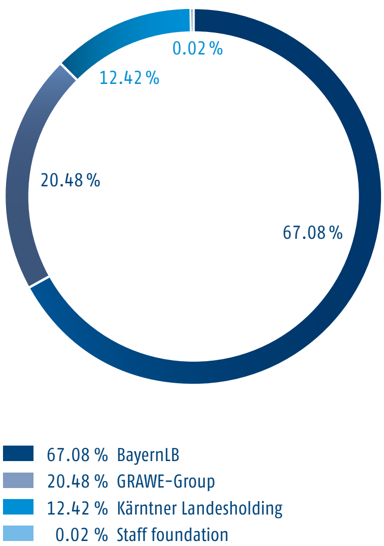
Net interest income
in EUR m

Employees
Development 2004 to 2008

Total assets by country
as of 31 December 2008



Shareholder structure
as of 31 December 2008



Total assets by business segments
as of 31 December 2008

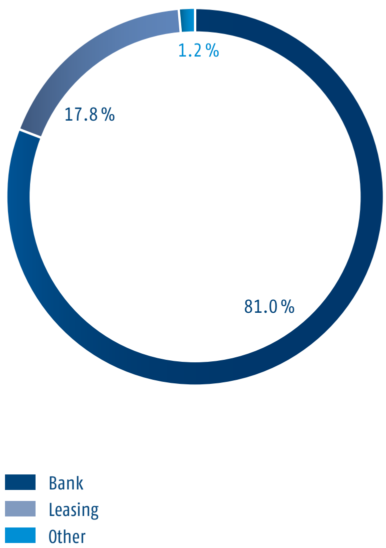


Table of Contents

The Hypo Group Alpe Adria 2008.

Letter from the Chairman of the Executive Board

Dear Customers and Business Partners,
Dear Shareholders,
Dear Staff,

The year 2008 was probably the most dramatic in the history of the international financial industry ever. Large banks with global operations collapsed, had to seek refuge in the often not all too strong arms of other banks or were nationalized to avoid even worse. Nothing, and I mean nothing at all, is the way it used to be. The financial crisis is still upon us, and it is hitting the real economy with considerable force, too.

Even a financial group such as Hypo Group Alpe Adria – although it had made the most of time by repositioning itself, reorganizing internal workflows and processes and above all reducing risk positions – was not able to escape the negative impact of a crisis that spared no-one in the financial industry. And even though active portfolio adjustments in the past meant that our group was not or only little involved in the globally most severe cases of damage, we also felt the effects of the crisis. Furthermore, the difficulties of Bayerische Landesbank (BayernLB), our main shareholder, did not go unnoticed in our day-to-day business.

In this context, it came as no surprise that we had to report a loss at the end of the year. While this loss might be understandable and unavoidable in the present crisis, it nevertheless hurts and fuels our ambition to show what this bank is made of.

This is all the more true as our bank, by and large, is on the right track. It has made significant progress, both in terms of operations and customer relationships, while it has massively improved its internal setup.

Precisely because of this, 2008 was not a lost banking year for Hypo Group Alpe Adria. Notwithstanding these adverse circumstances, we have improved in many ways. For instance, our network of branch offices continued to grow denser in 2008, allowing us to serve our customers even better. We improved our market position. On the operative side, the net interest result grew in the double digits again, and we also achieved a further increase of the primary resources. This confirms that we are on the right way.

And not least, in the last days of the year we succeeded in taking a decisive step to protect our substance and our future even in the financial crisis. After our majority shareholder, BayernLB, had decided together with Hypo Alpe Adria Mitarbeiter Privatstiftung to strengthen Hypo Group Alpe Adria through an increase of stock in the course of the group-wide capital allocation, the Republic of Austria also bolstered Hypo Alpe-Adria-Bank International AG, the supreme credit institution of Hypo Group Alpe Adria, by providing approximately EUR 900 million in the form of participation capital. After a thorough audit, we were certified as a healthy bank. The funds represent the interest-bearing investment in our Tier 1 capital to raise it to an internationally accepted level in the crisis. In return, the Republic of Austria demanded a commitment that we would not curtail our activities as a provider of loans to the economy. This we were happy to give. After the risk adjustment measures, we therefore still have an internationally accepted capitalization rate and are able to look ahead to fiscal 2009 with confidence. Without a doubt, it will be anything but an easy year. We thank the representatives of the Republic of Austria as well as all the shareholders who have supported the bank constructively.

In the wake of the financial crisis, BayernLB started a re-dimensioning process. We have full understanding for this measure and give it our constructive support. At the same time, we regard it as our duty to ensure that the excellent future prospects in our dynamic markets are not endangered by excessively short-term decisions. We are very confident that we will be able to contribute our special strengths and potentials to everybody's benefit, even if the structure of our main shareholder changes. Hypo Group Alpe Adria is certainly prepared to make its contribution.

Austria as a place of banking has demonstrated in 2008 how quickly and pragmatically it is capable of initiating the right measures for its banks and economy. We feel thoroughly good about being a bank in Austria, a Carinthian bank for Carinthia and for many markets abroad where we have long since stopped being perceived as foreigners. We are aware that in our capacity we are expected to make a contribution to the working of the markets, to the success of the enterprises and to the growing prosperity of the people. This is something we are proud of working on – in 2009 and in the future.

I will be vacating my position as Chairman of the Executive Board on 30 April 2009. When BayernLB acquired a majority stake in Hypo Group Alpe Adria, I accepted the post of Chairman of the Executive Board while committing myself to return to my own company, Berlin & Co., after the successful implementation of necessary capital injections and internal restructuring measures. Based on a solid foundation in terms of capitalization and risks, the bank can now look towards the future with confidence. Having fulfilled my task, I am therefore able to dedicate myself to my own company once again.

Before this, however, it is my strong desire to thank our customers, business partners and shareholders for their loyalty and trust. I am convinced that as a reliable bank, Hypo Group Alpe Adria will work to the best of its ability for the benefit of its customers in 2009. I also wish to appreciate all employees for their uncompromising commitment, day in and day out, who are responsible for the excellent relationships we maintain with our customers.

Yours sincerely

Tilo Berlin
Chairman of the Executive Board
HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

Group Executive Board

(f.l.t.r.)

Božidar Špan
(born 1960)
Joined Hypo Group Alpe Adria in 1994
Member of the Executive Board since 1 June 2008

Ressorts
Leasing
Corporate Banking
Int. Corporates

Andreas Dörhöfer
(born 1963)
Member of the Executive Board since 1 May 2008

Ressorts
Risk Management
Settlement

Tilo Berlin
(born 1958)
Chairman of the Executive Board since 1 June 2007

Paul A. Kocher
(born 1964)
Member of the Executive Board since 1 October 2006

Wolfgang Peter
(born 1958)
Member of the Executive Board since 1 October 2006

Ressorts
Audit
Legal
Retail & Private Banking
Compliance & Security
Participation Mgmt.
Human Resources
Marketing & PR

Ressorts
Treasury
Investment Banking
Public Finance

Ressorts
Accounting
Financial Controlling
IT / Organisation
Reporting

Group Overview as of 31 December 2008

Austria	
Market Entry	1896
Locations Bank	33
Locations Leasing	6
Employees	1,206

Bosnia and Herzegovina	
Market Entry	2001
Locations Bank	97
Locations Leasing	9
Employees	1,285

Bulgaria	
Market Entry	2006
Locations Bank	0
Locations Leasing	9
Employees	134

Italy	
Market Entry	1986
Locations Bank	29
Locations Leasing	1
Employees	557

Serbia	
Market Entry	2002
Locations Bank	45
Locations Leasing	13
Employees	1,157

Macedonia	
Market Entry	2006
Locations Bank	0
Locations Leasing	3
Employees	34

Slovenia	
Market Entry	1994
Locations Bank	17
Locations Leasing	10
Employees	603

Montenegro	
Market Entry	2005
Locations Bank	10
Locations Leasing	3
Employees	229

Hungary	
Market Entry	2006
Locations Bank	0
Locations Leasing	3
Employees	40

Croatia	
Market Entry	1994
Locations Bank	74
Locations Leasing	19
Employees	2,247

Germany	
Market Entry	2003
Locations Bank	0
Locations Leasing	2
Employees	27

Ukraine	
Market Entry	2007
Locations Bank	0
Locations Leasing	1
Employees	33


MÜNCHEN
BUDAPEST
KIEV
KLAGENFURT
UDINE
LJUBLJANA
ZAGREB
OSIJEK
BANJA LUKA
BEOGRAD
SARAJEVO
MOSTAR
PODGORICA
SOFIA
SKOPJE

Profile

A strong financial group with many decades of history in South Eastern Europe

Established in 1896, Hypo Group Alpe Adria's history spans more than one hundred years. Having focused on the financing of public institutions, the housing construction business and the issue of mortgage bonds initially, the institution then established a leasing company in Udine/Italy in 1986, which acted as a catalyst for an unparalleled expansion in South Eastern Europe.

In bank and leasing, its two core segments, Hypo Group Alpe Adria today engages in national and transnational operations in 12 countries at more than 380 locations in the extended Alps to Adriatic region. Geographically, the bank's activities extend from countries at the heart of the European Union to dynamic "new" EU member states and upcoming countries earmarked for future EU enlargement. As a pioneer in this region, Hypo Group Alpe Adria embodies a unique philosophy – supra-regional thinking and transnational acting have been part and parcel of Hypo Group Alpe Adria's corporate culture for many years.

Reliable partner in the Alps to Adriatic region

Hypo Group Alpe Adria regards itself as a strong and reliable partner and as a stimulating force for the economy of the countries where it is present. Therefore, its commitment in the countries is always focussed on the long term, giving enterprises as well as private customers the security they need to develop their business – because a strong and reliable partner with detailed knowledge of the countries and structures of an ever more strongly integrated economic area is a key contributor to their success, whether they are private customers or corporate clients. The long-established co-operation across linguistic and national barriers is as much a critical success factor for Hypo Group Alpe Adria as its in-depth knowledge of the subtle cultural differences between the regions. Although Hypo Group Alpe Adria adapts its approach to satisfy the many different regional demands, it nevertheless pursues a clear concept for the common whole.

Banking business is people's business

As a leading "regional player" in its markets, Hypo Group Alpe Adria is perfectly aware of the importance of regional differences. "Respecting differences, growing together and being successful with others" are the pillars upon which our partnership rests – a partnership sustained by organically grown and proven structures. Accordingly, Hypo Group Alpe Adria always regards its activities as a long-term partnership that extends far beyond mere financial transactions. The motto of Hypo Group Alpe Adria, "Banking business is people's business", fittingly expresses this. It means that customer focus is the top priority, based on an unwavering commitment to delivering customer-driven services, reflected especially in ease of access to banking facilities and rapid attainment of personal goals. At the same time, this uncompromising focus on the customer and the development of tailored solutions facilitates also to define a clear mission for the future. Hence the commitment of Hypo Group Alpe Adria is based on a well-defined strategy and philosophy in all countries: with distinctive, reliable and easy-to-understand products on both financing and investment sides, Hypo Group Alpe Adria positions itself as a long-term partner and makes an impressive contribution to the success of its customers.

Successful in two strong core segments: bank and leasing

Hypo Group Alpe Adria primarily derives its decisive competitive edge from the two strategic core business segments – bank and leasing – and the know-how encapsulated in them, both in the domestic markets and in the cross-border business. From its headquarters in Carinthia/Austria, Hypo Group Alpe Adria builds a service infrastructure by developing local networks, always following a clear strategy. When the company decides to enter a new market, it usually sets up a local leasing company first, which then provides a solid base for the subsequent expansion in the banking business and the growth of the two segments.

This strategy was adopted for the market entry in almost all countries – in most cases by means of greenfield operations. For instance, approximately 90 % of the assets are attributable to the establishment of bank and leasing companies of Hypo Group Alpe Adria, and less than 10 % to acquisitions.

Strengthening of the equity base

At the beginning of December 2008, Hypo Alpe-Adria-Bank International AG, the supreme credit institution of Hypo Group Alpe Adria, strengthened its equity by implementing a EUR 700 million capital increase in which the participants were the principal shareholder, Bayerische Landesbank (BayernLB), and (to a very small extent) Hypo Alpe Adria Mitarbeiter Privatstiftung. Additionally, Hypo Alpe-Adria-Bank International AG received EUR 900 million in participation capital from the bank aid package of the Republic of Austria at the end of December 2008. Pursuant to the terms and conditions of issue, at least twice the amount of this capital is to be made available to the economy by means of loans and lease financing during the next three years.

After these measures, Hypo Group Alpe Adria now has a robust equity base with a Tier 1 capital ratio of 8.3 % and a solvency ratio of 11.9 %.

The ownership structure since the capital increase as of 31 December 2008 has been as follows: BayernLB holds 67.08 %, BVG Beteiligungs- und Verwaltungsgesellschaft mbH, a member of the Grazer Wechselseitige Versicherung AG group, holds 20.48 %, Kärntner Landes- und Hypothekenbank-Holding holds 12.42 % and Hypo Alpe Adria Mitarbeiter Privatstiftung 0.02 %.

Compliance & Security

Implemented in 2007, the Compliance & Security unit is in charge of all measures that concern the orderly provision of financial services, of initiatives to combat money laundering, white-collar crime and terrorism financing, and of matters relating to data and information protection as well as the protection of human life and material assets.

Compliance measures pursue the following purposes: the creation of a relationship based on fairness and trust between the customer, the credit institutions and its employees; the prevention of conflicts of interest; compliance with the laws and associated regulatory and internal directives. While this puts the focus firmly on the interests of the customer, it also helps to avoid reputation risks.

The group relies on a combination of traditional prevention methods and IT-based checks of transactions and customer connections to combat money laundering, terrorism financing and white collar crime. This also contributes to standardizing and streamlining workflows and analysis methods.

Protection and security measures are designed to meet the requirements of customers and employees, to satisfy the asset protection demands and to fulfil the data and information protection requirements of the customer and the company itself. Only the involvement of all employees in security issues, a regular review of the measures as well as preventive thinking and action can guarantee an adequate level of protection.

In this connection, the companies of Hypo Group Alpe Adria are required to comply not only with the laws and regulatory standards of their respective countries, but also with the minimum compliance & security standards imposed by the group. This assures that the demanding international requirements are applied consistently and accepted as a solid basis for doing business throughout the group.

Corporate governance

Hypo Group Alpe Adria recognizes many demands formulated in the Austrian Corporate Governance Codex as amended, and voluntarily incorporated appropriate rules in its articles of association.

Rating

Hypo Alpe-Adria-Bank International AG, as the representative of Hypo Group Alpe Adria in the international capital market, has a non-guaranteed long-term rating of A2 and a guaranteed long-term rating of Aa2, a BFSR (Bank Financial Strength Rating) of D as well as an Aaa mortgage bond rating. On 11 November 2008, Moody’s Rating Agency put the non-guaranteed long-term rating of A2 and the short-term rating of P-1 as well as the rating for subordinated liabilities (A3) and preference stock rating (Baa2) on the observation list for a possible downgrade.

Addendum after the balance sheet date:

In February 2009, Hypo Alpe-Adria-Bank International AG issued a Debt Issuance Program for state-guaranteed issues which was rated Aaa/AAA/AAA by the three rating agencies, namely Moody’s, Standard & Poor’s and Fitch Ratings.

Corporate Social Responsibility (CSR)

Aware of its responsibility for the effects of its actions, Hypo Group Alpe Adria treats economic, social and ecological aspects as integral parts of an interconnected system and strives to balance the interests of the different stakeholders. The local content of projects in the markets is maximized to respond optimally to the regionally different requirements of the countries. Furthermore, the company also sponsors transnational projects in the areas of social responsibility, art and culture as well as the environment. Fully in line with its corporate culture, Hypo Group Alpe Adria is keen to support the development of its employees by implementing target-oriented promotion programmes and extending attractive offers to its staff.

Employees

Within the scope of the preventive health action programme, all staff members of Hypo Alpe Adria Group are free to enrol for back exercises or participate in stress management/eurhythmy and first aid courses. Free vaccinations as well as health and preventive examinations are also available. In the context of health promotion, company employees are eligible to join the group health insurance at greatly reduced rates.

Hypo Group Alpe Adria recognizes the importance of making family life compatible with the exercise of a profession. The Work Life Balance programme offers a choice of flexible working time schedules, for instance part time employment or several varieties of flexitime schemes. The “Career and Family” audit, a health check of the entire corporate culture concerning family friendly and economically sensible solutions, reflects the company’s focus on family friendliness. Wishing to help mothers and fathers to return to work and organize their working day, the company has set up its own “Happy Hippos” crèche where the children of employees are looked after caringly. Furthermore, employees with children qualify for a child bonus and a one-off bonus at birth.

For cases of exceptional hardship, Hypo Group Alpe Adria has established a social fund that helps employees financially to come through especially troubled situations.

Social responsibility

In the countries of its operations, Hypo Group Alpe Adria assumes its social responsibility in many different ways. For instance, Hypo Group Alpe Adria has been a partner in the "siamo fratelli e sorelle" project for many years. The project strives to assist those without disability (mainly teenagers and schoolchildren) to learn to appreciate the disabled, and in general to reduce fears of the disabled. Integration workshops and presentations are a key feature of an annual event in Klagenfurt organized under the auspices of Austria's federal president Dr. Heinz Fischer. In 2008, more than 3,000 participants from seven European countries visited Carinthia's capital on this occasion. In Croatia, Hypo Group Alpe Adria financed the purchase of a special children gastroscopy unit for the hospital of Osijek and sponsored the Hypo Zagreb skiing legends race, which helped raise 150,000 Kuna for a children's hospital in Gornja Bistra. In Bosnia-Herzegovina, donations were substituted for gifts on World Savings Day. These donations went to social institutions, for instance retirement homes and maternity clinics. In addition, a respectable amount was donated to the Srpska Republic in 2008, especially for kindergartens, schools and other social institutions.

In 2008, various countries decided to give money to people in need instead of sending out Christmas cards. In Croatia, for instance, children with special needs were the beneficiaries of these donations. In Slovenia, a part of the amount was spent on Christmas presents for children from socially disadvantaged families, enabling them to go on a holiday trip. In Montenegro, Christmas presents were sent to a school for children with special needs in Podgorica. In Serbia, Hypo Group Alpe Adria, together with the OSCE, sponsored the construction of the pan-European playground in Pancevo.

In the year under review, the social commitment in Austria, Hypo Group Alpe Adria's domestic market, was as important as ever. Many social institutions, for instance the clown doctors, SOS Kinderdorf and the Red Cross, were generously supported. Like in the past, high priority was given to the promotion of initiatives for families.

Art and culture

Supra-regional thinking and transnational acting have been part and parcel of Hypo Group Alpe Adria's corporate culture for many years. The active dialogue with artists and cultural institutions across borders, and therefore the targeted and sustainable promotion of art and culture in the regions, has always been an important mission for Hypo Group Alpe Adria.

In Croatia, the banking group supports galleries that show the work of young unknown artists, apart from many other regional cultural events. Hypo Group Alpe Adria is also a preferred co-operation partner of numerous cultural events such as film festivals and theatre performances in Slovenia and Bosnia-Herzegovina. Together with the "RS Academy of Arts" university, Hypo Group Alpe Adria supports young artists and their exhibitions in Bosnia-Herzegovina. In Serbia, Hypo Group Alpe Adria sponsored the theatre performance of a play (Kabare) as well as the NOMUS 2008 festival in the year just ended.

Environment

Hypo Group Alpe Adria acknowledges its environmental responsibility and is fully committed to the sparing use of resources. Many projects in various countries comprehensively confirm that the protection of the environment is an integral part of the corporate culture: for instance, in Bosnia-Herzegovina the second stage of the programme to support landmine victims was implemented in 2008 and supported by Hypo Group Alpe Adria. This stage of the project focuses on finding jobs for the victims to promote their integration in society.

Group Management Report

1. General economic environment

In 2008, the world economy experienced the negative effects of the crisis on financial markets. While this crisis was at first mainly limited to international financial markets, its impacts were also felt by the real global economy by the fourth quarter of 2008.

In the US, the continued weakness of the banking and financial system led the US economy into its deepest recession since 1982. In Europe, economic growth in most countries was also greatly affected by the financial turbulences and economic decline. Initial forecasts for 2009 predict the GDP of the Eurozone to decrease by 1.2 %.

As a small, export-oriented country, Austria was not immune to this downward trend. While the Austrian economy managed to fight the negative market trends until the autumn of 2008, it was then even more affected by the crisis in the following period. Despite the massive countermeasures taken by the federal government, it is expected that Austria's GDP in real terms will decrease by 0.5 % in 2009. At the end of 2008, the German economy found itself at the brink of a recession with growth of approximately 1.7 %. Almost all economic data has been deteriorating in the last months and indicates that the decline of total economic production has accelerated even further during the last quarter. The Italian economy was already close to a recession at the beginning of the second quarter. In this context, both investment activities as well as private consumption experienced significant declines.

The global shortfall of funds created a massive problem for Central and Eastern Europe – a region which has experienced tremendous growth in the last years. The rapid catch-up process underway during the past years was largely supported by capital inflows from the Eurozone, whereby companies as well as private households considerably expanded their debts in the last few years. In 2008, this was offset by a massive loss of confidence on international financial markets. In view of the stagnating imports by its neighbouring countries, Slovenia had to face an expected 3.8 % decrease in economic growth in 2008. In addition, the international financial crisis made it harder for Slovenian banks to access funds from abroad. The Croatian economy underwent a similar development. According to initial forecasts, GDP growth slowed to 2.2 % in the past financial year, mainly on the basis of the effects of the global economic situation on tourism, but also due to a change in domestic consumer behaviour. Similar to practically all South Eastern European stock exchanges, the Croatian equities market is finding itself under tremendous pressure. Following the positive pricing developments in previous years, the Crobex Index 2008 incurred losses of approximately 67 %. By signing the Stabilisation and Association Agreement (SAA) with the European Union on 16 June 2008, Bosnia and Herzegovina was on track to EU membership. The country's economy reacted positively, and GDP grew by 6.5 % according to initial estimates. In Serbia, which also signed the SAA treaty with the EU in 2008, economic growth slowed to 6.0 %, mainly due to the sudden disappearance of foreign investors as of October. The massive increase in Serbia's inflation rate was an additional negative factor. On 15 December, the government of Montenegro submitted its application for official EU membership. Forecasted GDP is expected to increase by approximately 8 % in 2008; however, it is likely that this growth period has now reached its end, as tourism and its associated industries were the main drivers behind last year's growth. In Bulgaria, expected economic growth for 2008 reached levels of approximately 6.5 %. The country benefited from solid growth in the first half year before encountering the negative effects created by a loss of confidence on the part of customers and investors during the second half of the year. Hungary also experienced disparate growth for the 2008 financial year. While all macro-economic indicators still posted increases during the first half of the year, Hungary's economy did not stay immune to the effects of the global financial crisis. Based on initial reports, real GDP grew by 1.7 %.

In view of the current situation on global financial markets, it is fairly difficult to issue forecasts for 2009. Growth forecasts for subsequent years are based on the assumption that the economy will slowly start to rebound towards the end of 2009.

2. Overview of Hypo Group Alpe Adria

Founded in 1896, Hypo Group Alpe Adria is now active in the countries of an extended Alpine to Adriatic region with its two large business segments Banking and Leasing. With over 7,500 employees in the core business at more than 380 locations in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Germany, Bulgaria, Macedonia, Hungary and the Ukraine, the company is considered one of the leading financial corporations in the region. Hypo Group Alpe Adria's network, which covers a wide area, ensures optimum support for over 1.3 m customers, whereby proximity to customers and a high quality of services comprise the main focus.

In line with a clearly focused Alpine-Adriatic strategy, for the past financial year the financial institution has been focusing on consolidating its existing network following years of controlled growth. At the same time, it has also successfully continued to improve internal structures and processes to meet increasing requirements, and adapted the risks of Hypo Group Alpe Adria in line with an orientation towards sustainability.

The difficult conditions on international financial markets in 2008, along with their effects on the real economy, also impact the economic growth of Hypo Group Alpe Adria, it also had to adjust existing risks and take precautions for further risk minimisation.

The Group's equity base was strengthened by a capital increase of EUR 700 m which was undertaken in the fourth quarter, involving BayernLB at approximately EUR 699.9 m and the Hypo Alpe Adria Mitarbeiter Privatstiftung (employee foundation) at approximately EUR 0.1 m. In addition, subsequent to the respective resolutions by the committees, the Executive Board of the Bank utilised a government package of measures (BGBl (Federal Law Gazette) I 136/2008) and also issued non-voting share capital.

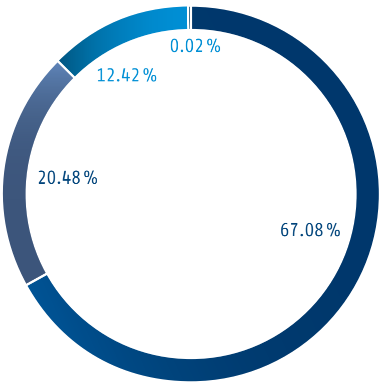
In accordance with an agreement in principle to issue non-voting share capital, which was concluded with the Republic of Austria, the terms of the share certificate and the subscription agreement of 29 December 2008, the Republic of Austria subscribed 18,000 share certificates at a nominal amount of EUR 50,000.00 each, as well as non-voting share capital at a total amount of EUR 900 m.

Group Management Report

Based on these two capital measures, as well as a Tier 1 capital ratio of 8.3 % and total equity ratio of 11.9 %, on the closing date of 31 December 2008 Hypo Group Alpe Adria possesses a very solid equity base and is therefore well prepared for further strategic growth.

Following the completion of both capital measures, as well as further shifts in investments, Bayerische Landesbank (BayernLB) held 67.08 % of base capital as of the 31 December 2008 closing date. 20.48 % of shares were owned by the BVG Beteiligungs- und Verwaltungsgesellschaft mbH (GRAWE-Group [Grazer Wechselseitige Versicherung AG]). An additional 12.42 % were held by the Landes- und Hypothekenbank-Holding (Kärntner Landesholding), and 0.02 % by the Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation).

Shareholder structure
as of 31 December 2008



67.08 % BayernLB
20.48 % GRAWE-Group
12.42 % Kärntner Landesholding
0.02 % Staff foundation

Concurrent with the restructuring and reorganisation of Hypo Group Alpe Adria, significant developments affecting the future direction of the company also took place in the Group's Supervisory and Executive Board. In this vein, Michael Kemmer, Chairman of the Executive Board of BayernLB, was elected Chairman of the Supervisory Board for Hypo Group Alpe Adria. In its meeting of 30 April 2008, the Supervisory Board appointed Božidar Špan, previously Chairman of the Executive Board for Hypo Alpe-Adria-Bank d.d., Slovenia, and Andreas Dörhöfer, previously department manager Risk Office Corporates and Financial Institutions at BayernLB to serve on the Executive Board. The appointment of Božidar Špan, who has been responsible for the areas Corporate and Leasing since 1 June 2008, corresponds with the increasing significance of international markets for the bank, as this is the first time in the history of the company that a director from a Hypo country has been appointed to the Board. Andreas Dörhöfer has been responsible for the areas Risk Management and Settlement since 1 May 2008. Josef Kircher, most recently a director on the bank's Board with responsibilities for Corporate and Leasing, has left the Executive Board effective 31 May 2008 at his own request. Thomas Morgl, most recently responsible for the areas Retail, IT/Organisation and Settlement, has also left the Executive Board in December 2008. His functions have been transferred to the remaining Directors as of January 2009.

Hypo Alpe-Adria Bank International AG, as the representative of Hypo Group Alpe Adria on international capital markets, has been assigned a non-guaranteed long-term A2 rating, as well as a guaranteed long-term rating of Aa2, a BFSR (Bank Financial Strength Rating) of D-, and a bond rating of Aaa. On 11 November 2008, the rating agency Moody's put the non-guaranteed long-term rating of A2 and the short-term rating of P-1, as well as the rating for subordinate liabilities (A3) and preference stock rating (Baa2) on review for a possible downgrade.

3. Analysis of financial key indicators

These consolidated financial statements of Hypo Group Alpe Adria for the financial year ending 31 December 2008 have been prepared on the basis of the International Financial Reporting Standards (IFRS). At the end of 2008, the basis of consolidation, including the parent company of the Group, consisted of 118 companies, of which 32 are headquartered in Austria and 86 abroad, respectively.

3.1. Development of results

The 2008 financial year of Hypo Group Alpe Adria was characterised by significant exceptional charges, which were not offset by the higher net interest income.

The operative customer business continued to generate solid growth for both the bank as well as the leasing business. This development was particularly evident in the net interest income which, despite the negative interest inflows from interest-based derivative transactions, increased significantly as compared to the previous year by 17.2 %, or EUR 103 m, to EUR 702 m.

Currently at EUR 118 m, net fee and commission income are slightly behind those of last year (–3.1 %). The largest contribution to the net fee and commission income was provided by our two subsidiary banks in Croatia, followed by Austria and Serbia. The result actually posts a slight increase of 1.9 % once adjusted for the effect of Alpe Adria Privatbank AG (former: Hypo Alpe-Adria-Bank [Liechtenstein] AG), which was included in the previous year's consolidated financial statements at a net fee and commission income of EUR 6 m.

The burden created by the financial market crisis was evidenced in a clearly negative result from trading, which decreased from EUR 22 m to EUR –38 m. Within the interest- and index-based areas, this development was mainly due to market value losses for derivatives in the bank book, which had to be recorded as affecting net income.

The result from hedge accounting was – at EUR –44 m – negative and resulted primarily from the abrupt decrease in key interest rates (EURIBOR and LIBOR). Differing interest adjustment dates contributed to hedge inefficiency, brought about by the variable component in interest derivatives.

The result from financial investments designated at fair value through profit or loss (fair value option), experienced positive growth, increasing to EUR 12 m in 2008 as compared to EUR –153 m in the previous year. This also includes an approximately EUR –56 m valuation result from the portfolio of the HBInt. Credit Management Ltd. investment company operated by Hypo Alpe-Adria-Bank International AG and a 49 % co-investor, which in turn includes EUR –14 m for securities which were either sold or were in default during the first half of 2008. Other negative valuation effects incurred during the financial year included effects from fund shares which have been attributed to the fair value option, the structured credit investment portfolio as well as the write-off of a structured security of the issuer Lehman Brothers. Opposing positive effects from the fair value option were created as a result of the valuation of liabilities evidenced by certificates of EUR 63 m which must be reported at fair value, and EUR 85 m from the fair value evaluation of self-issued hybrid capital (subordinated capital).

The result from financial investments – available for sale (AFS) deteriorated from EUR +6 m in 2007 to EUR –114 m in the year under review 2008, and was therefore particularly affected by the financial crisis. A significant factor in the less than favourable result was the insolvency of three Icelandic

Net interest income
in EUR m

banks, whose securities became de facto worthless, and which resulted in write-offs for an amount of EUR –51 m to a remaining book value of EUR 2 m. The continued declines in share prices for subprime-based credit securities necessitated impairment devaluations affecting net income in the amount of EUR –17 m, whereby the remaining book value of EUR 1 m presents a very manageable figure. Following an impairment test, a total of EUR –27 m in devaluations had to be recorded for the remaining credit investment portfolio of the AFS category. In the area of equity futures (shares, funds), which are subject to very strict impairment specifications as per IAS 39, EUR –9 m had to be recorded as affecting net income during the 2008 financial year.

The result from other financial investments deteriorated from EUR 11 m in 2007 to EUR –37 m, of which an amount of EUR –16 m can be attributed to a devaluation of an investment in Croatia which was considered as a precautionary measure in light of a legal dispute. Impairment of assets used for operating leasing also resulted in additional negative effects.

Other operating result of EUR 46 m was at exactly the same level as the previous year, even though the respectively included components were very different. This total includes income from the final settlement with the Croatian government in connection with the “DAB” legal dispute, which finally resulted in a charge of EUR –9 m in 2008. The increase within this particular item is based on the sales figures for Schlosshotel Velden, which for the first time is included at a full year of sales for 2008. This effect is countered by lower sales from apartment sales by the Schlosshotel, which are under the comparative values of the previous year.

On balance, the sum of operating income at EUR 645 m fell EUR 6 m under the 2007 value (EUR 651 m).

In 2008, risk provisions on loans and advances increased from EUR –274 m in 2007 to EUR –533 m in 2008. It is mainly based on a significantly more restrictive risk management policy as well as high exceptional charges from individual engagements. A significant part of these exceptional charges resulted in connection with the withdrawal of the Austrian bank subsidiary from the German market, as well as the provisions for leasing financing on the Croatian and Bulgarian market. Furthermore, the Austrian bank subsidiary applied EUR 27 m of risk provisions on loans and advances for non-acceptance of ordered stocks in the securities client business as a precautionary measure, whereby 100 % value adjustments were carried out for open credit risk as a matter of precaution. This item also includes expenses of EUR –15 m for subprime-based securities, which are assigned to the valuation category loans and receivables (LAR).

In 2008, operating expenses grew from EUR 492 m in the previous year’s period to EUR 586 m, which represents an increase of 19.2 %. Personnel expenses increased by 11.5 % to EUR 269 m. This increase is based mainly on the increase in the average number of employees in the core business by 8.5 %, from 6,963 in 2007 to 7,552 in 2008. Compared to the previous year, other administrative expenses increased by 8.4 %, to EUR 218 m. This development was primarily due to increased marketing activities and an increase in remaining general administrative expenses. The steep increase in amortisations on tangible and intangible assets from EUR 49 m to EUR 99 m is almost entirely due to extraordinary amortisations on production and assembly facilities in Croatia as well as buildings used for own activities.

Overall, the 2008 financial year generated an operating income of EUR 645 m against risk provisions on loans and advances in the amount of EUR –533 m and operating expenses in the amount of EUR –586 m. This results in a deterioration of the negative operating result from EUR –114 m to EUR –474 m for 2008.

Taking into account the positive result from companies accounted for at equity in the amount of EUR 1 m, and expenses for current and deferred taxes in the amount of EUR –46 m, the negative after-tax result for the period is EUR –518 m. The corresponding result in 2007 was EUR –70 m.

Following an allocation of ongoing results portions to the Group’s minority shareholders, the consolidated net result for the period is decidedly negative at EUR –520 m (2007: EUR 3 m). Therefore the overall positive operative business in 2008 was not nearly able to offset the considerable negative special charges, which are based on the high risk provisions for individual engagements, the underperformance of individual Group companies as well as the effects of the international financial crisis.

3.2. Key profit indicators

On 31 December 2008, the cost/income ratio, which also takes into account the negative valuation results from financial instruments, was at a high 90.7 %, as compared to 75.4 % in 2007. Because of the negative annual result, the key indicators return on equity and return on assets are not expressive for the 2008 financial year, therefore these values have not been indicated.

3.3. Balance sheet growth

During the 2008 financial year, Hypo Group Alpe Adria also continued its growth in South Eastern Europe and further strengthened its position as a financial services provider in this region.

As a result, the total assets for Hypo Group Alpe Adria on the closing date of 31 December 2008 were EUR 43.3 bn, 14.2 % over the comparable figure for the previous year (EUR 37.9 bn).

On the asset side of the balance sheet, the significant growth in the total assets was carried by strong growth in the loan business in the first nine months of the financial year. The collapse of the US-based investment bank Lehman Brothers in the middle of September, along with a further escalation of the financial market crisis, resulted in a drastic shortage of liquidity for refinancing on equity markets, among other things. As a consequence, Hypo Group Alpe Adria was forced to significantly limit its refinancing business as of the fourth quarter.

At the same time, net loans and advances to customers (gross receivables following a consideration for risk provisions on loans and advances) increased from EUR 24.9 bn to EUR 29.5 bn in the 2008 financial year, which represents an increase of EUR 4.6 bn or 18.5 %. Loans and advances to credit institutions increased by EUR 0.6 bn (+14.0 %), mainly as a result of short-term money market investments.

In 2008, the level of risk provisions on loans and advances was 54 % (EUR 1.1 bn) higher than in the previous year. The increase was connected to the continued streamlining of the loan portfolio, and almost entirely affected loans and advances to customers.

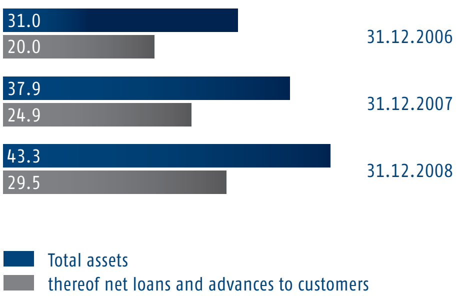
Financial investments of the categories designated at fair value through profit or loss (FVO) and available for sale (AFS) decreased from EUR 4.1 bn to EUR 3.7 bn during the year under review, which represents a decrease of EUR 0.4 bn, or 11.8 %. This reduction was based on partial divestitures in the area of FVO securities, significantly lower share prices for securities, which are particularly evidenced by the negative AFS provision of EUR 0.2 bn, as well as write-offs for securities due to defaults by issuers or underlying debtors.

Other financial investments recorded an increase of EUR 0.2 bn to EUR 1.1 bn due to the expansion of the operating leasing business, which corresponds with an increase of 18.2 %. However, extensive restrictions were applied to the awarding of operating leasing contracts in countries such as Serbia and Croatia as of the fourth quarter of 2008.

Tangible assets used for the Group's own business activities decreased compared to the previous year, in particular due to the applied impairment write-offs on facilities in the non-core area – mainly on production facilities and real estate.

This growth was financed by the liability side of the balance sheet mainly through credit lines of the parent company, BayernLB, but also through the capital increases undertaken in the 2008 financial year. There was therefore an increase, compared to the previous year, in liabilities to credit

Total assets
in EUR bn



institutions of EUR 2.8 bn to EUR 7.3 bn, whereas in the past financing for Hypo Group Alpe Adria was carried out by issuing bonds on the capital markets (liabilities evidenced by certificates).

Liabilities to customers also strengthened, and increased slightly by 2.9 % as compared to the previous year. Liabilities evidenced by certificates were at EUR 1.1 bn or 5.6 % over the final value for 2007, and result mainly from on changes to underlying transaction adjustments for hedge accounting. Subordinated capital increased by EUR 0.3 bn, mainly due to the supplementary capital issued during the reporting period.

Equity rose by 52 % to EUR 2.5 bn in the 2008 financial year. This increase is due, on the one hand, to the formation of an investment company together with an international co-investor, in which Hypo Alpe-Adria-Bank International AG holds a 51% share; on the other hand, to the subscription by the Republic of Austria to participation capital with a value of EUR 0.9 bn, as well as the capital increase of EUR 0.7 bn by the majority shareholder BayernLB, both of which took place in December 2008.

Factors reducing equity in the 2008 financial year included the negative consolidated result for the year, the intended dividend payments totalling EUR 50.0 m, as well as negative minority interest components. Equity was further reduced through the announcement of the regrading of preference shares in a Group company by EUR 0.2 bn planned for 2009, as well as the write-downs on securities caused by the escalation of the crisis on the international financial markets. Almost all of the securities held by the Group, which are mainly held as available for sale (AFS), were affected by the increase in credit spread of financial instruments. As compared to 31 December 2007, the fair value reserve relating to equity was reduced by EUR 0.2 bn and is valued as of the balance sheet date at EUR –0.2 bn.

Assets in EUR m

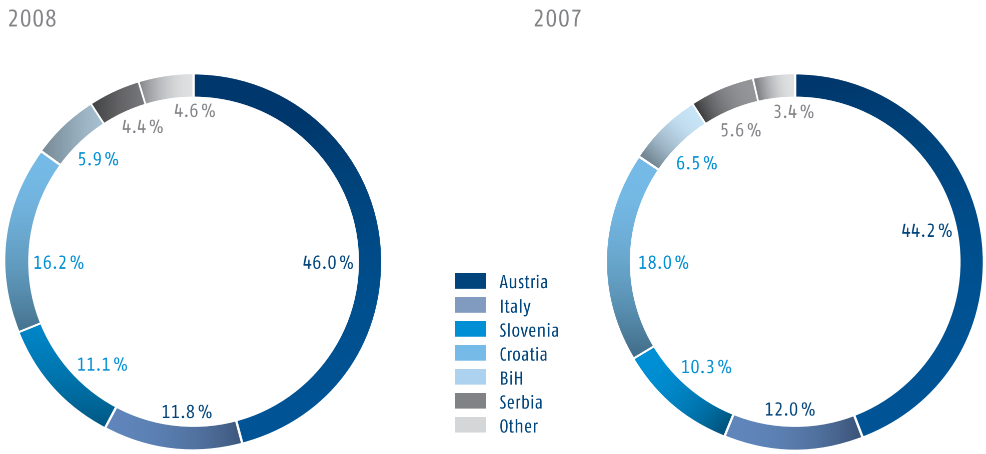
	2008	2007
Cash and balances with central banks	999	998
Loans and advances to credit institutions	4,483	3,933
Loans and advances to customers (net)	29,480	24,945
Trading assets and other securities	4,400	4,354
Participations and investments in affiliated companies	105	115
Investment properties and assets held under operate leases	1,135	960
Tangible and intangible assets	650	700
Other assets	2,084	1,934
Total assets	**43,336**	**37,939**

Liabilities in EUR m

	2008	2007
Liabilities to credit institutions	7,288	4,457
Liabilities to customers	8,717	8,474
Liabilities evidenced by certificates	21,415	20,282
Subordinated capital	1,590	1,334
Other liabilities	1,796	1,733
Equity	2,530	1,659
Total equity and liabilities	**43,336**	**37,939**

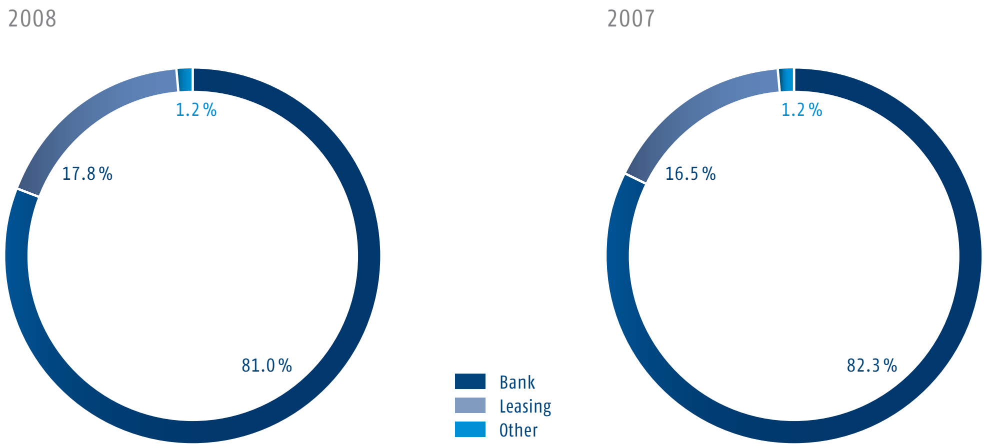
In 2008, total assets increased from EUR 37.9 bn to EUR 43.3 bn. All regional companies contributed to this increase, albeit at different rates. Austria, Croatia and Italy – markets in which Hypo Group Alpe Adria has had the longest representation – contributed almost three quarters of total assets. Slovenia, Bosnia and Herzegovina (BiH) as well as Serbia contributed another round 21 % of the total assets. Contributions of the remaining markets of the international financial Group were at almost 4.6 % in the past year.

