HYPO ALPE ADRIA
SUPPORTIVE. FRIENDLY. FAIR.

Group Annual Report 2011

Hypo Alpe Adria

Key data based on the consolidated financial statements drawn up in accordance with IFRS

Hypo Alpe-Adria-Bank International AG (Group) EUR m

	2011	2010 *	2009
Income statement	**1.1.-31.12.**	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	753.3	881.9	869.0
Net fee and commission income	73.1	107.9	121.2
Risk provisions for loans and advances	-229.8	-1,213.5	-1,672.3
Operating expenses (administrative expenses)	-576.9	-594.0	-541.5
Operating result - prior to risk provisions for loans and advances	323.7	202.9	292.0
Operating result - after risk provisions for loans and advances	93.9	-1,010.6	-1,380.3
Result before tax	94.8	-1,008.5	-1,394.6
Result after tax	69.3	-1,079.0	-1,550.6
Consolidated result (attributable to equity holders of parent)	59.1	-1,085.3	-1,581.0
Statement of financial position	**31.12.**	**31.12.**	**31.12.**
Loans and advances to customers	26,722.4	28,217.5	30,116.6
Liabilities to customers	8,201.1	8,120.4	7,649.8
Debt securities in issue and subordinated capital	18,303.0	21,329.6	21,968.1
Equity (including non-controlling interests)	1,413.3	1,421.3	1,990.1
Total assets	35,132.5	38,746.1	41,078.7
Risk-weighted assets (banking book)	23,111.0	24,611.1	27,907.9
Key figures	**1.1.-31.12.**	**1.1.-31.12.**	**1.1.-31.12.**
Cost/income ratio	64.1%	74.5%	49.0%
Net interest income/Ø risk-weighted assets (banking book)	3.1%	3.3%	2.6%
Risk/earnings ratio	30.5%	137.6%	89.6%
Risk/Ø risk-weighted assets (banking book)	1.0%	4.5%	2.3%
Bank-specific figures	**31.12.**	**31.12.**	**31.12.**
Own capital funds according to BWG	2,498.7	2,777.5	2,999.8
Own capital funds requirement according to BWG	2,048.9	2,167.4	2,425.8
Surplus capital	449.8	610.1	574.0
Core capital (Tier 1)	1,602.8	1,794.7	2,018.4
Tier 1 ratio - banking book	6.9%	7.3%	7.2%
Tier 1 ratio - including market and operational risk	6.2%	6.6%	6.6%
Own capital funds ratio - total (solvency ratio)	9.8%	10.3%	9.9%
Moody's rating	**31.12.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	withdrawn	Baa3	Baa2
Long-term (liabilities covered by statutory guarantee)	A1	Aa3	Aa2
Short-term	withdrawn	P-3	P-2
Bank Financial Strength Rating (BFSR)	withdrawn	E	E
Employees and locations	**31.12.**	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent - FTE) **	7,690	7,624	7,546
Employees average (FTE) **	7,774	7,927	7,969
Number of locations	330	328	354

* Prior-year values adjusted – see note (8) Prior-year adjustments in the financial statements as at 31 December 2011.

** Reporting date figures for 2010 adjusted due to error correction. The methodology for calculating average employee numbers was adjusted in 2011; the figures are therefore only to a limited extent comparable.

Group Annual Report 2011

Letter from the Chairman of the Executive Board

Dear readers,
Dear tax-payers,
Dear customers and staff,

The financial statements for 2011 give an account of the first full calendar year in which the current Executive Board of Hypo Alpe-Adria-Bank International AG (HBInt.) has had responsibility for the bank's performance. The figures show that restructuring has continued along the path laid out for the group and that the central premises have been met in the interests of the bank, its customers and the Austrian taxpayer. At the same time it is clear that Hypo Alpe Adria is a nationalised bank in need of rationalisation, whose past still needs to be addressed in a detailed and time-intensive process.

As was the objective, no public guarantees were called on in 2011. Instead, these were reduced by more than EUR 3 bn, which was above plan. After three years of huge losses, the targeted near-break-even result was achieved, with a consolidated result of EUR 59.1 million. The financial result, which contained one-time effects, helped in this respect.

This pleasing result is due, above all, to the fact that Hypo Alpe Adria had, to a large extent, already made some of its most dramatic cuts and breaks with the past back in 2009 and 2010. The new management took up its responsibilities in spring 2010 with the task of analysing the beleaguered banking group, restructuring the organisation and implementing critically essential risk systems; by 2011 the focus could again be turned on the market and on operational issues.

In nearly every area, from the bank's governance through to addressing, in legal terms, the bank's recent history – a process which has dragged on for a long time and is now even more protracted – important actions which had not been carried out in the past needed to be made good and HBInt. needed to be given instruments to allow efficient and effective management and controlling. Once this was done, visible progress was made in the key areas of improving profitability, increasing the subsidiaries' own contributions to funding, stabilising the non-interest-bearing part of the credit portfolio, optimising the marketable parts of the group and making the wind-down activities more professional. These, along with a positive result for the group, are all reflected in an improved loan to deposit ratio and stabilised NPL position.

The continuing turbulence in the international financial markets, the debt crisis in the eurozone and the accompanying sharpening of requirements for the capital sector strengthened the resolve of the management team to push ahead on both the ongoing banking operations and on the reprivatisation and wind-down activities in a more focused way in preparation for an increasingly difficult market environment.

The situation above all in South-Eastern Europe became increasingly negative in 2011, against all the original forecasts. The markets were not in a position to compensate for the weak economy in Europe and began to stagnate – in some cases going into recession.

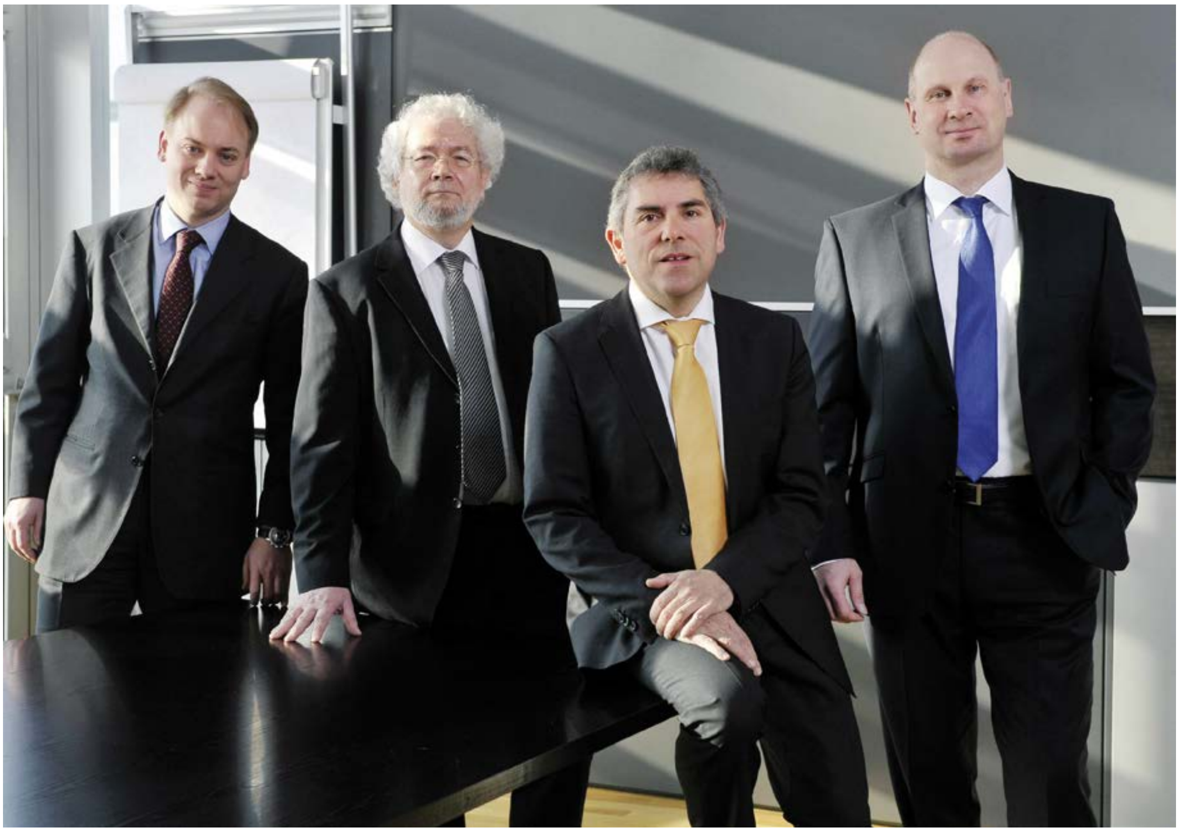
In this environment it was important for the strategic, core business in Austria, Italy and South-Eastern Europe to professionalise the activities of the units active on the market and to prepare for privatisation in the medium term by separating out those parts of the business standing in the way of a sale, and to create a concise structure for ongoing sales activities under difficult market conditions in the area of the wind-down businesses. The strengthening of the viability of the future core parts of Hypo Alpe Adria is consistent with the conditions imposed by the European Commission for a positive conclusion of the ongoing state-aid proceedings. At the same time, this positioning and restructuring of the group make the scenario of an exit by the current sole owner, the Republic of Austria, in the medium term at the best possible conditions more likely.

The bank is addressing the tightened capital resource requirements, the deadline for which has been extended until the end of 2012, by systematically continuing to reduce risk and improve the risk measurement systems. In addition to this, the path has been laid for structuring those core parts of Hypo Alpe Adria capable of succeeding and making a profit during 2012, such that they are ready and able to be sold. The next concrete steps towards reprivatisation for the banks in Austria and Italy and for the Austrian-managed network in SEE will then be taken when the market is again receptive to a sale and potential investors are able to pay appropriate prices for the existing and shortly to be created assets. Until that time, the main task in 2012 will be to demonstrate the long-term viability of the banks through continuing with the strategy reflected in the figures for 2011. A sustainable basis for this has been created in 2011 thanks to our 1.2 million customers and the commitment of our staff.

Yours faithfully

Gottwald Kranebitter
Chairman of the Executive Board

Members of the Executive Board



Members of the Executive Board of Hypo Alpe-Adria-Bank International AG, from left to right:
Johannes Proksch, Wolfgang Edelmüller, Gottwald Kranebitter, Rainer Sichert

Gottwald Kranebitter
Chairman of the Executive Board
Chief Executive Officer (CEO)
since 1 April 2010

Responsible for:
Group Audit, Group Legal, Group Compliance/Security & Forensics, Corporate Communications, Brand & Event Management, Group Human Resources, Strategic Group Development, Mergers & Acquisitions/Group Restructuring

Wolfgang Edelmüller
Deputy Chairman of the Executive Board
Chief Risk Officer (CRO)
since 19 April 2010

Responsible for:
Group Market Risk Control, Group Credit Risk Control, Group Credit Management, Group Credit Processing, Group Credit Rehabilitation, Group Task Force Rehabilitation, Risk Quality Assurance Team, Group Retail Risk Management

Johannes Proksch
Member of the Executive Board
Chief Financial Officer (CFO)
since 19 April 2010

Responsible for:
Group Accounting & Reporting, Group Financial Controlling, Group Balance Sheet Management & Treasury

Rainer Sichert
Member of the Executive Board
Chief Operations and Market Officer (COMO)
since 7 June 2010

Responsible for:
Group Retail Banking, Group Corporate & Public Finance, Group Leasing, Group Organisation/IT, Group Operations, Corporate Real Estate Management, Group Collection, Group Procurement

Group Management Report

1. General economic conditions

Although the global economy grew at a strong rate in the first part of the year 2011, the recovery was overshadowed by the re-emergence of the debt crisis in the second half of the year. Increasing worry about Greece becoming bankrupt and about the solvency of other eurozone economies such as Ireland, Portugal, Italy or Spain had a negative effect on investor and consumer confidence. On top of that, the downgrading of the USA by the rating agency Standard & Poor's, came as a blow in August. However, driven by continuingly high growth rates in China, India and other large emerging economies, the eurozone economy still managed to grow by 1.4% last year; the USA by 1.8%. However, inflation also grew in the eurozone economies, to 2.7%, which was more than the 2.0% targeted by the European Central Bank (ECB). Unemployment remained at 2010 levels, at 10.1%. The outlook for 2012 is not so optimistic at the moment. Economic output in the eurozone is forecast to shrink by 0.6%, and unemployment to rise to 11.2%, while inflation should go back down to 1.5%.