Total assets by country
Comparison



Seen from a business segment point of view, banking dominated as in previous years, contributing 81.0 % to total assets, whereas leasing generated 17.8 %. As a result the breakdown remained virtually unchanged as compared to the previous year.

Total assets by business segments
Comparison



3.4. Own capital funds

The regulatory classification standards as per Basel II provisions were applied for the first time as of 1 January 2008, with the standard approach being used for determining the credit risk and the basis indicator approach being used for determining the operational risk throughout the whole banking group.

Overall, total creditable own capital funds increased significantly during the 2008 financial year pursuant to the Austrian Banking Act (BWG), with a closing date figure of EUR 4,173 m (2007: EUR 2,872 m). Considering the own capital funds requirement of EUR 2,797 m (2007: EUR 2,296 m), this corresponds to a coverage of 149.2 % (2007: 125.1 %) at an surplus capital of EUR 1,376 m (2007: 577 m).

The capital increase of EUR 700 m in the middle of December, which was almost entirely carried by main shareholder BayernLB, as well as the issue of Tier 1 capable non-voting share capital in the amount of EUR 900 m, which was provided to the Bank by the Republic of Austria as part of the banking package, served to increase the regulatory Tier 1 capital of the bank. On the other hand, Tier 1 capital was also reduced by the burdens on the result which occurred in 2008, in particular high risk provisions in the loan business and the effects of the financial crisis.

As of 31 December 2008, the own capital funds ratio as related to the banking book (credit risk) reached 12.7 % (2007: 10.2 %). The corresponding core capital ratio (Tier 1 ratio) stood at 8.3 % at the end of the year (2007: 6.3 %), following a provision for 50 % of allowances.

In relation to the total capital base (including market and operational risk), the resulting own capital funds ratio was at 11.9 % for 31 December 2008 (2007: 10%), which was clearly above Austria's statutory minimum ratio of 8.0 %.

4. Analysis of non-financial key indicators

4.1. Employees

Hypo Group Alpe Adria places great emphasis on the education and work satisfaction of its employees, as it is the employees who, by virtue of their extensive know-how and qualifications along with a global way of thinking, are able to create relationships with customers which form one of the supporting pillars of the company's success. For this reason, the targeted promotion of attractive (continued) training opportunities for employees forms a permanent component of Hypo Group Alpe Adria's approach.

The further intensification of the network along with an absolute requirement to work as close to the customer as possible resulted in a further increase of employee numbers in core business during the last financial year, reaching 7,552 by the end of 2008. This represents an increase of 589 employees, or an increase of 8.5 % as compared to the previous year.

Employees in core business
Development 2004 to 2008

Training and continuing education activities which were held across different countries were again a major focus of the 2008 education and continuing education program. Based on its role as a strongly customer-oriented and international financial service provider, the Group views the targeted support of new and existing employees by way of attractive continuing education activities as a fixed component of its corporate culture. As a result, and notwithstanding the difficult economic environment, 2008 saw a continuation of the training of executives as part of the Management Academy.

The recruitment of new employees – mainly graduates from post-secondary facilities or universities – is an important consideration for all Hypo Group Alpe Adria locations. Many of the recruiting activities took place at universities and included direct advertising for junior positions, which was met with great interest. Newly recruited graduates are trained as part of special training activities right on the job, as well as through tailored internal educational events, and thus integrated into the company.

In the course of training and continuing education activities held in the different countries, during the past financial year Hypo Group Alpe Adria also strengthened its focus on product management training and controlling training to create uniform Group-wide standards. The training of executives as part of the Management Academy again played a significant role in the last financial year. In this area, the cost and process management modules as well as self- and time-management modules were introduced as an option.

Hypo Group Alpe Adria is also placing an increasing emphasis on technical training in order to promote uniform standards and know-how at the Group level. Accordingly, the year 2008 saw the first technical training module for the Treasury area, which is to be followed by similar training for the Settlements area.

4.2. Customers

In the markets of South Eastern Europe, served transnationally by Hypo Alpe-Adria-Bank International AG's subsidiaries, an intimate knowledge of the markets and a profound understanding of customers' needs also on an emotional level are critical factors for success. Against this background, the Bank sees itself in a long-term partnership role that extends far beyond mere financial transactions: its work with its customers is shaped by face-to-face communication and mutual respect. This is based on an unwavering commitment to delivering customer-driven services, especially reflected in ease of access to banking facilities and rapid attainment of personal goals. With distinctive, reliable and easy-to-understand products on both financing and investment sides, Hypo Group Alpe Adria makes an impressive contribution to the prosperity of its more than 1.3 m customers.

4.3. Corporate Social Responsibility (CSR)

Hypo Group Alpe Adria is a responsible company which addresses the challenge of viewing economic, social and ecological aspects as a whole, and achieving a balance between the interests of the different stakeholders. Of utmost priority are customised and decentralised projects in the different markets so as to best address the different regional requirements in these countries. In addition, cross-border projects in the areas of social responsibility, art and culture as well as the environment are also promoted. In this vein, during 2008 Hypo Group Alpe Adria supported socially disadvantaged groups in different countries as well as a number of different regional cultural activities, such as exhibitions of young artists.

The Group's responsibility for the environment and society is reflected in the day-to-day work of all Group employees and is enshrined in the management code. Sustainability and social commitment are key factors in working with customers, business partners and shareholders.

The topic of CSR is also discussed in a separate section of the Hypo Group Alpe Adria business report.

5. Risk report

5.1. Risk strategy, control and monitoring

Hypo Group Alpe Adria controls and monitors its risks across business segments, with the goal of optimising its risk/performance profile and to guarantee the ability to bear risks at any time. In this vein, it influences the business and risk policies of its strategic and other holdings through its involvement in shareholder and supervisory committees. In the case of Group strategic holdings, compatible risk control processes, strategies and methods are implemented.

The following central principles apply to the overall direction process for Hypo Group Alpe Adria:

1. Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are aligned.
2. Front and middle office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
3. The Group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, measuring, combining, directing and monitoring the different risk types.
4. With regard to essential risk types, appropriate limits are set and effectively monitored

5.2. Organisation, reporting, internal audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the Group's "Chief Risk Officer" (CRO), who is a member of Hypo Group Alpe Adria Executive Board. This individual acts independently of market and trading units, with a focus on the minimum requirements of risk management (MaRisk).

The core tasks of risk management are the individual risk management of counterparty risks as well as risk controlling and monitoring of counterparty, market, liquidity and operational risks at the portfolio level. The CRO is also responsible for monitoring risk bearing capacity and directing the risk capital which is required from an economic point of view. Within the Executive Board, the "Chief Financial Officer" (CFO) is responsible for monitoring adherence to regulatory-related equity requirements. Hypo Group Alpe Adria has separated the CFO and CRO roles into two independent functions.

Timely, independent and risk-adequate reporting for decision-makers is guaranteed for all risk types; requests for ad hoc reports are honoured at all times.

The audit department is a permanently set up organisation which audits the business activities of Hypo Group Alpe Adria; it reports to the Chairman of the Executive Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Group Alpe Adria, including those that are outsourced. This area carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements. Furthermore the audit area also acts as Group auditor in addition to the Internal Audit sections of the subordinate companies of the Hypo Group Alpe Adria group of institutions.

5.3. Capital management

As part of the overall direction, capital management for Hypo Group Alpe Adria is based on a multi-dimensional planning process, which consolidates strategic, risk-oriented and regulatory aspects as part of an operational multi-year plan.

As an initial process for planning, Hypo Group Alpe Adria's strategy is adjusted at certain time intervals and/or as required. The Executive Board confirms or adjusts the strategy.

Risk management then prepares a risk limit for Hypo Group Alpe Adria on the basis of the approved strategic direction, which is then transformed to the individual market units of the bank in cooperation with the business segments. The risk limit contains the framework conditions for the business strategy of the business segments as well as the intended target rating of the bank.

Building on the framework conditions, business segments and areas carry out their operational planning, which flows into a multi-year plan with a time horizon of three years.

5.3.1. Regulatory adequacy of capital (solvency)

Hypo Group Alpe Adria has defined the following targets, methods and processes to determine the appropriate level of on-balance sheet equity capital for the business segments:

Capital resource planning forms the starting point for an allocation of on-balance sheet equity capital. The liable equity capital, which is made up of Tier 1 and Tier 2 capital, plus third-ranking funds are viewed as capital resources. Tier 1 capital is mainly composed of subscribed capital plus reserves as well as silent contributions. Tier 2 capital includes capital for profit participation and long-term subordinate liabilities. Third-ranking funds consist of short-term subordinate liabilities.

Capital resource planning is mainly based on an internally aimed-for Tier 1 quota (ratio of Tier 1 capital and risk assets) and an internally-determined target ratio for the overall indicator (ratio of capital resources and risk positions) for Hypo Group Alpe Adria. It defines the maximum risk assets and market risk positions that can be generated by business activities over the course of the planning horizon. An internally-developed simulation tool allows for the calculation of this indicator under different conditions or stress scenarios.

5.3.2. Economic capital (risk bearing capacity)

In addition to ensuring regulatory capital requirements, securing the Group's ability to carry economic risks forms a central part of controlling activities within Hypo Group Alpe Adria.

The bank controls its risks as part of an overall bank control process, which provides and imposes limits on the risk capital for the different risk types, in order to implement its strategies.

Risk coverage volumes are uniformly defined across the Group as part of a graduated concept. They are used to derive an upper loss limit. Risk capital made available for covering this upper loss limit is then allocated in accordance with the strategic and operative objectives of the Executive Board at the level of risk types.

Risk coverage volumes provide information about the extent of unexpected losses from risks that may have to be assumed in a real-case scenario. They follow a balance sheet and P&L oriented graduated concept, which is used to classify capital components according to their availability (liquidity) and external effects resulting from changes of the same (capital market effects).

As part of economic risk capital controlling, Hypo Group Alpe Adria monitors the risk profile and ensures risk bearing capacity through comparisons of risk capital and risk capital requirements. The upper loss limit – and hence available risk capital – is defined as the sum of capital components of levels I to IV. Level V of the risk coverage volume is used to provide additional protection to investors and prior-ranking creditors in the (worst) case of an insolvency, and is therefore not allocated to the bank's business activities.

For the purpose of determining risk capital requirements, both Hypo Group Alpe Adria as well as its strategic subsidiaries continuously examine the risk types. Risks from the different parts of the Group as well as those at Group level are combined into an overall assessment of existing risk. This process generally involves the use of Value-at-risk (VaR) methodology with a confidence level of 99.9685 % (at a one-year holding period).

The strategic holdings of Hypo Group Alpe Adria (subsidiary banks and leasing subsidiaries in the core countries of the Group) also undertake their own risk controlling and calculation of risk bearing capacity. In its role as a superordinate institution for the Group, Hypo Group Alpe Adria exercises its guideline competence in particular with regard to processes and methods which include an appropriate consideration of the specific requirements, conditions and business strategies of the subsidiaries.

As part of economic risk capital controlling, risk capital is monitored by the subsidiaries as well as by Hypo Group Alpe Adria at the Group level, and risk bearing capacity is ensured by comparing risk capital and risk capital requirements.

5.4. Credit risk (counterparty default risk)

5.4.1. Definition

Based on their scope, credit risks pose the most significant risks for Hypo Group Alpe Adria. They originate mainly out of the credit business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses in the amount of non-received benefits less utilised securities and reduced by the achieved recovery of unsecured portions are the result. This definition includes debtor and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Other risk types which are also included under counterparty default risk, such as country and participation risks, are separately measured, controlled and monitored.

5.4.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the credit business along with risk control methods, and is supplemented by additional policies, including the "Principles of Identification, Classification and Adjustment of Problem Credits", as well as specific instructions.

Credit decisions are made in line with a Group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, and, dependent on the amount and rating, by the Advisory Board, Executive Board, Credit Committee as well as key staff in the market and analysis units of the Risk Office.

The Credit Committee is a permanent institution of Hypo Group Alpe Adria, and the key credit group below the Executive Board.

The Group Risk Executive Committee (GREC) is responsible for all operational and systematic matters connected to credit risk, unless a decision by the Executive Board is required for matters with far-reaching effects.

5.4.3. Risk measurement

Hypo Group Alpe Adria utilises several statistically-based rating methods for an individualised analysis and assessment of its borrowers' creditworthiness. The allocation of debtors to rating classes is carried out on the basis of default probabilities as part of a 25-level master rating scale.

All rating methods will be subject to an annual validation process in the future. The validation includes both quantitative as well as qualitative analyses. Rating factors, selectivity and calibration of the method, data quality and model design are examined using statistical and qualitative analyses as well as user feedback.

The further development of these models by Hypo Group Alpe Adria itself, or in conjunction with ""RSU Rating Service Unit GmbH & Co. KG", ensures their adequacy for the correct determination of default probabilities in the respective customer or financing segments.

Internal rating systems

The rating systems currently utilised within Hypo Group Alpe Adria are available to all subsidiaries where required. Rating competence is regulated in the credit process in the relevant policies.

Uniform Group procedures are used in the public finance, banks, special financing, structured products, private clients, SME and corporate segments. Where required, specific regional adaptations are carried out for the ratings. A special rating method is applied in the corporate area of Austria and Slovenia. Italy uses a separate method (Cedacri) which is fully integrated into internal bank processes.

For the risk-relevant business, the middle office is responsible for ensuring the completeness and quality of the rating, while the front office is responsible for the non risk-relevant business (second set of eyes principle). Group credit risk control will regularly monitor quality at the portfolio level and report to the Executive Board.

As part of the validation system developed by Hypo Group Alpe Adria, the performance of the rating systems (subject to the existence of sufficient data) will be examined on an annual basis.

5.4.4. Risk mitigation

The control of Group-wide total commitments of an individual client or a group of affiliated clients is carried out depending on the respective customer segment or business area.

In the case of financial institutions (mainly banks), limits are determined at the level of individual clients and are binding unless the Executive Board explicitly approves a higher overall commitment than the limit that has been determined.

In all other segments, limit control is carried out through a Group-wide valid authorisation regulation, which transfers commitments that exceed a certain limit into the decision-making jurisdiction of the Group Executive Board.

At the portfolio level, structural limits apply to limits on rating classes, industries, countries, customer segments and foreign currencies. These limits are risk-oriented soft limits, the utilisation of which is reported to the Executive Board as part of reporting procedures.

Another important instrument in risk mitigation in Hypo Group Alpe Adria is the acceptance and crediting of generally accepted securities. The valuation is processed using the securities policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual security types. Usually, framework contracts for netting out mutual risks (close-out netting) are concluded for trading transactions involving derivatives. Security agreements with specific business partners are in place, which limit the default risk with individual trading partners to an agreed-to maximum amount, and provide an entitlement to request additional securities if the amount is exceeded.

The methods used to accept securities (form requirements, conditions) are governed by the internal processing guidelines for each individual security type.

Strategy and procedure to assess and manage securities that have been utilised and are eligible for inclusion

Specifications for the evaluation and processing of securities are governed by the securities policy. Ensuring ongoing legal enforceability generally involves the use of contract standardisations and ongoing legal monitoring – in particular of foreign legislation – by way of cooperation with other institutions.

The calculation and determination of values for the securities are documented in a traceable and plausible manner as per defined specifications. Where appraisals are available, statements regarding the marketability must be in place for the purpose of assessing a liquidation value.

All subsidiaries have access to security management systems which also document the valuation criteria. The system landscape is homogenised in accordance with existing possibilities and required purpose. For example, a uniform securities solution is implemented in the CESEE region.

The securities policy describes all generally accepted securities.

The main types of securities include charges on property (approx. 60 % of securities portfolio), pledges, cessions and guarantees.

5.4.5. Risk controlling and monitoring

All commitments are monitored using defined early-warning indicators and ratings. The utilisation of early-warning criteria is the responsibility of the respective subsidiary, and can be adapted to local requirements.

The principal goal of all activities is to minimise or entirely prevent potential defaults for Hypo Group Alpe Adria through an early initiation of suitable measures in line with providing intensive support or treatment for problem credits, as well as to allow a business partner to transfer back to receive normal support services as soon as possible.

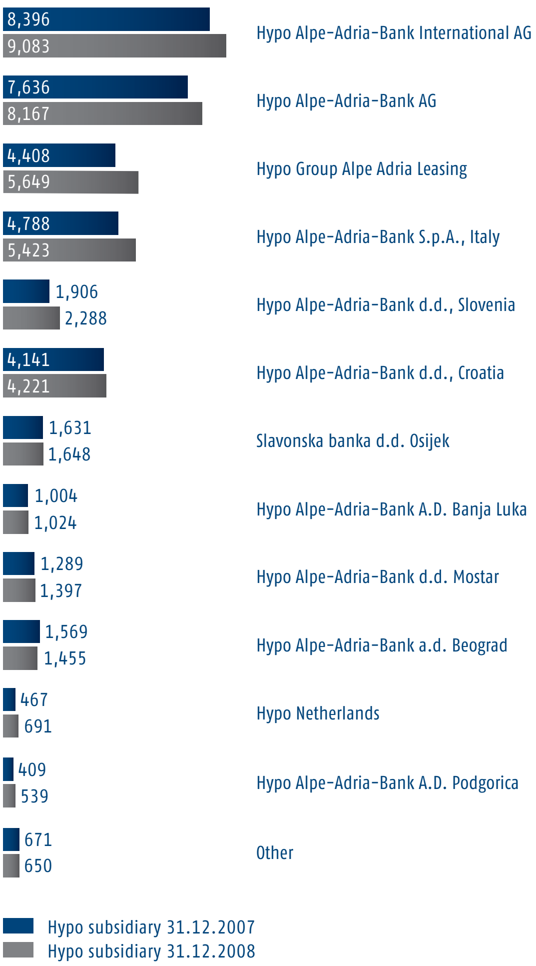
The formation of individual value adjustments (date and amount) is governed by the problem loan policy. The calculation of impairment under IFRS is set out in the Group accounting handbook.

Group risk control monitors limit utilisation, portfolio structure as well as risk bearing capacity. It issues regular credit risk reports. Reporting frequency within the Group is on a quarterly basis, or in the form of ad hoc reports prepared as required.

5.4.6. Portfolio overview – Credit risk

Total exposure in the Group
In the year under review, overall credit exposure in the Group increased by EUR 3,918 m or 10.2 %*). At present total exposure is divided among the subsidiaries of Hypo Group Alpe Adria as follows:

EUR m



Receivables from BayernLB as parent company are not included. In comparison to the previous year market values are shown regarding securities and derivatives in 2008. Following an internal evaluation for HBA, the 2007 values were adjusted retrospectively, by a minimal amount.

Total exposure by rating classes within the Group
Approximately 30.7 % of total exposure continues to be in the investment grade area (rating classes 1A to 2E).

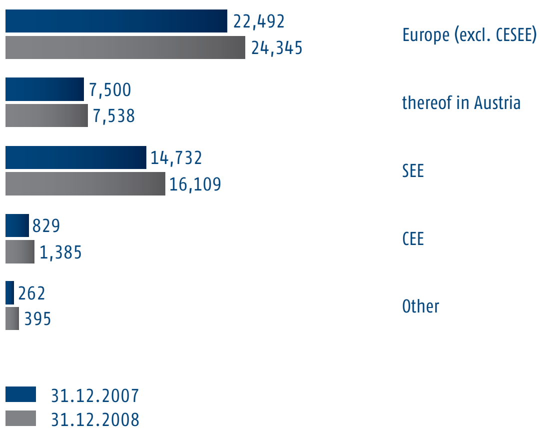
Rating EUR m

	31.12.2008	31.12.2007
1A–2A	8,391	8,168
2B–2E	4,576	4,830
3A–4A	17,107	14,582
4B–4E	4,634	4,108
Default class	3,294	1,507
No rating	4,232	5,121
Grand Total	**42,234**	**38,316**

In contrast to last year's Annual Report, the non-rated volume has been shown here.

Total exposure by regions within the Group
The country portfolio of Hypo Group Alpe Adria is concentrated in the EU and South Eastern European region. The strategic expansion of the portfolio occurred mainly in the fast-growing countries Slovenia and Croatia.

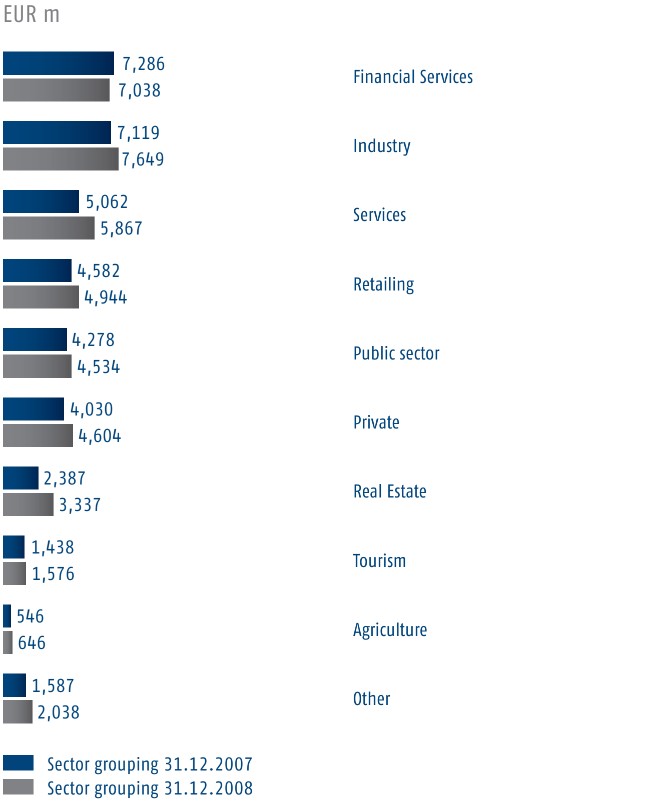
EUR m



*) Carrying amount of loans and advances and securities, fair value of derivatives, loan commitments and other contingent liabilities.

Total exposure by industry sector within the Group
For the purpose of ensuring the economic direction and strategic orientation of industry exposure, Hypo Group Alpe Adria uses a uniform grouping key, which structures exposure into 21 industry sectors. In this context, lower-risk industry sectors such as credit institutions and the public sector are represented with a share of 27.4 %. The well-diversified private industry segment has a share of 10.9 %.

Total exposure by industry sector is broken down as follows:



The industry portfolio of Hypo Group Alpe Adria – in particular the corporate portfolio – is well diversified. There are no industry-induced concentration risks.

The expansion of the portfolio took place particularly in the per se well-diversified services and real estate management segments.

Maximum credit risk – Loans and advances to customers, by industry and region

The risk driver in Hypo Group Alpe Adria credit portfolio are the loans and advances to customers (private, corporate, public sector etc.). These are broken down as follows (by industry and region):

EUR m

Sector groups	Europe (excl. CESEE)	Thereof in Austria	SEE	CEE	Other	Total
Services	3,094	1,155	2,289	265	61	5,709
Financial service providers	101	1	3	0	0	103
Retailing	1,885	313	2,616	190	20	4,711
Industry	3,657	845	3,425	202	0	7,285
Agriculture	143	78	458	11	0	612
Public sector	3,650	2,205	649	198	35	4,532
Private Entities	1,538	495	2,919	76	2	4,534
Real estate	2,821	546	307	187	0	3,314
Tourism	500	174	971	49	1	1,521
Other	1,454	689	429	25	61	1,969
Grand Total	**18,843**	**6,502**	**14,065**	**1,202**	**180**	**34,290**

The SEE portfolio features extensive portions in the per se well-diversified segments industry, trade and private industry. The expansion of the lower-risk retail business forms an essential component of Hypo Group Alpe Adria's business strategy.

Maximum credit risk -Loans and advances to customers, by volume

EUR m

Size classes	31.12.2008	30.6.2008	31.12.2007
Up to EUR 5 m	17,145	16,649	16,875
> EUR 5 m to EUR 50 m	11,348	10,856	9,635
> EUR 50 m to EUR 100 m	2,630	2,559	1,936
> EUR 100 m to EUR 250 m	2,062	1,772	1,705
> EUR 250 m to EUR 500 m	585	273	460
> EUR 500 m to EUR 1 bn	520	512	0
Total exposure	**34,290**	**32,621**	**30,611**

Approximately 50 % of total exposure can be found in the small-volume segment (≤ EUR 5 m). This volume class also features the highest growth.

5.4.7 Impairment of financial assets

Financial assets which are neither overdue nor impaired

EUR m

	Sum of maximum credit risk	
Rating classes	31.12.2008	31.12.2007
1A–2A	8,282	8,123
2B–2E	4,412	4,660
3A–4A	15,173	12,971
4B–4E	3,617	3,314
No rating	3,139	3,846
Total	**34,623**	**32,914**

In addition to the rating procedures developed in-house, the German Landesbanken' IRBA-compliant rating procedures are currently being introduced for various partial portfolios, which will reduce considerably the proportion of the total portfolio which is not rated.

Financial assets which are overdue but not impaired

EUR m

	31.12.2008		31.12.2007	
Overdue but not impaired	Maximum credit risk	Fair value collateral	Maximum credit risk	Fair value collateral
Loans to credit institutions	**3**	**0**	**1**	**0**
– overdue up to 30 days	0	0	0	0
– overdue 30 days to 3 months	0	0	0	0
– overdue 3 months to 1 year	2	0	0	0
– overdue more than 1 year	0	0	0	0
Loans to customers	**5,162**	**3,630**	**3,817**	**2,815**
– overdue up to 30 days	1,537	1,176	1,529	1,184
– overdue 30 days to 3 months	1,346	1,009	1,093	753
– overdue 3 months to 1 year	2,109	1,327	1,134	845
– overdue more than 1 year	170	118	62	34
Trading assets	**0**	**0**	**0**	**0**
– overdue up to 30 days	0	0	0	0
– overdue 30 days to 3 months	0	0	0	0
– overdue 3 months to 1 year	0	0	0	0
– overdue more than 1 year	0	0	0	0
Total	**5,165**	**3,630**	**3,818**	**2,816**

Impaired financial assets

EUR m

		31.12.2008	31.12.2007
Financial assets	Max. credit risk	25	0
	Securities	0	0
Loans to credit institutions	Max. credit risk	85	0
	Securities	0	0
Loans to customers	Max. credit risk	1,314	996
	Securities	1,267	804
Max. credit risk		**1,424**	**996**
Securities		**1,267**	**804**

Re-negotiations

As part of renewed negotiations, changes driven by credit worthiness consideration were made to financial assets with a total carrying amount of EUR 220 m in 2008.

Realised collateral

In the financial year 2008 realisations of collateral has been about EUR 43 m.

5.5. Participation risk

5.5.1. Definition
In addition to counterparty default risks from the credit business, risks from participations may also be incurred (shareholder risks). These include potential losses from equity provided, liability risks (e.g. comfort letters) or profit/loss transfer agreements.

5.5.2. General requirements
To achieve its business objectives, Hypo Group Alpe Adria (or a subsidiary) undertakes targeted investments which either serve to expand its business spectrum, provide services for the bank or function as purely financial holdings.

The handling of participation risks is governed by the Group participation policy. The policy governs in particular the differentiation into strategic and non-strategic/quasi-credit/credit-replacing holdings. Another objective is to ensure the development of a uniform process of holdings at Hypo Group Alpe Adria or at its Group-wide strategic or non-strategic holdings, as well as to describe the participation process, controlling and reporting in more detail.

Hypo Group Alpe Adria thereby influences the business and risk policy of an associated company through its representation on shareholder and supervisory committees.

In addition, all holdings are monitored for results and risk on a continuous basis. Hypo Group Alpe Adria pursues the objective of generating appropriate and lasting returns following a consideration of risk provisions. Beyond the centrally prescribed principles of risk management, each company of the Group is responsible for implementing the same as part of meeting its statutory obligations.

5.5.3 Risk measurement
The measurement of participation risk is carried out within Hypo Group Alpe Adria as per the PD/LGD approach for expected losses; the main idea of the standard approach is used for the ICAAP/unexpected loss (practical implementation: ICAAP = book value * risk weighting as per SolvaV [always 100 %] * statutory capital adequacy 8 %).

5.5.4. Risk controlling and monitoring
Hypo Group Alpe Adria has its own central unit with guideline setting competence for all methods and processes of participation risk controlling. The operational implementation of risk controlling instruments is the responsibility of the business units in charge.

A classification method for the purpose of risk assessment and monitoring has been implemented for all holdings (risk classification tool). Essential aspects in this regard are the maximum loss potential as well as an estimate of the risk of the holding. The classification of holdings is based on the obtained loss potential and the form of support. The determination of the form of support is carried out using the result of the risk assessment and early-warning process ("green": normal support, "yellow": intensive support, "red": problem credit treatment) either independently or, if required, with rehabilitation support for non-strategic holdings, and is automatically shown in the risk classification tool.

Risks from holdings are illustrated using the relevant procedures (classification, rating, early-warning) as part of the annual holdings report to the Executive and Supervisory Board. Ad hoc reports are prepared for decision-makers if early warnings signals are detected. Critical holdings are monitored as part of the intensive or problem credit processes.

5.6. Country risk

5.6.1 Definition

Country risk is the risk that a business partner or the government of the country itself no longer meets its obligations on the basis of mandatory measures or economic/political problems in a timely manner, or does not meet them at all.

For example, country risks may be incurred due to a possible deterioration of national economic conditions, a political or social collapse, the nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, measures to control currencies, payment or delivery prohibitions, moratoriums, embargoes, wars, revolutions, or coups in the respective countries.

5.6.2 General requirements

In order to develop new income potentials, Hypo Group Alpe Adria accompanies its clients in international growth markets, whereby independent strategies are formulated for selected countries and regions (example: expansion in Eastern Europe). As part of its business activities, Hypo Group Alpe Adria therefore purposely assumes country risks in limited amounts.

5.6.3 Risk measurement

Country risk is measured pursuant to the credit risk relevant total exposure per country.

An internal concept is used for conducting a country analysis. The model of internal country analysis and internal country rating consists of two models – hard facts and soft facts. The hard facts model consists of two linear regression models, which are linked by a hierarchical regression analysis. The soft facts model consists of a linear regression model. The final model results from the linking of the two models. The linkage is carried out using a hierarchical regression analysis.

5.6.4 Risk mitigation

A limitation of country risks is carried out by way of limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries.

Cross-border transactions by the Group are subject to these limits, whereby direct financing (refinancing, capital) by subsidiaries are subject to a separate control which emanates directly from the Executive Board.

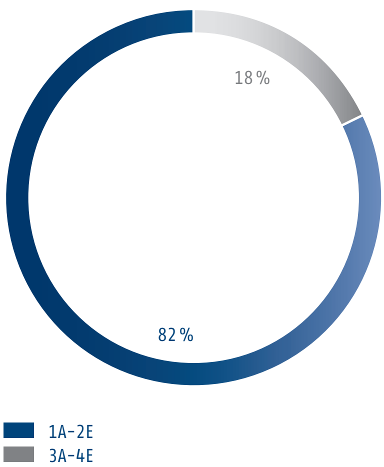
5.6.5. Risk controlling and monitoring

Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports can also be prepared as required.

5.6.6 Portfolio overview – Country risk

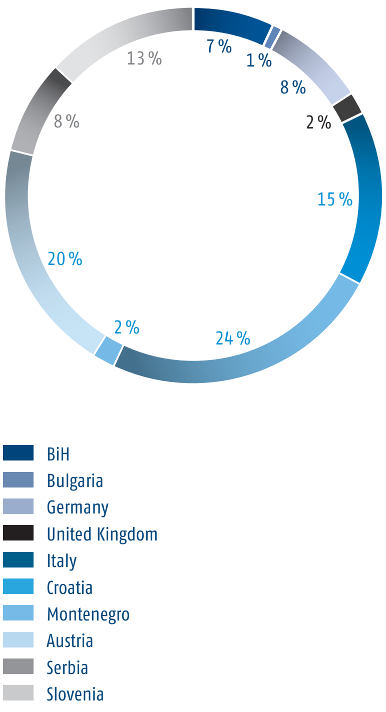
The portion of total exposure in countries with rating classes 1A–2E is 82 %. At the end of 2008, approximately EUR 7.5 bn of total exposure was placed in countries with a rating below 2E.

Total exposure – Country rating distribution
31.12.2008



The share of the top 10 countries in the overall volume was 91.37 %. Of these, Austria and Croatia held the largest shares

Top 10 countries, by total exposure
31.12.2008



5.7. Market price risk

5.7.1 Definition

Market risks consist of potential losses due to a change in market prices. Hypo Group Alpe Adria classifies market price risks pursuant to the risk factors contained in changes to interest rates, credit, spread, currency and share price risks, as well as risks from alternative investments.

Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, currency exchange and results hedging, assets similar to equity or from active-passive management.

Besides market risks, market liquidity risks may also be incurred if, in the case of low market demand, the bank is unable to liquidate trading positions during liquidity shortfalls (or due to risk-based offsetting requirements) in the short-term. For existing positions, they are taken into account as part of risk limitations for market risks.

5.7.2 General requirements

The bank develops its market risk strategy on the basis of strategic discussions between the treasury units in charge. The results are discussed in the Group Risk Executive Committee (GREC) on the basis of analyses carried out by Group Market Risk Control. Decisions on combined business and risk strategies at Group level are only made in the Group Asset Liability Committee (Group ALCO).

As part of the daily reporting procedure, the Executive Board receives value-at-risk figures for trading transactions. In this vein, value-at-risk at the unit level is compared to the defined limits. Limit breaches initiate defined escalation processes up to Executive Board level.

The subsidiaries of Hypo Group Alpe Adria determine risks as per Hypo Group Alpe Adria specifications for the respective portfolios. The results are presented to the Group Executive Board as part of ongoing reporting for Hypo Group Alpe Adria.

5.7.3 Risk measurement

Hypo Group Alpe Adria determines its market risks as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99 percent. The main instrument used in this process is the Monte Carlo simulation with an exponentially weighted history of 250 days. For the purpose of determining risk capital requirements for the risk bearing capacity calculation, values are scaled to the uniform confidence level of 99.895 percent, assuming a liquidation over a time period of 90 days.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also against the background of the increased significance of interest risk in the current market situation.

The reliability of market risk measurement methods is regularly examined with regard to the quality of individual risk methods. As part of back testing, the risk prognosis is compared with the result (profit or loss). In accordance with the Basel ‚traffic light' approach, the forecast quality of the risk model is appropriate.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called stress tests, and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required.

Hypo Group Alpe Adria does not currently use its own internal risk models for regulatory purposes. Instead, it uses the standard method.

The interest rate change risk in the investment book is determined as a present value risk, as are all market risks at Hypo Group Alpe Adria. The risk of interest rate changes in the investment book is for the most part integrated into ongoing risk monitoring of market risk controlling as per value-at-risk.

Contractual cancellation rights are modelled as an option, and flow into the risk calculation. All stochastic position are considered in accordance with internal models.

As per Basel II specifications, a 200 basis point interest rate shock scenario is calculated for the interest rate change risk in the investment book. The cash value changes thus determined in relation to the regulatory equity are clearly under the so-called outlier criterion. In addition, a large number of possibly occurring market fluctuations can be calculated and illustrated through a calculation of standard, forward, historic and extreme scenarios.

5.7.4 Risk mitigation

The maximum loss that may be incurred by assuming market risk is limited by the determination of market risk capital. Market risk capital is distributed over individual market risk factors (interest rate, currency, shares, credit spread and alternative investments) by way of defining risk factor limits. In this vein, risk factor limits are also further classified by defined partial portfolios.

Furthermore, a limit system also provides support through defined warning levels, which show negative developments early on.

5.7.5 Risk controlling and monitoring

All market risks are centrally monitored by the trading-independent unit Group Market Risk Control. In addition to regulatory requirements, this unit also ensures risk transparency and regular reporting to the Executive Board in charge. The Board also receives a separate monthly report on the actual market risk situation as well as back testing and stress test results with references to possibly significant developments.

The control of interest risk is carried out on an institutionalised basis in adherence to regulatory requirements related to interest rate risk statistics. The Asset Liability Committee, which consists of the Group Executive Board as well as key staff in Treasury, Risk management and Financial Controlling, analyses and makes decisions as part of regular meetings with regard to measures related to balance sheet structure and liquidity controlling.

5.7.6 Overview of market risk

The following graph illustrates the progression of interest rate change risk for Hypo Group Alpe Adria in 2008. The fixed-interest period statement for Hypo Group Alpe Adria contains all interest rate relevant on and off balance sheet items with their next interest rate fixing date. The stochastic cash flows are illustrated with uniform Group standards, and with local models for country-specific transactions. All fixed-interest period statements of local banks are consolidated at Group level and combined into the Group fixed-interest period statement.

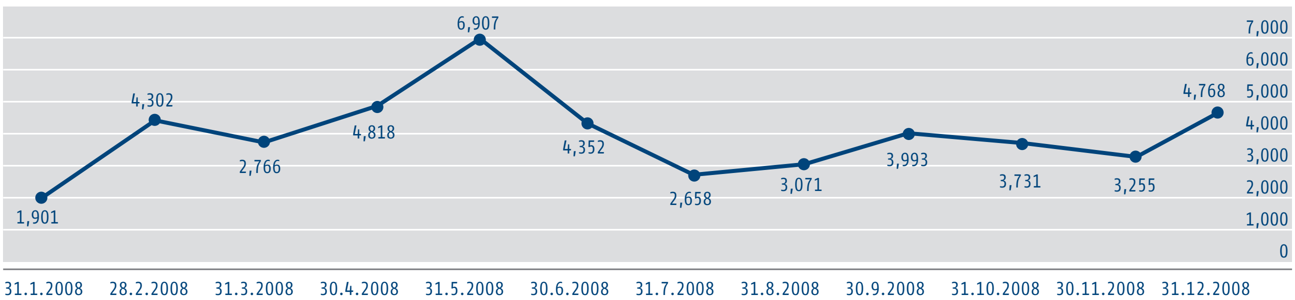
The methodology of the interest risk calculation is oriented to the specifications of the Austrian National Bank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group fixed-interest period statement; a second step calculates the risk equity ratio as a percentage of capital resources.

At no point during the year was there any threat that the regulatory limit of 20 %, and the internal limit of 15 %, might be reached or breached.

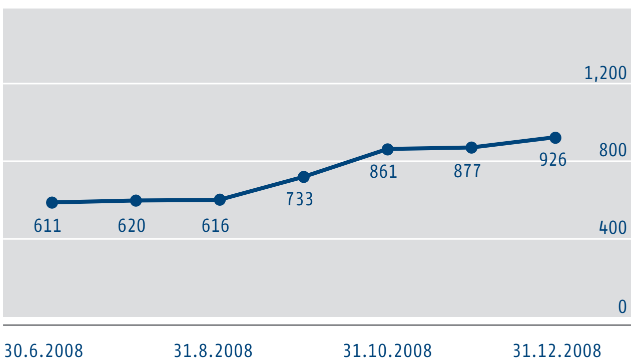
The data basis for determining the value-at-risk for open foreign currency positions at Group level is based on the figures of the OeNB report and contains operational business activities.

The value-at-risk for this foreign currency risk was approximately EUR 0.93 m per day as at December 31 2008, at a confidence interval of 99 %.

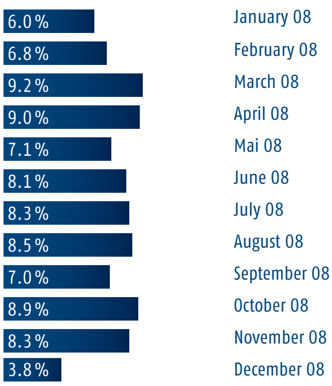
Interest Rate Risk HGAA – VAR (99 %, 1 day)
EUR '000, 31.12.2008



Change in VAR – open foreign currency positions – Group
EUR '000, 31.12.2008

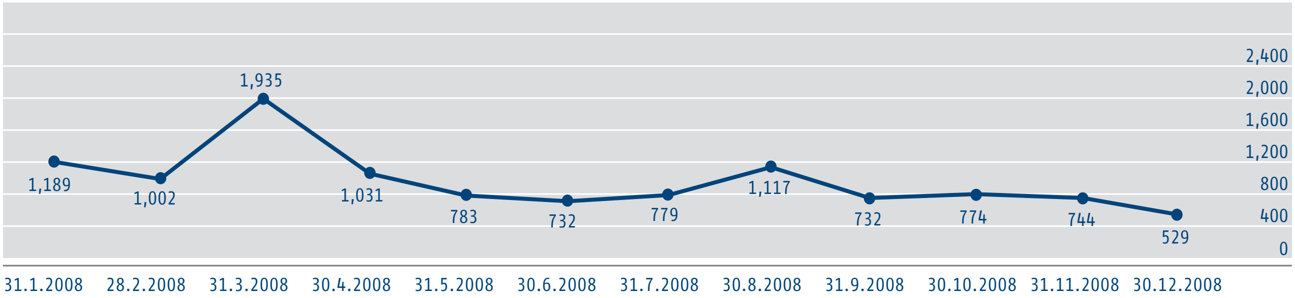


Interest Risk Equity Ratio in %



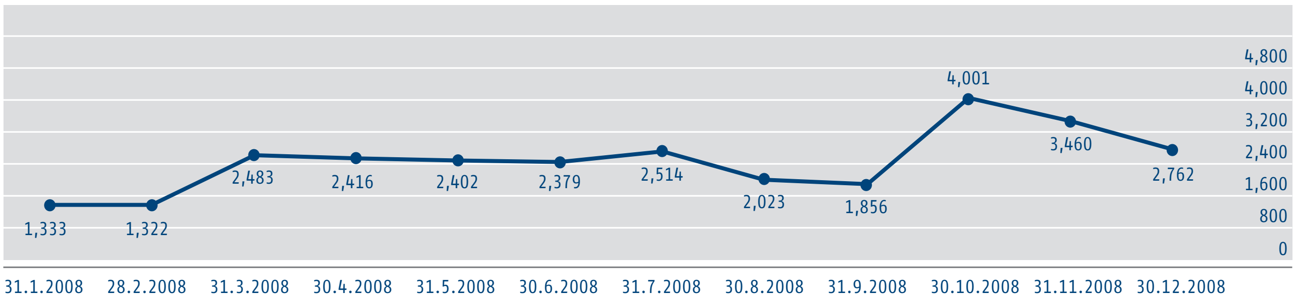
The value-at-risk for share risk at Hypo Group Alpe Adria was at EUR 0.53 m as at 31 December 2008, at a holding period of one day and a confidence level of 99 %.

Change in VAR – Share register EUR '000



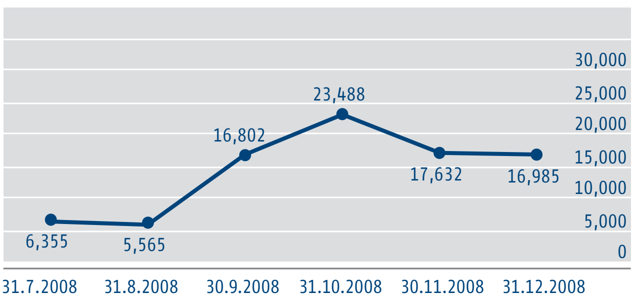
Alternative investment risk within Hypo Group Alpe Adria at the end of the year 2008 was at EUR 2.76 m, at a 1-day value-at-risk and a 99 % confidence level.