Development in the core markets of Hypo Alpe Adria was correspondingly variable, as are the forecasts for 2012. While the development of the Austrian economy, pulled along by the recovery in the German economy, was better than expected, our markets in South and South-Eastern Europe are still in a weak condition.

In 2011, as a result of dynamic growth in exports, the Austrian economy managed to grow by 3.1%. Thanks to strong growth in jobs, the average unemployment rate over the year sank from 4.4% (2010) to 4.2%. Rising oil and food prices led to a significant increase in inflation, however, to 3.6%. The economic outlook for 2012 is less optimistic. A deterioration in most key figures is expected. As a consequence of austerity measures and because of the debt crisis, the economy could even shrink by 0.2%, thus causing unemployment to rise significantly again, to 5.0%. The weakening of the economy should, however, lead to a slow-down in inflation, to 1.8%.

In the course of the European debt crisis, Italy also came more under the spotlight of the international financial markets. Real economic growth slowed to a modest 0.2% in 2011; unemployment sank nevertheless, to 8.2%. Inflation, at 2.9%, was more moderate than in Austria, if still above the ECB target. This year, in view of the strict budget consolidation strategy being followed by the new government, the economy is expected to shrink by 2.0%; unemployment is forecast to rise to 9.2%.

In Slovenia, economic growth in 2011, which was curbed by a sharp decrease in investment in construction projects and stagnating consumer demand, only amounted to 0.3%. In view of declining investment, gross domestic product (GDP) is expected to decline by 1.8%, which will lead to a rise in the unemployment rate to an estimated 9.8% (2011: 8.5%).

The situation is equally difficult in Croatia. GDP in real terms declined by 0.5% last year and is expected to shrink by a further 2.0% this year. Inflation, forecast to be at 1.5% in 2012, will remain under control; however, the unemployment rate could rise from 14.3% (2011) to 16.4% (2012). The positive result of the EU referendum and full EU membership from the middle of 2013 should provide some positive economic stimulus in the medium term.

Bosnia and Herzegovina and Serbia continue to battle with huge problems, not least because of declining inflows of finance from the eurozone and depressed consumer spending. GDP in both countries grew in 2011, by 1.0% and 1.8% respectively - but the horrendous unemployment rates grew even more, to 29.6% in Bosnia and Herzegovina and 23.0% in Serbia. The prospects for 2012 are no better. At the same time as a decline in economic output (by -1.8% in Bosnia and Herzegovina and -1.0% in Serbia), unemployment rates are expected to rise to 31.2% in Bosnia and Herzegovina and 24.5% in Serbia. Inflation should, however, go down to 1.9% (Bosnia and Herzegovina) and 7.8% (Serbia). Montenegro, which achieved economic growth of 2.5% in 2011, also continues to be confronted with a high rate of unemployment, at 19.5%, with no prospect of improvement.

In summary, it can be stated that Hypo Alpe Adria must be ready for a difficult year in its core markets in 2012.

(Source: Hypo Research Department)

2. Overview of Hypo Alpe Adria

2.1. Hypo Alpe Adria and its strategic focus

Hypo Alpe Adria is a financial group headquartered in Klagenfurt am Wörthersee. As at 31 December 2011 the group, which has some 320 locations, had operations principally in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro. Some 8,500 employees serve more than 1.2 million customers within this extensive Alps-to-Adriatic network.

Hypo Alpe Adria was founded in 1896 in Klagenfurt. Up until the 1980s, the institution focussed primarily on financing for the public sector, mainly in Carinthia. In the years that followed, the bank began its gradual expansion into the Alps-to-Adriatic region and Hypo Alpe Adria developed from a Carinthian regional bank into an international finance group.

As a consequence of an overheated and high-risk growth strategy, the bank experienced ever greater turmoil after 2007 and suffered heavy losses during the global financial crisis, with the result that the organisation had to be rescued through nationalisation at the end of 2009. The Republic of Austria has been the sole owner of Hypo Alpe Adria since December 2009.

As a consequence of the emergency nationalisation, the owner put in place a new senior management team in 2010, which is implementing a clear restructuring plan. The measures put in place in 2010 to realign the bank's strategy and operations have been successfully continued in 2011. The bank's strategy is based on a four-pillar model, with the Austria, Italy and South-Eastern Europe banking organisations and future non-strategic business units.

Reacting to the continuing crisis in European financial markets and the worsening economic forecasts, last year the bank increased its efforts to prepare its subsidiaries for reprivatisation. The sales process set in motion for the banks in Austria and Italy was consistent with the restructuring plan which has been presented to the European Commission.

Restructuring is in process in the subsidiaries in South-Eastern Europe. By rationalising the portfolios, changing over to self-funding and realigning the business model to target private customers as well as SMEs, the banks should become viable by their own efforts.

The future non-strategic business units represent a collection of the bank's assets which are to be disposed of in a process which preserves value and protects capital, so as to keep the costs borne by the tax-payer as a result of nationalisation to a minimum. They include both financial institutions which are no longer accepting any new business, such as the subsidiaries in Macedonia, Ukraine and Hungary; participations; and all assets which no longer count as the bank's core business.

2.2. Code of corporate governance

Hypo Alpe Adria considers the ACCG (Austrian Code of Corporate Governance) to be an important set of guidelines and its rules have a significant impact on the ongoing restructuring programme. Compliance with the internationally accepted standards for good corporate management and ethical behaviour, thereby promoting trust, is a key component of the group's realignment process.

2.3. Rating

Hypo Alpe Adria was previously rated by the international rating agency Moody's. The current refinancing plan is based on balanced capital requirements and provides for required funding to be managed by the group itself and without recourse to the capital market. The important factor here is also the bank's stable and robust liquidity situation. On the basis of these factors, therefore, the management decided in 2011 to stop the ratings for Hypo Alpe-Adria-Bank International AG (HBInt.) as the ultimate holding company of the group. At the time of stopping the rating process, on 25 November 2011, Moody's confirmed the investment grade was unchanged at Baa3 (negative outlook).

All state-guaranteed bonds and the "Pfandbrief" rating remain unaffected from the withdrawal from the ratings process and therefore remain unchanged.

Information on the withdrawal from the rating process and all the Moody's publications related to this can be found on the group's website (www.hypo-alpe-adria.com) in the Investor Relations area.

2.4. Optimisation of the organisational structure and strengthening of corporate governance

As part of the strategic realignment of Hypo Alpe Adria, a project to optimise the organisational structure in the subsidiaries was initiated in 2011 and has in many areas already been implemented. Apart from the objective of achieving standardisation across the group and of optimising the country organisations, the principal aim was also to establish an efficient controlling model in the sense of a powerful corporate governance model. Based on a functional concept appropriate to the group's requirements, the organisational structures of the subsidiaries were standardised, with clearly structured and differentiated interfaces, areas of responsibility and functions across the group and simpler and more transparent paths of communication within the group.

The project was divided into two phases. In phase I, the functional concepts were established by taking the divisions of responsibility at Executive Board level (CEO, CRO, CFO, COMO) as the basis and then transferring this over to all subsidiary banks in the core markets of Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro. The organisational principles were derived from this, allowing the creation of homogenous structural organisations within the core country markets.

In phase II the target structures were compared with the actual structures in the countries, the differences and efficiency potentials were identified and steps taken to bridge the gaps. Phases I and II were extended to apply the same methodology to businesses in the non-core countries.

Additionally the existing controlling model for the group was revised and embedded in a holistic framework which takes sufficient account of both the legal and management-oriented aspects of a corporate governance model. This involved clearly defining and establishing roles, rights and responsibilities as well as allocating duties to the categories management/monitoring, controlling/operational management and support for implementation.

In 2012 it is planned to finalise the project within the core business units and to complete the extension project for the business units in the non-core-project countries.

2.5. Uniform procurement process

With the project to create a new group-wide procurement organisation, Hypo Alpe Adria was able to introduce an efficient and viable purchasing organisation of the quality expected of international financial services organisations. The new process has ensured that objective criteria and assessments/valuations in line with the market are used when placing orders and that these are documented.

As part of introducing a new group-wide purchasing organisation in 2011, the structure and processes were examined and optimised.

An important element of the new process organisation is the eight-step procurement process, the implementation of which was mandatory throughout the Hypo Alpe Adria group by the end of 2011. Adhering to the process steps ensures that there is a high degree of competition, thereby allowing the best price-performance ratio to be obtained for the products/services required. Significant savings and improvements were already being obtained in 2011 as a result. The efforts being made in the restructuring of the group and the strategic realignment in accordance with the principle of "smaller, simpler, more market-oriented" also received external recognition. In October 2011 the reorganised Group Procurement division was awarded first place in the category "Supply excellence" at the ninth Austrian Supply Excellence Award 2011.

3. Significant events in 2011

The absolute priority in 2011 was to proceed systematically with the realignment and new strategic focus of the group on its core markets and core activities in South-Eastern Europe commenced in 2010. The complete realignment of the organisation necessary for a banking business with a sense of responsibility and working to the motto "smaller, simpler and more customer-oriented" has been completed in the main. The new market presence for the banks in the core markets is already bringing recognisable success in the lending, deposits and financial services businesses. Many significant measures were taken and preparations made in 2011 for the value-preserving sale or wind-down of business units, so as to achieve the target structure for non-core business in the medium term.

3.1. Positive group result

After the worst group result ever was recorded in the history of Hypo Alpe Adria in 2010, a turnaround was achieved in 2011 and a positive group result was achieved for the first time in many years. The main factors behind the group result were the significant reductions in the additional risk provisions necessary as well as the special effects from the measurement at fair value of issues accounted for as liabilities. This made it possible to record a group result of EUR 59.1 m. Risk provision expense stood at EUR -229.8 m. There were also positive developments in the area of customer deposits in the retail and public sectors, above all in the SEE network.

3.2. Charges due to the debt crisis

The exposure to Greece of, originally, EUR 93.0 m, which was written down to market value in the course of the year, impacted on the result to the tune of EUR -29.4 m. Through selling off parts of it during the year, the remaining exposure was reduced to EUR 26.0 m; the carrying amount in the balance sheet stands at EUR 6.2 m.

3.3. EU proceedings/restructuring measures

Hypo Alpe-Adria-Bank International AG continued to strive for completion of the EU investigation into state aid in 2011. The current restructuring plan was presented at a presentation to the European Commission in Brussels on 24 January 2011. The discussions and subsequent list of questions from the Commission suggested that the Commission is in basic agreement with the bank's new strategy.

The results of these direct discussions and the answers to the questions subsequently submitted to obtain more in-depth information on aspects of the plan were incorporated into the revised version of the EU restructuring plan, which was submitted in April 2011.

In response to the sovereign debt crisis in the eurozone and its effects on the European financial sector, the worsening of economic conditions in Europe and in particular in the Hypo core regions of South-Eastern Europe and the conclusion reached by the supervisory authorities in the Joint Risk Assessment Decision (JRAD) process that there is a requirement for additional capital for the bank Hypo Alpe-Adria-Bank International AG has sharpened its strategy. This has included adjusting planning to take account of the downgraded economic forecasts and, amongst other measures, resolving to switch the subsidiaries to self-financing through local deposits from 2012 onwards.

The tightening of strategy was also reflected in the continuing dialogue with the EU Commission. In addition to submitting data to show the medium and long-term viability of Hypo Alpe-Adria-Bank International AG and its subsidiaries in South-Eastern Europe, at the end of 2011 the bank also produced a modified restructuring plan based on the forecast for the 2011 financial year. The document focuses the bank's strategy on reprivatising all saleable units and was submitted by the owner to the authorities in Brussels at the turn of the year.

The guarantee agreement concluded at the end of December 2010 with the Republic of Austria has been provisionally approved by the European Commission and the decision was published at the start of 2012. The approval is subject to the Commission agreeing to the bank's restructuring plan based on the state aid provided through the emergency nationalisation in 2009.

3.4. CSI Hypo

The project started in 2010 on behalf of the Republic of Austria was successfully continued in 2011. The Finanzprokuratur, Hypo Alpe-Adria-Bank International AG and its subsidiaries and sub-subsidiaries, external experts, lawyers and forensic auditors continued to work closely together on accounting for the past and analysing the collapse which led to Hypo Alpe Adria being taken over by the Republic of Austria.

By the end of 2011 more than 50 cases had been reported to the public prosecutor. In addition, there are currently three civil law suits against former senior executives before the civil courts in Austria, in which claims for more than EUR 50 m in compensation are being asserted.

The focus of investigations in 2011 was on the following groups of themes: "Liechtenstein", "Consultants" and "HLH preference shares".

In addition, the "top 50 losses", i.e. those with the greatest specific risk provisions, were prioritised. There continue to be more than 1,000 separate cases on the CSI scope of investigation.

The investigations in 2011 were also extended to include so-called "non-CSI cases". These are cases which are not in the "CSI scope of investigation". Cases reported from, in particular, Bosnia and Herzegovina and Slovenia have in this way been subject to forensic and legal examination.

In 2012 it is planned to cease investigation of those cases which have no criminal aspects, so as to be able to concentrate more fully on the investigative, criminal and civil proceedings which are already ongoing.

3.5. Portfolio transfer in the SEE network and in the banks in Italy and Austria

In the second half of 2011, selected credit portfolios (loans and finance leases) belonging to the SEE network subsidiaries in Bosnia and Herzegovina, Montenegro and Slovenia were transferred out to local wind-down companies within the group or were made ready for transfer in 2012 (Croatia, Serbia). The transfer took the form of a "synthetic" transfer in all countries except Montenegro. In Montenegro this took the form of a "true sale" under commercial law.

These transfers facilitated the derecognition of the portfolios in the balance sheet thereby leading to a normalisation of the key financial figures in the units concerned, particularly in relation to net interest income, the NPL quota (NPL - non-performing loans) and strengthening of the capitalisation figures/ratios.

The banks in Italy and Austria will also be put through the portfolio rationalisation procedures, which will be implemented in 2012 by way of restructuring measures.

The objective of the measures is to intensify management focus on the continuity and wind-down actions that need to be taken and to provide as optimal a basis as possible for negotiations in the reprivatisation process.

3.6. Capital restructuring measures

In May 2011 a resolution was passed at the ultimate holding company, Hypo Alpe-Adria-Bank International AG, to reduce capital nominally to cover the net loss recorded in the separate financial statements as at 31 December 2010, by reducing the share capital from EUR 62.5 m to EUR 19.1 m and by reducing the participation capital issued in 2008 and 2009 from, in total, EUR 1,110.8 m to EUR 339.5 m. On 30 June 2011 the resolution was passed to raise share capital from EUR 19.1 m to EUR 469.1 m through conversion of the participation capital issued by the bank in 2010. The increase in share capital took effect on 20 July 2011 with the entry in the commercial register.

3.7. European Banking Authority stress test

In the spring of 2011, Hypo Alpe Adria took part in a stress test as defined by the European Banking Authority (EBA), as part of an analysis initiated by the Austrian regulatory authorities. As expected, the group did not fulfil the stress resistance requirements laid down in the “CEE/SEE Adverse Scenario”.

When interpreting the results, however, it must be borne in mind that the group will be reducing its own capital requirement over the next few years as it reduces its volumes of business and risk-weighted assets in line with plan. This circumstance has not been taken into account in the validation of capital adequacy, which used standard approaches to recognition.

3.8. Joint Risk Assessment Decision ("JRAD")

In 2011 the bank was for the first time the subject of a Joint Risk Assessment led by the Oesterreichische Nationalbank. In the joint decision reached by the regulatory authorities of Italy, Slovenia and Austria, it was decreed that Hypo Alpe Adria must achieve at group level an own capital funds quota of 12.04% by 31 December 2012 and cover the difference between risk provisions and the expected loss calculated by the authorities. This additional requirement results from, amongst other factors, the assessment of the auditors with regard to the recoverability of the loan collateral if liquidated. The formal notification of the decision, which specifies the 31 December 2012 as the deadline for implementation, was delivered to Hypo Alpe Adria at the beginning of February 2012. For further details, please refer to note (93.3.) in the notes to the consolidated financial statements.

3.9. Selling activities

In May and June 2011 the process of selling Hypo Alpe-Adria-Bank AG (Austria) and Hypo Alpe-Adria-Bank S.p.A. (Italy) in an open and transparent bidding process commenced. The sales process is at an early stage. 2011 was used to put preparatory measures for the sale in place, which will be continued in 2012. The sale of the two units should expedite the reprivatisation process and comply with expected restrictions connected to the EU restructuring process.

The aim is still to sell the SEE network as a whole in the medium term. The first related preparatory measures will be put in place in 2012.

With the sale, in 2011, of the Schlosshotel Velden hotel and apartment complex, as well as of other investments, Hypo Alpe Adria is systematically pursuing its strategy of parting with non-strategic participations, reducing the group in size and focussing more strongly on its core business.

3.10. Reorganisation of credit risk management

The leap in size of the NPL portfolio (NPL - non-performing loans) in recent years and the connected impairment write-down requirements for Hypo Alpe Adria meant that a new strategy and focus was necessary for the front office, back office and restructuring divisions. The increased demands on the Risk Office were therefore addressed with the internal reorganisation of the Credit Management, Rehabilitation and Liquidation units, which started in April 2010 and was, for the most part, completed in 2011. The focus up until the beginning of 2011 was on completing the comprehensive analysis of the credit portfolio; in 2011 further measures in the areas of collateral valuation and bringing ratings up-to-date were implemented. For further information, please refer to the risk report in the notes to the consolidated financial statements.

3.11. Integration of leasing operations into the banks

In the year under review, the local leasing units in the five core country markets Slovenia, Serbia, Montenegro, Croatia and Bosnia and Herzegovina were integrated into the banks and started to report to the bank's management. The principal objective of this integration is to establish central management structures (particularly for risk and front office functions) for banking and leasing, led by the bank; and to increase earnings through exploiting synergy potential and reducing NPL ratios and risk costs. The change was managed centrally by Hypo Alpe-Adria-Bank International AG to ensure a rapid and high-quality implementation of uniform structures.

3.12. Guarantee agreement with the Federal Republic

The bank further reduced the liabilities of the Republic of Austria by buying back government guaranteed bonds (GGB) in February 2011. This was consistent with the terms and objectives of the guarantee agreement of 28 December 2010. With the addendum to the guarantee agreement signed in April 2011, the arrangements for paying the agreed guarantee fees were further defined. The expenses arising from the guarantee agreement came to EUR -20.0 m in 2011.

4. Economic development of the group

4.1. Development of results

The challenge for Hypo Alpe Adria in the 2011 financial year was to continue to implement speedily the strategy defined for the redimensioned group, to achieve a position of lasting stabilisation and to implement measures relating to the disposal of non-core parts of the business.

Despite the volatile overall economic environment and the worsening prospects for the economy that became apparent as a result of the debt crisis in the second half of 2011, a clearly positive result after tax and non-controlling interests for the group of EUR 59.1 m (2010: EUR -1,085.3 m) was recorded. Excluding the positive one-time effects from measurement at fair value of own issues, totalling EUR 126.3 m, a result of EUR -67.2 m was achieved. Apart from these special effects, the result was brought about by a reduction in net interest income due to the high level of the NPL portfolio, slightly reduced operating expenses, impairment write-downs on the exposure to Greece and a significant reduction in the cost of risk provisioning. The prior-year result after tax in 2010 was adjusted down by EUR -24.6 m as a result of the finalisation of the provisional (in 2010) purchase price allocation for a Croatian subsidiary.

Net interest income for the group reduced from EUR 881.9 m over the comparable prior-year period to EUR 753.3 m. This is a reduction of EUR -128.6 m, or -14.6%. This is due in part to lower interest income as a result of the reduction in loans and advances to customers, as the maturing portfolio was not matched in terms of size by new business. The high level of non-performing loans (NPL) – for which, in accordance with IFRS, interest may only be recognised based on the net present value of the net receivables (gross commitments less specific risk provisions, also known as unwinding) – also impacted on the result for net interest income.

Net interest income
in EUR m

Net fee and commission income, which had contributed some EUR 107.9 m to the prior-year result, declined significantly, by EUR 34.8 m to EUR 73.1 m. The reason for this reduction is primarily the increased fee and commission expenses due on the guarantee agreement concluded with the federal authorities at the end of December 2010; but it is also as a result of decreased fee and commission income from the smaller volume of new business as a result of the aforementioned reduction in loans and advances to customers. In terms of country markets, the Croatian, Austrian and Serbian subsidiary banks made the greatest contributions to the net fee and commission income.

The result from trading, which has been declining in recent years, actually rose in 2011, from EUR 10.8 m to EUR 20.2 m. This is nearly twice the amount compared to the previous period and is due in part to the effects of hedging on the Serbian dinar (RSD) and is connected to the decrease in value of this currency against the euro (EUR).

The result from hedge accounting, which derives from hedge inefficiencies, was practically unchanged at EUR 0.2 m compared to the prior-year figure (EUR 2.0 m).

The result from financial investments designated at fair value through profit or loss (fair value option) was recognised with an overall effect of EUR 106.3 m in profit and loss; the corresponding figure for the previous year had been EUR -28.6 m. This significant increase resulted primarily from the one-time positive effects from fair value measurements of issues accounted for as liabilities (EUR 126.3 m). Charges of EUR -5.5 m resulting from the deterioration in market values relating to the exposure to Greece had a negative effect on the result.

The impairment write-downs totalling EUR -23.9 m which were necessary on the Greek government guaranteed bonds had a negative effect on the result from financial investments – available for sale as well; this item posted a negative result of EUR -54.8 m (2010: EUR -42.8 m). The impairment write-downs on Slovenian securities (EUR -6.7 m) and a participation (EUR -9.0 m) also impacted negatively.

The result from other financial investments, which was a negative EUR -10.3 m in the prior-year period, came to EUR 1.9 m in the period under review. The positive result was due mainly to the redemption in line with plan of a supplementary capital bond taking into account the statutory loss allocation (EUR 10.0 m), compensated for in part by the result from investment properties.