Change in VAR Alternative Investments EUR '000



The credit spread risk on the investment book within Hypo Group Alpe Adria at 2008 year-end was EUR 16.98 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in credit spread risk EUR '000



5.8. Liquidity risk

5.8.1 Definition

Hypo Group Alpe Adria views liquidity risks as the risk of not being able to meet due payment obligations in a timely manner or not at all, or – in the case of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

5.8.2 General requirements

The strategic principles of handling liquidity risks at Hypo Group Alpe Adria are defined in the risk strategy. The superordinate objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. The content-related and organisational conditions for the management controlling of liquidity risks are governed by a liquidity manual which applies across the entire Group.

At the Group level, liquidity controlling and management are the responsibility of the Group Treasury area of Hypo Group Alpe Adria. It is here that the controlling of situational and structural liquidity takes place and funding potentials are coordinated at the Group level. The local treasury units are responsible for operational liquidity controlling and liquidity offsets. At the Group level, liquidity risk controlling is the responsibility of the Group Market Risk Control area at Hypo Group Alpe Adria, and of the respective risk controlling units at the local level. It is here that risk measurement, limitation as well as timely and consistent reporting are carried out.

Hypo Group Alpe Adria has in place emergency liquidity planning which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent or tackle acute crises. In the case of a liquidity crisis, the strict maintenance of a capacity to pay as well as preventing damage to reputation form the major objectives of the bank.

5.8.3 Risk measurement

The main methodological tool to measure, analyse, monitor and report on liquidity risk within Hypo Group Alpe Adria is the liquidity overview. It is used to illustrate liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in firmly defined term bands.

The liquidity coverage potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest opportunity and at cost-effective conditions. It highlights possibilities regarding the coverage of liquidity gaps and hence all liquidity risks related to payment flows. The most important components of the liquidity coverage potential are as follows:

1. free access to central bank and interbank funds,
2. other available and eligible securities,
3. issue potential in cover register
4. senior bond issues
5. approved lines of parent company, as well as
6. securitisation potential.

In addition to normal scenarios, other scenario analyses under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow as well as transfer limits), supplement the risk measurement spectrum.

On the basis of liquidity overviews, key indicators are determined for the different scenarios, which provide for a compact assessment of the liquidity situation. The maximum utilisation of the liquidity coverage potential for up to one year is used to evaluate the liquidity situation, whereby particular significance is assigned to the utilisation over the first 4 weeks. In addition, liquidity key indicators are calculated for controlling purposes; they illustrate the relationship between liquidity reserves and liquid assets with short-term payment obligations.

For the purpose of limiting structural liquidity, cash value losses in the case of an increase in the funding spread due to a rating deterioration in the risk bearing capacity calculation are compared to the economic equity.

5.8.4 Risk controlling

A bundle of different liquidity reserves ensures that Hypo Group Alpe Adria maintains its ability to pay even during crisis situations. They are subjected to different stresses in order to maintain an overview of available liquidity resources through the respective units even during crisis situations.

While in a normal case the main generating-related focus is on interbank deposits, CP and issues in addition to customer deposits, eligible securities and/or securities that can be quickly liquidated are held for the case of a crisis.

Liquidity controlling for the Group is carried out both at a local level, in particular for HRK (Croatian kunas) and RSD (Serbian dinars), as well as centrally for the Group through the Group holding.

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. The latter are determined directly in the market units on the basis of client business for the purpose of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and stresses, depending on the market situation (as described above).

Besides structural controlling, care is also taken to ensure that general regulatory requirements for the different Group countries are adhered to; in Austria this includes meeting the minimum reserve as well as 1st and 2nd grade liquidity reserves.

5.8.5 Risk monitoring

Monitoring of liquidity risks is carried out for the maximum utilisation of liquidity coverage potential under normal and stress conditions (see 5.8.3.) on the basis of key indicators, as well as through the integration of the structural liquidity risks into overall bank controlling (risk bearing capacity). Besides a structural examination of the cash flow, a simulation of new business (5-year business plan) is also taken into account.

To ensure that existing liquidity gaps can be closed at any time through the mobilisation of the liquidity coverage potential, capacity utilisation for all scenario analyses classified as relevant must always be under 100 % for the stress-relevant time periods. As soon as certain thresholds are reached, measures to reduce the identified liquidity risks are implemented.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the controlling segments in charge.

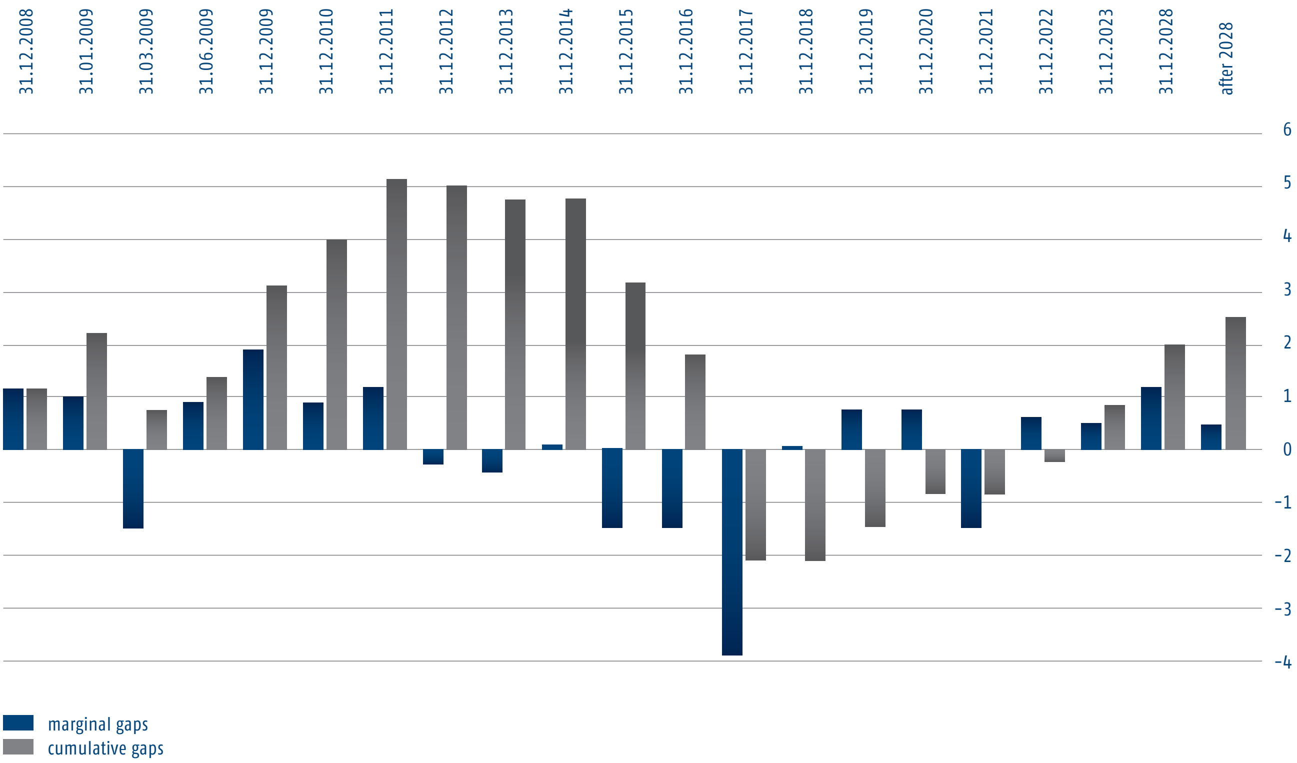
5.8.6 Overview – Liquidity situation

The following illustration shows a liquidity profile for Hypo Group Alpe Adria as at 31 December 2008, for which liquidity gaps were determined from balance sheet items partly on the basis of their contract due dates (deterministic cash flow) as well as uniform modelling assumptions (stochastic cash flows).

As the illustration shows, the refinancing structure has been configured on a long-term basis. The main currencies of the Group consist of the euro, Swiss franc as well as the local currencies of the South Eastern European countries.

The situation in international money and capital markets in 2008 was characterised strong distrust between individual market participants. In accordance with these difficult conditions, Hypo Group Alpe Adria implemented measures as part of its emergency liquidity plan and increasingly drew on existing liquidity reserves. This not only served to ensure the Group's uninterrupted ability to pay, but also allowed it to extend the coverage of liquidity resources for the expected and stressed outflows to over 52 weeks. Capital injections provided by BayernLB as well as the Republic of Austria also provided support in this regard.

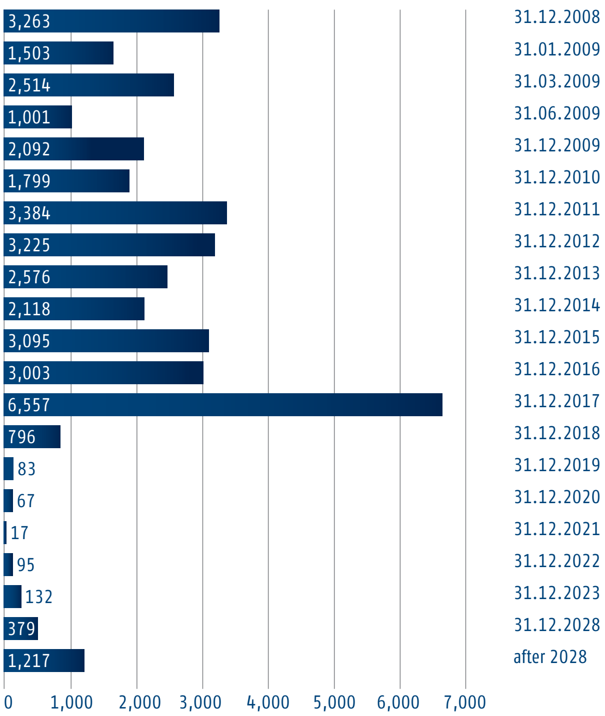
Hypo Group Alpe Adria Liquidity GAP Balance per Time Bucket
EUR bn



Below is a listing of due dates for the financial liabilities of Hypo Group Alpe Adria, based on the following conservative assumptions:

1. Current accounts, call monies and cash collaterals are due on the next working day
2. Modelled stabel/volatil cash flows (primary funds) are excluded (only legal due date is decisive)
3. Cancellable positions are due at the next possible cancellation date
4. Equity components and accruals and value adjustments are not represented

Hypo Group Alpe Adria
due dates for financial liabilities
EUR m



To ensure that the Group can react accordingly to changed conditions related to liquidity controlling, liquidity controlling at Hypo Group Alpe Adria has already been reviewed in 2007 together with an external partner. Its implementation within Hypo Group Alpe Adria and the individual Group subsidiaries was mostly completed in 2008.

In addition, emphasis was also placed on the broadening of liquidity resources and developing measures or defining conditions in order to maintain the Group's uninterrupted payment capacity in a changed environment in the future.

5.9. Operational risk

5.9.1 Definition

Hypo Group Alpe Adria defines operational risk as follows:

Operational risk ("OpRisk") is the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as risks to reputation, but not strategic risks.

5.9.2 General requirements

The objective of operational risk management at Hypo Group Alpe Adria is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). Subsidiaries which are part of the consolidation must implement operational risks on the basis of the Basel II standard approach ("STA") as part of the project agreements. Operational risks are identified and evaluated, so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined.

5.9.3 Implementation

Essential banking institutions and leasing subsidiaries, as well as subsidiaries which must be consolidated, must be fully taken into account in the implementation of operational risk.

Other subsidiaries are required to separately arrange the scope of the implementation with the Group.

Sub-organisations of subsidiaries are the responsibility of the subsidiary.

To ensure synergy effects, arrangements have been made with Group Legal Services that the operational risk management software ("Inform") will also include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

5.9.4 Responsibilities

Based on the current structure of Hypo Group Alpe Adria, the main areas of responsibility for Operational Risk are defined as follows:

1. The Chief Risk Officer (CRO) is responsible for the implementation of fundamental operational risk decisions. On the instruction of the CRO, Group Credit Risk Control implements the methods for OpRisk management.
2. Operational risk officers in the area Group Credit Risk Control of Hypo Alpe-Adria-Bank International AG ("HBInt") are responsible for directing the Group and support its subsidiaries.
3. The operational risk officers of the subsidiaries are responsible for the local implementation of operational risks and reporting to the Group.
4. With the support of the decentralised operational risk officer, department managers are responsible for the implementation in their areas, as well as quality assurance.
5. The decentralised operational risk officer is also responsible for the monitoring and implementation of standards and methods within the departments and areas.

5.9.5 Instruments and methods

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

1. The operational risk management software ("inFORM") forms the platform for implementing the instruments at Hypo Group Alpe Adria.
2. The Hypo Group employs the following methods to support the strategy:
   a. loss data bank for a systematic gathering of operational risks in the entire organisation;
   b. qualitative instruments and risk inventories to determine and evaluate risks inside business processes;
   c. regular reports as an instrument for communicating essential risks to the Executive Board.

5.9.6 Thresholds for loss data gathering

The current threshold for the reporting of losses within Hypo Group Alpe Adria has been set at EUR 1,000.

The current threshold for the reporting of losses to BayernLB has been set at EUR 5,000.

Losses from 1 January 2006 onwards must be recorded.

5.10. Summary and outlook

During the year under review, Hypo Group Alpe Adria has further expanded its risk controlling and management instruments. Significant progress was made in a number of areas. The requirements resulting from the new equity agreement pursuant to Basel II were a main factor in this development. Furthermore, the bank's control systems were successively adapted to BayernLB standards.

Hypo Group Alpe Adria possesses a capable risk management and controlling system, which is continuously adapted to internal and external requirements in a future-oriented manner. The further development of methods which are used to represent and control risk also tries to ensure that they meet not only regulatory requirements but also the strategic direction of the Group.

The organisation of Hypo Group Alpe Adria is tailored to its risk profile, and takes into account the complex marketing environment in which the bank operates. Control and monitoring of all risk types, including all reporting requirements for the Hypo Group Alpe Adria Executive Board, form a central tasks of risk controlling.

In the year under review, Hypo Group Alpe Adria also focused on expanding the methods and processes for risk representation and control at its strategic subsidiaries. By focusing on the consistent implementation of requirements and expansion of risk instruments also within the Group, Hypo Group Alpe Adria's risk management made an important contribution towards value-oriented overall controlling. This process will continue to be implemented in a targeted manner as part of a project to implement the internal rating based approach (IRBA).

The currently difficult market environment is addressed with the introduction of a new credit process.

Hypo Group Alpe Adria views these activities as a significant success factor and hence competitive advantage for the Group, in order to create lasting values for shareholders and investors, as well as its employees.

Additional information on risk management, the organisational structure and risk capital situation can be found in the Group's own disclosure report which is published in accordance with Section 26 and 26a BWG. The disclosure report can be found on the Group's home page (www.hypo-alpe-adria.com) in the Investor Relations area.

6. Other information

Information pursuant to Section 267 UGB (Austrian Enterprise Code) as regards events following the closing date (supplementary report), as well as explanations regarding the use of financial instruments are given in the notes to the consolidated annual financial statements, since this information concerns obligatory notes information pursuant to IFRS.

7. Outlook

Economic researchers are all forecasting only slight growth in the core Hypo Group Alpe Adria markets in 2009. However, in view of the continued financial crisis during first months of the new financial year and a lack of indicators suggesting a quick recovery of the real economy, the Executive Board is assuming that 2009 will be a difficult financial year throughout. In the medium term, several national economy indicators even suggest that the economy of South Eastern Europe may also enter into a recession. The potential impact of such a scenario on currencies, in particular on the currencies of importance to Hypo Group Alpe Adria – the Croatian kuna and Serbian dinar – cannot be predicted with any measure of certainty at this time.

In the area of operations, reduced credit growth in the corporate area can be expected, and demand in the retail area will likely increase at a slower pace. The main factors in this decline are a reluctancy to invest on the part of companies and private clients.

The intention is to continue utilising the potential of core markets as part of a selective and risk-adequate use of liquidity for new financing, on a regional and business segment-spanning basis, whereby the focus of new business acquisition will be on smaller and medium-sized businesses (SME) and retail clients rather than on large-volume corporate business. At the same time the Group also plans to expand its product offering in the financing and investment area, whereby the development of tailored product packages will be a major focus.

Against this backdrop, Hypo Group Alpe Adria will continue to adapt its internal organisation to the new conditions and implement further restructuring and strategic realignment measures in 2009.

As a part of the BayernLB Group, Hypo Group Alpe Adria will also meet its responsibilities within the Group-wide efficiency and structural optimisation project. The project envisions a comprehensive reorganisation and market strategy which is adapted to current conditions; it is to be approved by the Supervisory Board of Hypo Alpe-Adria-Bank International AG in April 2009.

Overall, the year 2009 will be characterised by the newly-aligned risk policy and more particularly the hedging of credit risk. Corresponding analysis, settlement and recovery processes will be newly aligned, with a main focus on the active management of the existing portfolio as well as achieving restructuring targets for individual commitments. There will be particular challenges in the area of securities realisation in the future, as the amounts that can be realised from selling finance collaterisation will decrease markedly as a result of the low levels of investment. In such circumstances, the management of Hypo Group Alpe Adria is therefore assuming that higher than average risk provision costs will continue to be incurred on the loan and leasing portfolio in 2009 and 2010.

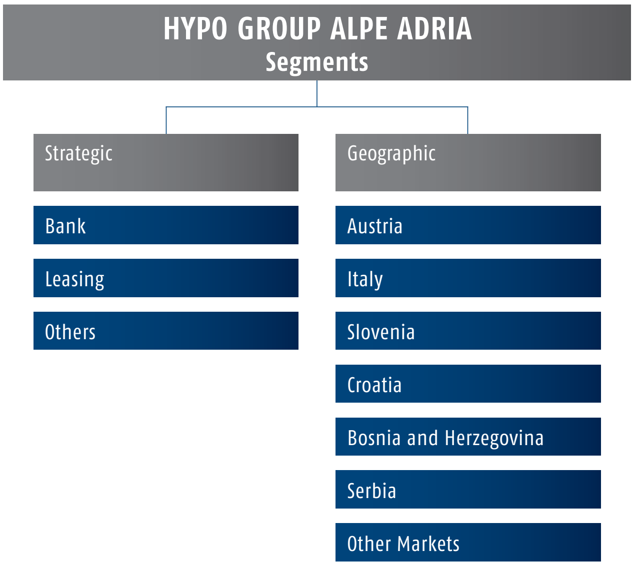
In view of the considerable uncertainties surrounding the main parameters of economic and currency developments in Hypo Group Alpe Adria's core markets, management is not able to provide a reliable results forecast for the 2009 financial year.

At the same time, as a result of the capital-strengthening measures which were quickly implemented during the last quarter of 2008, the Hypo Group feels that at an own capital funds ratio of 11.9 % and a Tier 1 ratio (related to credit risk) of 8.3 % it is well prepared to face the upcoming challenges.

The Segment Bank.

Segment Bank

Presentation of Hypo Group Alpe Adria's detailed segment reporting is unchanged in 2008. The first part is devoted to the strategic business segments Banking, Leasing and Other, while the second part looks at the geographical markets of Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia as well as other markets.



Banking

All of Hypo Group Alpe Adria's expertise and all of the Group's products and services are utilised every day in cross-border transactions in the Banking segment. The Group offers its expertise to both corporate and retail customers in all the country markets it serves. The Group's service offerings range from traditional lending through savings and deposits to complex investment products and asset management services. With its internationally important business areas of payment and document services and also structured finance products, Hypo Group Alpe Adria stands for close customer relations, comprehensive market knowledge and joined-up thinking, giving its customers solutions specific to their needs. A high degree of service and the greatest possible closeness to the customer is at the heart of every customer relationship.

Despite the difficult economic conditions, the segment's operational development was satisfactory in the reporting period, underpinning the strategic path already taken. The branch network increased again in 2008 and positioning in the individual country markets improved. The bank's risk management process was significantly expanded and improved in the year. Risks were re-evaluated and in part adjusted, and new control mechanisms were developed. In line with overall bank strategy, in 2009 Banking will concentrate on selective growth in all regions and with all customer segments, while at the same time seeking higher levels of collaterisation. In economically challenging times, Banking will focus more than ever on achieving the greatest possible closeness to customers and high levels of service, paired with customised solutions aligned to market needs and regional conditions.

Group Retail & Private Banking

Hypo Group Alpe Adria's retail banking business has around one million private customers to whom it can offer a comprehensive range of services. Customer advisors help their customers with day-to-day banking transactions, investment and financial advice. The private banking business is responsible for assisting private customers with more sophisticated requirements with asset management and investment services. Total orientation towards the differing needs of our customers and constant development of attractive and innovative new products are the prime objectives of the Retail and Private Banking Group.

Retail Banking

Despite the challenging market conditions, Retail Banking showed positive development in all key business areas in 2008. The number of customers, the volume of assets and net earnings from commission all increased. Following successful implementation of the new service and branch concept in 2007, in the year following there was further success in creating synergies and expanding the product range accordingly. One area of focus for the business was the development of a product management system; another was central sales management of all retail segments. Retail Banking installed product management units in all subsidiaries in the year under review. This action, together with increased training for all employees, was a significant contributing factor to the 28 % increase in asset volume. This is all the more impressive given that the effects of the financial crisis began to be clearly felt in South Eastern Europe in particular from the third quarter onwards and consumers' confidence in the financial sector was clearly shaken. But even in this difficult situation Hypo Group Alpe Adria remained a preferred partner for private customers as well as for small and medium sized businesses, not least because of its longstanding presence in the markets, its proximity to its customers and the customised bundled products which it had developed for the different country markets and customer segments. Retail Banking reacted to the challenging economic conditions with many product campaigns and events, and with increased marketing, so that existing and potential customers were informed about new developments in a timely fashion.

A significant element of the restructuring of Retail Banking in the year under review was the introduction of private banking units in the SEE markets. With this move, Hypo Group Alpe Adria was able to accommodate the high growth rates in this segment and also to improve service and product quality.

A group card bonus programme was developed and introduced in both Bosnia and Herzegovina and in Serbia in 2008. It is planned to extend this service to Croatia and Slovenia in 2009. The number of customer acquisitions increased as a result and with it, net commission bookings. As a result of targeted cross-selling efforts, Hypo Group Alpe Adria also increased the number of salary accounts held.

In order to ensure that the retail business continues to develop successfully, the cornerstones of the Retail Strategy for 2008–2012 were defined in the year. The main elements are increased emphasis on cross-selling activities with the Corporate and Leasing segments as well as an expansion of the product range, with an emphasis on products which generate commission. The business area also intends to make greater use of the branch network, which, in line with the overall strategy of the Bank, is set to grow in existing markets; and also of alternative sales channels such as mobile sales, the internet and call centre solutions.

The retail business plans to increase the number of customers in 2009 and to develop customised products more quickly, so that it can react promptly to developments in capital markets and thus to customer requirements. The focus of product development is therefore likely to be capital guarantee products. Emphasis will also be placed on the definition and initial roll-out of a programme for customer satisfaction, loyalty and profitability ("Hypo advantage") in 2009. This will cover defined packaged offers and should, through cross-selling, lead to a stronger customer tie-in.

Segment Bank

Private Banking

As a result of the difficult economic situation in the year under review, the staff of the Private Banking section faced very demanding conditions. Nevertheless the section showed positive growth overall. The integration of Private Banking into the Retail Banking division in the 2008 financial year had the accompanying effect of significantly increasing customer potential and, indeed, of increasing the number of customers by 50 %. All the operational Private Banking units in existence at the time underwent this integration: as a result, the teams in Austria, Slovenia, Croatia and Serbia are all operating uniformly and independently within the Retail Banking division.

The Private Banking section has also been responsible for the product management of the investment products for all Retail segments (affluent, mass) since the beginning of 2008. This also covers the sales and marketing, training and introduction of fund-based products. As the first step in a Group-wide image campaign, an image folder was developed and has been made available in all the respective local languages.

Due to the situation in the capital markets the products most in demand in the wide-ranging portfolio of fund-based products were those which have a capital guarantee. But equally funds in combination with savings deposits were very popular. Overall, there was a clear trend towards conservative and guaranteed capital investments as a result of the poor performance of the international capital markets.

The launch of Private Banking units in Bosnia and Herzegovina and in Montenegro is planned for 2009, in order to give customers there local and optimal service. Further reduction of product development times is also important to us, so that in future appropriate products and services, tailored to the market situation in the respective countries, can be offered more swiftly to our customers.

Additional, tailored product offerings are also to be developed for existing SME, Corporate and leasing customers, thereby expanding the existing attractive product range.

Group Investment Banking

Following the restructuring at the end of 2007, the Investment Banking division of Hypo Group Alpe Adria comprises the Asset Management, Brokerage, Corporate Finance, Research und Treasury Sales sections. As the only investment banking unit in South Eastern Europe, Hypo Group Alpe Adria can draw on its own sales network in the region as well as on local specialist teams.

2008 was the first full year following restructuring for the Investment Banking unit in its current form. As a result of the difficult market environment, the unit had to cope with challenging conditions throughout the whole year. Nevertheless, in total, a satisfactory contribution to the result was made. An important reason for this was the decision at the beginning of 2008 to reduce the Bank's own business as far as possible and to focus on profitable customer business. Most sections were successful in opening up the business segment and Group Investment Banking was able to start 2009 with a full deal pipeline.

The focus of this new unit's activities in 2008 was to develop a functioning and efficient structure, to implement the Investment Banking strategy and to create a solid basis for future business.

The sales network, an important asset for Hypo Group Alpe Adria, was successfully deployed in 2008. The number of employees was increased in nearly every branch office with an existing Investment Banking unit. Hypo Group Alpe Adria made good use in particular of their expertise in the area of research and very quickly built up a highly qualified team with wide geographical coverage, to cover the fixed income and equity asset classes and to make important macro- and micro-economic contributions to company publications.

In the period under review, a clear trend away from high-risk products to lower-risk or risk-averse forms of investment could be detected amongst the customers. The division recognised this in good time and expanded its product portfolio accordingly.

Treasury Sales
The Treasury Sales section focused on measures to cushion the interest and currency risk for, above all, corporate customers in the year under review. Working together with the account managers, customer events were organised in which the deployment of Treasury Sales products were explained. In view of the continuing difficult situation in the financial markets, the Treasury Sales section will have an important role to play in 2009 as well, and the emphasis on hedging interest and currency risks for corporate customers will continue.

Asset Management
2008 for the Asset Management section was characterised by the harmonisation of internal activities. Quite apart from in Austria, Hypo Group Alpe Adria is now active in Italy, Slovenia, Croatia, Serbia and Bosnia. In addition, the focus lay on shaping asset management and the administration of special mandates as positively as possible, given the negative conditions.

Brokerage
Hypo Group Alpe Adria is the only financial institution in South Eastern Europe to have its own Group-wide associated brokerages and can therefore act cross-border as a securities broker. The section concentrated mainly on the development of two projects in 2008, whose implementation is planned for 2009: these Group-wide projects cover the automation of order placing and processing; as well as increasing efficiency on the custody side. Through deploying a unified order routing system throughout the whole Group in the future, possible sources of error can be eliminated, and efficiency increases and cost savings can be realised. Following implementation, customers will for the first time be able to access the share and bond markets of South Eastern Europe much more swiftly. Once the project has been successfully implemented, Hypo Group Alpe Adria aims to position itself as a driving force in brokerage and custody in South Eastern Europe.

Corporate Finance
Corporate Finance focuses on the purchase and sale of interests in companies, take-overs, privatisations, capital increases and transactions involving blocks of shares, and consultancy services for participants in strategic investments and joint ventures – and as such, opportunities were severely limited in 2008 because of the financial crisis. Lack of liquidity on the part of the market participants and the associated dearth of financing options in many cases prevented planned sales of interests from going ahead. Nevertheless the section, which is still in its early days, was able to see through some transactions successfully. A full deal pipeline for the year confirms that the strategic path taken is indeed the right one, and that, because of insufficient liquidity, it is a case of waiting for the right point in time to come for the deals to be realised.

Research
The Research department is composed of one team of experts established for many years and based in Zagreb, and smaller teams out in the individual countries, which have local knowledge and can prepare reports and make these quickly available to the expert team without any bureaucracy. The first research reports and market analyses were circulated within Hypo Group Alpe Adria in 2008. The reports will also be published in the first quarter of 2009 and will therefore be available to customers. Hypo Group Alpe Adria intends to position itself as a research and analysis specialist in the wider South Eastern Europe and developed the necessary expertise in all the countries in the year under review.

Segment Bank

Group Corporate & International

Group Corporate & International serves as the centre of expertise for Hypo Group Alpe Adria's international corporate customers. This division acts as a central hub for communication, coordination and information, and it connects customers up with the appropriate local contacts for their requirements in the branch offices. Services range from financing through cash management, processing of international payment transactions, documentation services and trade financing through to investment products. The Group Corporate division also includes Group International & Documentary Business, which as a Center of Competence guarantees high-quality trade finance services throughout the Group.

The effects of the worldwide crisis in liquidity were felt in 2008, in particular in the second half of the year. One of them was to ease the pressure on margins of previous years. Corporate Banking performed well in this environment and was able to show growth. The volume of assets in the Group grew from EUR 11.2 bn (at year-end 2007) to EUR 12.8 bn at the end of 2008, an increase of 13.6 %. International & Documentary Business further extended its market leadership. Particular value is attached to sector diversification in order to minimise customer portfolio risk.

Group Corporate

Thanks to the wide geographical coverage of its sales network, Hypo Group Alpe Adria is the partner of choice for small and medium-sized enterprises in the extended Alps to Adriatic region. Corporate Banking not only meets the needs of SMEs with its services, but is an important partner for industry, for large institutional and private companies as well as for privately-owned groups, which have, in Hypo Group Alpe Adria, a business partner present throughout South Eastern Europe and staffed by highly competent employees with comprehensive knowledge of their regions. Overall, Group Corporate was able in 2008 to build on the positive development of previous years, even though the granting of credit was more selective in the second half of the year and volume growth slowed as a result. Margins and collaterisation were higher in return. But business was marked by the growing uncertainty on the financial markets. Liquidity costs, which had risen disproportionately because of the economic conditions, could in most cases be passed on to customers for existing financing arrangements as well. In part the collaterisation was also increased. Hypo Group Alpe Adria, as a strong finance partner in the region, financed such high-profile projects as “Block 67”, the Olympic village for the Universiade in Serbia. Further projects in which Hypo Group Alpe Adria took a leading role included tourism projects in Croatia, as well as private housing and tourism projects in South Eastern Europe.

Selective granting of credit, coupled with the requirement for greater creditworthiness, and thereby selective growth will also be to the fore in 2009. It has to be assumed that the difficult economic conditions will continue to prevail in all countries. That makes knowing the customer well, as a result of a longstanding business relationship, coupled with the extensive expertise of our employees, a basis for trust from which the partners can work together to develop the right solutions specific to the customer.

International & Documentary Business

International & Documentary Business serves as the Group's international competence centre for letters of credit, international guarantees, collections and non-recourse export financing. The section was able to extend its activities successfully into BayernLB markets such as Asia, Hungary, Romania and Bulgaria and to benefit from BayernLB's product expertise in 2008. Taking account of customer requirements, Hypo Group Alpe Adria placed even more emphasis on quality of service and product development in 2008, and exploited Group synergies for the routing of customer transactions. Thus, for example, letters of credit were routed to Asia via BayernLB and back again to Austria in the same way. Documentary Business also deployed new software, which is leading to more efficient servicing of customer requirements and freeing up time for more advisory activities. Overall, International & Documentary Business was able to strengthen further its market position during the year.

Hypo Group Network

The Hypo Group Network was put in place in 2007 to leverage growth in international business. The entry of BayernLB was and is a source of great opportunity for the Hypo Group Network: the number of potential customers with overseas orientation has increased enormously, particularly through the cooperation with the savings bank sector in Bavaria. Through the excellent market position of the Bavarian savings bank sector and the high export levels of German companies in Hypo Group Alpe Adria's core markets, there will be huge opportunities for growth in the future. More than double the previous year's number of customer interactions, in the form of events and direct meetings with customers, were enabled during the year under review. These led to synergy effects: new financing, documentary and settlements and payment business won in the year could definitely be attributed to the increased customer contact.

Cross-border support and advice for corporate customers is a matter of priority for Hypo Group Alpe Adria and is reflected in all of Group Corporate & International's activities. As an example of this, a Group-wide database of customer enquiries was introduced during the year, in order to raise the quality of service still further.

Group Treasury & Global Markets

Treasury, as the most important controlling element, is responsible for liquidity management, the Group's asset liability management, capital management and own account trading in the subsidiaries. Global Markets is responsible for operational treasury transactions and for issuances.

As a result of the crisis in the capital markets, the Treasury division was confronted with difficult conditions in the year just ended. The focus of activities lay in liquidity management in 2008. The Group Executive Board instigated timely measures to secure liquidity in the first half of the year and these were strengthened following the Lehman Brothers insolvency. The liquidity management process introduced in 2007 proved itself to be robust in the predominantly difficult market conditions. Not only was Hypo Group Alpe Adria's liquidity secured throughout the whole of the financial year, but an additional liquidity buffer was also created. New business transacted within the framework of existing pledges was put through without restrictions, however the examination criteria prior to granting credit was modified to fit the general liquidity and capital markets situation for completely new involvements.

The funding situation also proved to be difficult because of the crisis in the capital markets and was reflected in the refinancing actions of Hypo Group Alpe Adria. Certain planned measures with regard to liquidity and to issues could not be carried out because of the tight situation in the money and capital markets, with the result that Hypo Group Alpe Adria concentrated on internal BayernLB refinancing lines as well as on activating existing liquidity reserves for liquidity creation. Customer deposits remained consistently at the previous year's levels throughout the year, although there were withdrawals because of uncertainty on the part of the customers in the fourth quarter, in particular in South Eastern Europe.

In addition to liquidity management, great attention was also paid to management of interest and currency risk in 2008. The main objective was to balance out the huge market swings arising from the crisis. Appropriate actions were taken not only for the banking segment but, above all, for the leasing companies as well, and these will be developed further in 2009. All foreign currency lending in USD and CHF was halted in the autumn of 2008 as a result of the volatility in

Segment Bank

currency markets, a move which was also in the interests of customers.

Hypo Group Alpe Adria also had to record higher refinancing costs as a result of repricing the banking and country risks. Following on from this, local currencies were devalued, which in turn had a negative effect on the interests held. Whereas the higher liquidity costs could in the main be regrouped, by contrast the devaluation of local currencies had negative effects. These were lessened through active foreign currency management, for example through partial hedging in Serbian Dinars against a weakening of that currency.

Although share involvements and investments in alternative instruments only play a minor role, Hypo Group Alpe Adria could not avoid the negative market conditions and, despite the continual reduction of the exposure, had to record losses. The same applies to credit investments: exposure was already reduced in 2007 and significant writedowns made. But the loss of market liquidity combined with strong exchange rate swings meant further losses could not be avoided.

Hypo Group Alpe Adria also suffered risk and writedown losses in its liquidity reserve portfolio during the year. Due to statutory and internal provisions, the size of the portfolio comes to more than EUR 1 bn, of which the majority is held in bank floating rate notes. The losses resulting from the Lehman Brothers insolvency and that of the Icelandic banks were small; however, impairment writedowns on total stock were also necessary. There was a clear decision, however, not to make use of the possibility under IFRS to restate the balance sheet. Hypo Group Alpe Adria assumes that there will be a full redemption of the assets held in the years following, so that the impairment writedowns of the liquidity reserve will in the main not be permanent.

It must be assumed that, due to the difficult conditions in the capital markets which are expected to continue, in 2009 stock markets will perform weakly and the central banks will pursue an expansive monetary policy. As interbank lending is still only taking place on a very limited basis, the liquidity situation will only improve slightly. In order to ensure that the markets can function, state interventions in the banking system as well as regulatory measures are to be expected. State support for all banks which are important for the capital markets, for example in the form of guaranteed take-up of issues is also conceivable. The Treasury section will therefore continue to concentrate on liquidity and asset liability management and to follow its risk-conscious policy. Accordingly there will not be a significant role for own account trading, which will be further reduced.

Group Public Finance

The Public Finance section, as a strong player in this segment, undertakes public sector financing in the extended Alps to Adriatic region. Hypo Group Alpe Adria has distinguished itself through its holistic and sustained in situ support for customers in finance matters: from financing, investment, consultancy through to cash management. Sector-specific solutions such as PPP projects or non-recourse financing can also be developed, working together with the customer and drawing on the expertise of the whole Group. In so doing, Hypo Group Alpe Adria can use its experience in the region, which dates back several decades, as well as its specialists on the ground, and thus be in a position to offer tailored solutions.

The Public Finance section was restructured in 2008, with a management and control function set up at Group level and Public Finance units installed at all the subsidiary banks. As a result of the continued growth of the Group, but in particular as a result of increased demand from the public sector for financing solutions for infrastructure improvement projects in the countries of the extended Alps to Adriatic region, Hypo Group Alpe Adria achieved new lending volumes of EUR 565 m. EUR 281.2 m, or 49.8 % of this went to South Eastern European locations. Liabilities rose, as an annual average, from EUR 747 m to EUR 1.3 bn (+79 %). The main areas for financing in this section were education, highways construction, the health sector and public housing.

Amongst the year's highlights were: the section's involvement in implementing non-recourse financing in Montenegro; the introduction of total giro solutions for customers; and mandates for consultancy on debt management. Particularly noteworthy is the fact that Public Finance is the preferred partner of a state-owned development bank. A PPP for a water purification project in Montenegro was also successfully concluded. As an example, Public Finance made available funds of EUR 56 m for education projects in Croatia and EUR 70 m for social housing in Austria.

As a result of the continuing financial crisis, it can be assumed that the public sector in most countries will increase its investment activity. The Public Finance section should benefit from this, in particular as the number of competitors could shrink as a result of the economic conditions. The focus in 2009 will certainly be on continuing to implement the "Expert at Your Side" strategy and develop long-term customer relationships on the ground. This will be achieved through increased, and wider, customer contact, as well as focussed training and development of Treasury Sales staff. Additionally, the highly successful area of non-recourse financing will be expanded in the coming year.

The Segment Leasing.

Segment Leasing

Hypo Group Alpe Adria's Leasing segment offers tailored financing solutions for Vehicle leasing, real estate leasing and moveable leasing, as well as for niche markets such as shipping, aircraft and renewable energy. Our experts determine the best financing model for the circumstance, be it full repayment, residual value, deposit leasing or even cross-border leasing. Short decision paths enable swift and unbureaucratic order processing. Hypo Group Alpe Adria Leasing's staff guarantee their customers high standards of quality and flexibility. In line with total customer orientation, the product portfolio is subjected to permanent screening with regard to the needs of different customer groups. Arising out of this screening, the portfolio is modified or extended as necessary. The assimilation of the leasing company within Hypo Group Alpe Adria is further proof of the group-wide expertise and experience of a strong financial services provider.

Vehicle leasing
Hypo Group Alpe Adria Leasing offers flexible financing solutions for motorbikes, cars or lorries and vans for both companies and private individuals. Vehicle leasing on buses, commercial cars or fleets is an attractive financing option especially for companies. Hypo Group Alpe Adria Leasing's customers can benefit from the expertise garnered over many years, plus the cooperation with many international vehicle suppliers. Vehicle leasing recorded continuing constant growth in 2008. 42,470 agreements for cars, commercial motorcars and machines were concluded. Due to the economic situation, modifications to risk premiums as well as increases on down-payments were necessary. Strengthened cooperation agreements were entered into with dealers, in order to counteract the decline becoming ever more evident in the fourth quarter.

Equipment leasing
Equipment leasing covers the financing of capital goods such as office and business equipment, construction machinery, industrial plant and production machinery. Thanks to finance solutions tailored exactly to their needs, customers in all sectors have planned, structured and manageable operating expenses, giving them the flexibility they need in the marketplace.

In recent years, Hypo Group Alpe Adria Leasing has acquired particular expertise in the area of sailing boat, cruiser and aircraft financing. In addition to this, customers can benefit from Hypo Group Alpe Adria Leasing's longstanding expertise in financing equipment to produce renewable energy (photovoltaics, wind energy and biomass energy).

2008 was a year of constant growth in equipment leasing, with 6,704 new agreements signed. There was noticeably increased demand for projects connected with renewable energy.

Real estate leasing

Hypo Group Alpe Adria Leasing is the partner of choice for companies considering real estate, residential, office and industrial property leasing or for private individuals looking at residential property leasing. The segment has many years of experience, and good references in the financing of municipal construction projects or the acquisition of public facilities. Furthermore, Hypo Group Alpe Adria Leasing assists customers in finding the site, dealing with the authorities, applying for grants and building negotiations.

2008 was a year of further positive development for real estate leasing, and enquiries for property financing only declined marginally. Customers generally had to meet stricter qualifying conditions (on capital and collateral), however, as a result of the banks tightening their risk criteria.

Business development

Hypo Group Alpe Adria's entry into market usually starts with the establishment of a leasing company, which acts as a solid base for further expansion – also in banking – and for the growth of both segments. From this, Hypo Group Alpe Adria assumes a leading position in all markets and is well placed with its companies on the ground. With 81 locations, Hypo Group Alpe Adria has a dense network in the Alps to Adriatic region and has been able to develop sustainable leasing markets in the countries concerned. More than 1,100 employees in Austria, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Germany, Italy, Montenegro, Hungary, Bulgaria, Macedonia and Ukraine act as expert advisors to more than 83,000 customers in those countries. 57 % of customers come from the European Union countries, 41 % from South Eastern Europe and 2 % from OECD and other countries.

The financial year just ended was characterised by a worldwide decrease in property values, which correspondingly led to cautious valuations and the creation of risk provisions. In some cases realisation of existing assets was necessary. The generally difficult economic conditions and related shortage of liquidity were felt by the Leasing segment as well – and more stringent screening of financing projects, stricter lending criteria and higher refinancing costs were the result. In order to be able to meet the higher risk, the Leasing Segment was also assigned some projects to optimise risk management. Moreover, from autumn 2008 onwards, no further financing projects in Swiss Francs were accepted, because of the volatility in exchange rates.

Following the intensive period of acquisition in previous years, 2008 was a year of consolidation in the existing markets. To this end, the sales network was strengthened through the opening of new branch offices, primarily in conurbations. The Ukrainian subsidiary posted its first full financial year following its establishment at the end of 2007. Despite the extremely difficult market conditions, the subsidiary was able to report satisfactory growth and became a Top 3 player in the country in its first year.

The implementation of a new core leasing application based on Oracle 2007 in Croatia, Bulgaria and Macedonia helped to improve workflow considerably. There is now a fully integrated leasing system with ERP (resource planning) and CRM (customer relationship management) installed in these countries, on which a lot of further work was done in 2008, in particular with regard to extending functionality, with the country staff actively supporting. Once the additional functionality is in place, this will be rolled out to the other country organisations in the coming years.

Segment Leasing

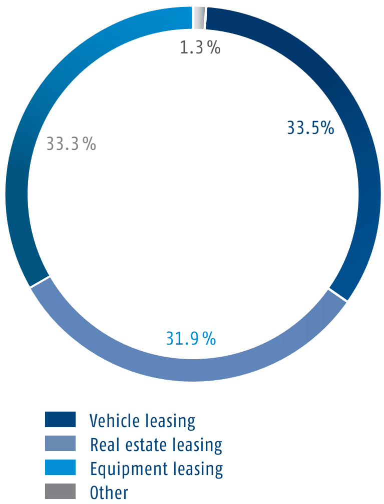
Hypo Group Alpe Adria Leasing employed 1,123 staff as of 31 December 2008. This represents an increase of 141 employees (2007: 982 employees).

Employees
Development 2004 to 2008

In the 2008 financial year 50,196 agreements with a new financing volume of EUR 2,875.2 m (2007: EUR 2,716.5 m) were concluded. This represents an increase of 5.8 % over 2007. Hypo Group Alpe Adria Leasing was able to strengthen its market position in the extended Alps to Adriatic region. The new financing volume was split over individual segments as follows: EUR 963.6 m was accounted for by vehicle leasing, EUR 956.6 m by real estate leasing and EUR 917.5 m by equipment leasing. In percentage terms, the split was 33.5 % for vehicle leasing, 33.3 % for real estate leasing, 31.9 % for equipment leasing and 1.3 % other.

	EUR m
Vehicle leasing	963.6
Real estate leasing	917.5
Equipment leasing	956.6
Other	37.5

New financing volume by segment
2008



The increases in new financing volumes were above all due to the positive development in business in Serbia, Slovenia and Montenegro. The Slovenian company Hypo Leasing d.o.o. was again in 2008 the undisputed Number 1 in the Slovenian market and showed an increase of 12.3 % in new financing volume, to which real estate leasing made the largest contribution. In September 2008 Hypo Leasing d.o.o. opened the Qlandia shopping centre in Nova Gorica, together with other, strategic partners.

The increase in new financing volumes in the Serbian market resulted from the positive development of both the subsidiaries located there. Close collaboration with the largest car dealers in the region was a major factor in the increase in vehicle leasing rates. Pleasingly, our position as a partner of the Serbian economy was strengthened in 2008: through the agreement concluded with the European Investment Bank in the year under review, Hypo Alpe-Adria-Leasing d.o.o. will benefit from EUR 50 m of funds for financing projects.

The Montenegrin subsidiary Hypo Alpe-Adria-Leasing d.o.o. Podgorica increased new financing volume in 2008 to EUR 97.1 m. Steady growth was recorded in the year in particular for industrial equipment leasing. Increased demand in financing solutions for highways construction, water supply and public transport projects can be expected in the near future as a result of the country's economic development. A similarly positive development can be expected in vehicle and real estate leasing for private individuals.

Total assets also rose again in the year under review. As of 31 December 2008, total assets came to EUR 7.9 bn, some 23.4 % or EUR 1.5 bn above the previous year's level (2007: EUR 6.4 bn).

Hypo Group Alpe Adria Leasing total assets
EUR bn

Outlook

2009 will be influenced by the extremely difficult economic environment, which is expected to continue, and the related limited prospects for growth. Consolidation of existing markets will therefore be a priority. After a phase of strong expansion resulting in 81 locations in eleven countries, Hypo Group Alpe Adria Leasing will now concentrate on servicing the market intensively and growing organically. Our strong position in each of the markets should be further strengthened, so that we can act with the appropriate dynamism in difficult times as well. Over and above this, there will be a Group-wide focus on monitoring our performance and our risks. The improvement of credit control through the implementation of new leasing software makes it possible to monitor the market more closely and to react more swiftly when customers experience payment difficulties.

The property markets should stabilise in 2009. It should be assumed, however, that project-driven real estate transactions will decrease steeply. In order to counteract this trend, real estate leasing will be promoted more strongly to SMEs as an alternative to investment.

Segment Other

Of the many companies in which Hypo Group Alpe Adria has an interest, Kärntner Holding Beteiligungs-AG (KHBAG) and Hypo Alpe-Adria-Immobilien AG are of particular importance.

Kärntner Holding Beteiligungs-AG (KHBAG)

KHBAG is responsible for Hypo Group Alpe Adria's tourism and golf projects and is active in the areas of project development, project financing and long-term project management. The "Hotel & Residenzen Schloss Velden" project on the Wörthersee is one of best known in the tourism sector.

The Hypo Group Alpe Adria subsidiary Kärntner Holding Beteiligungs-AG (KHBAG) is responsible for all the Group's tourism-related projects in Carinthia and acts as a driving force for the sustained development of Carinthia's tourist industry. Hypo Group Alpe Adria is an important partner in the development and financing of such projects, and can also act as investor in, or operator of the projects. KHBAG's expert knowledge of the industry together with its financing capabilities acts as a guarantor for the management of existing projects, with a view to enabling the long-term profitable management of regionally and internationally networked projects.

One of Kärntner Holding Beteiligungs-AG's main projects in 2008 was the support of the major hotel project "Schloss Velden Hotel & Residences" in Velden am Wörthersee in its first full year of operation. The final building works were successfully completed on the residences project during the 2008 financial year and some more apartments put on the market. A highly-fashionable hotel in its heyday, Schloss Velden was converted in a three-year planning and building project and reopened as a 5-star deluxe hotel complex with an integrated spa area and an exclusive residence complex. Operating under the luxury "Capella Hotels & Resorts" brand and following conversion, besides 105 suites, 210 beds, 4 restaurants and bars, a ballroom and two conference rooms, the hotel has a 3,500 m² spa complex as well as an indoor golf area. The sale of the luxury apartments is being managed by real estate specialist Stiller & Hohla, the internationally experienced partners of "Christie's Great Estates Europe". The 25 apartments in Phase 1 have nearly all been sold; and the first two of the 20 apartments completed in 2008 in Phase 2 of the project are in the process of being sold. In total, therefore, some 50 % of the residences have been sold to date, with an average price of approx. EUR 8,700 / m².

In 2008 KHBAG successfully sold its interest – with an annual return significantly above 14 % p.a. – in Hotel Carinzia, the first project in Tröpolach in the Nassfeld resort, to the Falkensteiner group. The project development and submission planning phases of the "Lamplhof" project were also significantly progressed and the land use plan submitted for approval by the authorities. The "Lamplhof" is intended to be a further, market-leading tourist operation, situated on the south bank of the Wörthersee and with approx. 150 rooms for business / conference and golfing / leisure usage.

Following the participation in 2006 in HICO Hotel Investment & Consulting St. Veit / Glan GmbH, which is responsible for the construction of the Blumenhotel St. Veit / Glan, the hotel opened ahead of schedule in the late autumn of 2008. Kärntner Holding Beteiligungs-AG also has a 49 % interest in the Congress Hotel Villach Errichtungs-gmbH.

To round off its hotel portfolio, Hypo Group Alpe Adria's golf projects also form part of KHBAG's portfolio. This comprises both the Klagenfurt – Seltenheim and Villach – Finkenstein courses. KHBAG managed both courses in the period under review and was successful in raising the quality and reputation of both.

Kärntner Holding Beteiligungs-AG will be focussing on Hypo Group Alpe Adria's tourism interests again in 2009.

Hypo Alpe-Adria-Immobilien AG

Hypo Alpe-Adria-Immobilien AG is responsible for property markets within Hypo Group Alpe Adria. Its activities cover the development, financing, project management, operation and repositioning of property. The subsidiary manages the Group's headquarters and branches as well as the properties in its successful property participation portfolio.

In 2008 Hypo Alpe-Adria-Immobilien AG was again able to further strengthen its market position.

Project Management oversaw the refurbishment of some branches in 2008. Smaller-scale branch refurbishment and the further development of the Hypo City Center in Klagenfurt, for which the application for planning permission was submitted in 2008, will be the main focus of attention in 2009. Additionally, the property valuation service, which was developed by Investment Service and which services both the bank internally and the external market, will be promoted further.

Portfolio Management acquired five assets with a transaction volume of EUR 24.7 m and also sold an asset in Slovenia. Also in 2008, and as part of internal risk management procedures, a risk analysis tool was implemented in the interests of ensuring targeted, efficient management of the property portfolio. In 2009, and in view of Group strategy, there will be ongoing expansion of the property participation portfolio and of Group-owned property.

In 2007 Hypo Facility Service GmbH (HFS) was founded as a subsidiary of Hypo Group Alpe Adria and of the two Austrian banking groups. This company manages and operates all bank-owned property in Austria serving operations and capital investment. Through outsourcing all property management issues, the first savings have been realised. Further optimisation of the organisation and of processes was a priority in 2008. Third market acquisition, which is geared towards the supply of all property-related services as well as infrastructural banking and leasing business processes outside Hypo Group Alpe Adria as well, is a further main business activity. In 2008 all the preparations for the spin-off of HFS Belgrade were completed according to plan and the company was founded on 24 December 2008.

The Geographic Segments.

Austria

Sector overview

As an export-oriented country with strong international links, Austria was unavoidably affected by developments in the international markets. The difficult boundary conditions increasingly impacted the Austrian economy in the course of the year. While a slight economic growth was still registered during the first three quarters of 2008, the fourth quarter already saw a shrinkage in real terms of 0.2 %. For the year 2008 as a whole, the economy grew by 1.8 %. However, the experts already predict a slight reduction of the economic output for 2009. According to the forecasts, the Austrian economy is expected to grow an average 1.3 % during the period from 2009 to 2013, which would cut the economic growth rate of the last five years to half. The Austrian economic area has one of the densest banking networks in Europe. In recent years, the financial institutions were able to extend their network considerably in the countries of Eastern Europe. As a result, the massive setback in growth in Central and Eastern Europe negatively impacted the growth of Austria's banks.

In spite of the finance crisis, the Austrian leasing market grew by 4 % in 2008. With regard to new business, vehicle leasing expanded by 4.2 %. A similar growth of 4.8 % was also achieved in the equipment business, dominated by ship leasing and lease financing of aircraft and photovoltaic installations. Notwithstanding the challenging economic boundary conditions, new business in the field of real estate leasing increased by 2.4 %.

Hypo Alpe-Adria-Bank AG

Hypo Alpe-Adria-Bank AG is one of the leading independent universal banks and operates nationwide from 23 locations in Carinthia, Vienna, Salzburg, Upper Austria and Innsbruck. With 630 employees on 31 December 2008, Hypo Alpe-Adria-Bank AG offers its clients all classical services in the retail, corporate and institutional segments and is able to act quickly and effectively. When the portfolio of clients of the Munich office was integrated in the main office of Salzburg province in December 2008, the latter gained added importance. The main office of Salzburg province developed very positively in 2008, attracting additional customers and deposits.

Long-term partnerships far exceeding pure money transactions emphasize the absolute customer focus of Hypo Alpe-Adria-Bank AG in its domestic Austrian market. This is impressively confirmed by the retail & private banking segment, which continued the good development of previous years in 2008 and was able to increase the volume of loans by 14.9 % from EUR 762.2 m to EUR 875.7 m on the closing date (31 December 2008). In 2008, tailored target group concepts to support the clients efficiently were developed and implemented in each of the three segments, namely private customers, private banking and small and medium-sized enterprises. During the year under review, the total private loan volume increased by 15.3 % to EUR 415.6 m. On balance, the demand for foreign currency loans decreased in 2008. By contrast, housing financing developed positively, registering a 14.3 % growth to EUR 357.3 m. The total volume of savings deposits also developed very positively. On 31 December 2008, it had increased by almost 20 % to EUR 1,014.2 m. Approximately 92 % or EUR 936.2 m thereof was attributable to the retail segment.

Classical loan financing apart, during the year under review the corporate segment continued to grow in other areas as well, primarily as a result of its attractive products such as investment advice, payment transactions, documentary transactions and treasury.

Apart from the financing projects, which were implemented primarily in Austria, the public finance segment was also able to successfully carry out projects in other countries of the EU, focussing primarily on the financing of communal infrastructure, public health and education. The new financing volume increased from EUR 280 m in 2007 to EUR 285 m in 2008. On 31 December 2008, the portfolio of assets reached EUR 2,836 m.

The difficult economic boundary conditions also left their mark on the Southeast European investment region, causing a marked decrease of investment activities in Slovenia, Croatia, Bosnia, Serbia and Montenegro. In spite of this situation, the investment banking segment of Hypo Alpe-Adria-Bank AG optimized the processes and workflows with the brokerage houses and expanded brokerage activities in this region. During the year under review, the activities focussed on the sphere of trading/brokerage in order to provide even better support to retail and institutional customers.

With tailored property and personal insurance solutions, the insurance division of Hypo Alpe-Adria-Bank AG, trading under the name of Hypo Alpe-Adria-Insurance Services GmbH, was able to gain further ground, success-

fully consolidating respectively increasing the very high turnover of previous years. The new segment, Hypo finance management, was also established in the year just ended. This independent sales unit, acting as a mobile sales force, opens up a new distribution channel for the bank through which customer-specific advice can be provided irrespective of opening times and place.

Hypo Alpe-Adria-Leasing GmbH

Hypo Alpe-Adria-Leasing GmbH, a 100 % owned subsidiary of Hypo Alpe-Adria-Leasing Holding AG, has been one of Austria's leading leasing companies since it entered the market in 1990. The leasing company offers its customers tailored financing models for vehicles, equipment, real estate and construction. In addition, it commands an important position for cross-border financing. In recent years, Hypo Alpe-Adria-Leasing GmbH additionally established itself as an expert for sailboat and motor yacht leasing as well as aircraft leasing, both for companies and private individuals. It also specialises in leasing solutions in the area of renewable energy, such as photovoltaic and biomass installations. As of 31 December 2008, Hypo Alpe-Adria-Leasing GmbH employed a staff of 48 (2007: 45) at five sites. The new financing volume increased in 2008 from EUR 294.0 m to EUR 314 m, corresponding to an increase of 6.6 %.

In view of the global economic boundary conditions, the flexibility to respond to the changing demands of the customers is a key factor for the equipment leasing solutions of Hypo Alpe-Adria-Leasing GmbH. With a new financing volume of EUR 253.3 m (2007: EUR 217.8 m) and a share of 80.8 % of the total portfolio, the equipment leasing segment remains the turnover driver of Hypo Alpe-Adria-Leasing GmbH in Austria. Individual product solutions to finance mobile capital goods without significantly compromising the customer's liquidity are a central factor of all product solutions of the leasing company. Climate change, CO_2 reduction and the "Kyoto protocol" are still important issues for the general public. For years, Hypo Alpe-Adria-Leasing GmbH has been operating successfully in these areas. In 2008, the business activity concentrated on photovoltaics and biomass, areas in which several projects have been concluded successfully in the past. Hypo Alpe-Adria-Leasing GmbH has also been renowned as a reliable partner for aircraft financing for many years. The special know-how in the field of aircraft leasing and a portfolio of approximately 20 aircraft means firstly that tailored financing concepts are available, but also that Hypo Alpe-Adria-Leasing GmbH is capable of offering its customers expert advice about the stable value and utilization of the aircraft. In view of the geographical proximity to the Adriatic region, Hypo Alpe-Adria-Leasing GmbH is also the leading company in the field of sailboat and motor yacht leasing for private individuals and enterprises. In particular the strong network in the region creates optimal conditions so that customers can rely on prompt and efficient implementation.

The real estate leasing business of Hypo Alpe-Adria-Leasing GmbH offers private customers and enterprises a modern financing method that combines the benefits of renting and owning property without putting pressure on the credit line. The new financing volume of the real estate leasing segment reached EUR 29.1 m in 2008 (2007: EUR 41.5 m), corresponding to a 9.3 % share of the total portfolio. Due to the segmentation into housing and commercial leasing, customers can be treated in a differentiated manner, enabling the company to address the customers' demands even better.

The vehicle leasing segment achieved a new financing volume of EUR 30.9 m (2007: EUR 35.5 m), representing a share of 9.9 % of the overall portfolio, during the year just ended.

Austria

	2008
Country	Austria
Capital	Vienna
Area	83,871 km²
Population	8.1 m
GDP	EUR 283.9 bn

Italy

Sector overview
In 2008 the Italian banking sector maintained a relatively stable profile given the difficult global economic situation. Nevertheless the consolidation process in the banking business progressed, leading to a further intensification of the competitive pressure. A similar development occurred in the leasing market. The vehicle leasing segment, the real estate and the equipment segment more or less maintained the development trend unchanged. Moreover a significant increase in the demand for lease financing for boats, yachts and maritime vessels (secondary sectors) was recorded.

Hypo Alpe-Adria-Bank S.p.A.
Hypo Alpe-Adria-Bank S.p.A. is headquartered in Udine and operates with own branches in the regions in Northern Italy which have the strongest industrial base. HYPO Alpe-Adria-Bank S.p.A. offers both classical banking products for small and medium-sized companies (SMEs) and private customers, as well as lease financing.

In order to enhance its presence in the industrial regions in Northern Italy, Hypo Alpe-Adria-Bank S.p.A. opened three new branches in 2008, namely in Manzano, Carrara and Villorba, and it activated new cooperation relations with the external commercial networks (Promotori Finanziari/freelance financial advisors and leasing agencies). Thanks to the strengthening of the sales force and its presence in the territory, thanks to an up-to-date product range and to the launch of a re-organisation of the competences within the commercial networks (see below), Hypo Alpe-Adria-Bank S.p.A. increased the direct and indirect deposits of customers. During the same period, the net lending volume recorded an increase of EUR 544 m, leading to a total net lending amount of EUR 4,736 m. In this context, the number of employees also increased slightly to 554 on the closing date (31 December 2008).

The growth of the bank, the need to strengthen the ties with customers and improve the closeness to the customers as well as the very competitive market environment lead Hypo Alpe-Adria-Bank S.p.A. to increase the degree of specialization of the commercial networks in 2008. Hence the updating of the sales model on the basis of the separation of the competences of the professionals dealing with the corporate segment ("gestori corporate"/corporate customer relationship managers) from the competences of the professionals dealing with the retail segment ("gestori privati"/private customer relationship managers). The focus of these professional profiles is exclusively on customer relationship and no longer on administrative tasks, which are dealt with by the back office personnel. This new structure is supported by an up-to-date product range that is characterized by a specialization on two target groups: SMEs and retail customers.

In the retail segment, Hypo Alpe-Adria-Bank S.p.A. devoted special attention also to the professional qualification of the Promotori Finanziari.

The corporate sector also took advantage of this reorganisation and recorded an increase of the overall financing volume in the SME business.

Lease financing, offered by Hypo Alpe-Adria-Bank S.p.A. through its Agenzie Leasing (external distribution network), was focused on SMEs located in the territory where the bank is active. In its core segment, real estate leasing, Hypo Alpe-Adria-Bank S.p.A. proved itself as one of the market players. Additionally, Hypo Alpe-Adria-Bank S.p.A. also extended the activities in the ship and mobile assets leasing segments. In 2008 the overall volume of the concluded lease contracts was EUR 674 m.

The economic development of Northern Italy, where Hypo Alpe-Adria-Bank S.p.A. operates, is currently experiencing a slowdown – if not even a drop – of all economic indicators. With reference to the leasing segment, the global crisis hitting the car and building sectors negatively influences the economic trend of manufacturing SMEs that operate in different industrial regions of the Italian provinces where Hypo Alpe-Adria-Bank S.p.A. is represented, giving rise to uncertainties for the year 2009, too.

The Italian economic and entrepreneurial fabric is strongly characterized by the presence of SMEs with a very flexible structure. It will be able to adapt the production plans in order to find new products and new markets.

Italy

	2008
Country	Italy
Capital	Rome
Area	301,336 km²
Population	57.3 m
GDP	EUR 1,585.1 bn

Slovenia

Sector overview

Although the general slowdown of the economy in the wake of the international financial crisis also affected Slovenia in 2008, the economic growth of 3.8 % remained on a relatively stable level. The difficult last quarter in particular had a significant impact in the industrial and financial sectors, causing far-reaching ripple effects on the export sector. Historically a very competitive sector, banking in Slovenia benefited in 2008 from a higher demand for loans, especially in the first half of the year. However, it was hit at the same time by the effects of the sub-prime crisis in the USA, which led to a tense situation in the financial market and slowed down the market in general.

Similar effects and factors were observed in the very well-developed leasing market in Slovenia, where a decrease occurred throughout all the segments on an all-year basis. Most leading leasing companies are owned by banks.

Hypo Alpe-Adria-Bank d.d.

Hypo Alpe-Adria-Bank d.d. further strengthened its market position in the previous year, increasing its market share to 4.8 %. On the closing date (31 December 2008), it was one of the eight biggest banks in the country. Four new locations – Trbovlje, Ljubljana, Brežice and Velenje – were added to the branch network. Hypo Alpe-Adria-Bank d.d. now covers the entire territory of Slovenia from 17 offices. During the same period, the bank's deposit (non-bank clients) volume increased by a total of 21.2 % to EUR 435 m. Compared with the same period of the previous year, the volume of loans (non-bank clients) went up 25.0 % to EUR 1,892 m, primarily due to a clear customer segmentation and tailored products.

The retail segment of Hypo Alpe-Adria-Bank d.d. was able to defend its position in the competitive Slovenian banking market based on its comprehensive range of bank products and services. With a high degree of flexibility and total customer focus, Hypo Alpe-Adria-Bank d.d. is established as a reliable partner of Slovenian private customers. The demand for private and housing-secured loans from both existing and newly gained customers was still strong in 2008. This development and the co-operation with Renault Nissan Slovenia in the field of car loans led to an increase of the loan volume in the private customer segment by 19.4 % to EUR 487.4 m. Furthermore, Hypo Alpe-Adria-Bank d.d. also strengthened its e-banking and its offer of structured products in the financial year just ended. In combination with the extension of the business with credit cards through the introduction (American Express) respectively renewal of international credit cards, Hypo Alpe-Adria-Bank d.d. succeeded in achieving growth in the retail business during the period under review.

In the corporate segment, Hypo Alpe-Adria-Bank d.d. continued to concentrate on the intensification and extension of its contacts with existing customers in the financial year 2008 in order to promote the long-term loyalty of its customers. At the same time, intensive efforts were undertaken to gain new customers, in particular small and medium-sized companies. The success of these measures is reflected in the increase of the loan volume in the corporate segment by 27.4 % to EUR 1.4 bn. The permanent further development of the products, the optimization of the processes in the day-to-day business, constant employee training and the implementation of the BASEL II regulations to improve the management of loan risks were additional important core tasks for the corporate segment of Hypo Alpe-Adria-Bank d.d. in the last financial year.

The treasury segment as the third pillar of Hypo Alpe-Adria-Bank d.d. is responsible for liquidity and risk management. It serves as a know-how centre within the internal network. In 2008, its activities focussed above all on the optimization and implementation of liquidity planning.

In the investment banking segment, in 2008 Hypo Alpe-Adria-Bank d.d. continued to convince with its competence in the field of mergers & acquisitions. For instance, it structured and assisted the successful take-over of Tosama, a company specialized in medical consumables, hygiene products and fleece textiles, by Sana investicije d.o.o. In addition, a separate unit for the portfolio management of private and institutional investors was implemented at Hypo Alpe-Adria-Bank d.d. in 2008.

Hypo Leasing d.o.o.

As a universal leasing company, Hypo Leasing d.o.o. specializes in long-term financing projects. With a market share of 37.5 %, the leasing company remained the undisputed number one in the Slovenian market in 2008. 214 employees (2007: 193) at 10 locations ensure that Hypo Leasing d.o.o., in its capacity as the market leader, defines the major nationwide benchmarks in terms of customer advice and product development. The business strategy of Hypo Leasing d.o.o. in the various segments, i.e. vehicle, equipment and real estate leasing, is tailored to the customer and market requirements and undergoes continuous development. In all segments, the customers are offered both financing and operative leasing alternatives. With its uncompromising customer focus, the leasing company increased the number of leasing contracts to 43,755 in total during the year under review. In the same period, the new financing volume grew from EUR 769.4 m in 2007 to EUR 864.2 m. According to the segment breakdown, 35.1 % or EUR 303.3 m (2007: EUR 272.7 m) of the new financing volume was attributable to vehicle leasing, and 18.7 % or EUR 161.6 m (2007: EUR 137.0 m) to equipment leasing, respectively. Driven by shopping and business centre financing, real estate leasing with 46.2 % or EUR 399.3 m (2007: EUR 359.7 m) again contributed the lion's share to the new financing volume. Together with strategic partners, Hypo Leasing d.o.o. opened the Qlandia shopping centre in Nova Gorica in September 2008. Qlandia is a protected brand name of Hypo Leasing d.o.o.

The co-operation with renowned car manufacturers such as Renault Nissan or BMW, which is to be extended to other leading car manufacturers in the future, was an important growth driver for the business development in 2008. A positive development was also seen in the field of movable asset leasing whose share within Hypo Leasing d.o.o. increased.

In the financial year 2009, the leasing company will concentrate on the consolidation of its leading market position. The extension of the product portfolio in all leasing segments will be treated as a priority. In the real estate segment, it is planned to advance the implementation of existing investments from the company's own real estate portfolio. Vehicle leasing for private and above all commercial uses will decrease in comparison to 2008. In future years, stagnation is expected in this segment.

Slovenia

	2008
Country	Slovenia
Capital	Ljubljana
Area	20,273 km²
Population	2.0 m
GDP	EUR 40.2 bn

Croatia

Sector overview
In 2008, the impact of the global financial market crisis was felt less severely in Croatia than in other Southeastern European countries. In spite of this, the exceptionally good growth rate of the gross domestic product of 5.6 % in 2007 slowed down to 2.2 % in the year just ended. In line with the development in the international financial markets, the Croatian leasing market contracted, in particular as a result of limited liquidity combined with increasing interest rates.

Hypo Alpe-Adria-Bank d.d.
In the financial year 2008, Hypo Alpe-Adria-Bank d.d. with registered office in Zagreb, confirmed its position as a strong and reliable partner to the Croatian economy. With a market share of 7.0 %, it was one of the six largest banks in the country. On the closing date, 31 December 2008, the bank – a universal bank with focus on the corporate, retail, public finance and investment banking segments – employed 1,170 staff in 42 locations.

During the period under review, Hypo Alpe-Adria-Bank d.d. served private and business customers from all lines of industry with its nationwide network and succeeded in defending its market position, both in terms of the volume of deposits and the volume of loans. As of 31 December 2008, the volume of deposits stood at EUR 1,386 m, and the volume of loans at EUR 2,626 m.

Positioned as a partner of the Croatian private customers and small and medium-sized enterprises, the retail segment successfully concentrated on cross-selling activities and introduced a new service and sales concept. The number of private customers has have been significantly increased thanks to the newly developed attractive savings products and the increase of the total number of clients. In the financing segment, the strong position in housing loan lending has been maintained, while new products have been introduced in the fast growing consumer loan segment. The Private Banking Unit implemented in 2008 was also eagerly accepted by Croatian private customers. Hypo Alpe-Adria-Bank d.d. therefore did not only gain numerous new customers, it also succeeded in driving up the deposit and financing volume considerably.

Against the background of the difficult economic conditions, in 2008 the corporate segment kept its strong market position in corporate lending. The development of investment activities in the tourism sector, construction industry and trade – i.e. in the primary fields of activity of Hypo Alpe-Adria-Bank d.d. – remained comparatively stable. In this difficult market environment, the corporate segment concentrated on the development of new products for the export business in 2008 and on a strong diversification of its portfolio in order to defend its position in the future.

The public finance segment significantly increased the total number of clients and built up expert know-how in the department. Numerous well-known public finance clients started doing business with Hypo Alpe-Adria-Bank d.d., and a couple of bigger financing mandates will be realised in the beginning of 2009.

During the same period, the investment banking area was faced with major challenges. For instance, market capitalization at the Zagreb Stock Exchange dropped by 57.7 %. On the positive side, however, the investment banking segment was able to increase the number of institutional customers it served during the year 2008, and became the market leader in custody service by introducing new products, launching a new segment homepage (www.hypoipol.hr) and implementing the bank's own HYPOnet, which improved the application of electronic payment transactions on the Internet.

In the financial year 2008, Hypo Alpe-Adria-Bank d.d. focused strongly on the preparation of the merger with Slavonska banka d.d., Osijek. The purpose of the consolidation of the two institutes is to leverage their combined strengths and be perceived as an even stronger and more powerful player in the market

Slavonska banka d.d., Osijek

With a regional market share of 30 % in Slavonia and Baranya, Slavonska banka d.d., Osijek is one of the biggest banks in the region. Referred to the total Croatian market, Slavonska banka d.d., Osijek held a market share of 3 % in 2008. In this region of Croatia, located in the East of the country, Slavonska banka d.d., Osijek employed a staff of 654 at 32 sites. The comprehensive product range and many distribution channels as well as the pronounced customer focus translated into an increase of the volume of deposits by 8.9 % to EUR 578 m (2007: EUR 531 m), respectively of the volume of loans by 17.3 % to EUR 1,114 m (2007: EUR 950 m), in the year just ended.

Concentrating primarily on the systematic implementation of customer segmentation by means of tailored products and services in all segments, Slavonska banka d.d., Osijek was able to position itself as the regional leader in 2008. In the financial year just ended, the retail segment adapted its product and services offer to the prevailing market situation. Its portfolio now includes products customized to the needs of all age brackets and target groups. Credit card business and electronic payment transactions are highly popular, as is the "HYPO 14+ savings" product for teenagers between 14 and 18 years. A unique product for this market and region is the "Hypo limac savings" – a savings product specifically developed for the youngest target group between 0 and 14 years.

In the corporate segment, Slavonska banka d.d., Osijek was one of the first banks to offer tailored loan financing to corporate clients in agriculture and the food industry. Furthermore, the country's possible accession to the EU and the conditions this would impose on Croatia offer additional potential for further business in the corporate segment. By financing road and infrastructure projects, Slavonska banka made an important contribution to the further development of the region. Slavonska banka also identified further business potential in the public sector and in the adoption of a targeted approach to address small and medium-sized enterprises in the region.

The improvement of the service performance of Slavonska banka is primarily the result of the constant upgrading of the products, of continuous staff training and of the extension of the distribution network by opening new branch offices.

Hypo-Leasing Kroatien d.o.o.

Following a period of pronounced growth in recent years, in 2008 Hypo-Leasing Kroatien d.o.o. concentrated entirely on the consolidation of the existing business volume and the increase of the service quality for its customers. Against this background, the company – whose 19 branch offices constitute one of the most extensive networks in the country – was able to achieve a new financing volume of EUR 585 m. Managing a total of 13,622 leasing contracts on the closing date (31 December 2008), it successfully defended its number one position in Croatia with a market share of 33 %. During the period under review, efficiency-increasing measures and the constant evaluation of existing activities led to a slight decrease of the staff level to 295 employees as of 31 December 2008.

In the financial year 2008, Hypo-Leasing Kroatien d.o.o. was active in equal measure in the vehicle, equipment and real estate leasing sectors. Determined to stand its ground in an economically difficult environment characterized by liquidity bottlenecks, the company concentrated even more than in the past on a painstaking risk assessment and analysis of the credit worthiness, combined with an intensification of the ongoing customer contact. In addition, Hypo-Leasing Kroatien d.o.o. abstained from offering fixed-interest products and financing in Swiss Francs.

Croatia

	2008
Country	Croatia
Capital	Zagreb
Area	56,538 km²
Population	4.49 m
GDP	EUR 42.1 bn

Bosnia and Herzegovina

Sector overview

Compared with other countries, the economic situation of Bosnia and Herzegovina was robust during the year under review. In an increasingly competitive environment, the banking sector continued its moderate growth in the first half of the year, but a noticeable slowdown occurred in the second half of the year when the effects of the international finance crisis were clearly felt. On the closing date, 31 December 2008, 30 banks and 7 leasing companies operated in Bosnia and Herzegovina. The three biggest banks accounted for a market share of more than 60 %. Hypo Group Alpe Adria (Hypo Alpe-Adria-Bank a.d. Banja Luka and Hypo Alpe-Adria-Bank d.d. Mostar) alone claimed approximately 21 % of the entire market. In 2008, the leasing market, in which international leasing companies are the main players, grew considerably but was also fiercely contested. In this context, vehicle and equipment leasing as well as real estate leasing remained popular financing types.

Hypo Alpe-Adria-Bank a.d. Banja Luka

Operating exclusively in the Republic of Srpska (RS), Hypo Alpe-Adria-Bank a.d. Banja Luka presented itself as a stable financial institution in the financial year just ended, commanding a market share of 35 % in the region. Reflecting the increased market demands in Bosnia and Herzegovina, the number of employees at Hypo Alpe-Adria-Bank a.d. Banja Luka went up from 510 in 2007 to 561 at the end of the year 2008. Four additional locations were added to the branch network, namely Sokolac, Čelinac, Kotor Varoš and Ugljevik. This gave the bank nationwide presence and allowed it to increase the number of business and private customers it attended. While the volume of customer deposits – EUR 799.1 m – remained at the high level of the previous year, the volume of loans grew by 23 % to EUR 711.2 m thanks to the good co-operation with the public institutions in the RS. A co-operation agreement with the Investment Development Bank of the Republic of Srpska undersigned in 2008 opened up new business possibilities in the private and commercial customer segment for the financial institution.

Based on its very comprehensive product portfolio of savings products, housing construction and consumer loans, mortgages, SMS and electronic banking as well as credit cards, the retail segment developed positively during the financial year just ended. The deposit volume remained at the high level of the previous year – not least because of newly developed savings products such as “Hypo 13” and “Step Saving” – reflecting the customers’ high level of trust in the bank. With 27,000 newly issued credit cards, the bank achieved a 30 % growth in this area. Therefore, at the end of the year, more than 117,000 customers were Hypo card users. In accordance with the strategy of Hypo Group Alpe Adria, Hypo Alpe-Adria-Bank a.d. Banja Luka integrated small and medium-sized enterprises in the retail segment and implemented a new service model for customer advice and loyalty to maximize its customer focus.

In the corporate segment, Hypo Alpe-Adria-Bank a.d. Banja Luka intensified its business activities during the period under review and was able to increase the volume of loans by 21.3 %. It is now established as one of the most important loan providers for the national economy, maintaining its role as the most important supporter of large companies, too.

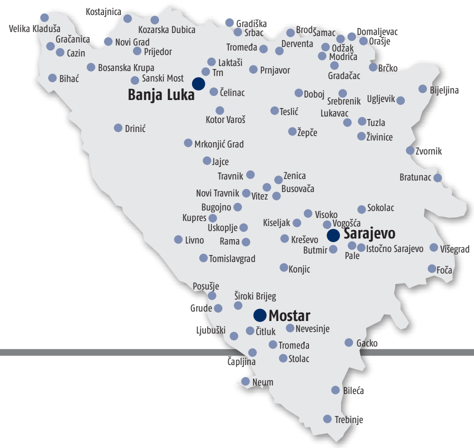
The bank was equally successful with regard to the provision of funds to public institutions, significantly increasing the market share in this specific market segment.

Actively shaping the capital market in Bosnia and Herzegovina with their products and services, the brokerage house (Hypo broker) and the investment banking department of Hypo Alpe-Adria-Bank a.d. Banja Luka continued to define the major benchmarks in the country in 2008. Hypo broker accounted for a market share of more than 18 % of the ordinary turnover of the Banja Luka Stock Exchange and was the clear number one in the market for the third year running. 2008 was entirely dedicated to the continuous further development of the segment and targeted information work for the clients. In particular, the investment banking segment rolled out two new service areas – investment advisory and the function of the depositary banking unit for investment funds.

In the last year, Hypo Alpe-Adria-Bank a.d. Banja Luka kept developing products for all market segments, building a good basis to become service leader in the local market.

Hypo Alpe-Adria-Bank d.d. Mostar

With a market share of 16.6 % in Bosnia and Herzegovina, Hypo Alpe-Adria-Bank d.d., Mostar is one of the region’s most important financial institutions. The branch network of Hypo Alpe-Adria-Bank d.d., Mostar was extended in the financial year 2008, adding five new business units in Ilidza, Odzak, Zenica-Kamberovic polje, Gracanica and Vogosca, respectively. In line with this extension, also a significant growth of business activities led amongst other things to an



increase in the number of employees to 626 on the closing date, which is 76 employees more compared to the end of 2007. As of 31 December 2008, the volume of deposits stood at EUR 522.93 m and the volume of loans at EUR 1,027.54 m.

In 2008, the demand of private customers concentrated above all on savings products, account management, credit card business, payments and money transfer as well as usage of new modes of payment by Internet and SMS service. During the year under review, the retail segment concentrated increasingly on small and medium-sized companies for which it developed special products and services. Against this background, the volume of deposits increased to EUR 267.5 m and the financing volume to EUR 378.3 m.The number of retail clients in 2008 increased by 23,300 compared to the end of the year 2007.

The corporate segment was able to defend its market position in Bosnia and Herzegovina in 2008 with an increase of the volume of loans to EUR 649.3 m. In 2008, with respect to the collaboration with corporate clients, the bank focused on creating a great range of quality products adjusted to the needs of individual clients. In this respect, we can point out decentralised leading and collaboration with clients through account managers and the network of branch offices.

Having been represented in the market with its own "public finance" segment since the beginning of the year 2008, Hypo Alpe-Adria-Bank d.d., Mostar became an important partner of the public sector in financing matters within just one year. The funding of public sector projects to promote the economic development of Bosnia and Herzegovina has already contributed considerably to the total financing volume of the bank in 2008.

The Investment Banking Department based its activities in 2008 on the expansion of its services. Thus, the e-Trading system was implemented, the research sub-department started to work in coordination with ERCE (European Research Centre for Excellence). Custody started trading on foreign markets, and also offered clients the possibility of giving orders directly to brokerage houses.

Concerning the movements in the financial market and all events on a global and local level, it can be said that the year 2008 was the year of challenge for the employees at the Treasury Department. After several years of steadily increasing the obligatory reserve rate, it was reduced from 18 % to 14 %. In 2008, the Bank suceeded in retaining liquidity both in domestic and foreign currency.

In the coming financial year, the company plans to intensify its measures to extend the product range and adapt it to the changed market situation by incorporating the latest technological developments.

Hypo Alpe-Adria-Leasing d.o.o. Sarajevo

With a market share of approximately 33 % of new business, Hypo Alpe-Adria-Leasing d.o.o. Sarajevo retained its position as the clear market leader in Bosnia and Herzegovina in 2008 and concentrated above all on the real estate leasing segment. In the financial year just ended, the leasing company, which employed a staff of 85 as of 31 December 2008, also extended its business activities in the areas of vehicle and equipment leasing. In this respect, it concentrated on success factors such as flexibility and customer focus, impressing not only the private customer segment, but also with its co-operation with public authorities, government partners and many reputable car dealers.

In a generally difficult market environment, the leasing company achieved a new financing volume of EUR 112.9 m in 2008. In the year-on-year comparison, the number of active contracts remained stable, as did the number of attended customers.

Positioned as a full-service provider for private and commercial customers, the flexible product solutions of Hypo Alpe-Adria-Leasing d.o.o. Sarajevo in the leasing business were in great demand. Cross-selling activities created additional business potential. Just like the two banks of Hypo Group Alpe Adria in Bosnia and Herzegovina, Hypo Alpe-Adria-Leasing d.o.o. Sarajevo also focuses intensively on small and medium-sized enterprises, tailoring products to their specific needs in accordance with the general corporate strategy.

Bosnia and Herzegovina

	2008
Country	Bosnia and Herzegovina
Capital	Sarajevo
Area	51,163 km²
Population	4.59 m
GDP	EUR 11.6 bn

Serbia

Sector overview

In September 2008, the Serbian government undersigned a Stabilization and Association Agreement (SAA) with the European Union. This SAA is a preparatory stage that paves the way to the recognition of official candidate status and the initiation of formal accession talks. The signing had a positive impact on the Serbian financial market.

The inflation in Serbia was characterized by the increase of energy and food prices, causing the Serbian National Bank to enforce an even more restrictive monetary policy and stricter measures of supervision. Privatizations and large infrastructure projects are on the agenda for the coming year and will also draw upon the banking sector in 2009. In spite of the global economic challenges, the Serbian banking market developed in line with the expectations of the experts in the last financial year, with the banking and financial sector concentrating largely on foreign operations.

Like the banking sector, the leasing market in Serbia was also affected by the turbulences in the international financial markets. In this respect, finance leasing was more heavily hit than operate leasing.

Hypo Alpe-Adria-Bank a.d., Beograd

Referred to total assets, Hypo Alpe-Adria-Bank a.d., Beograd was Serbia's fourth-largest bank with a market share of 7.1 %. On the closing date, 31 December 2008, Hypo Alpe-Adria-Bank a.d., Beograd had 871 employees. The increase of the number of employees is the result of the extension of the branch office network, to which three additional offices were added, namely in Loznica, Kragujevac and Bačka Topola. Furthermore, additional employees were recruited in the headquarters to cater for the increasing customer demands. In October 2008, Hypo Alpe-Adria-Bank a.d., Beograd opened its internal employee training centre. Parallel to the extension of the branch network, the volume of deposits increased to EUR 554.1 m. At EUR 813 m, the development of the volume of loans remained largely stable.

In a very competitive market environment, the retail area concentrated on existing customers and the optimization of its activities in 2008. Hypo Alpe-Adria-Bank a.d., Beograd responded to the challenging and competitive market in Serbia with a tailored approach, competent staff and flexible products. In this context, the product range was extended synergetically by launching new savings products. At the same time, the co-operation with existing and new credit card providers was intensified. Overall, the volume of deposits of the retail segment (including SME and agriculture) reached EUR 205 m in 2008, while the financing volume reached EUR 445 m as of the last day of the year.

Reflecting the prevailing economic boundary conditions, the corporate segment developed more moderately. Thus, the volume of deposits contracted to EUR 159 m and the volume of loans to EUR 320 m. Notwithstanding the aforesaid, Hypo Alpe-Adria-Bank a.d., Beograd was able to implement numerous large-volume projects, for instance the "Block 67" project – the construction of the Olympic village for the Universiade, whose completion is scheduled for May 2009. During the period under review, the corporate segment concentrated primarily on the sale of RSD products, project financing and structured finance products, but also on cross-selling activities in the internal network.

Established at the bank in 2007, the public finance segment was already able to celebrate its first successes in 2008, increasing the volume of deposits to EUR 103 m. As of the closing date, 31 December 2008, the loan volume remained stable at EUR 40 m.

In the last financial year, Hypo Alpe-Adria-Bank a.d., Beograd was also very active in the investment banking segment. In 2008, as in the previous year, it was again one of the most active participants at the Belgrade Stock Exchange.

Hypo Alpe-Adria-Leasing d.o.o., Beograd

With a market share of 33.4 %, Hypo Alpe-Adria-Leasing d.o.o., Beograd was the clear number one of all Serbian leasing companies on the closing date (31 December 2008). Specialised primarily on vehicle and equipment leasing, Hypo Alpe-Adria-Leasing d.o.o., Beograd achieved a new financing volume of EUR 121.7 m (2007: EUR 134.8 m) in 2008. The many customers appreciate primarily the quality of the products and services of the leasing company. In October, Hypo Alpe-Adria-Leasing d.o.o., Beograd opened a new branch office in Kruševac in order to cater for the growing demand in the region.

In the financial year under review, the leasing company continued to strengthen its position as a partner of the Serbian economy. For instance, the signature of the agreement with the European Investment Bank puts liquid funds in an amount of EUR 50 m for project financing at the disposal of the company.

Driven by the changed market situation, Hypo Alpe-Adria-Leasing d.o.o., Beograd completed its transformation from a growth-oriented to a revenue-oriented company. It will continue these efforts consistently in 2009. As an important employer in the region and as a partner of the economy, Hypo Alpe-Adria-Leasing d.o.o., Beograd also initiates numerous activities in the field of Corporate Social Responsibility (CSR). In 2008, for instance, it was one of the main sponsors of the UNICEF "School without violence programme".