The other operating result, which was a clear loss of EUR -123.9 m in the prior-year comparable period, came to an improved EUR 0.5 m in the 2011 financial year. The main reasons for the negative result in the prior-year period had been, on the one hand, large impairment write-downs on unleased assets (EUR -76.4 m) and leasing objects held as investments or as forfeited collateral, as well as impairment charges on the market value of a participation in a tourism company and another company as a result of their first-time consolidation (EUR -56.2 m). There were negative effects of EUR -25.4 m from the provisional purchase price allocation in 2010 of a participation in an industrial company which had to be retrospectively adjusted in 2011. There were positive effects from the reversal of other provisions totalling EUR 24.8 m in the year under review. For the first time the item other operating result also included expenses (EUR -18.4 m) for the banking levy, which was introduced in Austria in 2011, as a result of which other tax expenses shown here rose from EUR -7.7 m to EUR -24.7 m.

After the markedly high expense of the previous years, there was a significant reduction in risk provisions on loans and advances in 2011. Despite the continuingly sluggish economic recovery in the core markets, which did not meet expectations, as well as the ailing secondary market for (real estate) collateral, the level of new risk provisions came in much lower than in the comparable prior-year period, at EUR -229.8 m (2010: EUR -1,213.5 m).

The main drivers for the risk provisions in the leasing business were, above all, Croatia, Slovenia and Bosnia and Herzegovina; and in the banking business the units in Slovenia, Croatia and Italy. A turnaround was achieved in the cross-border financing portfolios, which are managed out of Austria.

Compared to the same period of the previous year costs, in total, were -2.9% or EUR -17.1 m lower, although the development of individual cost items varied. Personnel expenses rose by EUR 14.9 m from EUR -266.1 m to EUR -281.0 m as a result of the need to bring in highly-skilled staff to set up and develop central controlling functions; to deal with the extraordinary challenges involved in the downsizing of the group; and to process and deal with the past in a systematic way.

The high costs incurred in connection with restructuring and realigning the group had an effect on administrative expenses; they rose by EUR 12.9 m or 5.8% over the comparable prior-year period, to EUR -237.7 m.

The significant reduction in depreciation on tangible and intangible assets by EUR 44.9 m from EUR -103.2 m to EUR -58.3 m is mainly due to the requirement, back in 2010, for impairment on individual group software projects which were discontinued and the assets of an industrial holding.

Overall, against operating income of EUR 900.7 m (2010: EUR 796.9 m), risk provisions for loans and advances of EUR -229.8 m (2010: EUR -1,213.5 m) and operating expenses of EUR -576.9 m (2010: EUR -594.0 m) were recorded. The operating result came to EUR 93.9 m, which was considerably better than the comparable figure for the previous year (EUR -1,010.6 m).

After taking into account the result from investments accounted for at equity of EUR 0.9 m (2010: EUR 2.1 m), the result before tax for the period came to EUR 94.8 m (2010: EUR -1,008.5 m).

Taxes on income amounted to EUR -25.5 m in 2011 (2010: EUR -70.6 m). The improvement of EUR 45.0 m was in the main due to the previous year's write-down (of EUR -43.0 m) of the loss carry-forward for the Austrian tax group.

After allocation of the share in results attributable to non-controlling interests in the group amounting to EUR 10.2 m (2010: EUR 6.3 m) there is a consolidated result after tax and non-controlling interests of EUR 59.1 m, which represents a clear improvement over the comparable period for the previous year (EUR -1,085.3 m).

Even after allowing for the positive one-time effects of the fair value measurement of liabilities totalling EUR 126.3 m, Hypo Alpe Adria is still able to report a significantly improved result of EUR -67.2 m for 2011, despite the challenging environment.

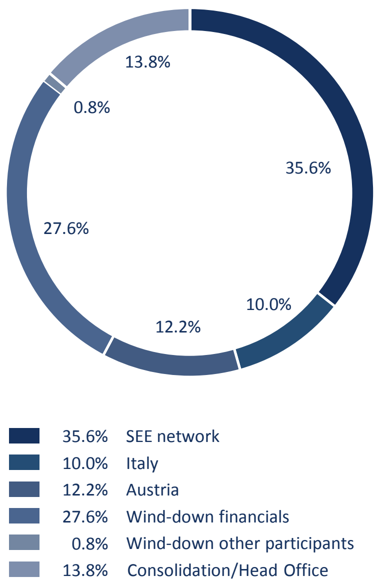
Overall, following several years of negative results, a positive consolidated result for the year can again be reported, due mainly to the stabilisation in risk provisions for loans and advances and at the same time to a more or less unchanged operating result.

4.2. Consolidated statement of financial position

The ongoing reduction in total assets, initiated at the beginning of 2009 after more than a decade of continual, expansionary growth, continued in 2011. Hypo Alpe Adria's total assets at the end of this period reduced by EUR -3.6 bn, from EUR 38.7 bn as at 31 December 2010 to EUR 35.1 bn. The main reason behind this lies in the reduction (by EUR -2.0 bn) in loans and advances to credit institutions, as a result of the repayment of liabilities due as well as the partial buy-back of a government guaranteed bonds in February 2011.

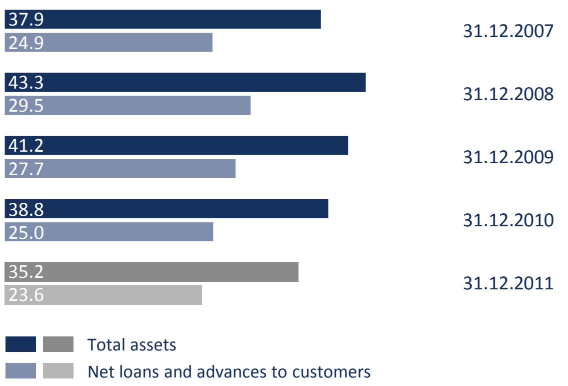
The reduction in new financing business and repayments of loans also had the effect of reducing total assets, as did the general stop on new business applying to the "wind-down" companies, which led to a decline in the volumes of financing for both the credit and leasing areas.

Total assets per segment as of 31 December 2011
in percent



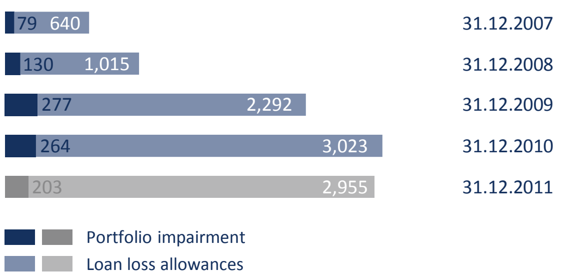
In total, net loans and advances to customers (loans and advances to customers less risk provisions for loans and advances) decreased from EUR 25.0 bn to EUR 23.6 bn (a decrease of EUR 1.4 bn or some 5.5%). The reduction is even greater if the effect of reclassifying financial investments held for sale is taken into account – this takes the reduction to over EUR 1.5 bn. The slower than expected economic recovery in the group's core markets meant that, as in the previous year, Hypo Alpe Adria had to exercise great care in the granting of new credit, so as to avoid any additional risk. In addition, new business remained below forecast levels. Overall, loans and advances to customers decreased from EUR 28.2 bn to EUR 26.7 bn, a reduction of some 5.3%.

Total assets/net loans and advances to customers
in EUR bn



Loans and advances to credit institutions, which include the liquidity reserves, also declined significantly, by EUR 2.0 bn (or 39.5%) from the level at 31 December 2010, to EUR 3.1 bn. This was due both to the repayment of outstanding liabilities together with the buy-back of a government guaranteed bonds in February 2011.

Development of risk provisions on loans and advances
in EUR m



The level of risk provisions for loans and advances, which had reached a record level of EUR 3.3 bn as at 31 December 2010, reduced slightly to EUR 3.2 bn as at 31 December 2011. The level of non-performing loans (NPLs) increased slightly overall in 2011. The main reason for this was the consistent and conservative application of the rating standards for groups of related customers; and the reduction in recognisable collateral values due to the implementation of new group-wide standards in this area. Without this effect there was clear evidence of stabilisation in many country markets, reflected in the stagnation in the level of risk provisions as at 31 December 2011. The largest proportion of provisions overall was accounted for by the Austrian banks, and additionally by the subsidiaries in Croatia and Serbia.

Trading assets, which were already low as a result of the limited trading activities of the group, reduced further in 2011, from EUR 34.3 m to EUR 12.0 m.

Derivative financial instruments, which on the assets side include positive fair value from derivatives and which are being reported collectively as a single balance sheet item from 2011 onwards, increased in the first half of 2011 by EUR 171.2 m from EUR 1,262.8 m to EUR 1,434.0 m.

Financial investments designated at fair value through profit or loss (FVO) reduced in the period under review by EUR -117.6 m to EUR 760.6 m. The total value of financial investments – available for sale (afs) increased in the period by EUR 124.4 m to EUR 2,651.7 m, mainly as a result of purchases of debt instruments and fixed-interest securities.

Other financial investments remained, at EUR 985.4 m, at about the same level as in the previous year (EUR 1,034.3 m), with the increase in investment properties compensated for by the reduction in operate lease assets reported under this item.

The reduction in the value of tangible assets, from EUR 453.4 m to EUR 359.8 m is primarily due to the change in use of property, which led to a reclassification of around EUR 60.0 m to other financial investments (investment properties). A further reclassification of the assets of an industrial participation to financial investments held for sale was required to comply with the necessary criteria in IFRS 5. This item primarily includes those property and tourism projects which are to be sold off as part of the strategic realignment for Hypo Alpe Adria. The reduction from EUR 274.7 m to EUR 138.9 m is due to the reclassification of a group leasing company, which was originally to have been sold in the 2011 financial year, back to its original category.

On the liabilities side, the liabilities to credit institutions decreased from EUR 6.4 bn to EUR 5.7 bn in the period under review. This reduction was due mainly to the scheduled repayment of loans.

Liabilities to customers increased slightly again compared to 31 December 2010: they rose by 1.0% to EUR 8.2 bn. The increase in deposits was achieved mainly in the areas of retail banking and the public sector segment in the SEE network; in contrast there were reductions in the corporate segment.

Debt securities in issue fell significantly during the year 2011 by EUR 3.0 bn (or -14.9%) from EUR 20.1 bn to EUR 17.1 bn. This decrease was caused primarily by the previously mentioned buy-back of a government guaranteed bonds for EUR 0.8 bn as well as scheduled repayments of liabilities.

The value of subordinated capital fell slightly during the year, by EUR 0.1 bn to EUR 1.2 bn. This change is principally due to the measurement as at the reporting date of the hybrid capital issues at present value.

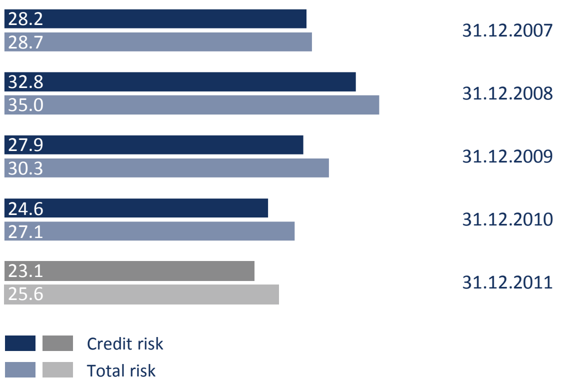
Equity remained at the level of the previous year, at EUR 1.4 bn.

4.3. Own capital funds

The own funds ratios have remained practically unchanged since 31 December 2010. The effect of a slight reduction in own funds, which is connected to lower Tier 2-eligible instruments, was effectively compensated for by a reduction in risk-weighted assets (RWA).