Hypo Alpe-Adria-Rent d.o.o., Beograd

As in previous years, Hypo Alpe-Adria-Rent d.o.o., Beograd was able to continue its stable growth development during the year under review. For the third year running after its establishment, Hypo Alpe-Adria-Rent d.o.o., Beograd was able to convince with attractive product offers from its extensive range and succeeded in extending its lead in the operative leasing segment. The clear specialization on real estate and vehicle leasing resulted in an increase of the new financing volume to EUR 141.9 m in 2008.

While the real estate leasing activities of Hypo Alpe-Adria-Rent d.o.o., Beograd are concentrating on project financing and the financing of shopping centres and car showrooms, the positive development in the field of vehicle leasing is primarily the result of the close co-operation with the largest car dealers in the region.

Serbia

	2008
Country	Serbia
Capital	Belgrade
Area	88,361 km²
Population	9.4 m
GDP	EUR 35.3 bn

Montenegro

Sector overview

Driven by the strong tourism sector and numerous international direct investments, the Montenegrin economy grew considerably in recent years, but then slowed down dramatically as the financial crisis spread. At the same time, the then booming real estate sector lost momentum and real estate prices collapsed. Against this background, the Montenegrin banking sector has been faced with a massive liquidity bottleneck already since the beginning of the year 2008. At the beginning of the fourth quarter, the difficult situation was further exacerbated by the international financial crisis. However, this development had already been kick-started one year earlier when the Montenegrin central bank first adopted regulative measures concerning the extension of the bank credit portfolios. In the challenging economic boundary conditions of 2008, the leasing market, which had grown steadily during previous years, was also hit. Almost all leasing companies reduced their activities noticeably. At the same time, foreign direct investments began to peter out.

Hypo Alpe-Adria-Bank a.d. Podgorica

With a market share of 14.3 % on the closing date on 30 September 2008, Hypo Alpe-Adria-Bank a.d. Podgorica was one of the top three banks in Montenegro. To optimize its representation in the important regional population centres in the south of the country, Hypo Alpe-Adria-Bank a.d. Podgorica opened four new offices in the year under review, namely in Pljevlja, Bar, Kotor and Budva. Because of their geographical location on the Adriatic Sea, the last three of these towns evolved into popular tourism destinations. They were primarily developed – until the middle of the year – by international investors.

In the wake of the generally difficult financial situation in the region and the withdrawal of foreign investors in the second half of the year, the volume of deposits of Hypo Alpe-Adria-Bank a.d. Podgorica dropped to EUR 64.6 m (2007: EUR 97.8 m). However, at the same time the volume of loans increased to EUR 473.4 m (2007: 363.3 m), largely due to the financing of major projects and the extension of the branch network.

With 60 %, the corporate segment is the biggest contributor to the balance sheet total of Hypo Alpe-Adria-Bank a.d. Podgorica. Focussing on the real estate, tourism and transport industries, the bank offers its customers mainly long-term financing solutions with an average term of seven years.

Even though the Montenegrin central bank imposes strict rules on the entire market, the retail segment of Hypo Alpe-Adria-Bank a.d. Podgorica developed very positively in 2008. Thus, the demand for private housing-secured loans in the first half of the year showed an upward tendency. In addition, the introduction of new credit cards and the extension of the branch network helped the bank to tap the existing market potential in Montenegro.

In spite of the crisis in the international finance markets, the investment banking segment of Hypo Alpe-Adria-Bank a.d. Podgorica succeeded in expanding its brokerage market share to 4 %. In 2009, it is planned to complete the reorganization of the investment banking segment and add further products to the portfolio.

Hypo Alpe-Adria-Leasing d.o.o. Podgorica

In spite of the difficult liquidity situation in Montenegro, Hypo Alpe-Adria-Leasing d.o.o. Podgorica disposes of sufficient own financial resources and was able to respond to the challenging market situation in 2008 from a position of strength. Indeed, with a market share of approximately 67 %, the leasing company was even able to further improve its position in the Montenegrin leasing market. As the market leader and full-service provider, it also extended its product range during the period under review. Combined with targeted cross-selling activities between Hypo Alpe-Adria-Leasing d.o.o. Podgorica and Hypo Alpe-Adria-Bank a.d. Podgorica, the leasing company increased its new financing volume in 2008 to EUR 97.1 m (2007: EUR 51 m) and its total assets to around EUR 183 m (2007: EUR 130 m). In the same period, Hypo Alpe-Adria-Leasing d.o.o. Podgorica also opened an additional office in Bar and increased the number of employees to 29.

Hypo Alpe-Adria-Leasing d.o.o. Podgorica is offering all types of financing solutions – mainly leasing for vehicles, equipment and real estate – to private and corporate customers as well as the public sector. In 2008, all segments experienced stable growth.

Hand in glove with the economic development of the country, the demand for financing solutions for road construction, water supply and the extension of the public transport network will presumably rise in the near future. In the private customer segment, a similarly positive development to vehicle leasing and real estate leasing is expected.

Montenegro

	2008
Country	Montenegro
Capital	Podgorica
Area	13,812 km²
Population	0.68 m
GDP	EUR 2.5 bn

Germany

Sector overview

In spite of or perhaps precisely because of the persistent difficult situation in the financial market, leasing – apart from loan financing – remained one of the most popular financing instruments in Germany in 2008. Backed by a growth rate of 3.3 %, the German leasing sector achieved a new business volume of EUR 57.1 bn. In 2008, almost two thirds of all German enterprises relied on lease financing for a large part of their investment activities. However, in the second half of the year, the stagnation of the automotive and supplier industry slightly depressed the financing demand. Not least because of the economic stimulus package adopted by the German government, the industry expects a slight growth in 2009, although it is presently impossible to predict the impact of short-time work, higher unemployment and higher refinancing costs. In any event, lease financing is often the only possibility for small and medium-sized companies to carry out their planned investments in production machinery, equipment and cars.

Hypo Alpe-Adria-Leasing GmbH

Established in the market in 2004, Hypo Alpe-Adria-Leasing GmbH is today recognized as a competent, innovative and flexible financing partner of small and medium-sized enterprises. The company with registered office in Munich is a specialist for the financing of installations for renewable energy, high-quality equipment leasing and the financing of ships, commercial motorcars, production facilities and construction machinery.

In spite of the challenging boundary conditions in the second half of the year, the leasing company kept the number of contracts almost constant at 496 in the year 2008. Nevertheless, as a consequence of the financial market crisis and the resulting liquidity bottleneck in the financial markets, Hypo Alpe-Adria-Leasing GmbH reduced the large-volume project business, especially in the area of photovoltaic installations. Compared with the previous year, the new financing volume dropped slightly to EUR 117 m as a result. However, several successfully implemented projects confirmed the status of Hypo Alpe-Adria-Leasing GmbH as a pioneer in the field of renewable energy yet again. The company showcased its competence at its own stand at Intersolar 2008, the world's largest trade show for solar engineering.

The 27 highly qualified employees of Hypo Alpe-Adria-Leasing GmbH at the two locations in Munich and Hamburg all have many years of operative experience in the field of lease financing and are therefore a key success factor of Hypo Alpe-Adria-Leasing GmbH. With the aim of further intensifying the contact with the customers and consolidating its existing competitive edge, the financial institution continued to treat the training of its employees as a priority in 2008.

Responding to the constant demand for equipment and ship leasing products, Hypo Alpe-Adria-Leasing GmbH opened an office in Hamburg in November 2007. In the first full year of its existence, the office already gained numerous customers. Hypo Alpe-Adria-Leasing GmbH benefited above all from the geographic location of Germany on the North Sea and the Baltic Sea. The know-how of the employees is not restricted to classical leasing products. They also provide expert advice on specific tax-related issues, help clients liaise with the authorities and find harbour spaces.

Germany

	2008
Country	Germany
Capital	Berlin
Area	357,021 km²
Population	82.4 m
GDP	EUR 2,513.2 bn

Bulgaria

Sector overview

The Bulgarian leasing market, largely dominated by the subsidiaries of international financial institutions, above all from Austria, Italy and Greece, achieved considerable growth in recent years. In the year 2008, the international crisis in the financial market left its mark on the banks and leasing companies and started to spread to the real economy, but it is expected that the full effect is yet to be felt in 2009. The automotive industry already saw its sales drop in 2008. This in turn had a negative impact on vehicle leasing.

Hypo Alpe-Adria-Leasing EOOD

Notwithstanding this difficult environment, Hypo Alpe-Adria-Leasing EOOD Leasing was able to hold its ground. With a market share of 18 % on the closing date (31 December 2008), it is one of the five biggest leasing companies in the country. As a provider of complete solutions, the leasing company concentrated primarily on vehicle leasing, equipment leasing and the financing of luxury goods such as ships and aircraft. Furthermore, supplier and real estate financing were also provided. Hypo Alpe-Adria-Leasing EOOD distinguished itself from the other market players by tailoring its products and maximising its customer focus. Combined with a high degree of flexibility, this earned the company a competitive edge.

The new financing volume of Hypo Alpe-Adria-Leasing EOOD in the financial year just ended increased to EUR 287.3 m. EUR 162.3 m thereof was attributable to the car leasing segment, EUR 82.9 m to movable asset leasing and EUR 42.1 m to real estate leasing, respectively.

The vehicle leasing segment developed strongly during the year under review, in particular as a result of close co-operations with the largest Bulgarian car dealers. As in 2007, Hypo Alpe-Adria-Leasing EOOD was again able to conclude financing contracts for buses with leading public transport operators.

In the light of the difficult situation in the construction industry, the equipment leasing segment of Hypo Alpe-Adria-Leasing EOOD suffered a contraction of its business because of the reluctance of international investors in Bulgaria, but also in the neighbouring countries. Hand in glove with this development, the new financing volume in the real estate leasing segment also decreased.

Generally, in the financial year just ended Hypo Alpe-Adria-Leasing EOOD concentrated on its existing customers and the asset portfolio because of the difficult economic situation. At the same time, the management team of Hypo Alpe-Adria-Leasing EOOD subjected its risk management to a rigorous review to enable it to recognize potential bad debt losses in time and initiate the corresponding countermeasures.

Bulgaria

	2008
Country	Bulgaria
Capital	Sofia
Area	110,550 km²
Population	7.26 m
GDP	EUR 33.9 bn

Macedonia

Sector overview

With a market share of 92 %, banks and savings banks firmly dominated the Macedonian financial scene in 2008. Although the Macedonian and foreign leasing companies only contributed 2 % to the entire financial market, they achieved dynamic growth in 2008 (2007: 1 %). However, the financial crisis considerably slowed down this growth in the second half of the year. Severely affected by the global automotive crisis, the Macedonian automotive industry also contracted in 2008. This in turn affected the vehicle leasing market and therefore the hitherto most dynamically growing leasing segment of the country. Notwithstanding this difficult market environment, the market players nevertheless expect the increase of lease financing to continue, albeit moderately.

Hypo Alpe-Adria-Leasing DOOEL

Only 22 months after its launch in the Macedonian market, Hypo Alpe-Adria-Leasing DOOEL had already established itself as the clear market leader on the closing date (31 December 2008), dictating the development of this – at least on the domestic scene – young method of financing. Clearly appreciating the company's high competence in the core segments, namely vehicle, moveables and ship leasing, as well as its absolute customer focus, its specially tailored products, its swift and uncomplicated processing routines and high degree of flexibility, the customers – primarily small and medium-sized enterprises as well as private customers – implemented a noticeably higher number of financing projects together with Hypo Alpe-Adria-Leasing DOOEL during the period under review. As a result, the company successfully handled 1,351 contracts in the financial year just ended. Compared with the previous year, this corresponds to a 44 % increase. During the same period, the leasing company was able to push up the new financing volume from EUR 16.6 m to EUR 26.1 m. Referred to the number of leasing contracts and the financing volume, the leasing company already claimed a market share of 52 % at the end of the year. The opening of two offices in the population centres of Tetovo and Bitola was strategically important to attract new customers and improved the market presence of Hypo Alpe-Adria-Leasing DOOEL considerably.

In line with the general market development, the vehicle leasing segment with focus on commercial vehicles developed very successfully in 2008. Likewise, the moveables leasing segment, which concentrated primarily on financing solutions for construction and production machinery, bakery equipment and medical equipment, also developed positively.

Since the beginning of 2008, Hypo Alpe-Adria-Leasing DOOEL has also been operating successfully in the real estate leasing segment. Among other activities, it began to implement the major "Hyperium" project. It is expected that this first-class office building will be opened in October 2009.

In 2008, Hypo Alpe-Adria-Leasing DOOEL also initiated comprehensive lobbying activities to push for an amendment of the current restrictive value added tax law.

Macedonia

	2008
Country	Macedonia
Capital	Skopje
Area	25,713 km²
Population	2.06 m
GDP	EUR 6.2 bn

Hungary

Sector overview

Due to the financial crisis of the third quarter, and as a milestone in the history of the quickly developing Hungarian leasing sector, 2008 showed a slight market regression of 1.5 % on a full-year basis. The approximately 60 leasing companies, most of which are subsidiaries of large international banks, jointly achieved a new financing volume of around EUR 4.9 bn in 2008. Vehicle leasing was responsible for almost half of this amount, but was heavily affected by the financial crisis and its impact on the automotive industry in the second half of the year. Moveables leasing and real estate leasing fared better, achieving yearly growth rates of 11 % and 2 %, respectively. Market forecasts predict an increasing trend from loan to lease financing in 2009 and therefore expect a moderate growth in the real estate and equipment segment despite the overall difficulties of the financial segment, but they also expect a further decline of 25 % in car financing.

Hypo Alpe-Adria Leasing Zrt.

In a very competitive market environment, Hypo Alpe-Adria Leasing Zrt. concentrates on clearly defined market segments such as moveables and real estate leasing. During the period under review, it was able to further improve its market position. As the only non-generalist among the top 12 leasing companies, it now ranks 9th in the Hungarian leasing market. Out of the segments attended by it, Hypo Alpe-Adria Leasing Zrt. ended the financial year 2008 as the market leader in the ship, aircraft and real estate leasing segments. In addition, in 2008 the company carried out numerous successful tourism and residential real estate projects in co-operation with consortium partners.

In the real estate leasing segment, the leasing company concentrated on financing solutions for tourism, logistics, commercial/industrial and real estate projects in 2008. As a proactive answer to the challenges of the changing market environment, Leasing Hungary has widened its activity also in the SME and private real estate leasing segment.

The real estate development company, 100 % owned by Hypo Alpe-Adria Leasing Zrt., intensified its activities in the areas of tourism, logistics, housing construction and industry during the period under review. This highly specialized unit offers not only complex financing solutions, but also develops its own projects independently – from the planning phase to the management of buildings.

Achieving growth rates in terms of the financing volumes for machines, but also luxury goods such as ships and aircraft, Hypo Alpe-Adria Leasing Zrt. developed positively in the equipment leasing segment during the year under review. On the back of a strong first half of the year in all segments, the company succeeded in increasing the financing volume to EUR 135 m in the course of the year.

Apart from the extension of the headquarters in Budapest, Hypo Alpe-Adria Leasing Zrt. also opened two further branch offices in 2008, namely in Györ (Western Hungary) and Miskolc (Eastern Hungary). At the same time, the number of employees increased to 40.

Above all in consideration of the changing boundary conditions in a generally difficult global economic environment, Hypo Alpe-Adria Leasing Zrt. will concentrate even more than in the past on serving small and medium-sized enterprises as well as wealthy private customers with its tailored solutions for individual demands and requirements. In future, large-scale projects will only be carried out on a case-by-case basis.

Hungary

	2008
Country	Hungary
Capital	Budapest
Area	93,030 km²
Population	10.1 m
GDP	EUR 111.3 bn

Ukraine

Sector overview

Leasing, a relatively new financing method in Ukraine, continued to gain popularity and acceptance among the Ukrainians in 2008. As a consequence, many new leasing companies were established and the market grew by approximately 50 %. However, at the start of the fourth quarter, this growth stopped abruptly when the effects of the international financial crisis hit the industry. In combination with the country's difficult political and economic situation, the Ukrainian financial market was shaken by major disruptions with a massive impact on the money market, which temporarily ground to a halt.

Hypo Alpe-Adria-Leasing TOV

Established in December 2007, Hypo Alpe-Adria-Leasing TOV with registered office in Kiev will present its first full-year balance at the end of the financial year 2008. The full-service leasing company with financing solutions for vehicles, moveables and real estate leasing was able to position itself straight away among the top three payers in Ukraine.

Bearing in mind the given economic boundary conditions, the targeted increase of the profile of Hypo Alpe-Adria-Leasing TOV was the primary aim in the first full year of its business activity. As the youngest of the top three leasing companies with what is still a relatively small customer base, Hypo Alpe-Adria-Leasing TOV was able to concentrate intensively on serving its customers individually and gained a new financing volume of EUR 84.6 m with this approach. In this connection, Hypo Alpe-Adria-Leasing TOV relied on tailored products, a large degree of flexibility and maximum service.

On the closing date, 31 December 2008, Hypo Alpe-Adria-Leasing TOV employed a staff of 33 at its Kiev location.

Ukraine

	2008
Country	Ukraine
Capital	Kiev
Area	603,700 km²
Population	45 m
GDP	EUR 107.6 bn

Consolidated Financial Statements 2008.

Table of Contents

Income Statement

EUR '000

	Note	1.1.– 31.12.2008	1.1.– 31.12.2007
Interest and similar income	(35)	2,394,066	1,999,021
Interest and similar expense	(36)	–1,691,864	–1,399,828
Net interest income		**702,202**	**599,193**
Fee and commission income	(37)	145,145	156,694
Fee and commission expenses	(38)	–27,577	–35,361
Net fee and commission income		**117,569**	**121,333**
Result from trading	(39)	–37,675	22,366
Result from hedge accounting	(40)	–44,085	–1,481
Result from fin. investments – designated at fair value through profit or loss	(41)	11,751	–152,451
Result from fin. investments – available for sale	(42)	–114,053	5,801
Result from fin. investments – held to maturity	(43)	14	6
Result from other financial investments	(44)	–36,747	10,758
Other operating result	(45)	46,358	45,804
Operating income		**645,334**	**651,328**
Risk provisions on loans and advances	(46)	–533,258	–274,140
Operating income after risk provisions		**112,076**	**377,188**
Personnel expenses	(47)	–268,701	–240,905
Other administrative expenses	(48)	–218,264	–201,373
Depreciation and amortization of tangible and intangible assets	(49)	–98,619	–48,862
Operating expenses		**–585,584**	**–491,141**
Operating result		**–473,507**	**–113,953**
Result from the disposal of group companies	(50)	0	56,786
Result from companies accounted for at equity	(51)	1,075	1,034
Result before tax		**–472,433**	**–56,132**
Taxes on income	(52)	–45,821	–14,205
Result after tax		**–518,254**	**–70,337**
Minority interests	(53)	–1,486	73,474
Consolidated net result (after minority interests)		**–519,740**	**3,137**

Consolidated net result (after minority interests)	EUR '000	–519,740	3,137
Average number of shares outstanding	Number	6,132,852	4,822,296
Earnings per share	(in EUR)	**–84.75**	**0.65**

Earnings per share are calculated by dividing the consolidated net income (after minority interests) of EUR –519,740 thousand (2007: EUR 3,137 thousand) by the weighted average number of ordinary shares outstanding during the fiscal year, namely 6,132,852 shares (2007: 4,822,296 shares).

In December 2008 Hypo Alpe-Adria-Bank International AG issued participation capital, as defined in Section 23 (3)(8) BWG (Austrian Banking Act), to the value of EUR 900,000 thousand to the Republic of Austria (see also Note 99). Under the terms of the agreement, the Republic of Austria may convert the participation certificates into ordinary shares at any time: the conversion price will be determined at the point of conversion.

For this reason diluted earnings per share cannot be determined.

Balance Sheet

EUR '000

	Note	31.12.2008	31.12.2007
ASSETS			
Cash and balances with central banks	(54)	999,207	997,864
Loans and advances to credit institutions	(55)	4,483,271	3,932,772
Loans and advances to customers	(56)	30,566,667	25,650,736
Risk provisions on loans and advances	(57)	−1,086,231	−705,266
Trading assets	(58)	179,181	127,163
Positive fair value from hedge accounting derivatives	(59)	581,682	156,621
Financial investments – designated at fair value through profit or loss	(60)	1,120,532	1,384,468
Financial investments – available for sale	(61)	2,565,532	2,735,469
Financial investments – held to maturity	(62)	41,940	42,570
Investments in companies accounted for at equity	(63)	5,360	21,948
Other financial investments	(64)	1,134,960	960,064
Intangible assets	(66)	66,691	64,343
Tangible assets	(67)	583,190	636,063
Tax assets	(69)	559,924	536,220
Assets held for disposal	(70)	10,200	0
Other assets	(71)	1,523,945	1,397,467
Total assets		**43,336,051**	**37,938,501**
LIABILITIES & EQUITY			
Liabilities to credit institutions	(72)	7,287,995	4,456,962
Liabilities to customers	(73)	8,716,894	8,473,574
Liabilities evidenced by certificates	(74)	21,415,340	20,282,581
Trading liabilities	(75)	27,902	8,444
Negative fair value from hedge accounting derivatives	(76)	107,356	392,596
Provisions	(77)	107,608	64,965
Tax liabilities	(78)	380,256	376,094
Other liabilities	(79)	1,172,418	890,873
Subordinated capital	(80)	1,590,448	1,333,342
Equity	(81)	2,529,835	1,659,071
thereof shareholders' equity		2,020,713	1,154,484
thereof minority interests		509,122	504,588
Total liabilities & equity		**43,336,051**	**37,938,501**

Statement of Changes in Equity

	Issued capital	Additional paid-in capital	Available for sale-reserve	Foreign currency translation
Equity on 01.01.2008	**48,367**	**940,337**	**−4,972**	**359**
Capital increases	914,107	680,643	0	0
Dividends paid	0	0	0	0
Consolidated result	0	0	0	0
Change in available for sale-reserve	0	0	−156,545	0
Other changes	0	−739,924	2	−977
Equity on 31.12.2008	**962,474**	**881,057**	**−161,515**	**−618**

As of 31 December 2008, the additional paid-in capital in the separate accounts of Hypo Alpe-Adria-Bank International AG amounts to EUR 900,257 thousand (2007: EUR 959,883 thousand). The participation capital issued in 2008 is shown under issued capital.

	Issued capital	Additional paid-in capital	Available for sale-reserve	Foreign currency translation
Equity on 01.01.2007	**37,026**	**239,769**	**23,406**	**−3,480**
Capital increases	11,341	700,568	0	0
Dividends paid	0	0	0	0
Consolidated result	0	0	0	191
Change in available for sale-reserve	0	0	−28,250	0
Other changes	0	0	−128	3,648
Equity on 31.12.2007	**48,367**	**940,337**	**−4,972**	**359**

Revenues and expenses directly recognised in equity are shown below:

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Recognised directly in equity	**−165,512**	**−29,195**
Valuation result on available for sale-reserves	−164,792	−38,370
Foreign exchange differences (change in foreign currency reserve)	−990	200
Taxes on items directly recognised in equity	271	8,975
Result after tax	**−518,254**	**−70,337**
Total income and expenses recognised in the reporting period	**−683,765**	**−99,532**
thereof shareholders' equity	−677,247	−25,050
thereof minority interests	−6,518	−74,482

EUR '000

	Retained earnings	Net consolidated result	Shareholders' equity	Minority interests	Total
	120,392	**50,000**	**1,154,484**	**504,588**	**1,659,071**
	0	0	1,594,750	245,029	1,839,779
	0	−50,000	−50,000	−35,160	−85,160
	0	−519,740	−519,740	1,485	−518,256
	0	0	−156,545	−7,976	−164,521
	218,924	519,740	−2,235	−198,844	−201,079
	339,315	**0**	**2,020,713**	**509,122**	**2,529,835**

EUR '000

	Retained earnings	Net consolidated result	Shareholders' equity	Minority interests	Total
	169,128	**9,627**	**475,477**	**400,439**	**875,916**
	0	0	711,909	212,365	924,274
	0	−9,627	−9,627	−26,000	−35,627
	0	3,137	3,328	−73,465	−70,137
	0	0	−28,250	−1,018	−29,268
	−48,736	46,863	1,647	−7,734	−6,087
	120,392	**50,000**	**1,154,484**	**504,588**	**1,659,071**

Cash Flow Statement

EUR '000

	31.12.2008	31.12.2007
Result after tax	**–518,254**	**–70,337**
Non-cash items included in result and adjustments to reconcile result to net cash flow from operating activities:		
Depreciation and amortisation of tangible fixed assets and financial investments	**241,269**	**101,327**
Financial investments	142,656	52,465
Tangible and intangible assets	98,612	48,862
Change in risk provisions	474,579	267,641
Change in provisions	57,681	9,886
Gains (losses) from disposals of tangible fixed assets and financial investments	**–6,386**	**–19,575**
Financial investments	–633	–12,422
Tangible and intangible assets	–5,753	–7,154
Subtotal	**248,888**	**288,941**
Change in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	–5,560,044	–6,059,360
Financial investments – current investments	276,555	–192,674
Trading assets	–52,018	35,411
Other assets	–551,540	–276,812
Liabilities to credit institutions and customers	3,074,353	2,598,266
Liabilities evidenced by certificates	1,132,760	2,677,890
Trading liabilities	19,458	–127
Provisions	–15,037	–6,749
Other liabilities	–3,695	387,125
Tax assets / liabilities	–19,543	–64,862
Net cash from operating activities	**–1,449,862**	**–612,951**
Proceeds from sales of:	**239,484**	**352,012**
Financial investments and participations	196,674	275,863
Tangible and intangible fixed assets	42,810	76,149
Payments for purchases of:	**–590,485**	**–788,165**
Financial investments and participations	–491,882	–612,949
Tangible and intangible fixed assets	–98,603	–175,217
Proceeds from sale of subsidiaries (less cash disposed of)	1,291	8,385
Payments for acquisitions of subsidiaries (less cash acquired)	–8,478	–13,280
Other changes	–5,704	–1,074
Net cash from investing activities	**–363,892**	**–442,122**
Capital contributions / disbursements	1,839,779	924,274
Subordinated capital and other financing activities	57,003	224,018
Dividends paid	**–85,160**	**–35,627**
thereof dividends paid to shareholders of the parent company	–50,000	–9,627
thereof dividends paid to minority interests	–35,160	–26,000
Net cash from financing activities	**1,811,622**	**1,112,665**

EUR '000

	31.12.2008	31.12.2007
Cash and cash equivalents at the end of previous period	**997,864**	**931,447**
Net cash from operating activities	−1,449,862	−612,951
Net cash from investing activities	−363,892	−442,122
Net cash from financing activities	1,811,622	1,112,665
Effect of exchange rate changes	3,476	8,824
Cash and cash equivalents at the end of period	**999,207**	**997,864**

The cash flow statement according to IAS 7 shows the change of cash and cash equivalents of Hypo Group Alpe Adria through payment flows from operations, investment activities and financing activities.

Cash and cash equivalents includes the balance sheet item cash reserves, which covers cash and balances with central banks.

For banks, the meaningfulness of a cash flow statement is considered to be limited. Therefore, Hypo Group Alpe Adria does not use it as a controlling instrument.

Notes to the Consolidated Financial Statements

Group and Activities

Hypo Alpe-Adria-Bank International AG was founded in 1896 as Landes- und Hypothekenbank-anstalt. It operates as the parent company of the Hypo Group Alpe Adria. It is registered in the trade register (*Firmenbuch*) of Klagenfurt court under reference number FN 108415i. The company's registered office and the Group's headquarters are located at Alpen-Adria-Platz 1, A-9020 Klagenfurt am Wörthersee (Austria).

Hypo Group Alpe Adria is one of the leading banking groups in the Alpe Adria Region, where it operates ten banks and twelve leasing companies. The Banking Division encompasses a comprehensive line of services that includes financing, payment transactions, documentary transaction, savings, and deposit taking as well as complex investment products and asset management services. The Leasing Division sells a complete range of leasing products for vehicles, real estate, movable, cross-border, aircraft and ships leasing. Hypo Group Alpe Adria positions itself as a provider of banking as well as other services and is committed to promoting development in the Alpe Adria region. It is this close proximity to the customer that allows Hypo Group Alpe Adria to develop customised products. It also implies a clear commitment for the future. Consequently, the actions of Hypo Group Alpe Adria in each country are based on a long-term strategy and follow a clearly defined philosophy: Hypo Group Alpe Adria is a partner with a long-term vision that provides tailored, solid and transparent products. The well established cooperation across language barriers and national borders is as important for the success as the knowledge of the cultural and economical variety of the region because it creates a solid foundation for the further dynamic growth of the Group.

The Hypo Group Alpe Adria currently operates in twelve countries or regions, namely Austria, Northern Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Southern Germany, Hungary, Bulgaria, Macedonia and the Ukraine. In banking and leasing, Hypo Group Alpe Adria now has approximately 7,500 employees at more than 380 sites, who serve over 1.3 million customers.

As of 31 December 2008, ownership of Hypo Alpe-Adria-Bank International AG was as follows:

67.08 %	Bayerische Landesbank (BayernLB)
20.48 %	BVG Beteiligungs- und Verwaltungsgesellschaft mbH (GRAWE Group)
12.42 %	Kärntner Landes- und Hypothekenbank-Holding (Kärntner Landesholding)
0.02 %	Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation)

Hypo Alpe-Adria-Bank International AG has been included as a subsidiary in the consolidated financial statements according to IFRS of BayernLB Group since 9 October 2007.

The consolidated financial statements of BayernLB are published at www.bayernlb.de. Disclosure is made to the address of Bayerische Landesbank, Brienner Straße 18, 80333 Munich (Germany) and in the electronic federal gazette (www.ebundesanzeiger.de).

Significant Accounting Policies

(1) General / IFRSs, IASs, IFRICs and SICs applied

These consolidated financial statements for the financial year ended 31 December 2008 were prepared in accordance with the International Financing Reporting Standards (IFRS) and feature comparative figures for 2007 that have been prepared according to the same accounting principles.

The consolidated financial statements of Hypo Group Alpe Adria as of 31 December 2008 were prepared in conformity with Section 245a of the Austrian Enterprise Code (UGB) and Section 59a of the Austrian Banking Act (BWG) according to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002, on the basis of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC).

The consolidated financial statements consist of the income statement, the balance sheet, the changes in statement of equity, the cash flow statement and the notes. As a general rule, segment reporting is contained within the notes, and further explanations are found in the management report. The group management report according to Section 267 of the Austrian Enterprise Code includes the risk report.

The consolidated financial statements are based on separate or partially consolidated financial statements of all fully consolidated companies for the period ended 31 December 2008, prepared in accordance with IFRS. As required by IAS 27, Hypo Group Alpe Adria applies uniform accounting principles throughout the group. The consolidated financial statements are prepared on a going concern basis.

In accordance with IFRS 7, mandatory information relating to the nature and extent of risks arising in connection with financial instruments is provided in the risk report (pages 26–46), which is part of the Group Management Report.

All figures in the consolidated financial statements are expressed in thousands of Euros (EUR ’000). The tables may contain rounding differences.

The consolidated financial statements 2008 are to be approved by the Supervisory Board on 23 April 2009.

Significant Accounting Policies

The consolidated financial statements for the financial year 2008 are based exclusively on IFRSs / IASs and their interpretations that have been approved for application and published by the European Union as per 31 December 2008.

Apart from the IASB framework, the following IFRSs / IASs are relevant for the Hypo Group Alpe Adria:

Standard	Description
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosure
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Date
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

The IASB published a change to the IAS 39 standard in the fourth quarter of 2008, which allows the reclassification of certain financial instruments to a different measurement category. The Group did not make use of this reclassification option in 2008.

The following standards were not considered, as no transactions of that nature occurred within the Group:

Standard	Description
IFRS 4	Insurance Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IAS 11	Construction Contracts
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures

The following IFRIC and SIC interpretations with relevance for the Group were considered:

Standard	Description
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
SIC 12	Consolidation – Special Purpose Entities
SIC 15	Operating Leases – Incentives
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

Important standards that have already been issued, but whose application is not yet compulsory:

Standard	Description	compulsory as of
IFRS 8	Operating Segments	01. January 2009
IAS 1	Amendment to IAS 1 – Presentation of Financial Statements	01. January 2009
IAS 23	Amendment to IAS 23 – Borrowing Costs	01. January 2009
IFRS 3	Amendment to IFRS 3 – Business Combinations	01. January 2010
IAS 27	Amendments to IAS 27 – Consolidated and Separate Financial Statements	01. January 2010

As from financial year 2009, IFRS 8 (Operating Segments) shall replace the previously applied standard IAS 14 (Segment Reporting). Operating segments are components of a company for which separate financial information is available that is regularly checked by the chief executive of the relevant operating segment (management approach) for the purpose of deciding the allocation of resources and assessing performance. Hypo Group Alpe Adria has elected not to apply IFRS 8 ahead of time. Consequently, there shall be reporting changes in external reporting as from 2009, which will also lead to alignments in reporting of comparable figures for 2008.

As is permitted, the amended IAS 1, IFRS 3 and IAS 27 has also not been applied early.

Significant Accounting Policies

The amendments of IAS 23 (Borrowing Costs) have eliminated the possibility of recording borrowing costs assigned to a qualified asset (tangible assets, investment properties, intangible assets, etc.) as an expense. In future, the only permissible measurement method will be the capitalisation requirement. Hypo Group Alpe Adria is applying the IAS 23 amendment one year ahead of the requirement.

(2) Use of estimates and assumptions

Important uncertainties concern primarily the establishment of fair values, the risk provisions on loans and advances and the use of tax losses.

The fair value of financial instruments not traded on active markets is established by means of various valuation models. The assumptions used are based – whenever available – on observable market data.

On each balance sheet date, Hypo Group Alpe Adria assesses the recoverability of its problem loans and allows for loan losses by accruing risk provisions on loans and advances. To assess the recoverability, the amount and probability of payment is assessed. For this purpose, various assumptions are made. Actual future losses may therefore differ from risk provisions.

Deferred tax assets are recorded when it is probable that future taxable profits will be made and that tax losses carried forward can therefore be set against these profits. The tax loss currently available to Hypo Alpe-Adria-Bank International AG does not expire and can be offset against the group's income in future years under the group taxation regime in Austria.

(3) Subsidiaries included in the consolidated financial statements (scope of consolidation)

All entities that are directly or indirectly controlled by Hypo Alpe-Adria-Bank International AG and that are material for the presentation of the financial situation and earnings position of the group are included in the consolidated financial statements. The full list of included subsidiaries is found in Notes (108).

These consolidated financial statements comprise 32 Austrian companies (2007: 31) – including Hypo Alpe-Adria-Bank International AG – and 86 (2007: 88) foreign subsidiaries.

	31.12.2008		31.12.2007	
	Fully consolidated	Equity method	Fully consolidated	Equity method
At the end of previous period	**114**	**5**	**110**	**7**
Included for the first time in the period under review	11	–	22	–
Merged in the period under review	−10	–	−3	–
Excluded in the period under review	−1	−1	−14	−3
Reclassified	−1	1	−1	1
At the end of period	**113**	**5**	**114**	**5**
thereof Austrian enterprises	30	2	29	2
thereof foreign enterprises	83	3	85	3

According to the Austrian Banking Act, the fully consolidated entities are nine banks, 42 financial services providers, 22 providers of banking-related services, two investment firms, one fund which, in line with SIC 12 must be fully consolidated, and 36 other enterprises.

Significant Accounting Policies

In the 2008 financial year, the following 11 fully consolidated subsidiaries were included for the first time:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Reason
HYPO INVESTMENTS a.d. Beograd	Belgrade	100.00 %	99.91 %	fully consolidated	Acquisition
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Belgrade	100.00 %	99.91 %	fully consolidated	Foundation
NORICA INVESTMENTS LIMITED	St. Helier	51.00 %	51.00 %	fully consolidated	Foundation
HYPO TC-BB DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation
HYPO KASINA DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation
Hypo 111	Klagenfurt	98.54 %	98.54 %	fully consolidated	Materiality
HYPO DVA d.o.o.	Ljubljana	100.00 %	75.24 %	fully consolidated	Materiality
HYPERIUM DOOEL Skopje	Skopje	100.00 %	75.24 %	fully consolidated	Foundation
HYPO ULAGANJA d.o.o.	Zagreb	100.00 %	75.24 %	fully consolidated	Foundation
HYPO SINĐELIĆ DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation
HYPO PB DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation

Because of their minor importance, 82 subsidiaries in total are not included in the consolidated financial statements. Essentially, these are real estate companies and other companies operating outside the core business segments. Outside the scope of consolidation, Hypo Group Alpe Adria does not maintain any special purpose vehicles within the meaning of Structured Investment Vehicles (SIV's for short; these are special purpose vehicles engaging in off-balance sheet credit arbitrage).

According to current available annual financial statements, the cumulated result after tax of non-consolidated entities amounted to EUR –5.2 m. For the purposes of inclusion or non-inclusion, the criterion of the balance sheet total is of no relevance to us because these companies are almost entirely financed by the Group.

The full list of shareholdings in companies in which the stake is greater than 20 %, is summarised in a separate schedule. Together with the separate financial statements of Hypo Alpe-Adria-Bank International AG under the Austrian Enterprise Code, it is available at the competent company register court, namely the Provincial Court of Klagenfurt.

As a general rule, subsidiaries not included are shown in the position financial investments – available for sale. Such interests are generally assessed at fair value unless a reliable determination is not possible, in which case they are assessed at the cost of acquisition, respectively in the case of impairments less the impairment amount.

In the financial year 2008, the following 11 fully consolidated subsidiaries have been excluded from the scope of consolidation:

Company	Seat	Ownership (direct) interest in %	Ownership (in-direct) interest in %	Method of consolidation	Reason for exclusion
VIVATINVEST d.o.o.	Ljubljana	100.00 %	75.24 %	fully consolidated	Sale
HYPO CENTAR SIBENIK d.o.o.	Zagreb	100.00 %	75.24 %	fully consolidated	Merger
HYPO AC ADA DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO RK ALEKSANDAR DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO PP CENTAR DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO MARSOL DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO MY PLACE DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO ŽALJEVO DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO CINEMA DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO SINĐELIĆ DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO PB DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger

(4) Business combinations

In financial year 2008, one company was acquired which falls, in principle, within the scope of application of IFRS 3. This company is a Serbian investment fund company. From the purchase price allocation, the following overview is obtained:

	HYPO INVESTMENTS a.d. Beograd
Date of acquisition	30.04.2008
Acquired share (direct)	100 %
Assets	0.2
Fair value adjustment	0.0
Revalued assets	**0.2**
Liabilities	0.0
Fair value adjustment	0.0
Revalued liabilities	**0.0**
Net assets	**0.2**
Acquisition costs	0.4
Remaining goodwill	**0.2**
Impairment goodwill	–0.2
Resulting assets as of 31.12.2008	**0.0**

Because of the insignificance of the impact on the consolidated financial statements, no further information pursuant to IFRS 3 is provided.

Significant Accounting Policies

(5) Consolidation methods

Business combinations are accounted for in accordance to IFRS 3 (Business Combinations) using the purchase method of accounting. All identifiable assets and liabilities of the respective subsidiary are recognised at their fair values on the acquisition date. Any difference between the cost of acquisition and the fair value of identifiable assets and liabilities is recognised as goodwill, which is reported in intangible assets. An excess of the fair values over cost is recognised directly in profit. The carrying amount of goodwill is subjected to an impairment test at least once per year.

The date of first-time consolidation is the date when control is obtained. Subsidiaries acquired during the year are considered in the consolidated income statements as from the date of acquisition

According to IFRS 1, there is no requirement to apply IFRS 3 to business combinations which occurred prior to the transition to IFRS 1 (1 January 2006): consequently, the consolidation method set out in the Austrian Enterprise Code (UGB) was applied. With this method, the cost of the interest is set off against the carrying amount for equity at the time of the first consolidation. Asset-side differences from the consolidation were set off against liabilities-side differences, and the balance was set off against the revenue reserves.

Joint Ventures are accounted for using the equity method and their carrying amounts are disclosed separately in the balance sheet.

If a further interest is acquired in a company in which there was an interest of less than 100 % but which is already fully consolidated, any differences in value are recognised as transactions with minority shareholders in equity, without impact on profit or loss.

Intergroup balances are eliminated. Any remaining temporary differences are reported in the consolidated accounts in other assets or other liabilities. Moreover, intergroup transactions, including income, expenses and dividends are eliminated in full. Profit or loss resulting from intergroup transactions, when material, is also eliminated.

Minority interests in equity and in profit or loss of included subsidiaries are recognised separately in the item Minorities in equity, or in the income statement in the item Minority interests.

(6) Effects of changes in foreign exchange rates

The Hypo Group Alpe Adria applies IAS 21 to foreign currency conversion. All foreign currency monetary assets and liabilities are translated applying closing rates. Resulting exchange differences are generally recognised in result from trading, unless they refer to net investment in a foreign entity.

Open forward transactions are translated at forward rates.

The financial statements in foreign currency of fully consolidated subsidiaries are translated into euros by means of the closing date modified exchange rate method: income statement items are translated applying average rates of exchange for the year, while all other assets and liabilities as well as the information contained in the notes are translated at the average foreign currency exchange rate on the balance sheet date.

Differences from the conversion of the net investment at the rate on the closing date are shown in the equity in the foreign currency reserve without impact on the result. Likewise, foreign currency differences between the average rates in the income statement and the exchange rate on the closing date are offset against equity without impact on the result. Foreign currency differences relating to minorities are recognised in equity in minority interests.

For three subsidiaries in Serbia, one bank and two leasing companies, the following applies: the euro and not the local currency is the functional currency because the euro is the predominant currency in the field of their activities.

The following rates announced by the ECB and Austrian National Bank are used for currency translation of the foreign financial statements:

Rates in units per EUR	Closing Date 31.12.2008	Average 1-12/2008	Closing Date 31.12.2007	Average 1-12/2007
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.35550	7.22170	7.33400	7.33080
Swiss franc (CHF)	1.48500	1.57860	1.65470	1.64590
Serbian dinar (RSD)	88.60100	81.90920	79.23620	80.08580
Hungarian forint (HUF)	266.70000	251.04830	253.73000	251.37420
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	10.85550	7.90700	7.41950	6.95900
Macedonian denar (MKD)	61.41230	61.28310	61.20160	61.19100

Significant Accounting Policies

(7) Financial instruments: recognition and measurement

According to IAS 39, all financial assets and liabilities must be shown in the balance sheet. Recognition and de-recognition of derivatives and regular way purchases and sales of financial assets takes place using trade date accounting.

Financial assets are de-recognised when the contractual rights to the cash flows expire or when the transfer qualifies for de-recognition under IAS 39. Financial liabilities are de-recognised when they are extinguished, which means that the obligation has been discharged, has been cancelled or has expired.

In general, the fair value of a financial asset is determined by reference to stock exchange quotations. If no stock exchange quotation exists, the discounted cash flow calculation is used. A standard calculation is used for the measurement. When measuring options, option price models are used that take into account actual market parameters. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost.

Financial instruments are initially recognised at their fair value (usually the purchasing costs).

For the purposes of subsequent measurement, financial assets are divided into four categories in accordance with IAS 39:

1. Financial assets at fair value through profit and loss
   a) Trading assets
   b) Financial investments designated at fair value through profit or loss
2. Financial investments held to maturity
3. Loans and receivables
4. Financial investments available for sale

Financial liabilities are divided into the following categories in accordance with IAS 39:

1. Financial liabilities at fair value through profit or loss
   a) Trading liabilities
   b) Financial liabilities designated at fair value through profit or loss
2. Other financial liabilities

Financial assets at fair value through profit and loss

Financial assets that are acquired principally for the purpose of their sale or repurchase in the short term or that form part of a portfolio managed for short-term profit-taking are classified as assets held for trading, as are all derivatives except those designated as hedging instruments.