A significant reduction in the RWA base was achieved in the last financial year thanks to various measures introduced, in particular the stop on new business imposed on many of the group companies, the risk provisions requiring offsetting against assets, as well as the efforts to improve the eligibility of collateral and to increase the quality of data. This trend continued in 2011, although changes in legal stipulations on collateral eligibility had the contrary effect of increasing RWA by EUR 0.3 bn. In relation to credit risk, the risk-weighted assets reduced by EUR 1.5 bn to EUR 23.1 bn. Taking the market and operational risk into account, total risk-weighted assets reduced from EUR 27.1 bn (31 December 2010) to EUR 25.6 bn (31 December 2011).

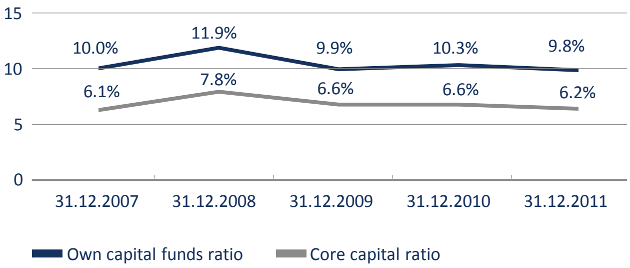
Risk-weighted assets (RWA) related to total risk/credit risk
in EUR bn



The total eligible own capital funds as defined in the Austrian Banking Act (BWG) amounted to EUR 2,498.7 m as at 31 December 2011 (31 December 2010: EUR 2,777.5 m), while the minimum legal requirement stood at EUR 2,048.9 m (31 December 2010: EUR 2,167.4 m). This represents surplus coverage of EUR 449.8 m (31 December 2010: EUR 610.1 m) or a coverage ratio of some 122.0% (31 December 2010: 128.1%).

The own capital funds ratio (solvency ratio) in relation to the total capital base (including market and operational risk) came to 9.8% as at 31 December 2011 (10.3% as at 31 December 2010), which is well over the legally required minimum level of 8.0% in Austria.

Change in own capital funds and core capital ratio
in percent



With regard to the ultimate holding company, Hypo Alpe-Adria-Bank International AG, own capital funds amounted to EUR 1,528.7 m, and free funds to EUR 182.1 m.

4.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 64.1% as at 31 December 2011 (2010: 74.5%). This reduction is due both to increased operating income and to reduced operating expenses. The inclusion of EUR 126.3 m in one-time fair value effects should not be forgotten.

Credit risk in relation to net interest income (the risk/earnings ratio) fell from 137.6% in the previous year to 30.5% in 2011. The steep reduction, despite the small decline in net interest income, is above all due to the reduction in the level of risk provisions for loans and expenses required.

Risk/earnings ratio (credit risk/net interest income)
in percent

5. Analysis of non-financial key performance indicators

5.1. Developing talent/staff

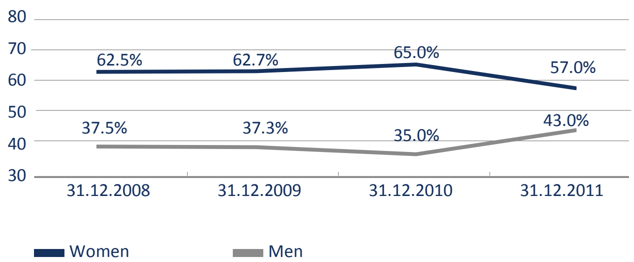
Working to the motto "Stabilise-Improve-Develop", the HR team (HR – Human Resources) develops talent with specific programmes dealing with structures, processes and factors which help to shape a culture. Hypo Alpe Adria has, to this end, defined a framework of values summed up in the acronym "FLIRT" (Fairness, Local, Integrity, Responsibility, Transparency).

Hypo Alpe Adria employed 8,113 people in total as at the reporting date of 31 December 2011, of which 7,095 employees worked in finance or finance-related areas. This represents an increase of 117 employees over the previous reporting date of 31 December 2010.

Employees in finance and finance-related areas
Figures from 2007 to 2011

The traditionally very high proportion of female employees amongst the total workforce remained at a high level (57%). The proportion of part-time workers came to 5%.

Employees by age group
Figures from 2008 to 2011
in percent



The age group 31 – 40 years is by far the largest, at 43%. The age groups 41 – 50 years and up to 30 years each account for 26% of the workforce. The remaining 11% belong to the age group 51 years and above. In the period under review, employee turnover stood at 6.1%.

Employees by age group
as of 31.12.2011

In 2011 the change management process in the area of HR included projects relating to the mission, vision and values of the organisation, staffing, headcount reduction and employee surveys.

The group began work on stabilising the company culture in 2010. A process of developing overarching principles ("Mission/Vision/Values") was executed, which defines our framework for economic activity. On the basis of the new principles, interview questions and management profiles for assessments were deployed.

The process of change taking place in the group called for a broadening, both qualitatively and quantitatively of talent, with the result that experts had to be recruited, both internationally and nationally, to come and be based in Klagenfurt. Our new staff complement existing staff, not just through their skills and experience, but also because they influence the international orientation of the group positively. In 2011 a total of 2,516 applicants were interviewed by the internal HR team and checked for their suitability for given jobs using appropriate selection processes. As part of the process, 77 management audits were conducted for recruitment for managerial positions. Additionally, a group-wide standard recruiting process was implemented, which should increase the quality of the selection process.

In order to gauge the effects of the change management process in the group, an online survey process by the name of Hypo Navigator was implemented. In two short surveys, parameters such as working conditions, climate, loyalty and commitment were evaluated; the results provide the basis for team and organisational development measures.

In the area of talent management, there was a lot of work done, in particular, on segmentation, identification and training and development projects.

The workforce structure was structured into meaningful segments so as to be able to shape HR services to match the relevant target group and to develop the learning & development strategy for each segment.

As part of the "HIPO" project, a structured method for identifying high-potential staff was developed and implemented as a software-based tool. The talent identification process started in the second half of 2011 with an assessment of more than 1,600 people. This will be carried out further, so as to be retained as a standard management process.

The strategic realignment concentrates on specialist development in certain segments and on management development. The objective is to increase expertise within the group and to support managers as they seek to transform the organisation. To this end, a management development programme has been created together with the internationally-renowned IEDC School of Management Bled/Slovenia, which tackles the themes of leadership and change management. In addition, specialist training in the areas of risk management, property valuation and the development of Academy concepts (risk, retail) has been strengthened.The existing structures and processes in the area of Human Resources were further expanded in 2011. This affected HR projects in the areas of e-process support, organisation of the HR area and incentive systems.

In order to ensure that personnel-related procedures are carried out in a cost-efficient manner, certain processes were optimised or developed. As part of this, an "e-recruiting initiative" was introduced, which has led to cost reductions (of 50% on advertising) on recruitment processes and shortened the "time to fill" process time. In order to achieve more efficient personnel administration processes, an employee & manager self-service platform covering travel costs, time management and receipts management/proof of payment has been implemented. This was followed by electronic display of performance objectives agreements as part of the annual management-by-objectives process in a performance management tool, which helps to make the process more systematic and more transparent.

5.2. Customer and market development

Hypo Alpe Adria was successful in proving its position as a reliable and important business partner in South-Eastern Europe in 2011. Stronger focus on the needs of the market was repaid by customers, as evidenced by the growth in the number of customers by more than 14,000 to over 1.2 million in total. New business in 2011, coming mainly from the SEE core country markets, was significantly higher than in the previous year. This new focus was in accordance with the new business strategy; its targeted measures helped to make the bank more attractive.

The focus in the retail segment in 2011 was again on widening the customer base and refocusing the bank on its original retail banking services. Above all through making systematic improvements to service quality and increasing efficiency through clear separation of front and back office activities in the branches, it was possible to win customers in the SEE regions. New retail business across the group increased by nearly 9% from EUR 550 m to nearly EUR 600 m. As a result of successful campaigns and the branch expansion programme, private customer deposits also rose considerably in SEE. Apart from this, the number of cards issued in SEE rose by 10% to more than 836,000 in 2011. The number of new insurance agreements rose too, by 27% to over 35,000.

The new branch design for Hypo Alpe Adria was implemented in three locations for the first time in 2011 (Sarajevo, Zagreb and Belgrade). The new design will be used in the other new branches and should bring more customers through the door thanks to its friendly and open concept.

For corporate clients and public sector clients, new business efforts were focussed on customers with higher creditworthiness. Despite the much smaller sums of credit involved, the total volume of loans newly granted to corporate clients in SEE rose by 25%. Large increases in new business volumes were also recorded for the public finance area, particularly in SEE.

By integrating the leasing units and bringing them under the banks' governance, synergy effects were exploited and cross-selling intensified. The focus in new leasing business was on movables in 2011; although the average unit value was lower, the greater volume of deals concluded meant that there was a better risk spread and general reduction in risk costs.

Furthermore, management of cross-selling between the retail, corporate and public finance market segments as well as leasing has been targeted since the middle of 2011. Staff training was staged for this purpose. In this way, the customers of Hypo Alpe Adria were able to take advantage of the whole range of products and services.

5.3. Corporate Social Responsibility

Hypo Alpe Adria again demonstrated social responsibility in and for the regions in which it operates in 2011. A diverse range of support and aid projects underpin the value attached to corporate social responsibility (CSR) by the bank.

Work continued systematically on the charity programme "Hypo Pro Futuro", which was set up in 2010 with the purpose of bundling and coordinating the bank's CSR activities in the individual markets. While the principal theme for the charity project in 2010 was improving the prospects for the future for children, in 2011 it was education.

Some of the projects supported included:

- Support for the "career center" of the University of Ljubljana and the Parus Foundation (foundation for law students) in Slovenia
- Provision of books to a primary school in Montenegro
- Support for mathematics competitions in high schools in the Federation of Bosnia and Herzegovina
- Support for the Economics Faculty in Banja Luka through the provision of PCs and internships with Hypo, as well as sponsorship of the International Scientific Conference REDETE 2011 – "Researching Economic Development and Entrepreneurship in Transition Economies"
- Sponsorship of the "Let's travel to Europe" programme for Serbian students.

In addition to systematically continuing with its work on the "Hypo Pro Futuro" project, the bank also involved itself in the area of the arts in 2011. This covers both giving grants to talented young artists as well as organising exhibitions and events to provide them with a platform for their art.

Protection of the environment is also an important part of corporate social responsibility for Hypo Alpe Adria. The optimisation of energy consumption in the bank's buildings was therefore continued and intensified in 2011. In addition to responsible use of resources, such as reducing the amount of printing taking place, the use of video conferencing was pushed, so as to be able to reduce further the number of business trips made by staff. In addition to this, for example, only cars with low CO2 emissions are bought as company cars.

6. Internal control system for accounting procedures

Hypo Alpe Adria has an internal control system (ICS) for accounting procedures, in which suitable structures and procedures are defined and implemented. As part of the ongoing restructuring measures there have also been organisational changes to operational processes in the areas of Group Balance Sheet Management & Treasury; the processes relevant to accounting have not yet been implemented in full. In this connection, please refer to the explanations in the final part of this section.

Hypo Alpe Adria's ICS is based on the COSO (Committee of the Sponsoring Organisations of the Treadway Commission) framework, although the Executive Board has independently determined the scope and direction of the ICS on the basis of the specific requirements of the organisation.

The ICS, as part of the bank's risk management system, has the following general objectives:

- Safeguarding and implementing the business and risk strategies as well as group policies
- Effective and efficient use of all the organisation's resources in order to achieve targeted commercial success
- Ensuring reliable financial reporting
- Supporting adherence to all the relevant laws, rules and regulations.

The particular objectives with regard to the group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that accounting procedures and standards – regulated in the group IFRS handbook – and the internal group policy on IFRS and accounting reporting in accordance with the Austrian Commercial Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the group financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards the group accounting procedures.