With the fair value option (FVO), it is possible to designate irrevocably, upon initial recognition, any financial asset not held for trading as a financial asset at fair value through profit or loss. However, this designation is only possible if:

1. the contract contains one or more embedded derivatives or
2. the fair value approach eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch);
3. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation in accordance with conditions 2.) and 3.) gives a better reflection of the financial situation and earnings position.

Financial investments held to maturity

This category includes financial assets with fixed or determinable payments and fixed maturity which the Group had intended and was able to hold to maturity. They are measured at amortised cost, with premiums and discounts being spread in the accounts over the respective term by means of the effective interest method. Impairment losses are recognised immediately in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method. Impairments (risk provisions) are recorded as a separate line item on the balance sheet.

Financial investments available for sale

This category includes all non-derivative financial assets that are not assigned to any of the foregoing categories. Subsequent measurement is at fair value, gains and losses and related deferred taxes being recognised directly in equity (available for sale-reserve). Upon disposal, the differential amounts recorded in the available for sale-reserve are released to the profit or loss at the carrying amount. Premiums and discounts are spread in the accounts over the respective term by means of the effective interest method. Impairment losses are recognised immediately .

Significant Accounting Policies

Financial liabilities at fair value through profit and loss
This category includes trading liabilities, liabilities related to short sales and liabilities for which the fair value option (FVO) was used. The fair value option can be applied to financial liabilities under the same conditions that apply to financial assets.

Other financial liabilities
This category encompasses financial liabilities, including those evidenced by certificates, for which the fair value option was not used. As a general rule, they are recognised at amortised cost. Premiums and discounts are spread in the accounts over the respective term using the effective interest method and are considered in interest expenses.

Embedded derivatives
Hybrid (combined) instruments contain a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and cannot be transferred independently of that contract.

IAS 39 requires separation of the embedded derivative from the host contract if:

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
2. the hybrid instrument is not measured at fair value through profit or loss; and
3. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Gains and losses of the embedded derivative are recognised in profit or loss. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

(8) Hedging / hedge accounting

Some instruments such as loans and advances, financial investments or financial liabilities may be measured differently to derivatives (that can be used as hedging instruments), which are always classified at fair value through profit or loss. Hedge accounting in accordance with IAS 39 recognises the offsetting effects on profit or loss of changes in the fair values of hedging instruments and hedged items.

The prerequisite for the use of hedge accounting is the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Effectiveness must be assessed throughout the hedging period (retrospective effectiveness). The actual results of the hedge must lie within a range of 80–125 %. Once the hedge is no longer effective or once the hedged item or the hedging instrument no longer exists, hedge accounting must be discontinued.

Hypo Group Alpe Adria only uses hedge accounting for fair value hedges. These serve to hedge changes in the market values of assets and liabilities (hedged items). The risks to be hedged concern the interest risk and the foreign currency risk.

In the case of 100 % effectiveness, changes in the measurement of hedged items are fully offset in the profit or loss account. In case of ineffectiveness within the accepted range, such ineffectiveness is recognised in hedging profit or loss (hedge accounting).

A similar effect can be achieved for the item to be hedged – without having to fulfil the rigid rules of hedge accounting – if the fair value option (FVO) of IAS 39 is used. The adoption of the fair value option is irrevocable and requires documentation of the offsetting of risks. The prerequisites for a possible designation in the fair value option category are found in Note (7).

Positive market values of derivatives which are used for hedging are stated as financial investments – designated at fair value through profit or loss, while negative market values were stated as other liabilities.

Significant Accounting Policies

(9) Leasing

The decisive aspect for the classification and recognition of a lease in financial statements is the substance of the transaction rather than ownership of the leased asset. A finance lease according to IAS 17 is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Most of the lease contracts entered into by Hypo Group Alpe Adria as lessor are finance leases. On the balance sheet, receivables are stated at the present value of lease payments receivable. The receipts are split into interest income with impact on profit and loss, as well as debt repayments without impact on profit and loss.

Under operating lease agreements, the lessor presents the asset at cost less scheduled depreciation over the useful life of the asset and allowing for its residual value less any impairment loss. In the case of operating lease agreements concluded in local currency for which repayments by the lessee were agreed in a different currency, an embedded foreign currency derivative was separated out in the event that IAS 39 criteria were met,

Except for leased real estate, leased assets are reported in other financial investments. Lease income less scheduled depreciation is presented as interest and similar income. Gains or losses on disposal are reported in result from other financial investments.

Real estate leased out under operating lease agreements is classified as investment property and reported in other financial investments.

Assets not yet or no longer leased out are included in other assets. Risk provisions on these assets are recognised in other operating result.

(10) Investment properties

Investment properties are land and buildings held to earn rental income or to benefit from expected value increases. Provided that material parts of mixed-use property can be let or sold separately, these parts are also treated as investment property. Investment properties are recognised as other financial investments.

Investment properties are carried at cost less accumulated depreciation and any impairment losses, adopting one of the options provided for in IAS 40 (cost model). Current rental income and the scheduled depreciations on rented buildings are offset and shown in Interest and similar income. Capital gains and impairment losses are recognised in result from other financial investments.

(11) Repos

A repurchase agreement (or repo) is an agreement between two parties whereby one party sells to the other a security at a specified price for a limited period of time and at the same time undertakes to repurchase the security, upon expiry of the said term, at another specified price. Under IAS 39, the seller continues to present the asset on its balance sheet because the material risks and rewards remain with the seller. The amount received is presented as a liability by seller, whereas the buyer recognises a receivable.

(12) Fiduciary transactions

In accordance with IFRS, fiduciary transactions entered into by Hypo Group Alpe Adria in its own name, but on the account of a third party, are not recognised on the balance sheet. Fees are included in fee and commission income.

(13) Cash and balances with central banks

This item includes cash and daily due balances with central banks. These amounts are stated at nominal value.

(14) Loans and advances

Loans and advances to credit institutions and customers mainly include loans, receivables under finance leases, placements with banks and unquoted bonds. This position also contains balances with central banks not due daily. Carrying amounts include accrued interest before deductions for risk provisions on loans and advances.

Loans and advances not held for trading and not traded in an active market are recognised at amortised cost or the cash value of the leasing receivables. Premiums and discounts are spread in the accounts over the respective term and also shown in interest results. Loans and advances also include bonds if they are not traded on active markets.

Interest income is presented within the position interest and similar income.

Significant Accounting Policies

(15) Risk provisions on loans and advances

Specific and portfolio-based risk provisions for loans and advances are recorded for credit risks, and (other) provisions are recorded for losses arising from credit commitments and guarantees.

With respect to loan risks, specific provisions are created as soon as there are objective indications that a loan may not be recoverable, the amount of the provision reflecting the amount of the expected loss. Provisions are calculated at the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the provided collaterals.

Because specific provisions are based on the net present value, an increase in present value due to the passage of time is recognised as interest income (unwinding).

Portfolio-based risk provisions are recorded for incurred but not yet reported losses. Calculations are carried out by the banks and leasing companies on the basis of homogeneous portfolios with comparable risk characteristics. Provisions are made on the basis of historical loss experience in consideration of off-balance sheet transactions. Receivables for which specific provisions were booked are not included in the determination of the portfolio risk provision.

Losses identified after the realisation of collateral are charged against an existing provision or written off against income.

Recoveries of written-off receivables are recorded as income. Additions to and releases from risk provisions are recognised in the income statement in risk provisions on loans and advances.

(16) Trading assets

Trading assets include securities, receivables and derivatives held for trading.

The positive market values of derivatives in a hedging relationship, for application in banking book management, are reported in other assets and not in trading assets. Derivatives used for hedging of base contracts, for which the fair value option (FVO) was used, are stated as financial investments designated at fair value through profit or loss.

Trading assets are measured at fair value, which is their quoted price in the case of quoted instruments. Valuation techniques such as, for example, the discounted cash flow method are used to establish the fair value of financial instruments not quoted on an active market.

Gains and losses on sale and changes in fair value are reported in result from trading. Interest income, current dividends and interest expenses related to trading assets are reported in net interest income.

(17) Positive or negative fair values from hedge accounting derivatives

Market values of derivatives are reported separately on the asset or liability side, if they meet the criteria for hedge accounting according to IAS 39.

Gains and losses arising from ineffectiveness are reported in the income statement under result from hedge accounting.

(18) Financial investments – designated at fair value through profit or loss

Irrespective of any trading intention, IAS 39 allows the irrevocable classification of financial assets, upon addition, as 'financial assets designated at fair value through profit or loss' (so-called fair value option – FVO). This cannot be made for equity instruments that have no quoted market value and whose fair value cannot be determined reliably.

By designation to this category, hedging relationships can be reflected without the rigid rules of hedge accounting. Included in this category are the derivatives (FVO derivatives) used to hedge items for which the fair value option was used.

In the case of quoted financial instruments, these assets are recognised at their fair value, which is their quoted price. For non-quoted financial instruments, the fair value is established on the basis of present values or by using valuation techniques.

Realised and unrealised gains and losses are recognised in results from financial investments – designated at fair value through profit or loss. Interest income, dividends received and interest paid are included in net interest income.

Significant Accounting Policies

(19) Financial investments – available for sale

Hypo Group Alpe Adria has classified most bonds and other fixed-interest securities and shares and variable-rate securities, if they are traded in an active market, as available for sale financial investments. These investments are recognised at their fair value, which is their quoted price. For non-quoted financial instruments, the fair value is established on the basis of comparable instruments or by applying valuation techniques using market data.

Further long-term investments, shares in joint ventures and non-consolidated subsidiaries are classified as financial investments – available for sale. As a general rule, they are recognised at cost unless a fair value can be determined.

Unrealised gains and losses net of tax deferrals are recognised in equity, namely in the item available for sale-reserve. Material and permanent impairment losses are recorded in profit or loss. Reversals of impairments of debt instruments are recognised in the item result from financial investments – available for sale; reversals of impairments of equity instruments are recognised only in the item available for sale-reserve. Capital gains and impairment losses are reported in the item result from financial investments – available for sale.

Income from fixed-interest securities, including income from the application of the effective interest method, dividends and income from non-fixed income securities (shares, investments, participations, etc.) are recognised as interest and similar income.

(20) Financial investments – held to maturity

Non-derivative debt instruments with a determined maturity and assigned to the held-to-maturity category are recognised at amortised cost.

Hypo Group Alpe Adria handles additions to this category very restrictively. Therefore, there are only few financial investments held to maturity.

(21) Investments in companies accounted for at equity

These are shares in associated companies and in joint ventures stated according to the equity method. They are shown in a separate position in the balance sheet.

The impact of the ongoing at equity valuation as well as any revenue of disposal or impairment loss is shown in the item result from companies measured at equity.

(22) Other financial investments

These are land and buildings and movable assets let under operating lease agreements.

With regard to the measurement of investment properties and assets serving leasing purposes, reference is made to the detailed information in the notes.

(23) Tangible and intangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are recognised at (acquisition or manufacturing) cost less amortisation and impairment losses. Self-developed software is recognised in accordance with the provisions of IAS 38, always providing that the conditions for recognition pursuant to the standard are fulfilled.

Acquired goodwill is recognised at cost on the date of acquisition. The straight-line method of depreciation is not applied to goodwill. Instead, it is subject to annual impairment testing in accordance with IAS 36. More frequent testing is required if events and circumstances indicate that an impairment has occurred. If and when such tests reveal impairments, non-scheduled depreciation is applied.

Tangible assets include land and buildings and furniture and fixtures used by Hypo Group Alpe Adria for its own operations. Real estate let to third parties or purchased held for capital appreciation is reported in other financial investments. Tangible assets are measured at cost less depreciation.

Straight-line depreciation (amortisation), based on the following annual rates, is applied over the useful life of assets:

Depreciation/amortisation rate

	in percent	in years
for immovable property	2–4 %	25–50 yrs
for movable property	5–33 %	3–20 yrs
for software	20–33 %	3–5 yrs

In the case of events and circumstances that indicate impairment, non-scheduled depreciation is applied. Depreciation and impairment losses are recognised separately in the income statement, whereas gains or losses on disposals are reported in other operating result.

Significant Accounting Policies

(24) Taxes on income

Current and deferred tax assets and liabilities are recognised jointly in the balance sheet as tax assets or liabilities, respectively. Current taxes are calculated in accordance with local legislation.

Deferred taxes are computed using the liability method, which compares the tax base of the balance sheet items with the carrying amounts pursuant to IFRS. In the case of temporary differences, taxes are deferred. For temporary differences associated with shares in domestic subsidiaries, no tax debt is entered on the liabilities side in accordance with IAS 12.39 (b) because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax liabilities are recognised in respect of future tax payments relating to temporary differences; deferred tax assets are recognised in respect of recoverable taxes. As a general rule, deferred tax assets and liabilities are not set off against each other.

Changes to the tax rate are taken into account with respect to the determination of deferred taxes, always providing that they are known at the time of establishing the consolidated financial statements. No discounts are made for long-term deferred taxes according to IAS 12.

Deferred tax assets are also recorded in respect of unused tax losses if it is probable that future taxable profits will be available. This assessment is based on business plans approved by the Executive Board. The carrying amount of a deferred tax asset is reviewed on each balance sheet date to determine whether it is still probable that sufficient taxable profits will be available to allow the benefit to be utilized.

The accrual or release of deferred tax assets or liabilities is either recognised with impact on the result in the item taxes on income, or in equity – without impact on the result – if the balance sheet item itself is treated as being without impact on the result (e.g. available for sale-reserve).

From 1 January 2005 the group taxation option was exercised, with Hypo Alpe-Adria-Bank International AG acting as the lead company.

The group taxation agreement drawn up to this end contains the rights and duties of the lead company and group members as well as the compulsory ruling on tax equalisation as laid down by Section 9 (8) of the Austrian Corporation Tax Act (KStG). This includes, in particular, the procedure for making the group taxation application, the determination of the individual group members' tax results, rights/duties to receive/provide information, elimination from the group, dissolution and duration of the group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/credit rate.

(25) Assets held for disposal

According to IFRS 5, a disposal group is defined as a group of assets whose disposal is planned in a single transaction. Other important prerequisites leading to such a classification would be:

1. direct availability for sale
2. high probability of disposal
3. concrete intention to sell
4. disposal within twelve months

If interests, which had previously been accounted for at equity in the consolidated financial statement, are classified as assets held for disposal, the equity method should be discontinued at this point and the assets assessed in accordance with IFRS 5.

If the prerequisites are fulfilled, the disposal group shall be assessed on the balance sheet date according to the special rules of IFRS 5 and depreciated to the lower of carrying amount and fair value less costs of disposal.

In the balance sheet, the assets put up for sale and the liabilities associated therewith shall be shown in a separate main item each. In the income statement, it is not compulsory to report the associated expenses and income separately.

(26) Other assets

Other assets include deferred expenses, receivables other than those arising from banking activities, short-term real estate projects, certain short-term lease assets and derivatives used to hedge items in the banking book.

Receivables other than those arising from banking activities arise mainly from other sales or services or comprise receivables from tax authorities relating to taxes other than income taxes. Deferred items and other receivables arising from non-banking activities are recognised at their nominal values.

Together with completed real-estate projects, Other assets also includes buildings under construction as well as buildings in the preparatory phases of construction whose sale is planned after completion. These assets are recognised at cost (cost of acquisition or manufacture) in consideration of the lower of cost or market rule. A depreciation is made if the carrying amount on the balance sheet date exceeds the net selling value, or if a restriction of the utilization possibilities has resulted in an impairment. In accordance with IAS 23, borrowing costs are included in cost of acquisition. Net income from disposals and unrealised gains as well as valuation losses are included in other operating result.

Significant Accounting Policies

Other assets also include leased assets under construction and therefore assets not yet leased out (leases to go), as well as assets not leased out any more until a new contract is signed or pending sale (remarketing). They are measured at amortised cost less non-scheduled depreciation to reflect any identified impairment.

Positive market values of derivatives are reported under this item if, notwithstanding their failure to satisfy the criteria for hedge accounting, they are nevertheless used to hedge items in the banking book. Gains and losses are reported in result from trading.

(27) Liabilities

Liabilities to credit institutions and customers, including those evidenced by certificates, are recognised at amortised cost unless they are designated as at fair value through profit or loss. Costs of issues as well as premiums and discounts for liabilities evidenced by certificates are spread over the term of the debt.

When using hedge accounting, the fair value changes of the underlying transactions attributable to the hedged risk are recognised in income statement.

(28) Trading liabilities

Negative market values of derivatives held for trading are recognised as trading liabilities. They are measured at fair value, which is their quoted price in the case of quoted instruments. Valuation techniques such as the discounted cash flow method, or other appropriate valuation methods are used to establish the fair value of financial instruments not quoted on active market.

(29) Long-term employee provisions

Hypo Group Alpe Adria has defined contribution and defined benefit plans.

In the former case, a fixed contribution is paid to an external entity. Except for the aforesaid, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit plans exist in respect of retirement and severance obligations as well as provisions for anniversary payment. These schemes are unfunded, i. e. all of the funds required for coverage remain with the company.

Provisions for long-term employee benefits are measured in accordance with IAS 19 using the projected unit credit method. The determination of the value of the future commitment is based on an actuarial expert opinion prepared by independent actuaries. The value shown in the balance sheet is stated as the cash value of the defined benefit obligation. Actuarial gains and losses are recognised immediately in profit or loss.

The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate, as of 31 December 2008, of 6.0 % (2007: 5.5 %) as well as the consideration of wage and salary increases – unchanged compared to the previous year – of the active employees as a rate of 3.0 % p.a. and wage and salary increases of already retired former employees at a rate of 2.0 % p.a. Fluctuation deductions are considered individually, the maximum deduction being 6.0 %. The basic biometric data are taken from the Generations Life Expectancy Tables of the AVÖ (Austrian Actuarial Society) 2008 P for employees.

Provisions for long-term employee benefits are calculated on the basis of the legal retirement age. For employees from Austria, it is 60 years for men and 55 for women. Local rules are applied in the case of employees working abroad.

Expenses to be recognised in profit and loss break down into term-of-service costs (which are reported in personnel expenses), as well as interest costs (which are reported in interest and similar expenses).

(30) Other provisions

Other provisions are accrued if a past event is likely to translate into a present liability towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, long-term provisions are discounted. Provisions for uncertain liabilities and impending losses are measured on a best-estimate basis in accordance with IAS 37.36 et seq.

Provisions are recorded for restructuring if the general criteria for creating provisions are fulfilled. In particular, the company must have committed itself demonstrably to such action, as evidenced by the existence of a detailed and formal restructuring plan and the announcement of the measures set out in it to those affected. The cost associated with the restructuring measures is not reported in Other operating result but in the relevant cost categories.

Additions to and retransfers from other provisions are reported in other operating result. The changes in the item provisions for credit commitments and guarantees are recognised in the income statement in risk provisions on loans and advances.

(31) Other liabilities

This item includes among others deferred income and other accruals and deferrals. Deferred income is stated at cost and liabilities at amortised cost.

Significant Accounting Policies

(32) Subordinated capital

Subordinated capital includes subordinated liabilities and supplementary capital as defined by the Austrian banking regulations, as well as hybrid capital.

Subordinated liabilities may or may not be evidenced by certificates, and in the event of liquidation or insolvency, creditors are only satisfied after all other creditors.

Supplementary capital is contractually furnished for at least eight years. Any right of ordinary or extraordinary termination is waived. The remaining maturity must be at least three years. Interest is only paid to the extent it is covered by annual profits as shown in the separate financial statements (according to Austrian Enterprise Code/Banking Act).

As a general rule, hybrid capital is provided for the entire term of the enterprise and subordinated to all other liabilities. It is subordinated in rank to subordinated capital. In the Group consolidated financial statements in accordance with IFRS, because of the fact that, despite being dependent on certain conditions being fulfilled, coupons are essentially compulsory, hybrid capital is classified as debt and not as equity.

(33) Equity (shareholders' equity and minorities)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities. There is no possibility of termination by the investor.

Subscribed capital represents the amounts paid in by shareholders in accordance with the Memorandum and Articles of Association, as well as any amounts of participation capital issued.

Additional paid-in capital contains the premiums achieved when shares are issued for more than their nominal value. The directly related external costs of share offerings are deducted from additional paid-in capital.

Retained earnings include the cumulated profits made by the group with the exception of profit shares external parties are entitled to.

The item available for sale-reserve reflects changes in fair values less deferred taxes arising from available for sale financial instruments.

Minority interests in accordance with IAS 1 are presented as a separate item within equity.

Notes to the Income Statement

(34) Segment reporting

Segment reporting is adopted in accordance with IAS 14 and provides an overview of the relevant business segments and activities in the geographical markets of Hypo Group Alpe Adria. It is the aim of segment reporting to explain how business results are generated from the segments.

Segments are formed by distinguishable geographical markets and business segments. The analysis of the segment results enables the user of financial statements to:

- better understand the entity's past performance;
- better assess the entity's risks and returns; and
- make more informed judgements about the entity as a whole.

The business segments as defined by the Group's Executive Board provide the basis of the segmentation. Hypo Group Alpe Adria differentiates its activities by regional aspects (primary segment) and also by business lines such as banking, leasing and other (secondary segment).

Refinancing costs of participations in the parent company are allocated to the related segments. The interest rate used is that of long-term debt capital (roll-over estimation) and amounted, in the financial year 2008, to 4.77 % (2007: 4.52 %).

The Group overheads, directly attributable to the Group companies, are allocated to the segments on the basis of average risk-weighted assets (RWA).

Segment results are determined by operating profits (before taxes) of the related business segment. Furthermore, the return on equity ratios (ROE and ROA) and the cost/income ratio are used to measure the result. Return on equity is calculated by relating segment results to average allocated equity. The cost/income ratio is operating expenses divided by operating income.

Primary Segment

Primary segments are geographical because material risks and rewards come from the countries where the Group is active. Group Executive Board defined the following markets:

- Austria
- Italy
- Slovenia
- Croatia
- Bosnia and Herzegovina (BiH)
- Serbia
- Other Regions

Notes to the Income Statement

The allocation was made mainly based on the registered office of the entities. Some entities, whose business activities are directly dependent on and controlled by a group company, were allocated to the segment to which the steering entity belongs.

The segment denominated as Austria comprises all income and expenses of entities located in Austria, of which Hypo Alpe-Adria-Bank International AG, the parent of Hypo Group Alpe Adria, which is particularly engaged in the cross-border loan business with customers in SEE (South and Eastern Europe), is an important part. Apart from the traditional Austrian business in which the second bank, Hypo Alpe-Adria-Bank AG, engages, there are also several leasing companies. Hypo Alpe-Adria-Immobilien AG (AAI) and Carinthian tourism entities (in particular Kärntner Holding Beteiligungs-AG und Schlosshotel Velden GmbH) also contribute considerably to this segment. The entity HBInt. Credit Management Limited, as well as Norica Investments Limited, founded in 2008, were also included in the Austrian segment as they are managed though Hypo Alpe-Adria-Bank International AG.

The clearly negative result of the segment Austria is primarily attributable to very high credit risk provisions, in particular for non-domestic financing for corporate customers in Germany and SEE. As a result of the financial crisis, impairment writedowns were necessary on securities classed as available for sale, as well as on long-term securities investments made by HBInt. Credit Management Limited, in which Hypo Alpe-Adria-Bank International AG holds a 51 % stake, leading to significant charges against the result. In addition, the segment's performance in 2008 was impacted negatively both by costs arising from hedge accounting inefficiencies as well as the final settlement of the "DAB" case, which had made a positive contribution to the result in 2007.

Italy refers geographically to Northern Italy, where the Group is represented by a bank and a leasing company. Whereas the leasing company is specialised in financing boats/launches and has generally reduced its new business activities, the bank, which is considerably larger, also conducts leasing business on a larger scale (in particular real estate financing) and makes a constant and positive contribution to the results of the Group.

The Slovenian segment consists of two central subsidiaries and is a significant segment for the Group, in a region in which Hypo Group Alpe Adria was active from a very early stage. The most important contributors to earnings here are Hypo Alpe-Adria-Bank d.d. Ljubljana and die Hypo Leasing d.o.o. Ljubljana.

Croatia is an important segment for the Group, The Group is represented in the banking market there by two banks, one each in Zagreb and Osijek, which will be merged into one legal entity in the first quarter of 2009. The Group is also represented here by Hypo Leasing Kroatien d.o.o., which is the largest leasing company in the country, as well as by the packaging manufacturer Aluflex-pack d.o.o. (fully consolidated) and by various property companies. The negative segment result for Croatia has been greatly affected by very high credit risk provisions for the leasing area and by the negative results of non-core interests.

Bosnia and Herzegovina, in which Hypo Group Alpe Adria has a very high market share, consists primarily of two banks, in Mostar and Banja Luka, as well as a leasing company in Sarajevo. The segment's results were impacted negatively, both by the leasing subsidiary, which had an extremely difficult year, and by the decrease in value of two funds.

Serbia consists of the business segments banking, leasing and other, all based in Belgrade. The operating and finance leasing activities are handled by two separate entities, respectively. The negative result for the Serbian segment is significantly impacted by the devaluation of the local currency (RSD), which then leads to negative currency results in the income statement through the application of the functional currency concept.

The Other regions segment covers the Group's activities in Germany, Hungary, Montenegro, Bulgaria, Ukraine and Macedonia, as none of these countries individually exceeds the 10 % materiality limit as defined in IAS 14.35. The Hypo Alpe-Adria-Bank (Liechtenstein) AG business had been included in this segment up until its disposal at the end of December 2007 in the previous year's figures.

Secondary Segment

Operations with identical core activities are grouped together. Thus the secondary segments of the Hypo Group Alpe Adria are:

- Banking
- Leasing
- Other

Banking comprises the holding company, Hypo Alpe-Adria-Bank International AG, and nine subsidiaries. Subsidiaries directly involved in banking activities and managed by the parent bank are also included. This comprises investment companies, valuation services and insurance brokers as well as other providers of banking-related services. As they are managed by Hypo Alpe-Adria-Bank International AG, Banking also covers HBInt. Credit Management Limited and Norica Investments Limited, founded in 2008, which, with the involvement of the co-investor, who holds 49 % of the shares, make long-term investments. The segment's results in 2008 were impacted in particular by the need for high credit risk provisions and by the effects of the crisis in the financial markets.

Leasing covers all leasing entities including their fully consolidated special purpose companies. Main activities refer to real estate, movables, cross-border and ship leasing. Although Hypo Alpe-Adria-Bank S.p.A., Udine also engages in the leasing business, it is not shown here but in the banking segment. The result of the leasing business in 2008 suffered from a decrease in the interest margin; drastically higher risk provisions on loans to customers; writedowns of leasing assets; negative currency effects resulting from exchange rate developments (particularly with regard to the CHF) on operating leasing assets; and other effects of reclassification on operating leasing assets.

The segment denominated as Other comprises the entities that belong neither to banking nor to leasing. In particular, these are tourism entities (in particular Kärntner Holding Beteiligungs-AG and Schlosshotel Velden GmbH), real estate companies (especially the AAI Group as well as Croatian real estate companies), the Croatian packaging enterprise Aluflexpack d.o.o. and other Group companies. The clearly negative result for the segment in 2008 was mainly due to the negative performance of non-core Group companies as well as to impairment writedowns on property and equipment for own use and on investment properties.

Notes to the Income Statement

Segment reporting by geographical markets

Financial period 2008

	Austria	Italy	Slovenia
Net interest income	268,947	104,564	61,297
Net fee and commission income	25,761	9,191	7,413
Result from trading	−13,276	−2,427	3,210
Result from hedge accounting	−43,831	−254	0
Result from financial investments – afvtpl	21,840	−954	0
Result from financial investments – afs	−113,539	0	−2,781
Result from financial investments – htm	0	0	14
Result from other financial investments	−5,349	109	2,971
Other operating result	9,921	5,233	11,039
Operating income	**150,474**	**115,463**	**83,163**
Risk provisions on loans and advances	−290,685	−28,822	−14,051
Operating income after risk provisions	**−140,211**	**86,641**	**69,113**
Personnel expenses	−89,950	−30,969	−21,989
Other administrative expenses	−61,368	−23,721	−16,756
Depreciation and amortization of tangible and intangible assets	−38,099	−5,542	−3,799
Operating expenses	**−189,417**	**−60,232**	**−42,544**
Segment result (Operating result)	**−329,627**	**26,408**	**26,569**
Unallocated corporate income/expenses			
Result before tax			
Taxes on income			
Result after tax			
Minority interests			
Consolidated net result (after minority interests)			
Average assets	18,351,621	4,828,741	4,361,929
Loans and advances to credit institutions	3,444,062	60,116	21,445
Loans and advances to customers	12,128,716	4,546,904	3,768,196
Risk provisions on loans and advances	−526,033	−53,810	−41,023
Sum financial investments	3,111,536	838	611,384
Liabilities to customers	3,989,551	795,131	428,319
Average risk-weighted assets (RWA)	10,872,211	4,239,074	3,970,414
Allocated average equity	739,380	288,284	270,014
Return on equity (ROE) before tax	n.a.	9.2 %	9.8 %
Cost/income ratio	125.9 %	52.2 %	51.2 %
Risk/earnings ratio	108.1 %	27.6 %	22.9 %
Return on assets (ROA) before tax	n.a.	0.55 %	0.61 %
Average number of employees (capacity)	1,292	532	560

Explanations:
afvtpl: at fair value through proft or loss (fair value option)
afs: available for sale
htm: held to maturity

EUR '000

Croatia	BiH	Serbia	Other regions	Consolidation	Total
106,054	63,923	62,552	34,865	0	702,202
43,890	12,023	17,000	913	1,376	117,569
894	623	−21,599	86	−5,187	−37,675
0	0	0	0	0	−44,085
0	−9,135	0	0	0	11,751
4,017	392	−2,602	−1,291	1,750	−114,053
0	0	0	0	0	14
−28,551	2,446	0	−5,927	−2,446	−36,747
18,971	785	4,446	1,097	−5,134	46,358
145,276	**71,057**	**59,798**	**29,743**	**−9,641**	**645,334**
−83,701	−23,434	−22,271	−70,295	0	−533,258
61,576	**47,624**	**37,527**	**−40,552**	**−9,641**	**112,076**
−72,043	−21,449	−22,288	−10,014	0	−268,701
−61,252	−28,470	−26,200	−16,794	16,296	−218,264
−38,183	−4,897	−6,176	−1,923	0	−98,619
−171,477	**−54,815**	**−54,664**	**−28,731**	**16,296**	**−585,584**
−109,901	**−7,192**	**−17,137**	**−69,283**	**6,655**	**−473,507**
					1,075
					−472,433
					−45,821
					−518,254
					−1,486
					−519,740
6,912,686	2,493,088	2,004,092	1,667,890	0	40,620,046
700,108	204,844	36,147	16,549	0	4,483,271
5,078,041	2,132,660	1,221,451	1,690,698	0	30,566,667
−229,496	−111,124	−51,481	−73,263	0	−1,086,231
881,405	14,464	214,801	33,894	0	4,868,324
2,026,168	900,905	490,717	86,102	0	8,716,894
5,439,877	2,147,423	1,652,176	2,476,708	0	30,797,883
369,946	146,039	112,359	168,432	0	2,094,453
n.a.	n.a.	n.a.	n.a.		n.a.
118.0 %	77.1 %	91.4 %	96.6 %		90.7 %
78.9 %	36.7 %	35.6 %	201.6 %		75.9 %
n.a.	n.a.	n.a.	n.a.		n.a.
2,408	1,230	1,115	435		7,572

Notes to the Income Statement

Financial period 2007

	Austria	Italy	Slovenia
Net interest income	238,787	101,507	53,049
Net fee and commission income	32,903	8,972	7,838
Result from trading	−6,521	589	5,358
Result from hedge accounting	−1,509	28	0
Result from financial investments – afvtpl	−175,208	143	0
Result from financial investments – afs	−2,842	0	2,424
Result from financial investments – htm	0	0	6
Result from other financial investments	10,902	41	5,073
Other operating result	63,720	−5,478	1,902
Operating income	**160,232**	**105,802**	**75,649**
Risk provisions on loans and advances	−216,098	−13,196	−7,110
Operating income after risk provisions	**−55,867**	**92,606**	**68,539**
Personnel expenses	−87,492	−27,914	−19,194
Other administrative expenses	−66,180	−26,214	−12,611
Depreciation and amortization of tangible and intangible assets	−10,111	−5,158	−3,010
Operating expenses	**−163,777**	**−59,285**	**−34,815**
Segment result (Operating result)	**−219,649**	**33,321**	**33,723**
Unallocated corporate income/expenses			
Result before tax			
Taxes on income			
Result after tax			
Minority interests			
Consolidated net result (after minority interests)			
Average assets	15,473,457	4,205,084	3,343,207
Loans and advances to credit institutions	1,971,512	102,689	17,394
Loans and advances to customers	10,350,155	3,974,899	2,984,872
Risk provisions on loans and advances	−347,702	−36,073	−29,628
Sum financial investments	3,494,375	3,290	562,013
Liabilities to customers	3,973,352	749,403	332,383
Average risk-weighted assets (RWA)	9,220,643	3,910,642	3,086,313
Allocated average equity	460,346	195,241	154,086
Return on equity (ROE) before tax	n.a.	17.1 %	21.9 %
Cost/income ratio	102.2 %	56.0 %	46.0 %
Risk/earnings ratio	90.5 %	13.0 %	13.4 %
Return on assets (ROA) before tax	n.a.	0.79 %	1.01 %
Average number of employees (capacity)	1,128	455	466

Explanations:
afvtpl: at fair value through proft or loss (fair value option)
afs: available for sale
htm: held to maturity

EUR '000

Croatia	BiH	Serbia	Other regions	Consolidation	Total
90,172	59,016	43,170	13,475	18	599,193
41,070	11,840	11,512	6,837	360	121,333
16,970	2,968	14,082	772	−11,851	22,365
0	0	0	0	0	−1,481
0	4,826	0	17,766	23	−152,451
2,761	135	155	−416	3,585	5,801
0	0	0	0	0	6
−5,259	0	0	−12	13	10,758
3,414	1,202	4,030	−10,645	−12,340	45,804
149,127	**79,988**	**72,948**	**27,776**	**−20,194**	**651,328**
−4,251	−16,260	−8,636	−8,589	0	−274,140
144,876	**63,728**	**64,312**	**19,187**	**−20,194**	**377,188**
−60,561	−18,204	−18,442	−9,100	0	−240,905
−54,908	−20,109	−21,478	−12,726	12,854	−201,373
−19,360	−4,278	−5,294	−1,652	0	−48,862
−134,828	**−42,591**	**−45,214**	**−23,478**	**12,854**	**−491,141**
10,048	**21,137**	**19,098**	**−4,291**	**−7,340**	**−113,953**
					57,821
					−56,132
					−14,205
					−70,338
					73,474
					3,137
6,373,415	2,082,400	1,928,746	1,066,117	321	34,472,747
1,147,166	334,773	344,038	15,199	0	3,932,772
4,322,151	1,857,879	1,154,792	1,005,988	0	25,650,736
−164,378	−90,466	−31,224	−5,795	0	−705,266
863,462	23,273	157,028	41,076	0	5,144,519
1,885,620	923,140	493,684	115,993	0	8,473,574
4,716,571	1,452,755	1,522,314	1,484,125	−5,697	25,387,666
235,478	72,530	76,002	74,096	−284	1,267,493
4.3 %	29.1 %	25.1 %	n.a.		n.a.
90.4 %	53.2 %	62.0 %	84.5 %		75.4 %
4.7 %	27.6 %	20.0 %	63.7 %		45.8 %
0.16 %	1.02 %	0.99 %	n.a.		n.a.
2,615	1,048	958	272		6,942

Notes to the Income Statement

Segment reporting by business

Financial period 2008

EUR '000

	Bank	Leasing	Other	Consolidation	Total
Net interest income	611,090	117,394	−26,282	0	702,202
Net fee and commission income	115,021	4,736	−648	−1,540	117,569
Result from trading	−22.148	−21,341	−5,604	11,418	−37,675
Result from hedge accounting	−44,085	0	0	0	−44,085
Result from financial investments – afvtpl	9,933	0	1,818	0	11,751
Result from financial investments – afs	−111,870	1,067	−3,574	324	−114,053
Result from financial investments – htm	14	0	0	0	14
Result from other financial investments	−4,603	−13,416	−16,283	−2,446	−36,747
Other operating result	13,250	24,515	52,506	−43,913	46,358
Operating income	**566,602**	**112,956**	**1,933**	**−36,157**	**645,334**
Risk provisions on loans and advances	−386,450	−146,130	−677	0	−533,258
Operating income after risk provisions	**180,152**	**−33,175**	**1,255**	**−36,157**	**112,076**
Personnel expenses	−210,024	−36,158	−22,520	0	−268,701
Other administrative expenses	−197,561	−43,663	−24,312	47,272	−218,264
Depreciation and amortization of tangible and intangible assets	−56,746	−15,553	−26,319	0	−98,619
Operating expenses	**−464,331**	**−95,374**	**−73,151**	**47,272**	**−585,584**
Segment result (Operating result)	**−284,179**	**−128,549**	**−71,895**	**11,115**	**−473,507**
Unallocated corporate income/expenses					1,075
Result before tax					**−472,433**
Taxes on income					−45,821
Result after tax					**−518,254**
Minority interests					−1,486
Consolidated net result (after minority interests)					**−519,740**

Explanations:
afvtpl: at fair value through proft or loss (fair value option)
afs: available for sale
htm: held to maturity

Financial period 2007

EUR '000

	Bank	Leasing	Other	Consolidation	Total
Net interest income	515,891	100,211	−18,006	1,097	599,193
Net fee and commission income	120,023	3,821	−363	−2,148	121,333
Result from trading	13,517	8,791	1,895	−1,837	22,366
Result from hedge accounting	−1,481	0	0	0	−1,481
Result from financial investments – afvtpl	−170,216	17,766	0	0	−152,451
Result from financial investments – afs	10,086	−1,158	−1,733	−1,395	5,801
Result from financial investments – htm	6	0	0	0	6
Result from other financial investments	26	849	6,140	3,743	10,758
Other operating result	45,562	−10,215	48,923	−38,466	45,804
Operating income	**533,414**	**120,064**	**36,857**	**−39,007**	**651,328**
Risk provisions on loans and advances	−244,095	−29,738	−307	0	−274,140
Operating income after risk provisions	**289,320**	**90,326**	**36,549**	**−39,007**	**377,188**
Personnel expenses	−186,759	−32,465	−21,680	0	−240,905
Other administrative expenses	−184,357	−31,427	−23,907	38,319	−201,373
Depreciation and amortization of tangible and intangible assets	−27,365	−11,319	−10,179	0	−48,862
Operating expenses	**−398,481**	**−75,212**	**−55,767**	**38,319**	**−491,141**
Segment result (Operating result)	**−109,162**	**15,114**	**−19,217**	**−688**	**−113,953**
Unallocated corporate income/expenses					57,821
Result before tax					**−56,132**
Taxes on income					−14,205
Result after tax					**−70,338**
Minority interests					73,474
Consolidated net result (after minority interests)					**3,137**

Explanations:
afvtpl: at fair value through proft or loss (fair value option)
afs: available for sale
htm: held to maturity

Notes to the Income Statement

(35) Interest and similar income

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Interest income	**1,868,339**	**1,598,870**
from loans and advances to credit institutions	142,368	209,914
from loans and advances to customers	1,480,382	1,167,972
from bonds, treasury bills and other fixed-interest securities	165,760	149,813
from derivative financial instruments, net	0	26,087
other interest income	79,829	45,084
Current income	**525,727**	**400,151**
from shares and other not fixed income securities	5,584	5,278
from leasing business	483,851	366,421
from investment properties	36,292	28,451
Total	**2,394,066**	**1,999,021**

Interest income also includes unwinding revenue of EUR 20,286 thousand (2007: EUR 10,912 thousand) as well as income with distinctive interest character. A significant part of the other interest income is the interest on the minimum reserve. In 2008, this also includes interest income of EUR 968 thousand (2007: EUR 11,606 thousand) relating to other periods. Income from the leasing business includes interest income from finance leases and the results from operating leases, consisting of hire payments less scheduled depreciation. The revenue from investment properties also represents the balance of rental income and scheduled depreciation on property for future sale.

Interest and income breaks down as follows according to IAS 39 categories:

EUR '000

	IAS 39 Measurement category	1.1.–31.12.2008	1.1.–31.12.2007
Interest income		**1,868,339**	**1,604,149**
from loans and advances to credit institutions and customers	LAR	1,621,676	1,366,599
from trading assets	HFT	2,866	4,773
from derivative fin. instruments	HFT / Fair Value Hedges	0	26,087
from fin. investments – designated at fair value through profit or loss	FVO	55,824	62,779
from fin. investments – available for sale	AFS	119,200	112,931
from fin. investments – held to maturity	HTM	1,645	1,735
from balances at central banks	Fin. Assets At Cost	45,973	17,639
other interest income	–	21,155	11,606
Current income		**525,727**	**394,872**
from shares and other not fixed income securities	AFS	5,487	0
from shares and other not fixed income securities	HFT	97	0
from leasing business	LAR / –	483,851	366,421
from investment properties	–	36,292	28,451
Total		**2,394,066**	**1,999,021**

(36) Interest and similar expenses

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Interest expenses	**–1,671,425**	**–1,376,049**
for liabilities to credit institutions	–283,183	–173,233
for liabilities to customers	–353,931	–289,433
for liabilities evidenced by certificates	–882,509	–836,971
for subordinated capital	–80,843	–63,193
from derivative financial instruments, net	–68,252	0
for other liabilities	–2,707	–13,219
Other interest expenses	**–20,439**	**–23,779**
commissions for statutory guarantee	–20,439	–23,779
Total	**–1,691,864**	**–1,399,828**

Other interest-like expenses include commissions due to the Province of Carinthia for the statutory guarantee. This commission is calculated on the actual amounts for which Carinthia is the unlimited deficiency guarantor.

Interest and similar expenses break down as follows according to IAS 39 categories:

EUR '000

	IAS 39 Measurement category	1.1.–31.12.2008	1.1.–31.12.2007
Interest expenses		**–1,671,425**	**–1,376,049**
for trading liabilities	HFT	–68,252	0
for fin. liabilities – designated at fair value through profit or loss	FVO	–74,116	–78,633
for fin. liabilities – at cost	Fin. Liabilities At Cost	–1,528,443	–1,295,488
for fin. liabilities to central banks	Fin. Liabilities At Cost	–424	–1,921
other	–	–190	–7
Other interest expenses		**–20,439**	**–23,779**
commissions for statutory guarantee	–	–20,439	–23,779
Total		**–1,691,864**	**–1,399,828**

Notes to the Income Statement

(37) Fee and commission income

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Credit business	52,520	44,260
Securities and custodian business	21,029	50,352
Bank transfers incl. payment transactions	41,995	37,972
Other financial service business	29,601	24,110
Total	**145,145**	**156,694**

(38) Fee and commission expenses

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Credit business	–2,881	–3,114
Securities and custodian business	–9,271	–17,571
Bank transfers incl. payment transactions	–9,993	–9,441
Other financial service business	–5,433	–5,235
Total	**–27,577**	**–35,361**

(39) Result from trading

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Interest related transactions	–48,525	–202
Shares and index related transactions	2,873	1,192
Foreign exchange transactions	7,976	16,708
Other trading result (credit derivatives, commodities, etc.)	1	4,667
Total	**–37,675**	**22,366**

In addition to trading activities, the item result from trading also includes the results from banking book derivatives as well as the foreign currency valuation.

(40) Result from hedge accounting

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Valuation result from secured underlying transactions	-764,285	251,106
Valuation result from hedging derivatives	720,200	-252,587
Total	**-44,085**	**-1,481**

This item includes the results from hedge accounting in accordance with IAS 39, resulting from the valuation of the hedging derivatives and the valuation of the underlying transactions.

(41) Result from financial investments – designated at fair value through profit or loss

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Loans and advances (to customers and credit institutions)	28,876	-19,028
Equity instruments	-13,503	4,826
Debt instruments	2,297	-137,490
Liabilities (incl. subordinated capital)	119,457	70,203
Fair value option (FVO) derivatives *)	-125,375	-70,962
Total	**11,751**	**-152,451**

*) this includes the result from fair value option derivatives relating to foreign currency valuation.

The fair value option (FVO) covers financial assets and liabilities that include embedded derivatives. By designating the entire instrument in the category at fair value through profit or loss, the compulsory separation of hedging instruments is not required.

Furthermore, this category is also used to avoid accounting mismatches. The fair value option is used for financial assets if related liabilities are already carried at fair value. Furthermore, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

(42) Result from financial investments – available for sale

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Income from financial investments available for sale	**19,278**	**24,118**
Capital gains	18,018	24,027
Income from write-up	1,260	91
Expenses from financial investments available for sale	**-133,331**	**-18,317**
Losses from disposal	-12,778	-11,637
Expenses from impairment	-120,553	-6,680
Total	**-114,053**	**5,801**

(43) Result from financial investments – held to maturity

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Income from financial investments held to maturity	14	6
Total	**14**	**6**

Notes to the Income Statement

(44) Result from other financial investments

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Result from investment properties (IP)	**–22,213**	**10,327**
Other income	5,608	18,811
Other expenses	–27,821	–8,484
Result from operating leasing assets	**–9,913**	**405**
Other income	18,472	4,968
Other expenses	–28,384	–4,564
Remaining result from financial investments	**–4,621**	**26**
Total	**–36,747**	**10,758**

Other revenue from investment properties and operating leasing assets primarily relate to profit on disposal, but also to income from the write-up of previously effected unscheduled depreciations and other one-off revenues in connection with these assets.

EUR 26,902 thousand (2007: EUR 8,724 thousand) of other expenses from investment properties in 2008 relate to impairment, of which more than half relates to properties in Croatia.

Other expenses from operating leasing of EUR 17,057 thousand in 2008 (2007: EUR 4,564 thousand) resulted from impairments on operating leasing assets, the majority of which relate to Croatian leasing unit, but which also relates to the Snow Fun Park project (Germany).

(45) Other operating result

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Other rental income	**10,102**	**1,418**
Net capital gains/losses from	**6,621**	**9,260**
Sale of tangible and intangible assets	2,330	–2,293
Sale of real estate projects (assets)	3,424	9,446
Sale of property development companies	868	2,106
Result from allocation/release of other provisions	**–2,729**	**–357**
Other tax expenses (except corporate income tax)	**–5,406**	**–9,967**
Impairment loss for vacant assets	**–1,976**	**–41,614**
Revenue from the utilisation of guarantees	**0**	**22,710**
Compensation DAB law case	**–8,967**	**33,283**
Remaining other result	**48,714**	**31,071**
Remaining other income	148,776	131,776
Remaining other expenses	–100,062	–100,705
Total	**46,358**	**45,804**

Other rental revenue results from subletting minor parts of buildings used for own activities. The increase from 2007 stems in the main from the headquarters in Zagreb, which is let out in part to third parties on a medium-term basis.

With regard to the "DAB" legal proceedings please refer to note (102). The entries in remaining other result refer to other income and expenses from non-banking activities. The income includes the sales revenue of production enterprise Aluflexpack d.o.o. of EUR 93,876 thousand (2007: EUR 86,536 thousand); expenses include the related cost of manufacture in an amount of EUR –66,294 thousand (2007: EUR –73,194 thousand). Furthermore, the sales and the direct other expenses of Schlosshotel Velden are also reported in this item.

(46) Risk provisions on loans and advances

Risk provisions for on- and off-balance transactions are composed as follows:

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Allocation to	**–682,842**	**–421,963**
Risk provisions for loans and advances	–633,448	–412,990
Provisions for commitments and guarantees	–49,394	–8,973
Releases from	**163,311**	**154,087**
Risk provisions for loans and advances	158,869	142,131
Provisions for commitments and guarantees	4,442	11,955
Recoveries of loans and advances previously written-off	**3,245**	**3,431**
Direct write-offs	**–16,972**	**–9,695**
Total	**–533,258**	**–274,140**

Details on risk provisions can be found in Note (57).

(47) Personnel expenses

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Personnel cost from core business	–256,248	–229,083
Personnel cost from non-core business	–12,453	–11,822
Total	**–268,701**	**–240,905**

Notes to the Income Statement

(48) Other administrative expenses

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Premises expenses	−32,902	−30,917
IT expenses	−25,658	−24,139
Office costs	−9,591	−9,563
Advertising costs	−35,609	−33,257
Communication expenses	−11,550	−10,383
Legal and advisory costs	−43,221	−43,833
Insurance	−6,846	−5,113
Vehicle and fleet cost	−4,205	−4,079
Staff training cost	−4,451	−4,159
Remaining general administrative expenses	−44,232	−35,929
Total	**−218,264**	**−201,373**

(49) Depreciation and amortisation of tangible and intangible assets

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Buildings	−39,539	−11,826
Plant and equipment	−46,052	−28,128
Intangible assets	−13,028	−8,909
Total	**−98,619**	**−48,862**

In financial year 2008, impairment writedowns of EUR –38,934 thousand (2007: EUR –389 thousand) were made. These resulted primarily from the impairment writedown of production plant in a consolidated company as well as of tourism real estate, which was necessary due to their permanent nature.

(50) Result from the disposal of group companies

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Consultants Group	0	57,208
Hypo Alpe-Adria-Bank (Liechtenstein) AG *	0	−422
Total	**0**	**56,786**

*) now operating under the name of Alpe Adria Privatbank AG

(51) Result from companies accounted for at equity

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Share of profits	1,351	1,203
Share of losses	–277	–169
Total	**1,075**	**1,034**

(52) Taxes on income

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Current tax	–65,770	–62,762
Deferred tax	19,949	48,556
Total	**–45,821**	**–14,205**

The theoretical tax expenses are translated into the effective tax burden as follows:

EUR '000

	31.12.2008	31.12.2007
Result before tax	–472,433	–56,132
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 %	118,108	14,033
Tax effects arising from:		
divergent foreign tax rates	–2,909	–38,157
previous years	4,096	–281
tax-exempt income and other tax-exempt income	2,089	20,254
investment incentives	19,310	5,134
non-tax-deductible expenses and withholding taxes	–62,934	–26,724
non recognition of deferred taxes on losses carried forward	–147,648	–10,711
other	23,527	22,247
Effective tax burden	**–45,821**	**–14,205**
Effective tax rate	**–23.7 %**	**–25.3 %**

(53) Minority interests

In the income statement, minority interests in the result of the relevant group companies are included as follows:

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
HBInt. Credit Management Limited	**12,963**	**86,281**
Share in interest income	–19,084	–16,577
Share in measurement gains / losses	32,046	102,859
Norica Investments Limited	**–10,572**	**0**
Hypo-Alpe-Adria-Leasing Holding AG	**–2,500**	**–12,250**
Dividends preference shares 1st tranche (2004)	–1,250	–6,250
Dividends preference shares 2nd tranche (2006)	–1,250	–6,000
Minority interests of other co-owners	**–1,377**	**–557**
Total	**–1,486**	**73,474**

At HBInt. Credit Management Limited, the total 2008 result stemming from the measurement of asset-backed securities and other investments amounted to EUR –65,401 thousand (2007: EUR –209,916 thousand). In the consolidated financial statements, EUR 32,046 thousand (2007: EUR 102,859 thousand) thereof is assigned to the 49 % minority shareholder as a loss covered by the equity contribution.

The minority interest in Norica Investments Limited derives from the formation of the company at the end of June 2008 with a co-investor taking a 49 % stake.

The sums of EUR 2,500 thousand shown for Hypo Alpe-Adria-Leasing Holding AG result from additional dividends paid out in April 2008 to a preference shareholder. Due to the notice given to exercise the call option in December 2008, the preference shares were reclassified in the actual financial statements as borrowings (liabilities evidenced by certificates) with the result that any shareholder claims will no longer be shown at Minority interests.

Notes to the Balance Sheet

(54) Cash and balances with central banks

EUR '000

	31.12.2008	31.12.2007
Cash on hand	113,841	107,011
Balances with central banks (daily due)	885,366	890,852
Total	**999,207**	**997,864**

Balances with central banks only include those balances that are daily due. Balances that are not due daily are shown under loans and advances to credit institutions.

Balances with central banks also serve to satisfy the minimum reserve requirements. On the balance sheet date, the daily due minimum reserve held amounted to EUR 494,117 thousand (2007: EUR 619,047 thousand).

The debt certificates of public entities that qualify for refinancing at central banks are not shown in this item, but instead under financial investments – depending on their assessment category.

(55) Loans and advances to credit institutions

(55.1) Loans and advances to credit institutions – by products

EUR '000

	31.12.2008	31.12.2007
Minimum reserve (not daily due)	502,196	832,774
Giro and clearing business	341,445	202,856
Money market placements	3,013,667	2,020,692
Loans	595,111	514,996
Finance lease receivables	632	1,149
Other receivables	30,219	360,304
Total	**4,483,271**	**3,932,772**

(55.2) Loans and advances to credit institutions – by regions

EUR '000

	31.12.2008	31.12.2007
Austria	607,505	471,744
Central and Eastern Europe (CEE)	873,352	1,437,791
Other countries	3,002,413	2,023,238
Total	**4,483,271**	**3,932,772**

Notes to the Balance Sheet

(56) Loans and advances to customers

(56.1) Loans and advances to customers – by products

EUR '000

	31.12.2008	31.12.2007
Current account credits	1,831,700	1,844,584
Bank loans	11,765,021	9,024,581
Mortgage loans	4,434,031	4,573,665
Municipal loans	2,803,063	2,403,017
Finance lease receivables	6,849,922	5,422,512
Other receivables	2,882,930	2,382,378
Total	**30,566,667**	**25,650,736**

(56.2) Loans and advances to customers – by types of customer

EUR '000

	31.12.2008	31.12.2007
Public sector	5,033,944	4,471,118
Corporate clients	18,813,540	15,708,441
Retail clients	6,719,182	5,471,176
Total	**30,566,667**	**25,650,736**

(56.3) Loans and advances to customers – breakdown by regions

EUR '000

	31.12.2008	31.12.2007
Austria	5,256,676	4,766,102
Central and Eastern Europe (CEE)	18,230,014	14,874,486
Other countries	7,079,976	6,010,148
Total	**30,566,667**	**25,650,736**

(57) Risk provisions

(57.1) Risk provisions – movement during the year

EUR '000

	On 1.1.2008	Exchange differences	Allocation	Release	Use	On 31.12.2008
Specific risk provisions	**–635,502**	**–4,179**	**–536,499**	**136,749**	**74,845**	**–964,585**
Loans and advances to credit institutions	–1,820	–12	–6,520	102	0	–8,250
Loans and advances to customers	–629,090	–4,178	–526,529	134,452	74,311	–951,034
to public sector	–1,167	29	–2,373	1,033	0	–2,477
to corporate clients	–566,807	–4,630	–477,563	117,272	72,021	–859,707
to retail clients	–61,117	423	–46,592	16,147	2,290	–88,850
Other financial assets	–4,592	11	–3,450	2,196	534	–5,301
Portfolio-based risk provisions	**–69,764**	**2,618**	**–96,950**	**42,406**	**44**	**–121,646**
Subtotal	**–705,266**	**–1,561**	**–633,448**	**179,156**	**74,889**	**–1,086,231**
Provisions for credit commitments and guarantees	**–13,013**	**320**	**–49,394**	**4,442**	**300**	**–57,345**
Total	**–718,279**	**–1,241**	**–682,842**	**183,597**	**75,189**	**–1,143,576**

(57.2) Risk provisions – by regions

EUR '000

	31.12.2008	31.12.2007
Austria	–201,113	–128,378
Central and Eastern Europe (CEE)	–706,255	–449,041
Other countries	–178,863	–127,847
Total	**–1,086,231**	**–705,266**

Notes to the Balance Sheet

(58) Trading assets

EUR '000

	31.12.2008	31.12.2007
Bonds and other fixed-interest securities	38,838	53,189
Shares and other non fixed-interest securities	61,333	68,912
Positive market value of derivative financial instruments (trading)	79,011	5,062
Total	**179,181**	**127,163**

(59) Positive fair value from hedge accounting derivatives

EUR '000

	31.12.2008	31.12.2007
Positive market values of fair value hedge instruments	581,682	156,621
Total	**581,682**	**156,621**

The reported positive market values from hedge accounting derivatives satisfying the hedge accounting criteria pursuant to IAS 39 are almost exclusively interest swaps and, to a lesser extent, cross currency swaps.

(60) Financial investments – designated at fair value through profit or loss

EUR '000

	31.12.2008	31.12.2007
Loans and advances to customers and credit institutions	577,216	629,009
Bonds and other fixed-interest securities	352,136	527,914
Shares and other non fixed-interest securities	51,814	52,364
Positive market value of derivative financial instruments at fair value option (FVO)	139,366	175,181
Total	**1,120,532**	**1,384,468**

(61) Financial investments – available for sale

EUR '000

	31.12.2008	31.12.2007
Bonds and other fixed-interest securities	2,379,536	2,261,744
Shares and other non fixed-interest securities	86,012	380,942
Participations without intention for sale (< 20 %)	11,326	9,794
Other participations (associated companies 20 % – 50 %)	43,191	42,910
Shares in affiliated, non-consolidated companies (> 50 %)	45,467	40,079
Total	**2,565,532**	**2,735,469**

(62) Financial investments – held to maturity

EUR '000

	31.12.2008	31.12.2007
Bonds and other fixed-interest securities	41,940	42,570
Total	**41,940**	**42,570**

(63) Investments in companies accounted for at equity

EUR '000

	31.12.2008	31.12.2007
Shares in credit institutions	0	17,944
Shares in other associated companies	5,360	4,004
Total	**5,360**	**21,948**

The associated companies included at equity are listed in note (108).

(64) Other financial investments

EUR '000

	31.12.2008	31.12.2007
Investment properties	663,640	576,697
Assets used for operating leases (moveable assets)	471,321	383,367
Total	**1,134,960**	**960,064**

Investment properties include mainly land and buildings let under operating lease agreements.

Notes to the Balance Sheet

(65) Development of financial assets and other financial investments

	Costs of acquisition 01.01.2008	Foreign exchange-differences	Additions
Financial investments – held to maturity	**42,570**	**0**	**3,139**
Bonds, treasury bills and other fixed-interest securities	42,570	0	3,139
Financial investments – available for sale	**96,126**	**–397**	**13,435**
Shares in affiliated, non-consolidated companies (> 50 %)	40,261	–13	8,478
Other participations in associated companies (20 %–50 %)	46,033	–381	3,374
Participations without intention for sale (< 20 %)	9,832	–2	1,583
Companies accounted for under the equity method	**22,837**	**0**	**0**
Investment properties	**607,552**	**927**	**156,211**
Operating lease assets (moveables)	**468,710**	**–3,490**	**327,575**
Total	**1,237,795**	**–2,960**	**500,360**

(66) Intangible assets

EUR '000

	31.12.2008	31.12.2007
Goodwill	3,502	3,502
Software	33,797	23,724
Other intangible assets	27,685	37,117
Prepayments for intangible assets	1,708	0
Total	**66,691**	**64,343**

The reported goodwill of EUR 3,502 thousand (2007: EUR 3,502 thousand) still refers to the takeover of the RBB Bank Aktiengesellschaft Wolfsberg business by Hypo Alpe-Adria-Bank AG, Klagenfurt in 2001. The entire goodwill was allocated to the branch office in Wolfsberg as the cash generating unit. Hypo Group Alpe Adria makes an impairment test at least once per year and whenever indicated. The annual impairment test did not result in any permanent impairment for this goodwill.

(67) Tangible assets

EUR '000

	31.12.2008	31.12.2007
Land and buildings	468,352	498,119
Plant and equipment	114,839	137,944
Total	**583,190**	**636,063**

EUR '000

Disposals	Other changes	Costs of acquisition 31.12.2008	Cumulative depreciation 31.12.2008	Carrying amount 31.12.2008	Carrying amount 31.12.2007
−3,768	**0**	**41,940**	**0**	**41,940**	**42,570**
−3,768	0	41,940	0	41,940	42,570
−4,783	**3,835**	**108,215**	**−8,231**	**99,984**	**92,783**
−1,291	2,084	49,518	−4,051	45,467	40,079
−3,443	1,751	47,334	−4,142	43,191	42,910
−50	0	11,363	−38	11,326	9,794
0	**−17,355**	**5,481**	**−122**	**5,360**	**21,948**
−44,319	**16,350**	**736,720**	**−73,081**	**663,640**	**576,697**
−205,107	**1,832**	**589,520**	**−118,199**	**471,321**	**383,367**
−257,978	**4,661**	**1,481,877**	**−199,633**	**1,282,244**	**1,117,365**

Notes to the Balance Sheet

(68) Fixed assets table

(68.1) Development of fixed assets

	Costs of acquisition 01.01.2008	Exchange differences	Additions
Intangible assets	**102,532**	**–878**	**28,730**
Goodwill	7,545	0	0
Software	44,186	–739	17,857
Other intangible assets	50,800	–138	9,147
Prepayments for intangible assets	0	0	1,726
Tangible assets	**793,877**	**–5,902**	**69,873**
Land and buildings	**543,674**	**–1,590**	**40,719**
Land	59,456	–54	2,848
Buildings	448,890	–936	12,955
Assets under construction	35,328	–600	24,916
Plant and equipment	**250,203**	**–4,312**	**29,154**
Total	**896,409**	**–6,780**	**98,603**

(68.2) Development of fixed assets depreciation

	Cumulative depreciation 01.01.2008	Exchange differences	Disposals
Intangible assets	**–38,188**	**239**	**2,838**
Goodwill	–4,044	0	0
Software	–20,462	189	2,733
Other intangible assets	–13,683	51	105
Prepayments for intangible assets	0	0	0
Tangible assets	**–157,814**	**2,251**	**13,876**
Land and buildings	**–45,555**	**216**	**1,675**
Land	–322	0	0
Buildings	–45,233	216	1,675
Assets under construction	0	0	0
Plant and equipment	**–112,259**	**2,035**	**12,201**
Total	**–196,003**	**2,490**	**16,714**

EUR '000

Disposals	Other changes	Costs of acquisition 31.12.2008	Cumulative depreciation 31.12.2008	Carrying amount 31.12.2008	Carrying amount 31.12.2007
−18,526	**2,960**	**114,818**	**−48,127**	**66,691**	**64,343**
0	0	7,545	−4,044	3,502	3,502
−5,932	9,896	65,268	−31,472	33,797	23,724
−12,594	−6,918	40,297	−12,612	27,685	37,117
0	−19	1,708	0	1,708	0
−35,245	**−12,361**	**810,241**	**−227,051**	**583,190**	**636,063**
−19,371	**−12,346**	**551,086**	**−82,734**	**468,352**	**498,119**
−2,033	−3,198	57,018	−322	56,696	59,134
−11,687	4,128	453,350	−82,238	371,112	403,657
−5,651	−13,277	40,717	−173	40,543	35,328
−15,874	**−16**	**259,156**	**−144,317**	**114,839**	**137,944**
−53,771	**−9,402**	**925,059**	**−275,178**	**649,881**	**700,406**

EUR '000

Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2008
−11,822	**−1,205**	**5**	**7**	**−48,127**
0	0	0	0	−4,044
−9,865	−1,205	−2,868	7	−31,472
−1,957	0	2,873	0	−12,612
0	0	0	0	0
−47,863	**−37,729**	**228**	**0**	**−227,051**
−10,253	**−29,286**	**470**	**0**	**−82,734**
0	0	0	0	−322
−10,253	−29,286	643	0	−82,238
0	0	−173	0	−173
−37,609	**−8,443**	**−242**	**0**	**−144,317**
−59,685	**−38,934**	**233**	**7**	**−275,178**

Notes to the Balance Sheet

(69) Tax assets

EUR '000

	31.12.2008	31.12.2007
Current tax assets	32,183	32,659
Deferred tax assets	527,741	503,561
Total	**559,924**	**536,220**

Of the indicated carrying amount for deferred tax assets, EUR 180 m (25 % of EUR 720 m) refers to tax losses carried forward by Hypo Alpe-Adria-Bank International AG including its Austrian taxation group members (2007: EUR 190 m; 25 % of EUR 760 m). Compared with the actual loss (incl. pending valuation differences which can be capitalised) carried forward of approximately EUR 1.5 bn, however, only that amount was recognised as a deferred tax asset whose utilisation in accordance with the tax regulations is expected to be possible over the next 9-10 years. The assessment of the ability to utilise the tax losses carried forward is performed on the basis of the current business plans, which are prepared once a year in autumn. In this respect, reference is made to note (2). For the years until 2003, Hypo Alpe-Adria-Bank International AG has already received the legally valid tax assessment notices. The assessment for corporation tax 2004 and 2005 pursuant to Section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature.

(70) Assets held for disposal

The amount shown under Assets held for disposal is the carrying amount for the 49 % stake in Alpe Adria Privatbank AG, Schaan (previously operating under the name of Hypo Alpe-Adria-Bank (Liechtenstein) AG) which has been included in the consolidation since the 51 % majority holding was given up using the equity method in December 2007. The active search for a buyer was started formally in August 2008 and, once the other requirements of IFRS 5 were met, the at-equity inclusion in the consolidation ended and a special posting was made in the balance sheet.

(71) Other assets

EUR '000

	31.12.2008	31.12.2007
Prepaid expenses	**83,490**	**94,212**
Other assets	**1,367,312**	**1,267,660**
Shares in property development companies, short term	0	8,984
Assets under construction (project development), short term	100,118	113,369
Finished property projects held as current assets	62,087	21,189
Leases to go (lease assets not yet leased out)	670,844	604,453
Remaining receivables and other assets, not specific to banking	65,089	117,869
Other assets	395,760	278,187
Value added taxes and other tax assets	73,414	123,609
Positive market values of hedging instruments of economic hedges (banking book)	**73,144**	**35,596**
Total	**1,523,945**	**1,397,467**

(72) Liabilities to credit institutions

(72.1) Liabilities to credit institutions – by type

EUR '000

	31.12.2008	31.12.2007
To central banks	**32,299**	**66,745**
To credit institutions	**7,255,696**	**4,390,216**
Daily due	73,938	243,140
Time deposits	4,026,014	941,633
Loans from banks	2,257,573	2,113,629
Money market liabilities	189,080	247,634
Other liabilities	709,092	844,181
Total	**7,287,995**	**4,456,962**

(72.2) Liabilities to credit institutions – by region

EUR '000

	31.12.2008	31.12.2007
Austria	1,267,224	1,240,079
Central and Eastern Europe (CEE)	1,612,880	1,789,160
Other countries	4,407,891	1,427,723
Total	**7,287,995**	**4,456,962**

(73) Liabilities to customers

(73.1) Liabilities to customers – by customer type

EUR '000

	31.12.2008	31.12.2007
Saving deposits	**1,645,169**	**1,563,034**
Sight and time deposits	**7,071,725**	**6,910,540**
from public sector	939,320	1,021,534
from corporate clients	3,690,153	3,545,620
from retail clients	2,442,253	2,343,387
Total	**8,716,894**	**8,473,574**

(73.2) Liabilities to customers – by region

EUR '000

	31.12.2008	31.12.2007
Austria	2,190,309	2,211,328
Central and Eastern Europe (CEE)	3,901,879	3,728,495
Other countries	2,624,706	2,533,751
Total	**8,716,894**	**8,473,574**

Liabilities to customers include liabilities designated at fair value through profit or loss of EUR 43,088 thousand (2007: EUR 40,647 thousand) (see also note (94)).

(74) Liabilities evidenced by certificates

EUR '000

	31.12.2008	31.12.2007
Issued bonds	**18,638,358**	**17,821,530**
Mortgage-linked bonds and municipal bonds	1,367,066	1,082,499
Bonds	17,123,038	16,042,187
Other certificates of deposit and money market papers	148,253	696,844
Liabilities issued via "Pfandbriefstelle"	**2,564,775**	**2,410,692**
Other liabilities evidenced by certificates	**212,207**	**50,359**
Total	**21,415,340**	**20,282,581**

Liabilities to customers evidenced by certificates include liabilities designated at fair value through profit or loss of EUR 1,450,875 thousand (2007: EUR 1,691,581 thousand) (see also note (94)).

Hypo Alpe-Adria-Bank International AG gave notice at the end of December 2008 of its intention to avail itself of the right, as laid down in the conditions of the agreement made with the preference shareholders of Hypo Alpe-Adria-Leasing Holding AG, to exercise a call option in January 2009. As a result of this, the preference share capital which has up until now been classified as shareholders' equity, was reclassified as borrowings and is presented as liabilities evidenced by certificates in the balance sheet.

(75) Trading liabilities

EUR '000

	31.12.2008	31.12.2007
Negative market value of derivative financial instruments (trading)	27,902	8,444
Total	**27,902**	**8,444**

(76) Negative fair value from hedge accounting derivatives

EUR '000

	31.12.2008	31.12.2007
Negative market values of Fair Value Hedge instruments	107,356	392,596
Total	**107,356**	**392,596**

The reported negative market values from hedge accounting derivatives satisfying the hedge accounting criteria pursuant to IAS 39 are almost exclusively interest swaps and, to a lesser extent, cross currency swaps.

(77) Provisions

(77.1) Provisions – Detail

EUR '000

	31.12.2008	31.12.2007
Pensions	9,466	9,916
Severance payments	15,626	15,009
Provisions for anniversary payments	1,510	1,351
Provisions for credit commitments and guarantees	57,345	13,013
Other provisions	23,662	25,676
Total	**107,608**	**64,965**

Provisions for legal costs and miscellaneous other provisions are included in item, Other provisions.

Notes to the Balance Sheet

(77.2) Provisions – Development of provisions for retirement benefits and severance pay

Provisions for retirement benefits and severance pay during the year under review developed as follows:

EUR '000

	31.12.2008	31.12.2007
Provisions at end of previous period	**24,870**	**24,931**
+ Current service costs	1,210	1,154
+ Interest costs	1,142	855
+/– Actuarial gains / losses	–550	–588
– Payments in reporting year	–1,595	–1,407
+ past service cost	57	0
+/– Other changes	–43	–21
Provisions as at the end of period	**25,092**	**24,925**

(77.3) Provisions – Development of other provisions

Other provisions during the year under review developed as follows:

EUR '000

	On 01.01.2008	Exchange differences	Additions	Utilization	Releases	Other changes	Carrying amount 31.12.2008
Anniversary provisions	1,351	–1	184	–13	–6	–6	1,510
Provisions for credit commitments and guarantees	13,013	–320	49,394	–300	–4,442	0	57,345
Remaining provisions	25,676	–97	15,411	–12,826	–4,502	0	23,662
Total	**40,041**	**–418**	**64,989**	**–13,139**	**–8,950**	**–6**	**82,517**

(78) Tax liabilities

EUR '000

	31.12.2008	31.12.2007
Current tax liabilities	36,294	35,336
Deferred tax liabilities	343,961	340,758
Total	**380,256**	**376,094**

(79) Other liabilities

EUR '000

	31.12.2008	31.12.2007
Deferred income	**498,041**	**375,273**
Accruals und other obligations	**329,264**	**368,044**
Negative market values of hedging instruments	**345,113**	**147,556**
of economic hedges (banking book)	122,644	46,816
of derivatives wich were designated at fair value option (FVO)	222,469	100,740
Total	**1,172,418**	**890,873**

(80) Subordinated capital

EUR '000

	31.12.2008	31.12.2007
Subordinated liabilities	949,296	854,334
Supplementary capital	523,840	272,265
Hybrid capital	117,311	206,743
Total	**1,590,448**	**1,333,342**

Subordinated liabilities and supplementary capital include liabilities designated at fair value through profit or loss of EUR 138,608 thousand (2007: EUR 223,339 thousand) (see also note (94)).

Subordinated capital (supplementary capital) with a total value of EUR 300,000 thousand was issued in the 2008 financial year. Please refer to note (98) for details of its structure.

Interest expense of EUR 80,843 thousand was included in 2008 (2007: EUR 63,193 thousand).

(81) Equity

EUR '000

	31.12.2008	31.12.2007
Shareholders' equity	**2,020,713**	**1,154,484**
Issued capital	962,474	48,367
Additional paid-in capital	881,057	940,337
Available for sale-reserves	−161,515	−4,972
Foreign currency translation	−618	359
Retained earnings (incl. net consolidated income)	339,315	170,392
Minority interests	**509,122**	**504,588**
Total	**2,529,835**	**1,659,071**

Following approval at the Hypo Alpe-Adria-Bank International AG shareholders' meeting, a dividend totalling EUR 50,000 thousand for the 2007 financial year was distributed in May 2008.

The issued capital as of 31 December 2008 of EUR 962,474 thousand (2007: EUR 48,367 thousand) represents the equity capital of Hypo Alpe-Adria-Bank International AG. It is divided into 7,809,276 (2007: 6,045,891) bearer shares with voting rights. EUR 900 m of this is participation capital issued by Hypo Alpe-Adria-Bank International AG in December 2008 and subscribed by the Republic of Austria (see note 99).

A capital increase of EUR 700,000 thousand took effect on 13 December 2008, with the newly issued shares being subscribed by existing shareholders of the Bank, BayernLB and Hypo Alpe Adria Mitarbeiter Privatstiftung.

Supplementary Information

(82) Breakdown of remaining contractual maturities

Breakdown of remaining terms to maturity as per 31.12.2008

	Daily due or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	465,053	2,691,809
Loans and advances to customers	1,969,763	1,596,486
Trading assets	135,743	31,015
Positive fair value from hedge accounting derivatives	0	2,514
Financial investments – designated at fair value through profit or loss	51,814	19,238
Financial investments – available for sale	589,712	153,909
Financial investments – held to maturity	0	1,165
Other assets	354,232	235,407
Liabilities to credit institutions	499,177	622,346
Liabilities to customers	2,324,665	1,943,574
Liabilities evidenced by certificates	16,046	716,209
Trading liabilities	10,725	13,307
Negative fair value from hedge accounting derivatives	0	0
Other liabilities	76,064	163,549
Subordinated capital	0	0

Breakdown of remaining terms to maturity as per 31.12.2007

	Daily due or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	458,242	2,150,643
Loans and advances to customers	1,532,930	1,307,999
Trading assets	84,373	9,921
Positive fair value from hedge accounting derivatives	0	0
Financial investments – designated at fair value through profit or loss	52,364	13,543
Financial investments – available for sale	855,764	148,622
Financial investments – held to maturity	0	0
Other assets	461,390	368,223
Liabilities to credit institutions	274,186	1,233,881
Liabilities to customers	3,021,516	1,170,826
Liabilities evidenced by certificates	811	862,905
Trading liabilities	267	7,751
Negative fair value from hedge accounting derivatives	0	0
Other liabilities	81,493	219,509
Subordinated capital	0	0

The remaining term to maturity is the period between the balance sheet date and the time of the contractually defined maturity of the loan or liability. Where loans or liabilities fall due in partial amounts, the remaining term to maturity is reported separately for each partial amount.

EUR '000

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	Total
341,876	873,853	110,680	**4,483,271**
3,811,686	10,849,609	12,339,122	**30,566,667**
5,420	3,145	3,858	**179,181**
93	190,048	389,027	**581,682**
18,976	95,292	935,213	**1,120,532**
222,506	1,077,403	522,002	**2,565,532**
0	5,759	35,017	**41,940**
281,396	615,684	37,227	**1,523,945**
780,971	3,151,211	2,234,290	**7,287,995**
1,507,140	1,202,884	1,738,631	**8,716,894**
1,342,350	8,163,964	11,176,771	**21,415,340**
3,869	0	0	**27,902**
294	79,025	28,037	**107,356**
173,836	153,010	605,960	**1,172,418**
20,072	153,459	1,416,917	**1,590,448**

EUR '000

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	Total
158,219	1,110,815	54,854	**3,932,772**
3,317,951	9,575,447	9,916,409	**25,650,736**
3,355	16,985	12,529	**127,163**
3,368	67,568	85,685	**156,621**
21,131	118,351	1,179,078	**1,384,468**
363,908	821,266	545,910	**2,735,469**
793	5,904	35,873	**42,570**
174,096	355,534	38,225	**1,397,467**
199,700	1,359,786	1,389,409	**4,456,962**
1,248,460	1,076,998	1,955,775	**8,473,574**
451,759	6,878,860	12,088,245	**20,282,581**
426	1	0	**8,444**
1,211	106,971	284,414	**392,596**
195,224	114,216	280,432	**890,873**
0	262,498	1,070,843	**1,333,341**

Supplementary Information

(83) Deferred taxes

For the following items, deferred tax assets (tax receivable), respectively deferred tax liabilities (tax payable), are recorded on differences between the carrying amount for tax purposes and the IFRS valuation:

(83.1) Deferred tax assets – tax amount

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	6,908	6,908
Loans and advances to customers	10,215	8,805
Risk provisions on loans and advances	15,638	10,005
Trading assets	7,939	97
Financial investments	27,720	36,801
Tangible assets	342	874
Intangible assets	429	118
Other assets	110,105	96,372
Tax losses carried forward	196,721	196,639
Liabilities to credit institutions	451	0
Liabilities to customers	556	0
Trading liabilities	133	133
Provisions	1,306	1,066
Other liabilities	149,278	145,743
Subordinated capital	0	0
Total	**527,741**	**503,561**

Of the reported deferred taxes, EUR 196,721 thousand (2007: EUR 196,639 thousand) result from the capitalisation of tax claims due to utilisable losses carried forward. Deferred tax assets of EUR 240,303 thousand (2007: EUR 20,378 thousand) from tax losses carried forward and valuation differences (in each case tax amount) were not capitalised as there is no possibility of utilisation in the foreseeable future by the respective group companies.

In the year under review, deferred taxes on valuation results of available for sale financial instruments that do not affect net income were reported directly in the equity. In financial year 2008, the change of equity including deferred taxes not affecting net income amounts to EUR 273 thousand (2007: EUR 8,975 thousand). The deferred tax resulting from the initial consolidation of the subsidiaries listed in note (4) was also considered in the consolidated financial statements without affecting net income.

(83.2) Deferred tax liabilities – tax amount

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	11	11
Loans and advances to customers	11,234	9,261
Risk provisions on loans and advances	14,051	17,373
Trading assets	2,290	129
Financial investments	52,932	50,436
Tangible assets	2,492	7,001
Intangible assets	1,567	3,882
Other assets	75,993	61,383
Liabilities to credit institutions	13,993	13,993
Liabilities to customers	2,331	2,331
Liabilities evidenced by certificates	112,590	112,590
Provisions	1,351	1,556
Other liabilities	40,331	46,490
Subordinated capital	12,795	14,322
Total	**343,961**	**340,758**

(84) Finance leases

Receivables under finance leases are included in loans and advances to credit institutions and to customers. They break down as follows:

EUR '000

	31.12.2008	31.12.2007
Gross investment in the lease	**8,774,605**	**7,195,679**
Minimum lease payments	8,765,125	7,195,679
up to 1 year	1,556,389	1,243,348
from 1 year up to 5 years	3,992,628	3,033,182
over 5 years	3,216,109	2,919,149
Unguaranteed Residual Value	9,480	0
Unrealized financial income	**1,924,050**	**1,772,018**
up to 1 year	368,866	278,222
from 1 year up to 5 years	875,227	712,961
over 5 years	679,957	780,836
Net investment in the lease	**6,850,555**	**5,423,661**

The cumulated risk provision for uncollectible outstanding minimum leasing payments for 2008 is EUR –40,469 thousand (2007: EUR –32,138 thousand).

Supplementary Information

Assets let under finance leases broke down as follows:

EUR '000

	31.12.2008	31.12.2007
Real estate leases	3,772,267	3,152,891
Vehicle leases	1,659,619	1,210,833
Boat leases	214,056	132,245
Other movables	1,204,614	927,691
Total	**6,850,555**	**5,423,661**

(85) Operating leases

The future minimum lease payments from operating leasing relationships without early cancellation rights are as follows for each of the following years:

EUR '000

	31.12.2008	31.12.2007
up to 1 year	125,285	113,672
from 1 year to 5 years	333,053	298,026
more than 5 years	334,113	166,361
Total	**792,451**	**578,059**

The breakdown by let assets of minimum lease payments from operating leasing relationships without early cancellation rights is as follows:

EUR '000

	31.12.2008	31.12.2007
Real estate leases	440,370	334,428
Vehicle leases	285,226	223,332
Boat and other movables leases	66,855	20,298
Total	**792,451**	**578,058**

(86) Borrowing costs

Hypo Group Alpe Adria capitalises borrowing costs for qualified assets according to IAS 23. Essentially, qualified assets comprise of third-party used buildings under construction held as investment properties that are subsequently let within the scope of an operating lease.

The following overview presents the interest expenses capitalised during the years under review as well as the applied financing cost rates.

		31.12.2008	31.12.2007
Borrowing costs capitalized during the period	EUR '000	6,037	7,960
Financing cost rate	in %	4.4	4.1

(87) Assets / liabilities in foreign currency

The balance sheet total includes the following amounts in foreign currency:

EUR '000

	31.12.2008	31.12.2007
Assets	19,620,654	12,769,112
Liabilities	11,319,599	8,926,071

(88) Fiduciary transactions

On the reporting date, the following off-balance sheet fiduciary transactions with the following amounts had been concluded:

EUR '000

	31.12.2008	31.12.2007
Loans and advances to customers	169,280	172,900
Fiduciary assets	**169,280**	**172,900**
Liabilities to credit institutions	169,280	172,900
Fiduciary liabilities	**169,280**	**172,900**

(89) Repurchase agreements

At the end of the year, the following repurchase and reverse repurchase commitments from repurchase operations existed:

EUR '000

	31.12.2008	31.12.2007
Liabilities to credit institutions	270,906	239,624
Liabilities to customers	13,126	129,417
Repurchase agreements	**284,031**	**369,041**

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	51,552	16,189
Loans and advances to customers	6,073	6,936
Reverse repurchase agreements	**57,625**	**23,125**

(90) Assets given as collateral

Assets with a value of EUR 1,161,824 thousand (2007: EUR 612,770 thousand) were transferred to third parties as collateral for own debts. These assets continue to be shown in the balance sheet of Hypo Group Alpe Adria.

Supplementary Information

(91) Subordinated assets

The following assets shown in the balance sheet are subordinated:

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	0	121,165
Loans and advances to customers	22,725	12,661
Financial investments – designated at fair value through profit or loss	4,854	6,533
Financial investments – available for sale	39,412	33,486
Total	**66,991**	**173,844**

(92) Contingent liabilities and other off-balance-sheet items

The following contingent liabilities and off-balance sheet items existed on the balance sheet date:

EUR '000

	31.12.2008	31.12.2007
Contingent liabilities	**1,154,108**	**1,715,015**
Credit guarantees	709,024	1,111,423
Letters of credit	65,710	39,579
Other guarantees	298,361	283,955
Other contingent liabilities	81,012	280,058
Other commitments	**2,506,541**	**2,917,752**
Irrevocable credit commitments	2,298,042	2,443,608
Other obligations	208,499	474,144
Total	**3,660,648**	**4,632,767**

Other obligations include obligations from the acquisition and/or construction of investment properties and tangible assets totalling EUR 205,940 thousand (2007: EUR 386,529 thousand).

(93) Breakdown of securities admitted to stock exchange trading

EUR '000

	31.12.2008	31.12.2007
Trading Assets		
Bonds and other fixed-interest securities	38,838	53,189
thereof listed	38,838	53,189
thereof unlisted	0	0
Shares and other non fixed-interest seccurities	61,333	68,912
thereof listed	49,386	59,126
thereof unlisted	11,946	9,786
Financial investments – designated at fair value through profit or loss		
Bonds and other fixed-interest securities	352,136	527,914
thereof listed	294,352	436,949
thereof unlisted	57,784	90,965
Shares and other non fixed-interest seccurities	51,814	52,364
thereof listed	13,456	21,718
thereof unlisted	38,357	30,646
Financial investments – available for sale		
Bonds and other fixed-interest securities	2,379,536	2,261,744
thereof listed	1,937,442	1,833,858
thereof unlisted	442,094	427,886
Shares and other non fixed-interest seccurities	86,012	380,942
thereof listed	46,708	91,918
thereof unlisted	39,304	289,024
Financial investments – held to maturity		
Bonds and other fixed-interest securities	41,940	42,570
thereof listed	41,940	42,570
thereof unlisted	0	0

Supplementary Information

(94) Balance sheet according to IAS 39 – measurement categories

On 31 December 2008 the breakdown of the balance sheet according to the measurement categories of IAS 39 is as follows:

EUR '000

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	financial assets / liabilities at (amortised) costs	31.12.2008
Cash and balances with central banks							999,207	**999,207**
Loans and advances to credit institutions	3,981,075						502,196	**4,483,271**
Loans and advances to customers	30,566,667							**30,566,667**
Risk provisions on loans and advances	−1,086,231							**−1,086,231**
Trading assets		179,181						**179,181**
Positive fair value from hedge accounting derivatives						581,682		**581,682**
Financial investments – afvtpl			1,120,532					**1,120,532**
Financial investments – afs				2,565,532				**2,565,532**
Financial investments – htm					41,940			**41,940**
Investments in companies accounted for at equity							5,360	**5,360**
Other assets / banking book derivatives		1,134,960						**1,134,960**
Other financial assets							140,016	**140,016**
Total financial assets	**33,461,511**	**1,314,142**	**1,120,532**	**2,565,532**	**41,940**	**581,682**	**1,646,779**	**40,732,117**
Liabilities to credit institutions	7,287,995							**7,287,995**
Liabilities to customers	8,673,806		43,088					**8,716,894**
Liabilities evidenced by certificates	19,964,466		1,450,875					**21,415,340**
Trading liabilities		27,902						**27,902**
Negative fair value from hedge accounting derivatives						107,356		**107,356**
Subordinated capital	1,451,840		138,608					**1,590,448**
Other liabilities / banking book derivatives		122,644						**122,644**
Other liabilities / FVO derivatives			222,469					**222,469**
Other financial liabilities							827,305	**827,305**
Total financial liabilities	**37,378,107**	**150,546**	**1,855,039**	**0**	**0**	**107,356**	**827,305**	**40,318,353**

Explanations:
lar: loans and receivables
lac: liabilities at cost
hft: held for trading
fvo: designated at fair value through profit or loss
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale
htm: held to maturity

On 31 December 2007 the breakdown of the balance sheet according to the measurement categories of IAS 39 is as follows:

EUR '000

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	financial assets / liabilities at (amortised) costs	31.12.2007
Cash and balances with central banks							997,864	**997,864**
Loans and advances to credit institutions	3,099,998						832,774	**3,932,772**
Loans and advances to customers	25,650,736							**25,650,736**
Risk provisions on loans and advances	-705,266							**-705,266**
Trading assets		127,163						**127,163**
Positive fair value from hedge accounting derivatives						156,621		**156,621**
Financial investments – afvtpl			1,384,468					**1,384,468**
Financial investments – afs				2,735,469				**2,735,469**
Financial investments – htm					42,570			**42,570**
Investments in companies accounted for at equity							21,948	**21,948**
Other assets / banking book derivatives		35,596						**35,596**
Other financial assets				8,984			211,676	**220,660**
Total financial assets	**28,045,468**	**162,759**	**1,384,468**	**2,744,454**	**42,570**	**156,621**	**2,064,262**	**34,600,601**
Liabilities to credit institutions	4,456,962							**4,456,962**
Liabilities to customers	8,432,927		40,647					**8,473,574**
Liabilities evidenced by certificates	18,591,000		1,691,581					**20,282,581**
Trading liabilities		8,444						**8,444**
Negative fair value from hedge accounting derivatives						392,596		**392,596**
Subordinated capital	1,110,003		223,340					**1,333,342**
Other liabilities / banking book derivatives		46,816						**46,816**
Other liabilities / FVO derivatives			100,740					**100,740**
Other financial liabilities							743,317	**743,317**
Total financial liabilities	**32,590,892**	**55,260**	**2,056,307**	**0**	**0**	**392,596**	**743,317**	**35,838,372**

Explanations:
lar: loans and receivables
lac: liabilites at cost
hft: held for trading
fvo: designated at fair value through profit or loss
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale
htm: held to maturity

Supplementary Information

(95) Loans and advances as well as financial liabilities designated at fair value

As of 31 December 2008, the maximum potential default risk for loans and advances designated at fair value affecting income statement is EUR 577,216 thousand (2007: EUR 629,009 thousand). The change in the fair value that is attributable to changes in the credit risk is EUR –6,501 thousand in financial year 2008 (2007: EUR –686 thousand), since the designation the cumulated change amounts to EUR –6,708 thousand (2007: EUR 177 thousand). The solvency-induced fair value changes were estimated by calculating differences, comparing the fair value based on the credit rating spreads at the end of the reporting period to that at the beginning of the reporting period.