To summarise, these are ensured through:

- the complete documentation of all relevant processes in group accounting & reporting
- work instructions and documenting individual workflows
- complete presentation of all relevant risks and the respective control mechanisms as part of process documentation.

Internal control is a process that is integrated into accounting procedures and does not just take place on the hierarchical level immediately above that of a given process. It is much more the case that each (sub-)process has specific objectives, which are exposed to risks of differing degrees of magnitude. These risks are evaluated, a structured risk catalogue is produced and is entered into a central system. The ICS has been designed in such a way that within a structured process, existing control activities, or new ones that are to be implemented, are directed at the most significant risks, with the aim of mitigating them and achieving specific targets.

The basic principles of the ICS are, in addition to such defined control activities as automatic and manual reconciliation processes, that of separating out functions and complying with policies, manuals and work instructions. The Group Accounting & Reporting division within Hypo Alpe-Adria-Bank International AG is responsible for managing the accounting process within Hypo Alpe Adria.

In this way, the internal control system of Hypo Alpe-Adria-Bank International AG ensures that:

- the chart of accounts and structure of financial reporting conforms to national and international standards and to the requirements of Hypo Alpe-Adria-Bank International AG
- the business activities of Hypo Alpe-Adria-Bank International AG are correctly and appropriately documented and reported
- all relevant records are systematically submitted in a traceable manner
- all data required for financial reporting is documented in a traceable manner
- the accounting processes prevent the assets of Hypo Alpe-Adria-Bank International AG from being used, sold or acquired without the appropriate approval
- all subsidiaries and group units involved in producing financial reports are capable of fulfilling this function in terms of both education and staff capacity
- responsibilities related to the group accounting process are clearly and unambiguously regulated
- access to the IT systems which are crucial to the accounting process is restricted, in order to avoid misuse
- all relevant stipulations, particularly those of the Austrian Banking Act, are adhered to.

The processes, policies and control procedures which are already in place in the group companies are subjected to ongoing evaluation and development. As a result of these efforts to intensify existing systems in a practical way, further qualitative improvements were achieved during the year under review.

The group subsidiaries draw up their financial statements at a local level on the basis of local accounting regulations and transmit their data – stated in conformity with the rest of the group in accordance with IFRS – using a standard, group-wide reporting tool (package). They are responsible for complying with the group policies valid throughout the group, and for the proper and timely execution of the processes and systems related to accounting. The local group subsidiaries are supported throughout the whole group accounting process by partners in head office in the Group Accounting & Reporting division.

The management in the subsidiaries is responsible for the implementation and monitoring of the local ICS and confirms its compliance on a quarterly basis.

Data submitted by the group subsidiaries is assessed in the Group Accounting & Reporting division for plausibility and is then entered into the Cognos Controller consolidation software. The stages of consolidation (including expense and income consolidation, capital consolidation and debt consolidation) are carried out directly in the system and then interim profits are eliminated where applicable through group bookings. The adjustments related to this, the monitoring of requirements related to timelines, processes and content, as well as conducting technical systematic controls and manual checks are all a part of this process. Finally the notes and the group management report are produced for the reporting dates 30 June and 31 December.

Throughout the year internal financial reporting is produced on a consolidated basis by Group Accounting & Reporting and submitted to the Executive and Supervisory Boards once a quarter. Financial reports by Group Financial Controlling are produced once a month. Detailed reports and analyses as well as periodic target/actual comparisons and forecasts are also produced. The budgeting process includes producing a business plan (at group level) which covers a five-year period.

In accordance with the Stock Exchange Act, an interim financial report on the first six months is produced; this report conforms to the requirements of IAS 34.

The Executive Board of Hypo Alpe-Adria-Bank International AG is responsible for the implementation and monitoring of the ICS in relation to accounting procedures for the consolidated financial statements, and is responsible for the correct and timely execution of the accounting processes and systems. The internal control system itself is not a static system and is constantly adjusted to comply with changing frame conditions. In this respect, the ongoing evaluation of risk estimates and monitoring the effectiveness of control instruments is a key component. The Executive Board uses the group audit and compliance units to assist it in monitoring compliance. Group audit and the local audit functions in the subsidiaries check the effectiveness of the ICS and the reliability of the accounting function as part of their regular auditing activity. Furthermore, the Executive Board informs the audit committee and the Supervisory Board about the internal control system. The basis for applying the internal control system does, however, rely on the integrity and ethical behaviour of the employees first and foremost. The need

for the Executive Board and management staff to act as role models in this respect is well known and is taken seriously.
It is important to note that, regardless of its form, an internal control system does not deliver absolute certainty that material accounting mistakes will be avoided or uncovered.

6.1. ICS-related activities in 2011

The project "OP&K" (organisation, processes and controls) was introduced in 2009 with the aim of ensuring the ongoing implementation of a uniform, system-supported ICS in the Austrian institutes. One partial outcome of the project was the definition of competence areas of employees responsible for the ICS within the group. The employee responsible for the ICS was assigned to Group Credit Risk Control in terms of organisation and as of August 2010 the role was integrated into the Operational Risk & Control Management department.

With the setting-up of the department, a follow-up project to implement the ICS in the group was also approved. The method used in the "OP&K" project serves as the basis for this and has been refined.

Using the significant accounts, the processes relevant to the ICS were identified and prioritised, and worked through gradually using the list of priorities.

Group accounting procedures were updated and subjected to a detailed risk assessment. The risk owner and control owner for these ICS-relevant processes were identified and trained. Test scenarios were developed and carried out jointly with the owners. The programme necessary for the tests was implemented and the persons responsible for ICS trained on how to use it.

A person responsible for ICS at local level was named and trained up for every subsidiary. The ICS-relevant processes for the accounting function at local level were subjected to a detailed risk assessment and are being prepared for the test scenarios. A uniform implementation of the ICS methodology is thus assured.

6.2. Outlook

Adhering strictly to the COSO Framework, in 2012 the prioritisation of the ICS-relevant processes will be checked on the basis of the most recent balance sheet (statement of finacial positions) and, where necessary, modified. The integration with the Operational Risk department will be progressed, so as to be able to exploit the possible synergies from both areas of activity (OpRisk and ICS) in the best possible way and to create an optimal structure so as to avoid potential losses.

7. Other disclosures

Information in accordance with section 267 of the Austrian Commercial Code (UGB) on events after the reporting date, as well as the risk report and information on the use of financial instruments are presented in the notes to the consolidated financial statements, since it is obligatory to provide this information in the notes as per IFRS.

8. Outlook

As was already foreseeable in the second half of last year, the management of Hypo Alpe Adria must assume that the overall economic situation will remain tense in 2012 and that a worsening of the situation in already troubled markets cannot be excluded.

The debt crisis in the European Union, the related government-led and private consolidation packages and their effects on the economy will dominate the economic agenda in the coming year as well. Against this background, the forecasts for a decline in economic output of 0.6% in the eurozone and the forecasts for the bank's core region of South-Eastern Europe are negative. Even neutral calculation models assume a decrease in the respective gross domestic product figures of between at least 0.4% up to 2.0%, with both Croatia and Serbia as the largest of Hypo Alpe Adria's markets at the top of the range forecast to sustain heavy economic losses.

Even though the macro-economic outlook for nearly all SEE countries is a return to clearly positive figures in 2013, followed by, in part, impressive growth, the economy will not start to pick up before the second half of 2012. Hypo Alpe Adria is therefore assuming it is facing an extremely challenging year in all of its core markets and where all of its rationalisation and restructuring measures are concerned. While falling public investment, rising unemployment and shrinking asset values directly affect the banking business, the strained liquidity situation in conjunction with tightened stipulations on capital for financial institutions are putting the brakes on M&A activities and thus on the final steps in the reprivatisation process for the nationalised Hypo Alpe Adria.

In answer to the worsening economic forecasts and the additional capital requirements set down for Hypo Alpe Adria by the regulatory authorities, the bank has intensified its strategy to bring about the reprivatisation agreed as its target with its owner.

The actual point in time in which the sale can take place, however, remains in large part dependent on external factors such as the overall economic situation and a resolution of the sovereign debt crisis in Europe. The strategy of the bank is therefore directed at getting ready for the recovery in the markets and a return of investor activity by implementing far-reaching measures early on. Putting to one side the current problems, the SEE region, as the core region for Hypo Alpe Adria, remains a market with above-average growth potential from which potential investors could profit, either through acquiring the bank's whole SEE network or individual units in it.
From the point of view of the management, 2012 will be characterised by three main issues: pushing ahead with the

restructuring measures already introduced, to demonstrate the essential viability and profitability of the core strategic units within the bank that are being readied for reprivatisation; meeting the capital requirements stipulated by the Austrian regulatory authorities for the end of 2012 as far as it can from its own resources by downsizing the group and disposing of/winding down its risk-weighted assets; and dealing with the ongoing EU proceedings. All these objectives will be pursued with the instruction and the aim of avoiding drawing on the financial support of the Republic of Austria and thus not calling on the tax-payer to make any further contributions towards the rehabilitation and restructuring of Hypo Alpe Adria.

In addition to the organisational changes, which include the transfer of assets and demerger of areas of the business which no longer have a strategic fit, the measures to prepare for possible reprivatisation scenarios in all units in 2012 will be accompanied by an ambitious EUR 100 million efficiency programme. In view of the economic situation, which suggests only moderate growth in banking operations, the greater part of efficiency improvements will fall in the area of cost reduction, starting with exploiting all opportunities to reduce expenditures on goods and services, and also covering measures such as not filling positions which become vacant and aiming for a 10% reduction in posts over the level in autumn 2011. This step is an important precondition for the viability of the bank and its ability to be reprivatised, as its cost structure in certain sub-areas is still clearly over the levels usual for the sector.

While existing high-risk or already non-performing – particularly high-volume – credit will continue to be reduced, new credit will only be granted applying the newly-implemented guidelines for issuing credit. Moreover, these guidelines assume greater future self-funding by the subsidiary banks and, in contrast to the activities of the bank in the past, are concerned more with lower-volume transactions, typically with SMEs, independent companies and affluent private customers.

In terms of key performance figures, management assumes a reduction in liabilities to customers in 2012 as well as an increase in the deposits business. The strategic objective, in the interests of proving the viability of the bank and its constituent parts, is to improve and rehabilitate key central ratios such as the cost/income ratio, the loan/deposit ratio or the non-performing loans rate on a permanent basis.

As in previous years there will be extensive dialogue with the EU Commission during 2012. Apart from a continuous exchange of data, an updated restructuring plan was completed at the beginning of 2012 and, following close examination and agreement with the bank's owner, the Republic of Austria, submitted to the authorities in Brussels. The submitted report contains, amongst other things, a detailed business plan calculation setting out the viability and possible scenarios for a complete reprivatisation of the continuing parts of the business.

Despite the difficult macro-economic overall situation which is forecast to continue, management will drive forward the restructuring measures already introduced so as to achieve permanent stabilisation and risk-controlled growth of the banking business and thus progress towards reprivatisation in 2012. The bank's target for 2012 is to ensure the profitability demonstrated in last year's figures is structurally achieved on a sustainable basis and to present positive results for 2012, driven by the strategic and core parts of the business, in the interests both of the tax-payer, as well as the customers and staff of Hypo Alpe Adria.