Fair value changes to financial liabilities accounted for at fair value and resulting from the change in own credit spread or the increase in liquidity spread, came to EUR 84,510 thousand in the 2008 financial year (2007: EUR 0 thousand). Positive value changes arising from own third-party liabilities and requiring recognition in the income statement, came to EUR 63,809 thousand in total in the 2008 financial year (2007: EUR 0 thousand).

There is a difference of EUR 162,710 thousand (2007: EUR 86,922 thousand) between the carrying amount of the financial liabilities accounted for at fair value and the repayment amount at maturity.

(96) Fair value information

The fair value is the amount at which an asset could change hands if knowledgeable and independent parties, each willing to conclude a contract, decided to conclude a transaction.

The following compares the carrying amounts with the fair values of the reported financial instruments.

EUR '000

	31.12.2008			31.12.2007		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	4,483,271	4,483,271	0	3,932,772	3,932,772	0
Loans and advances to customers	30,612,035	30,566,667	45,368	25,632,992	25,650,736	–17,744
Financial investments – held to maturity	41,971	41,940	30	41,314	42,570	–1,256
Other financial investments (investment properties)	1,199,526	1,134,960	64,566	1,003,188	960,064	43,125
Total	**36,336,803**	**36,226,838**	**109,965**	**30,610,266**	**30,586,141**	**24,125**
Liabilities						
Liabilities to credit institutions	7,295,056	7,287,995	7,060	4,458,765	4,456,962	1,803
Liabilities to customers	8,731,017	8,716,894	14,123	8,469,504	8,473,574	–4,070
Liabilities evidenced by certificates	21,514,354	21,415,340	99,014	20,282,914	20,282,581	334
Subordinated capital	1,600,138	1,590,448	9,691	1,131,325	1,126,599	4,726
Total	**39,140,565**	**39,010,677**	**129,888**	**34,342,509**	**34,339,715**	**2,794**

Where available, quotations or prices on other representative markets (Reuters, Bloomberg, etc.) for the corresponding financial instruments were used for valuation purposes. The fair value of financial instruments not listed on the stock exchange was determined according to generally accepted valuation models applying market-based assumptions, especially by means of cash value models. The fair values of investment properties were determined on the basis of external and internal valuation opinions and in most cases revised by an internal committee of experts.

For loans and advances, there is generally no active market. Therefore, a valuation of the loans and advances with variable interest rate is required. As the carrying amount of the loans and advances already takes into account market changes within the meaning of market interest rate changes, the difference between the carrying amount and the fair value is not substantial, and the fair values were not estimated separately.

Within the scope of hedge accounting, Hypo Group Alpe Adria uses only fair value hedges to hedge the market values of financial instruments. Loans and advances hedged according to IAS 39 are reported in the balance sheet in accordance with the hedged fair value, i. e. the carrying amount plus the change of the market value assignable to the hedged part of the loan. The hedge is to minimize above all the market value risk caused by interest rate changes. With regard to change-of-interest-rate risk hedging, no separate calculation of the fair value was carried out.

As the carrying amount of unhedged fixed-interest loans and advances according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method. For this purpose, Hypo Group Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

Supplementary Information

(97) Derivative financial instruments

As of the balance sheet date, the following business had not been transacted yet:

EUR '000

	31.12.2008			31.12.2007		
	Nominal amounts	Fair values Positive	Fair values Negative	Nominal amounts	Fair values Positive	Fair values Negative
a) Interest-related business						
OTC products:						
Interest rate swaps	17,466,667	673,563	236,329	16,886,978	299,705	469,159
Forward rate agreements (FRAs)	0	0	0	166,077	0	153
Interest options	0	0	0	10,000	0	0
Caps, floors	3,833	57	0	5,000	101	0
Other interest derivatives	54,000	17	2,615	48,723	2,469	2,281
b) Currency-related business						
Exchange traded products:						
Foreign exchange futures	23,078	8,283	0	151,847	329	335
OTC products:						
Currency swaps	1,710,347	77,213	200,846	2,793,452	50,931	58,239
Cross currency swaps	2,303,951	46,247	10,295	1,888,348	3,479	8,815
Forward exchange contracts – purchase contracts	533,479	8,383	8,105	292,407	1,672	945
Forward exchange contracts – sales contracts	423,417	26,733	11,127	189,606	161	2,975
Currency swaptions	233,017	7,528	380	132,903	514	484
c) Transactions linked to share prices & other indices						
Exchange traded products:						
Share / indices linked options	0	0	0	54,259	2,863	4,414
d) Credit linked derivatives						
OTC products:						
Credit default swaps	35,000	34	4,376	104,632	49	796
Total return swaps	0	0	0	254,000	10,186	0

Most derivative transactions serve the purpose of hedging interest rate, foreign currency rate or market price fluctuations. In most cases, micro-hedges were relied upon to hedge individual transactions on the assets and liabilities side directly. With regard to the statement and assessment of the derivatives, reference is made to note (7) and (8).

(98) Related party disclosures

The business relations with related parties as of the cut-off date are disclosed for the balance sheet as follows:

EUR '000

Balance as of 31.12.2008	Parent company	Companies with substantial influence	Affiliated companies	Associated companies	Joint Ventures	Key management personnel
Total assets	**1,527,090**	**33,136**	**133,208**	**280,517**	**52,413**	**3,506**
Loans and advances to credit institutions	1,527,090	16,259	0	1,175	0	0
Loans and advances to customers	0	0	164,251	330,519	55,383	3,506
Risk provisions	0	0	−32,263	−51,200	−2,976	0
Other assets	0	16,877	1,220	23	6	0
Total liabilities	**3,449,017**	**51,921**	**5,648**	**63,710**	**12**	**4,336**
Liabilities to credit institutions	3,134,591	16,303	0	60,365	0	0
Liabilities to customers	0	16,717	5,231	3,345	12	4,326
Other financial liabilities	0	18,900	0	0	0	10
Subordinated capital	314,426	0	416	0	0	0

EUR '000

Balance as of 31.12.2007	Parent company	Companies with substantial influence	Affiliated companies	Associated companies	Joint Ventures	Key management personnel
Total assets	**15,076**	**34,069**	**103,664**	**208,634**	**100,154**	**4,916**
Loans and advances to credit institutions	15,066	17,192	0	17,865	0	0
Loans and advances to customers	0	0	129,698	215,740	102,309	4,916
Risk provisions	0	0	−26,101	−25,000	−2,161	0
Other assets	10	16,877	68	30	5	0
Total liabilities	**169,844**	**75,169**	**13,534**	**203,150**	**14**	**2,217**
Liabilities to credit institutions	169,844	17,576	0	196,746	0	0
Liabilities to customers	0	44,364	13,529	6,404	14	2,217
Other financial liabilities	0	13,229	5	0	0	0

Since 9 October 2007 (closing date), Bayerische Landesbank (BayernLB) has had a controlling influence over Hypo Group Alpe Adria. Consequently, business relations with the companies of the BayernLB Group are reported as transactions with the parent company.

Companies with substantial influence in 2008 and 2007 are BVG Beteiligungs- und Verwaltungsgesellschaft mbH (from November 2008 onwards; prior to this, Hypo-Bank Burgenland AG. Both are companies of Grazer Wechselseitige Versicherungs AG), Kärntner Landes- und Hypothekenbank-Holding, Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation) as well as in 2007 Berlin & Co Capital S.à.r.l.

Supplementary Information

Following the completion of closing on the acquisition of a majority holding in Hypo Alpe-Adria-Bank International AG by Bayerische Landesbank (BayernLB), business relations between Hypo Group Alpe Adria and its main shareholder were significantly extended in the 2008 financial year. Particularly when it came to the refinancing of Group activities, the Group drew on BayernLB's sources of funding, resulting in an increase in liabilities to banks (holding companies) from EUR 170 m (as at 31 December 2007) to EUR 3,135 m (as at 31 December 2008). Additionally, BayernLB subscribed to EUR 300 m of supplementary capital in accordance with section 23 (7) BWG (Austrian Banking Act) in June 2008, issued by Hypo Alpe-Adria-Bank International AG within the framework of a public placement. This subscription, denominated in EUR, has a term of 8 years and a variable interest model (the 12-month EURIBOR rate plus 400 basis points).

The Province of Carinthia is guarantor for certain commitments of Hypo Alpe-Adria Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) entered into prior to 1 April 2007. In return for the statutory guarantee and with respect to the commitments covered by it, the Province of Carinthia is paid a guarantee commission in an amount of 1 per mille (10 basis points) p. a. of the outstanding amount. In the years 2004 and 2005, the Province of Carinthia was paid guarantee commission advances for the periods 2004 to 2007 and 2005 to 2010 respectively, namely EUR 50,904 thousand in total, the relevant amounts having been estimated on discounted basis applying the then applicable interest curves. As of 31 December 2008, the amount of the capitalised advance payments was EUR 13,854 thousand (2007: EUR 16,877 thousand) and is shown in the balance sheet in the item other assets. The item loans and advances to companies with substantial influence, totalling EUR 17,040 thousand (2007: EUR 13,229 thousand), related to the payment to the Province of Carinthia from the annual settlement for guarantor's liability, which is liable for payment on 31 January of the year following at the latest.

Affiliated companies are understood to be those direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG that are not consolidated in the consolidated financial statements because their importance is negligible. Key management personnel are defined as Executive Board members of subsidiary banks and the Executive Board members of significant leasing companies as well as the division managers of Hypo Alpe-Adria-Bank International AG.

Additions to risk provisions on loans to affiliated but not consolidated subsidiaries requiring recognition in the income statement come to EUR –5,912 thousand in the 2008 financial year (2007: EUR –3,371 thousand). Expenses associated with the risk provision on loans to associated companies come to EUR –23,250 thousand in the 2008 financial year (2007: EUR 25,000 thousand).

Loans and advances to companies accounted for at equity are shown in the following table in loans and advances to associated companies and joint ventures.

The relationships to members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (105).

(99) Participation capital

Once resolutions had been passed by the appropriate committees, the Executive Board availed itself of the government-sponsored package of measures (BGBl I 136/2008) in December 2008 and issued participation capital.

In accordance with the principle agreement in principle with the Federal Republic of Austria dated 29 December 2008 on subscription to investment capital, the conditions attached to the principle agreement and the subscription agreement, the Federal Republic subscribed to 18,000 participation certificates, each with a nominal value of EUR 50,000.00, resulting in a total participation capital of EUR 900,000 thousand.

The Federal Republic is entitled to apply Section 102 BWG and to convert all participation certificates held into ordinary shares at a conversion price to be agreed in accordance with the conditions attached to the participation capital issue.

The owners of the participation capital are entitled to a share of profits of 8.0 % p. a., which will rise to 8.5 % or 9.0 % p. a. in the 6th and 7th year, and to 9.75 % and 10.75 % p. a. for the 8th and 9th year respectively. This dividend payment is limited at a rate equivalent to the 12-month EURIBOR rate plus 10.0 % p. a. The existence of sufficient retained profit in the financial statements of Hypo Alpe-Adria-Bank International AG prepared in accordance with the UGB/BWG is considered as a necessary condition for the payment of dividends.

In the event of reimbursement of the issued participation capital, the repayment value is measured at 110 % of nominal value (for apportionment from the 10th year onwards 150 %) provided that this increase of 10 % (50 % from the 10th year) is covered by a corresponding increase in the company value of Hypo Group Alpe Adria.

The participation capital of EUR 900,000 thousand is shown in both the separate annual financial statement and the consolidated financial statements of Hypo Alpe-Adria-Bank International AG under the item Subscribed capital.

Dividends paid on the participation capital will be shown as appropriation of net income.

(100) Statutory guarantee

The guarantee of the Province of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and the Hypo Alpe-Adria Bank AG (Austria) is a statutory guarantee pursuant to Section 1356 of the Austrian Civil Code.

The European Commission considered that the original guarantee of the Province, which had been unlimited with regard to its term of validity and/or amount, constituted a governmental subsidy within the meaning of Article 88 of the ECC. Consequently, the Carinthian State Holding Law (K-LHG) had to be amended. At present, the Province of Carinthia continues to act as the guarantor for the commitments of the two domestic issuers entered into prior to 3 April 2003. With regard to these commitments, the statutory guarantee according to Section 1356 of the Civil Code is still extended without any restriction.

For commitments entered into by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) from 3 April 2003 until 1 April 2007, the Province of Carinthia provides a statutory guarantee to the extent that the term of the commitment does not exceed 30 September 2017. The Province does not offer any guarantee for liabilities entered into after 1 April 2007.

Supplementary Information

(101) Own capital funds according to the Banking Act

The group's own capital funds were determined according to the provisions of the Austrian Banking Act (BWG). They are composed as follows:

EUR '000

	31.12.2008 BASEL II	31.12.2007 BASEL I
Core capital (TIER 1)	**2,746,534**	**1,769,361**
Paid-in capital	962,474	48,367
Reserves (incl. minority interests in equity as well as hybrid capital)	1,627,844	1,753,659
Funds for general banking risks	200,700	700
Intangible assets	-44,484	-33,365
Supplementary elements (TIER 2)	**1,429,980**	**1,106,653**
Supplementary capital	493,205	203,179
Revaluation reserve for real estate (weighted with 45 %)	30,712	18,793
Subordinated liabilities	906,063	884,681
Deductions persuant to Section 23 (13) of the Banking Act	**-23,271**	**-39,696**
TIER 3 (reclassified TIER 2 capital)	**20,000**	**35,900**
Own capital funds acc. to BWG	**4,173,243**	**2,872,218**
Own capital funds requirements acc. to BWG	**2,796,800**	**2,295,630**
Surplus capital	**1,376,443**	**576,588**
Coverage	149.2 %	125.1 %

EUR '000

	31.12.2008 BASEL II	31.12.2007 BASEL I
Risk-weighted assessment basis pursuant to Section 22 of the Banking Act (banking book)	**32,831,625**	**28,246,620**
thereof 8 % capital requirement	2,626,530	2,259,730
Capital requirement pursuant to Section 22b of the Banking Act (securities trading book)	4,660	104
Capital requirement pursuant to Section 26 of the Banking Act (open foreign exchange position)	30,135	35,796
Capital requirement pursuant to operational risk	135,475	–
Total own capital funds requirement	**2,796,800**	**2,295,630**

EUR '000

	31.12.2008 BASEL II	31.12.2007 BASEL I
Assessment basis banking book (risk-weighted):	**32,831,625**	**28,246,620**
Core capital ratio (TIER 1 ratio)	8.3 %	6.3 %
Own capital funds ratio	12.7 %	10.2 %
Assessment basis incl. market risk:	**34,960,000**	**28,695,370**
Core capital ratio (TIER 1 ratio)	7.8 %	6.2 %
Own capital funds ratio (solvency ratio)	11.9 %	10.0 %

In the financial year under review 2008 Hypo Group Alpe Adria was in compliance with the minimum capital requirements according to the Austrian Banking Act.

(102) Important law cases

In the “DAB proceedings”, which were explained in some detail last year’s annual report and which arose out of the acquisition of Slavonska banka d.d. Osijek (SBO), the London Court of International Arbitration (LCIA) in December 2007 in the final instance found in favour of the plaintiff, Hypo Alpe-Adria-Bank International AG, and against the Croatian State Agency for Deposit Insurance and Bank Rehabilitation (DAB).

Negotiations took place with the Republic of Croatia throughout 2008 with a view to reaching a consensus agreement acceptable to both sides; and agreement was reached in December 2008. The effect of this agreement on the claim against DAB, which was capitalised in the 2007 financial year, was recognised in the 2008 financial year with a charge of EUR –9 m against the item other operating result.

(103) Employees

The number of employees at closing date (headcount) and as an annual average (in full-time equivalents) amounted to:

	31.12.2008	31.12.2007
Employees at closing date	**8,114**	**7,447**
thereof in Austria	1,328	1,272
thereof abroad	6,786	6,175
Employees average	**7,867**	**7,135**
thereof in Austria	1,332	1,168
thereof abroad	6,535	5,967

Without apprentices and employees on unpaid leave

(104) Severance pay, pension payments

The outlay of the parent company for severance pay and pension payments in 2008 is indicated in the following table:

EUR ’000

	2008	2007
Senior employees	109	52
Other employees	255	695
Total	**364**	**747**

(105) Relationship with members of management bodies

(105.1) Advances, loans and guarantees in respect of members of management bodies

At balance sheet date, the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG had not received any advances, loans and guarantees from this bank.

The account relationships between the management bodies of the Austrian Group holding company and Hypo Alpe-Adria Bank AG (Austria) are common. As of 31 December 2008, the loans and advances to Members of the Executive Board came to EUR 82 thousand (2007: EUR 283 thousand), and to members of the Supervisory Board to EUR 57 thousand (2007: EUR 426 thousand). The liabilities to members of the Executive Board amounted to EUR 638 thousand (2007: EUR 404 thousand), and to members of the Supervisory Board to EUR 326 thousand (2007: EUR 371 thousand).

Apart from this, one member of the Executive Board has a finance lease contract with a Group leasing company, which shows an amount of EUR 14 thousand outstanding as at 31 December 2008 (2007: EUR 101 thousand, relating to two members of the Executive Board).

(105.2) List of the emoluments of members of corporate bodies of the parent company

The compensations of the members of the Executive Board respectively Supervisory Board of Hypo Alpe-Adria-Bank International AG received in their capacities from the latter or from another group company are as follows:

EUR '000

	2008	2007
Executive Board	3,471	2,562
Supervisory Board	125	369
Remuneration of former members of the Executive and Supervisory Board and their surviving dependants	442	617
Total	**4,038**	**3,548**

The remuneration for 2008 contains variable elements totalling EUR 778 thousand which were paid out during the course of the year but which are being reclaimed by Hypo Alpe-Adria-Bank International AG because of agreements with the Republic of Austria in connection with the issuance of participation capital. The repayment claim relating to this is shown under Other assets.

The members of the Executive Board and Supervisory Board acting in this capacity during the year under review are stated in note (106).

(106) Management bodies 1 January to 31 December 2008

Supervisory Board

Chairman:
Werner SCHMIDT, Munich, until 1 March 2008
Michael KEMMER, Munich, since 30 April 2008
(member of the Supervisory Board from 18 March 2008 to 30 April 2008)

1st Deputy Chairman:
Othmar EDERER, Graz

2nd Deputy Chairman:
Hans-Jörg MEGYMOREZ, Klagenfurt-Wölfnitz

Members:
Kurt FALTLHAUSER, Munich, until 30 April 2008
Siegfried GRIGG, Graz
Rudolf HANISCH, Munich
Siegfried NASER, Munich
Ralph SCHMIDT, Munich, since 30 April 2008
Klaus WEIGERT, Munich, since 30 April 2008
Gert XANDER, Klagenfurt, until 18 March 2008

Appointed by the Works Council:
Erich CLIMA, Chairman, Klagenfurt
Edith ENENGEL, Klagenfurt
Markus RUSSLING, Klagenfurt
Mario ZOLLE, Klagenfurt

Federal Supervisory Authorities

State commissioner:
Angelika SCHLÖGEL, Vienna

Deputy state commissioner:
Monika HUTTER, Vienna

Province – Supervisory function

Jörg HAIDER, Governor of the Province of Carinthia, Klagenfurt, until 11 October 2008
Harald DOBERNIG, Provincial Minister, Maria Saal, since 12 October 2008
Horst FELSNER, Klagenfurt

Trustee:
Herbert PÖTZ, Judge of the Provincial Court, Klagenfurt

Deputy trustee:
Helmut ARBEITER, Judge of the Provincial Court, Klagenfurt

Executive Board

Tilo BERLIN, Chairman of the Executive Board, Maria Saal
Andreas DÖRHÖFER, Member of the Executive Board, Erding, since 1 May 2008
Josef KIRCHER, Member of the Executive Board, Liebenfels, until 31 May 2008
Paul A. KOCHER, Member of the Executive Board, Vienna
Thomas MORGL, Member of the Executive Board, Viktring, until 31 December 2008
Wolfgang PETER, Member of the Executive Board, Breitenbrunn
Božidar ŠPAN, Member of the Executive Board, Ljubljana, since 1 June 2008

Supplementary Information

(107) Material subsidiaries as of 31 December 2008

Hypo Alpe-Adria-Bank International AG

- HYPO ALPE-ADRIA-BANK AG Klagenfurt
- HYPO ALPE-ADRIA-BANK S.P.A. Udine
- HYPO ALPE-ADRIA-BANK d.d. Ljubljana
- HYPO ALPE-ADRIA-BANK d.d. Zagreb
- Slavonska banka d.d. Osijek
- HYPO ALPE-ADRIA-BANK A.D. Banja Luka
- HYPO ALPE-ADRIA-BANK d.d. Mostar
- HYPO ALPE-ADRIA-BANK AD. Belgrade
- HYPO ALPE-ADRIA-BANK A.D. Podgorica
- HYPO Vermögensverwaltung GmbH Klagenfurt
  - HYPO ALPE-ADRIA-LEASING HOLDING AG Klagenfurt (100 %*))
    - HYPO ALPE-ADRIA-LEASING Gmbh Klagenfurt
    - HYPO ALPE-ADRIA-LEASING S.r.l. Udine
    - HYPO LEASING d.o.o. Ljubljana
    - HYPO-LEASING KROATIEN d.o.o. Zagreb
    - HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo
    - HYPO ALPE-ADRIA-LEASING DOO Belgrade
    - HYPO ALPE-ADRIA-LEASING D.O.O. Podgorica
    - HYPO ALPE-ADRIA-LEASING GmbH Munich
    - HYPO ALPE-ADRIA-LEASING EOOD Sofia
    - HYPO ALPE-ADRIA-LEASING Zrt. Budapest
    - HYPO ALPE-ADRIA-LEASING DOOEL Skopje
    - HYPO ALPE-ADRIA-RENT DOO Belgrade
    - HYPO ALPE-ADRIA-LEASING TOV Kiev
    - HYPO ULAGANJA d.o.o. Zagreb
  - HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH Klagenfurt
- Hypo Alpe-Adria-Immobilien AG Klagenfurt
  - HYPO Facility Services GmbH Klagenfurt **)
- HYPO Facility Services GmbH Klagenfurt **)
- KÄRNTNER HOLDING BETEILIGUNGS-AG Klagenfurt
- Hypo Alpe Adria IT Holding GmbH Klagenfurt
- Hypo Group Netherlands Holding B.V. Amsterdam

*) 100 % of voting rights; 75.24 % directly or indirectly owned by the Group. Remaining interest: non-voting preference shares

**) 70 % owned by AAI; 15 % each owned by the two Austrian group banks

(108) Scope of consolidation as of 31 December 2008

The consolidated financial statements according to IFRS as per 31 December 2008 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG according to the full consolidation method:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	100 %	100 %	31.12.2008	KI
Hypo 111	Klagenfurt	98.540 %	98.540 %	31.12.2008	*)
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
MAGUS d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
ALPE ADRIA CENTAR d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100 %	100 %	31.12.2008	FI
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	100 %	100 %	31.12.2008	FI
PROJEKT NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
Slavonska banka d.d. Osijek	Osijek	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK d.d.	Mostar	99.998 %	99.998 %	31.12.2008	KI
HYPO-ALPE-ADRIA-INVEST d.o.o.	Mostar	100 %	99.998 %	31.12.2008	FI
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice d.o.o.	Sarajevo	100 %	99.998 %	31.12.2008	WP
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	99.600 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	99.912 %	99.912 %	31.12.2008	KI
BROKERSKO-DILERSKO DRUŠTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	100 %	99.768 %	31.12.2008	WP
HYPO INVESTMENTS a.d. Beograd	Belgrade	100.00 %	99.910 %	31.12.2008	FI
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Belgrade	100.00 %	99.910 %	31.12.2008	FI
Hypo Alpe-Adria Jersey Ltd.	St.Helier	100 %	100 %	31.12.2008	FI
Hypo Alpe-Adria (Jersey) II Ltd.	St.Helier	100 %	100 %	31.12.2008	FI
HBInt. Credit Management Limited	St.Helier	51 %	51 %	31.12.2008	FI
Carinthia I Limited	St.Helier	100 %	51 %	31.12.2008	FI
Carinthia II Limited	St.Helier	100 %	51 %	31.12.2008	FI
NORICA INVESTMENTS LIMITED	St.Helier	51 %	51 %	31.12.2008	FI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.72 %	99.930 %	31.12.2008	KI
Hypo Group Netherland Holding B.V.	Amsterdam	100 %	100 %	31.12.2008	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100 %	100 %	31.12.2008	FI
Hypo Group Netherlands Finance B.V.	Amsterdam	100 %	100 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING HOLDING AG	Klagenfurt	68.25 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	100 %	75.24 %	31.12.2008	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	100 %	75.26 %	31.12.2008	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt	100 %	75.26 %	31.12.2008	FI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	100 %	75.51 %	31.12.2008	FI
HYPO Wohnbau GmbH	Klagenfurt	100 %	75.49 %	31.12.2008	FI

[1] Type (according to the Banking Act): KI: Banking HI: Services SU: Other FI: Financial services WP: Investment firm *) funds

Supplementary Information

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	100 %	75.49 %	31.12.2008	FI
HYPO Projektentwicklungs GmbH	Klagenfurt	100 %	75.24 %	31.12.2008	HI
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	100 %	75.24 %	31.12.2008	FI
HYPO LEASING d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	FI
HYPO CENTER – 3 d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
MM SIGMA d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
NAGELE NEPREMICNINE d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
HYPO CENTER – 2 d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
HYPO PC d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
S.P.C. 03 d.o.o.	Ljubljana	67 %	50.41 %	31.12.2008	SU
HYPO DVA d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
MM THETA d.o.o	Ljubljana	100 %	75.24 %	31.12.2008	SU
MM ZETA d.o.o	Ljubljana	100 %	75.24 %	31.12.2008	SU
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	FI
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	HI
JADRAN JAHTE d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	FI
ALFA CAR PROJEKT d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
NIVA GRADNJA d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
BETA NEKRETNINE d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING D.O.O. – PODGORICA	Podgorica	100 %	75.24 %	31.12.2008	FI
HYPO HOUSE D.O.O. – PODGORICA	Podgorica	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100 %	75.24 %	31.12.2008	SU
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	100 %	75.24 %	31.12.2008	HI
HYPO ALPE-ADRIA-LEASING GmbH	Munich	100 %	75.24 %	31.12.2008	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	100 %	75.24 %	31.12.2008	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	100 %	75.24 %	31.12.2008	FI
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100 %	75.24 %	31.12.2008	FI
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6 %	5 %	31.12.2008	FI
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100 %	75.24 %	31.12.2008	FI
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	0 % (VR 51 %)	0 % (VR 51 %)	31.12.2008	FI
HYPO Alpe-Adria Leasing Zrt.	Budapest	100 %	75.24 %	31.12.2008	FI
HYPO Alpe-Adria Leasing Kft.	Budapest	100 %	75.24 %	31.12.2008	FI
HYPO INGATLAN Kft.	Budapest	100 %	75.24 %	31.12.2008	SU
ORGOVANYI IMMO Ingatlanforgalmazo Kft.	Budapest	100 %	75.24 %	31.12.2008	SU
HYPO ALPE-ADRIA-LEASING EOOD	Sofia	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING DOOEL	Skopje	100 %	75.24 %	31.12.2008	FI
HYPERIUM DOOEL Skopje	Skopje	100 %	75.24 %	31.12.2008	SU

[1] Type (according to the Banking Act): KI: Banking HI: Services SU: Other FI: Financial services WP: Investment firm

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type 1)
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	SU
HYPO TC-BB DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	SU
HYPO KASINA DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	SU
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100 %	75.24 %	31.12.2008	FI
HYPO ULAGANJA d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
HYPO Consultants Holding GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO Alpe-Adria-Consultants Aktiengesellschaft in Liquidation	Schaan	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-CONSULTANTS S.R.L.	Udine	100 %	100 %	31.12.2008	HI
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	99.27 %	99.27 %	31.12.2008	HI
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	100 %	100 %	31.12.2008	HI
SINGULUS d.o.o.	Umag	100 %	100 %	31.12.2008	SU
HILLTOP Holding Anstalt	Vaduz	100 %	100 %	31.12.2008	SU
PIPER d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
D.S. car d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
ALUFLEXPACK d.o.o.	Zadar	82.31 %	82.31 %	31.12.2008	SU
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100 %	100 %	31.12.2008	HI
Schlosshotel Velden GmbH	Klagenfurt	100 %	100 %	31.12.2008	SU
Schloss Velden Appartementerrichtungs GmbH	Klagenfurt	100 %	100 %	31.12.2008	SU
Lamplhof Betriebs GmbH	Klagenfurt	95 %	95 %	31.12.2008	SU
TRP Projektentwicklungs GmbH	Klagenfurt	98 %	100 %	31.12.2008	SU
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.2008	HI
CASTELLUM d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
HYPO Facility Services GmbH	Klagenfurt	70 %	100 %	31.12.2008	HI
Alpe-Adria Investments d.o.o.	Zagreb	100 %	100 %	31.12.2008	HI
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
ZAJEDNICKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	100 %	100 %	31.12.2008	HI
ZAJEDNICKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100 %	100 %	31.12.2008	HI
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.2008	HI
WS Liegenschaftsverwaltungs GmbH	Klagenfurt	100 %	100 %	31.12.2008	SU

1) Type (according to the Banking Act): KI: Banking HI: Services SU: Other FI: Financial services WP: Investment firm

Supplementary Information

The following companies are included with their respective financial statements as per 31 December 2008 in the consolidated financial statements using the equity method:

EUR '000

Company	Seat	Ownership interest direct in %	Ownership interest indirect in %	Carrying amount of the participation as of 31.12.2008	Profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.50 %	29.52 %	3,470	103
DOSOR d.o.o.	Radenci	50.00 %	37.62 %	589	−210
HYPO-BA Leasing Süd GmbH	Klagenfurt	50.00 %	37.63 %	1,301	664
Pramollo S.p.A.	Udine	47.56 %	60.69 %	0	−21
REZIDENCIJA SKIPER d.o.o.*)	Umag	25.00 %	25.00 %	0	−1,086

*) The current results of Rezidencija Skiper d.o.o. are not recorded any more. As of 31 December 2008, the aliquot share in the (negative) equity of the company amounted to EUR −2.915 thousand (2007: EUR −1,856 thousand).

The 49 % interest in Alpe Adria Privatbank AG, Schaan, was included in the consolidation using the equity method of valuation, up until its classification in August 2008 as Assets held for disposal; and is therefore recognised according to the provisions of IFRS 5 in the balance sheet from this date onwards.

(109) Events after the balance sheet date

Dr. Tilo Berlin announced on 18 March 2009 that he will resign as Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG on 30 April 2009. The authority to appoint a successor lies with the Bank's Supervisory Board, which holds its next meeting on 23 April 2009.

Klagenfurt am Wörthersee, 24 March 2009
Hypo Alpe-Adria-Bank International AG

The Executive Board

Tilo Berlin

Božidar Špan   Paul A. Kocher

Wolfgang Peter   Andreas Dörhöfer

Statement of all Legal Representatives

"We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces."

Klagenfurt am Wörthersee, 24 March 2009
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Tilo Berlin

Božidar Špan

Paul A. Kocher

Wolfgang Peter

Andreas Dörhöfer

Auditors' Report

We have audited the accompanying consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG**, Klagenfurt am Wörthersee for the financial year from January 1, 2008 to December 31, 2008. These consolidated financial statements comprise the balance sheet as of December 31, 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2008 and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as well as for the preparation of the consolidated management report in accordance with the Austrian regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement and to state whether the management report for the Group is in accordance with the consolidated financial statements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. An audit involves procedures to obtain evidence about amounts and disclosures in the consolidated financial statements predominantly on a sample basis. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG** present fairly, in all material respects, the financial position of the Group as of December 31, 2008 and of its financial performance and its cash flows for the financial year from January 1, 2008 to December 31, 2008 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the Group. In our opinion, the consolidated management report for the Group is consistent with the consolidated financial statements.

Vienna, on 2 April 2009

Deloitte
Audit Wirtschaftsprüfungs GmbH

Thomas Becker Peter Bitzyk

Certified Public Accountants

The publication or transfer of the consolidated financial statements in a form different from the one we have audited is only permitted after our consent if in the course of doing so reference is made to our audit opinion or our audit.

Report of the Supervisory Board

In the financial year just ended, the Supervisory Board advised the Executive Board on the management of the Company and regularly monitored the management of Hypo Alpe-Adria-Bank International AG. The Supervisory Board discharged in full its duties arising out of legal requirements as well as the Bank's articles of association.

The Executive Board made regular, timely and comprehensive reports (both written and oral) to the Supervisory Board on all important developments at Hypo Alpe-Adria-Bank International AG and its principal subsidiaries. The Supervisory Board kept itself informed of the Company's state of business and also its risk situation, and individual topics of current importance were discussed in detail with the Executive Board.

The Executive Board directly involved the Supervisory Board in all decisions of material importance for the Bank and submitted these decisions to the Supervisory Board for approval. The Supervisory Board checked all documents submitted for plausibility and asked for supplementary information on occasions, which was always supplied promptly and satisfactorily by the Executive Board, so that well-founded decisions could be taken.

Supervisory Board meetings

Four scheduled and one extraordinary Supervisory Board meetings took place in 2008.

The business of each meeting was to discuss the current developments in the business of the Bank and its principal subsidiaries, and to receive the reports on credit and market risk, as well as the report from Internal Audit. A main area of focus at the Supervisory Board meetings was on the effects of the financial crisis on the Group as well as on the significantly increased cost with regard to the credit risk.

In the meeting on 6 March 2008, the Executive Board explained the provisional figures for the 2007 financial year and referred to the more detailed discussions held at the 28 February 2008 Audit Committee meeting. Aside from the main meeting, which was held in Zagreb, local management made presentations to the Supervisory Board on the Group's Croatian banking and leasing activities.

In the meeting on 30 April 2008, the Supervisory Board examined and subsequently approved the financial statements and management report presented by the Executive Board. In accordance with the recommendation made by the Audit Committee, the Supervisory Board also confirmed the proposed distribution of profits. In the meeting preparations were also made for the shareholders' meeting held on the same day. The consolidated financial statements and management report for the Group were also examined and acknowledged by the Supervisory Board.

In the meeting on 11 September 2008, which took place at the banking subsidiary in Belgrade, the negative effects of the crisis in the financial markets were discussed and an amount of capital that would be required at year end 2008 as a result of the requirement for significantly higher credit risk provisions was signalled.

In the extraordinary meeting held on 12 November 2008 there was extensive discussion about the amount of increase in equity needed to equip the Bank with sufficient capital to compensate for the negative effects of the anticipated negative annual results. Also in this meeting, the necessary actions for increasing capital (and their sequence) were determined, and these were subsequently approved in the extraordinary meeting of shareholders on 11 December 2008.

In the meeting on 11 December 2008 preparations were made for the extraordinary meeting of shareholders, held on the same day, the subject of which was the approval of the capital increase as well as, on the Supervisory Board's suggestion, the appointment of an additional auditing company, PwC INTER-TREUHAND GmbH, Erdbergerstraße 200, A-1030 Vienna (FN 166237t) to audit the accounts in the 2009 financial year. Additionally, the offer of capital support in connection with the banking package offered to all domestic banks by the Republic of Austria was discussed in detail. The Executive Board reported that it planned to take up this package in the same month of December. The Supervisory Board examined closely the documentation to be submitted by the Bank to the Austrian Federal Ministry of Finance and the provisional contract provisions. The Supervisory Board subsequently voted unanimously, for the period 17–31 December 2008 in the event a Supervisory Board resolution was required in connection with the issuance of participation capital, to delegate its decision-making authority to the Chair: use was made of this arrangement when approval by way of circulation was given on 23 December 2008.

Committees

The Supervisory Board has six committees in total, composed of members of the Supervisory Board.

The Audit Committee met twice in the 2008 financial year. In both instances, those members of the Supervisory Board who are not ordinarily members of this committee also attended these meetings as non-voting members, in the interests of transparency.

In the meeting on 28 February 2008, the Executive Board outlined the provisional figures for the prior financial year 2007 and the auditors, Deloitte Wirtschaftsprüfungs GmbH, gave a detailed report on the status of the audit of the 2007 separate and consolidated financial statements.

In the meeting on 30 April 2008, the Audit Committee held the concluding discussion on the 2007 financial statements and consolidated financial statements and also received a report from the auditors on the main audit findings. The committee members also dealt with the selection of the Bank's auditors for the 2009 financial year, with Deloitte Wirtschaftsprüfungs GmbH subsequently being proposed to the Supervisory Board. When considering the selection, the committee assured itself of the independence of the auditing company and viewed evidence of fees as required by section 270 (1a) UGB and of adoption of a quality assurance system.

The Credit Committee met twenty-one times in total in the 2008 financial year. Apart from dealing with the issue of new credit, the committee discussed in detail significant individual commitments undertaken by the Bank with the Executive Board.

The Articles and By-Laws Committee met on 20 August 2008 to discuss in detail any modifications required to the articles of association for the Executive Board and to the articles of association for the Supervisory Board in conjunction with the implementation of the "Kreditprozess Neu" new credit process. The formal acceptance of these framework conditions was made in September 2008.

The Executive Board Committee held meetings on 28 February 2008 and on 30 April 2008. In the first meeting of the financial year, the committee dealt with the appointment of Andreas Dörhöfer, previously head of Risk Office Corporates and Financial Institutions at BayernLB, to the Executive Board as the Board member responsible for risk. In the 30 April 2008 meeting, the appointment of Božidar Špan, previously Chairman of the Executive Board for Hypo Alpe-Adria-Bank d.d., Slovenia, was discussed. In both cases, a positive recommendation was made to the Supervisory Board.

The Project Committee, again, did not need to convene in the 2008 financial year. In accordance with the new articles of association for the Supervisory Board which became operative in September 2008, this committee will no longer be part of the permanent committees.

A meeting of the Strategy Committee did not have to be called in the year, as strategic issues were discussed in detail with the Executive Board both in the Supervisory Board meetings as well as on other occasions.

Members

In the shareholders' meeting of 30 April 2008, Michael Kemmer, already a member of the Supervisory Board and the Chairman of the BayernLB Board of Management, was elected Chairman of the Supervisory Board of Hypo Alpe-Adria-Bank International AG. Werner Schmidt, who had been the Chairman up until that point, resigned from the Board on 1 March 2009. Board members Gert Xander and Kurt Faltlhauser resigned from the Supervisory Board on 18 March 2008 and 30 April 2008 respectively. The Supervisory Board would like to thank the members who have left the Board for the work they have done. Also, in the course of the shareholders' meeting of 30 April 2008, Ralph Schmidt was appointed a member of the Supervisory Board.

Changes to the membership of the Executive Board of Hypo Alpe-Adria-Bank International AG were as follows: Josef Kircher, responsible for Corporate and Leasing, resigned from the Bank as of 31 May 2008. Božidar Špan was named as his successor, and took up office on 1 June 2008. Thomas Morgl, who had been responsible for Retail, IT/Organisation and Settlement, resigned from the Executive Board of the Bank on 31 December 2008. His responsibilities have been transferred to the remaining members of the Executive Board.

Consolidated and separate financial statements for 2008

The financial statements for Hypo Alpe-Adria-Bank International AG were prepared in accordance with the provisions of the Austrian Banking Act (BWG) as well as – as far as applicable – the provisions of the Austrian Enterprise Code (UGB). The consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS).

The consolidated financial statements, the Group management report, the separate financial statements and management report for Hypo Alpe-Adria-Bank International AG, all as of 31 December 2008, were audited by Deloitte Wirtschaftsprüfungs GmbH (operating under the company name of Deloitte Audit Wirtschaftsprüfungs GmbH from 1 April 2009), Renngasse 1/Freyung, 1013 Vienna (FN 36059d) and granted an unqualified audit opinion.

The Audit Committee established that a sufficiently thorough audit of the separate financial statements of the Company and of the consolidated statements for the financial year 2008 could be carried out on the basis of the documentation made available. The auditors took part in both Audit Committee meetings held in 2009 to discuss the 2008 separate and consolidated financial statements and explained in detail their audit findings and answered the committee's questions.

The Audit Committee therefore recommended that the Supervisory Board approve the separate financial statements in accordance with section 125 (2) of the Austrian Stock Corporation Law (AktG), and to approve the consolidated financial statements; and to accept in both cases the outcome of the audit.

The Supervisory Board has reviewed the submitted separate financial statements and management report of the Executive Board, granted an unqualified audit opinion by the auditors, and assents to the audit results. The separate financial statements have been approved by the Supervisory Board, as set down by section 125 (2) of the Austrian Stock Corporation Law (AktG). The Supervisory Board has also examined the consolidated financial statements and Group management report for 2008 and accepts the recommendation of the Audit Committee.

On behalf of the Supervisory Board

Michael Kemmer

Michael Kemmer
Chairman of the Supervisory Board

Klagenfurt am Wörthersee, 23 April 2009

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