Klagenfurt am Wörthersee, 12 March 2012
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Consolidated Financial Statements
as at 31 December 2011

Consolidated Financial Statements

I. Statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2011	1.1. - 31.12.2010 *
Interest and similar income	(42)	1,691.0	1,853.3
Interest and similar expenses	(43)	-937.8	-971.4
Net interest income		**753.3**	**881.9**
Fee and commission income	(44)	121.2	139.9
Fee and commission expenses	(45)	-48.1	-32.0
Net fee and commission income		**73.1**	**107.9**
Result from trading	(46)	20.2	10.8
Result from hedge accounting	(47)	0.2	2.0
Result from fin. investments - designated at fair value through profit or loss	(48)	106.3	-28.6
Result from fin. investments - available for sale	(49)	-54.8	-42.8
Result from other financial investments	(50)	1.9	-10.3
Other operating result	(51)	0.5	-123.9
Operating income		**900.7**	**796.9**
Risk provisions for loans and advances	(52)	-229.8	-1,213.5
Operating income after risk provisions for loans and advances		**670.9**	**-416.6**
Personnel expenses	(53)	-281.0	-266.1
Other administrative expenses	(54)	-237.7	-224.7
Depreciation and amortisation on tangible and intangible assets	(55)	-58.3	-103.2
Operating expenses		**-576.9**	**-594.0**
Operating result		**93.9**	**-1,010.6**
Result from companies accounted for at equity	(56)	0.9	2.1
Result before tax		**94.8**	**-1,008.5**
Taxes on income	(57)	-25.5	-70.6
Result after tax		**69.3**	**-1,079.0**
thereof attributable to non-controlling interests	(58)	10.2	6.3
thereof attributable to equity holders of parent (consolidated result after tax and non-controlling interests)		59.1	-1,085.3

* Prior-year values adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

Other comprehensive income

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010 *
Result after tax	**69.3**	**-1,079.0**
Gains/losses on available for sale-reserves	-49.5	-13.9
Foreign exchange differences (change in foreign currency reserve)	-11.1	-40.2
Tax effects from valuation of available for sale-assets	2.3	-4.2
Total other comprehensive income	**-58.3**	**-58.3**
Total comprehensive income	**10.9**	**-1,137.3**
thereof attributable to non-controlling interests	6.2	7.1
thereof attributable to equity holders of parent	4.7	-1,144.5

* Prior-year values adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

II. Statement of financial position

EUR m

	Note	31.12.2011	31.12.2010 adapted *	1.1.2010 adapted *
ASSETS				
Cash and balances at central banks	(59)	757.5	843.6	1,019.9
Loans and advances to credit institutions	(60)(62)	3,133.4	5,178.7	4,086.6
Risk provisions for loans and advances to credit institutions	(62)	-13.3	-13.1	-23.8
Loans and advances to customers	(61)(62)	26,722.4	28,217.5	30,116.6
Risk provisions for loans and advances to customers	(62)	-3,089.8	-3,189.6	-2,423.9
Trading assets	(61)	12.0	34.3	52.2
Derivative financial instruments	(64)	1,434.0	1,262.8	1,112.7
Financial investments - designated at fair value through profit or loss	(65)	760.6	878.2	919.7
Financial investments - available for sale	(66)(72)	2,651.7	2,527.3	2,714.2
Financial investments - held to maturity	(67)(72)	36.5	42.3	42.1
Investments in companies accounted for at equity	(68)(72)	1.4	5.1	1.7
Other financial investments	(69)(70)	985.4	1,034.3	1,088.5
thereof investment properties		837.5	795.7	725.8
thereof operate leases		147.9	238.6	362.8
Intangible assets	(71)	60.0	55.7	63.6
Tangible assets	(72)	359.8	453.4	484.8
Tax assets	(74)	104.4	86.1	635.4
thereof current tax assets		27.9	24.1	49.4
thereof deferred tax assets		76.5	62.0	586.0
Assets classified as held for sale	(75)	138.9	274.7	138.3
Other assets	(76)(62)	1,084.7	1,062.8	1,052.3
Risk provisions for loans and advances on other assets	(62)	-7.0	-8.1	-2.3
Total assets		**35,132.5**	**38,746.1**	**41,078.7**
EQUITY AND LIABILITIES				
Liabilities to credit institutions	(76)	5,678.4	6,351.2	7,556.6
Liabilities to customers	(78)	8,201.1	8,120.4	7,649.8
Debt securities in issue	(79)	17,147.4	20,141.8	20,761.0
Trading liabilities		0.0	0.0	0.0
Derivative financial instruments	(80)	716.3	649.4	404.8
Provisions	(81)	183.9	211.4	215.9
Tax liabilities	(82)	34.6	35.5	543.2
thereof current tax liabilities		2.8	23.5	29.4
thereof deferred tax liabilities		31.8	12.0	513.7
Liabilities included in disposal groups classified as held for sale	(83)	77.8	39.8	44.9
Other liabilities	(84)	524.0	587.6	705.3
Subordinated capital	(85)	1,155.6	1,187.8	1,207.1
Hybrid capital	(41)	119.6	141.4	130.2
Equity	(86)	1,413.3	1,421.3	1,990.1
thereof attributable to equity holders of parent		925.6	921.0	1,465.6
thereof attributable to non-controlling interests		487.7	500.3	524.5
Total equity and liabilities		**35,132.5**	**38,746.1**	**41,078.7**

* The items trading assets/trading liabilities result from hedge accounting and other assets/liabilities differ from the amounts published in the consolidated financial statements for 2010, due to reclassifications; those for tangible assets, other assets, provisions and equity due to the finalisation of the provisional purchase price allocation for an industrial participation. See note (1) Principles of accounting, note (5) Business combinations and note (8) Prior-year adjustments.

III. Statement of changes in equity

EUR m

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
Equity as at 1.1.2011	**1,623.3**	**0.0**	**-78.2**	**-56.9**	**-567.2**	**921.0**	**500.3**	**1,421.3**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-18.8	-18.8
Total comprehensive income	0.0	0.0	-43.2	-11.1	59.1	4.7	6.2	10.9
Result after tax	0.0	0.0	0.0	0.0	59.1	59.1	10.2	69.3
Other comprehensive income	0.0	0.0	-43.2	-11.1	0.0	-54.4	-4.0	-58.3
Other changes	-814.6	0.0	0.0	0.6	814.0	0.0	0.0	0.0
Equity as at 31.12.2011	**808.6**	**0.0**	**-121.4**	**-67.4**	**305.8**	**925.6**	**487.7**	**1,413.3**

EUR m

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total *
Equity as at 1.1.2010	**1,023.2**	**0.0**	**-59.0**	**-16.7**	**518.1**	**1,465.5**	**524.5**	**1,990.0**
Capital increases	600.0	0.0	0.0	0.0	0.0	600.0	0.1	600.1
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-21.4	-21.4
Total comprehensive income	0.0	0.0	-19.2	-40.1	-1,085.3	-1,144.4	7.1	-1,137.3
Result after tax	0.0	0.0	0.0	0.0	-1,085.3	-1,085.3	6.3	-1,079.0
Other comprehensive income	0.0	0.0	-19.2	-40.1	0.0	-59.1	0.9	-58.3
Other changes	0.0	0.0	0.0	0.0	-0.1	-0.1	-10.0	-10.1
Equity as at 31.12.2010	**1,623.3**	**0.0**	**-78.2**	**-56.9**	**-567.2**	**921.0**	**500.3**	**1,421.3**

* Prior-year values adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

For further information on equity, please refer to note (86) Equity and note (123) Participation capital.

IV. Statement of cash flows

EUR m

	2011	2010 *
Result after tax	**69.3**	**-1,079.0**
Non-cash items included in profit and reconciliation to cash flows from operating activities:		
Depreciation and amortisation of tangible fixed assets and financial investments	147.2	288.1
thereof financial investments	10.6	37.4
thereof intangible and tangible assets	136.6	250.7
Change in risk provisions	111.7	1,053.2
Change in provisions	-6.3	40.8
Gains (losses) from disposals of tangible fixed assets and financial investments	9.7	-4.0
Financial investments	11.4	1.1
Intangible and tangible assets	-1.7	-5.1
Subtotal	**331.6**	**299.0**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	3,455.2	400.8
Financial assets	-64.3	179.7
Trading assets	22.3	18.2
Other assets	-210.4	355.3
Liabilities to credit institutions and customers	-585.4	-748.0
Debt securities in issue	-2,994.5	-620.1
Provisions	-21.1	-45.3
Other liabilities from operating activities	34.1	-372.8
Cash flows from operating activities	**-32.4**	**-533.3**
Proceeds from the sale of:	200.2	258.5
Financial investments and participations	0.9	2.4
Tangible and intangible assets	199.4	256.1
Payments for purchases of:	-236.0	-451.1
Financial investments and participations	-3.4	-24.8
Tangible and intangible assets	-232.5	-426.3
Payments for sale of subsidiaries	0.3	0.3
Payments for acquisitions of subsidiaries	-7.8	-14.1
Other changes	24.3	45.8
Cash flows from investing activities	**-19.0**	**-160.6**
Capital contributions	0.0	600.1
Subordinated capital and other financing activities	-32.8	-29.4
Dividends paid	-18.8	-21.4
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non-controlling interest	-18.8	-21.4
Cash flows from financing activities	**-51.5**	**549.2**

* Prior-year values adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

EUR m

	2011	2010 *
Cash and cash equivalents at end of previous period (1.1.)	**843.6**	**1,019.9**
Cash flows from operating activities	-32.4	-533.3
Cash flows from investing activities	-19.0	-160.6
Cash flows from financing activities	-51.5	549.2
Effect of exchange rate changes	16.8	-31.7
Cash and cash equivalents at end of period (31.12.)	**757.5**	**843.6**

* Prior-year values adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

For further information on the cash flow statement, please refer to note (87) Statement of cash flows.

V. Notes to the consolidated financial statements

Company

Hypo Alpe-Adria-Bank International AG was founded in 1896 as Landes- und Hypothekenbankanstalt, and operates as the parent company of Hypo Alpe Adria. It is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under company registration number FN 108415i. The registered office and headquarters of the group are located at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, Austria.

Hypo Alpe Adria is one of the leading banking groups in the Alps-to-Adriatic region and is represented by nine banks and twelve leasing companies across the region. Hypo Alpe Adria serves the retail banking, SME, corporate and public sectors, offering the classical banking products such as financing, payment transaction, documentation and investment services; savings and deposits; as well as leasing finance.

On 12 May 2009 the European Commission opened a joint investigation into BayernLB and Hypo Alpe-Adria-Bank International AG. This investigation is currently conducting an in-depth examination of the state aid received in the years 2008 to 2010. For further details of this aid investigation, please refer to note (126) Important proceedings. The European Commission's investigation is still ongoing at the present time. No assumptions can be made as to the date at which the aid investigation will be completed or what its conclusions will be. Significant effects on the business activities of the entire banking group cannot be ruled out as they are dependent on whether permanent approval is granted, along with any constraints related to the decision. With regard to assessing Hypo Alpe Adria's continuance as a going concern, the Executive Board draws on the same assumptions that underpin the group's restructuring plan, although there continues to be uncertainty with regard to the future economic performance, given the current volatility in economic and financial markets.

In the Joint Risk Assessment & Decision Process ("JRAD") conducted by the supervisory authorities, Hypo Alpe Adria was presented with stipulations relating to the minimum requirements for own capital funds, to be met by the deadline of 31 December 2012. The business plan for Hypo Alpe Adria assumes the stipulated capital funds ratio will be met through a reduction in risk capital and a further improvement in the risk management processes and procedures. Please refer to note (93.3) Joint Risk Assessment & Decision Process ("JRAD") for further details.

The bank committed itself, back in June 2010, together with the Federal Republic to account for its actions in the past in the context of a "Post Acquisition Due Diligence" exercise, which is taking place under the project name of "CSI Hypo".

Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria since 30 December 2009. The medium-term goal is to reprivatise the bank and to repay as much of the money invested by the tax-payer as possible; the preferred option would be to sell the group as a whole in order to retain the SEE network with the holding company in Klagenfurt am Wörthersee.

Hypo Alpe-Adria-Bank International AG is the ultimate parent company for Hypo Alpe Adria. The consolidated financial statements for the group will be published in the official gazette (Wiener Zeitung) as well as on www.hypo-alpe-adria.com (Investor Relations/Financial reports). Disclosure is made in the commercial register as well as at the address of Hypo Alpe-Adria-Bank International AG, Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee.

Accounting policies and scope of consolidation

(1) Significant accounting policies

The consolidated financial statements of Hypo Alpe Adria as at 31 December 2011 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and include comparative figures for 2010 which were drawn up according to the same accounting principles. Please refer to note (3) Use of estimates and assumptions/uncertainties in connection with estimates with regard to estimates and assumptions in accordance with IAS 8. The consolidated financial statements of Hypo Alpe Adria as at 31 December 2011 were prepared in conformity with section 245a of the Austrian Commercial Code (UGB) and section 59a of the Austrian Banking Act (BWG) in accordance with Regulation (EC) No. 1606/2002 (the IAS Directive) 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 statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes, which also include segment reporting. The consolidated financial statements are based on the reporting packages of all fully consolidated subsidiaries prepared in accordance with group standards and IFRS. All fully consolidated subsidiaries have drawn up their financial statements for the period ended 31 December. As required by IAS 27, Hypo Alpe Adria applies uniform accounting principles throughout the group. The consolidated financial statements are prepared on a going concern basis. With regard to possible effects arising from the EU proceedings and the Joint Risk Assessment & Decision ("JRAD") proceedings, and any uncertainties which may result from these, please refer to the “Company” section as well as note (126) Important proceedings and note (93.3.) Joint Risk Assessment & Decision ("JRAD") process.

The consolidated financial statements are generally prepared in line with the cost principle. The exceptions to this are derivative financial instruments and financial investments held for sale, as well as financial investments and liabilities which have been designated for measurement under the fair value principle. The carrying amounts of assets and liabilities shown in the statement of financial position, which are underlying transactions related to fair value hedges and would otherwise be recognised at amortised cost, are adjusted for changes in fair value which arise from hedged risks for effective hedging relationships.

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, which is part of the notes.

In order to provide greater transparency, Hypo Alpe Adria has modified the presentation of derivative financial instruments in the statement of financial position. Please refer to note (8) Prior-year adjustments.

All figures in the consolidated financial statements are expressed in millions of euros (EUR m); the euro is the functional currency. The tables may contain rounding differences.

The Executive Board of Hypo Alpe Adria approved the consolidated financial statements as at 31 December 2011 for publication on 12 March 2012 by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it ratifies the consolidated financial statements as at 31 December 2011.

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were applied by Hypo Alpe Adria for the first time in 2011:

Standard	Description		Compulsory for annual period
Various	(IFRS May 2010)	Improvements	2011
IFRS 3	Business combinations	Assessment option for non-controlling interests	2011
IFRS 7	Financial instruments - information	Information simplifications	2011
IAS 1	Presentation of financial statements	Analysis of other results	2011
IAS 34	Interim financial reporting	Additional information on material events and transactions	2011

In May 2010 the IASB published its third standard collection on the changes to various IFRS, with the principal aim of eliminating inconsistencies and clarifying wordings. IFRS 3: the measurement options available for non-controlling interests have been changed. IFRS 7: the aim of changing IFRS 7 was to simplify the information to be supplied through reducing the scope of the information to be supplied on collateral held and to improve it through additional qualitative information supplementing the quantitative information. IAS 1: the change makes it clear that a company can present the analysis of each item forming part of the "other results" either in the statement of changes in equity or in the notes.

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were not applied by Hypo Alpe Adria, as no transactions of that nature have occurred within the group:

Standard	Description		Compulsory for annual period
Various	(IFRS May 2010)	Improvements	2011
IFRS 3	Business combinations	Accounting for consideration, share-based compensation plans	2011
IAS 27	Consolidated and separate financial statements	Application of transitional provisions of IAS 27	2011
IFRIC 13	Customer loyalty programmes	Award credits	2011
IAS 32	Classification of rights	Definition of a financial liability adjusted	2011
IFRS 1	Limited exemption from first-time comparative IFRS 7 disclosures for first-time adopters	First-time adopter	2011
IFRIC 14 to IAS 19	Prepayments of minimum funding requirements	Plan assets	2011
IFRIC 19	Repayment of financial instruments with equity instruments	Equity instruments	2011

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, are not yet mandatory:

Standard	Description		Compulsory for annual period
IFRS 7	Information on transfers of financial assets	Amendments	2012

The additions to IFRS 7, Financial instruments – information, which extend disclosure obligations while retaining the derecognition rules of IAS 39, extend the information to be given in the notes on transfers of financial assets, where the transferor retains a lasting interest in the assets being transferred. Additional information must be supplied when an unusually large sum is transferred at the end of the reporting period. The amendment must be applied for financial years starting on or after 1 July 2011; earlier application is permitted. The bank does not expect the amendment to have a material influence on the consolidated financial statements. The standard was not applied ahead of the deadline.

The following new standards and interpretations, which were issued by the IASB, have not yet been adopted by the EU and were therefore not applied prematurely:

Standard	Description		Compulsory for annual period
IFRS 1	Severe hyperinflation	amendments	2012
IFRS 9	Financial instruments	2009	2015
IFRS 9	Financial instruments	2010	2015
IFRS 10	Consolidated financial statements	-	2013
IFRS 11	Joint arrangements	-	2013
IFRS 12	Disclosure of interests in other entities	-	2013
IFRS 13	Fair value measurement	-	2013
IAS 1	Presentation of items of other comprehensive income	amendments	2013
IAS 12	Deferred taxes: recovery of underlying assets	amendments	2012
IAS 19	Employee benefits	revised 2011	2013
IAS 27	Separate financial statements	revised 2011	2013
IAS 28	Investments in associates and joint ventures	revised 2011	2013

The new standard IFRS 9 “Financial Instruments: Classification and Measurement” is expected to lead to significant adjustments for Hypo Alpe Adria in relation to the classification of financial instruments. In future, instead of the previous four measurement categories of IAS 39 (see note (10) Financial instruments: recognition and measurement (IAS 39)), there will only be two measurement categories under IFRS 9, for which classification will be determined based either on the business model or the characteristics of the financial asset. The measurement of these assets is primarily carried out at amortised cost if the objective of the business model is to hold the financial asset to collect the contractual cash flows or if the contractual terms of the financial asset stipulate interest payments or principal payments on specified dates. Should it not be possible to define these two factors, the financial instruments must in general be measured at fair value through profit or loss. All equity investments within the scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss. The only possible exception is for those equity investments measured at fair value for which the entity has elected to report value changes in ‘other comprehensive income’ (at fair value through other comprehensive income, FVTOCI). If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss. Furthermore, it will no longer be compulsory to account separately for embedded derivatives, instead these will be measured as an entire financial instrument at fair value through profit or loss. Application of the new standard is mandatory for financial years commencing on or after 1 January 2015; simplified rules for presenting prior-year figures would apply if the standard were voluntarily applied ahead of the deadline. At the time of writing, IFRS 9 has not yet been adopted in European law as part of the Endorsement Process. The group is currently investigating the effect its application will have on the consolidated financial statements.

IFRS 10 replaces the rules hitherto contained in IAS 27 and SIC 12 on controlling interests and consolidation and introduces a standardised consolidation model. IFRS 11 replaces the previous IAS 31 on joint arrangements and introduces a modified terminology and classification of companies as joint arrangements. IFRS 12 sets out required disclosures which make it possible for those studying the financial statements to judge the type, risk and financial implications of the company's interests in subsidiaries, associated companies, joint agreements and special purpose entities. Application of the new standards is mandatory for financial years commencing on or after 1 January 2013. The group is currently looking at the effects their application will have on the consolidated financial statements.

IFRS 13 provides uniform benchmarks for the recognition of fair value which apply to all standards, by giving a definition of the terms used and showing which method can be used for recognition. In addition, the disclosure requirements in the notes have been expanded. The new standard is prospectively to be mandatory for financial years beginning on or after 1 January 2013; but can be applied earlier. The group is assuming that application of the new standard, insofar as it is adopted by the EU in this form, will lead to extended disclosures in the notes. The changes in IAS 1 require the items in other comprehensive income to be split out into items which could be reclassified to the statement of comprehensive income at a later date (so-called recycling) and those which cannot. Application of the amendments to IAS 1 is mandatory for financial years beginning on or after 1 July 2012; but can be applied earlier. The group does not at this point expect the amendment, insofar as it is adopted by the EU in this form, to have a material influence on the presentation of the consolidated financial statements.

Following the change to IAS 12, the measurement of deferred taxes is now dependent on whether the carrying amount of an asset is realised through its use or its sale. The amendment therefore provides for an assumption that the value of property held as financial investments and measured at present value will be recovered through its sale. Application of the amended standard is mandatory for financial years beginning on or after 1 January 2012; earlier application is permitted. As measurement of property held as financial investments is carried out according to the historical costs principle at Hypo Alpe Adria, the group does not assume there will be any effect from this amendment to the standard. The changes to IAS 19 primarily concern the discontinuation of deferred accounting of actuarial gains and losses (so-called corridor method) in favour of their immediate recognition under other results within equity, the presentation of changes in net liabilities/assets from defined benefit pension plans and the recognition of net interest expense or income from the net liabilities or net assets of a pension plan. In addition, there is a requirement for further disclosures in the notes on the characteristics of the pension plans and the attendant risks for the company. Application of the amendments to IAS 19 is mandatory in financial years commencing on or after 1 January 2013; earlier application is permitted. As Hypo Alpe Adria already recognises all actuarial gains or losses immediately in income and does not take any plan assets into account, no material effect on the consolidated financial statements is expected.

The modifications to IAS 27 contain rules on the presentation in the accounts and disclosures in the notes about subsidiaries, joint arrangements and associated companies that are only relevant for separate financial statements drawn up under IFRS; and therefore have no implications for Hypo Alpe Adria.

The modified IAS 28 deals with accounting for shares in associate companies and the requirements for applying the equity method when accounting for shares in associate companies and joint arrangements. The group is currently examining the effect the application of this amendment will have on the consolidated financial statements; however, it can already be stated that such shares are of non-material importance to Hypo Alpe Adria.

(2) Changes to parameters in connection with determining fair value

As a result of the buy-back in the first half of 2011 of government guaranteed bonds (GGBs) backed by the Republic of Austria, the fair value of state-guaranteed own issues designated at fair value as well as the input parameters derived from the related hedging transactions had to be reset. Following evaluation, the input parameters were redefined on the basis of observable market spreads for the state-guaranteed own issues. Due to the fact that, as a consequence of the financial crisis, there was not a sufficiently liquid market for these state-guaranteed issues, they are now no longer subject to such high temporary fluctuations and trading of them is now sufficiently liquid again. The effect of these special effects on the result for 2011 came to EUR +66.4 m.

(3) Use of estimates and assumptions/uncertainties in connection with estimates

The consolidated financial statements contain values based on discretionary decisions and which have been calculated using estimates and assumptions. Important uncertainties relate in particular to the going concern principle, establishing risk provisions for loans and advances, assessing fair values, measurement of equity investments, the recognition of deferred taxes on tax loss carry-forwards, the treatment of deferred tax risks, performance-related insurance schemes and leasing relationships.

With regard to the assessment of the continuance of the Hypo Alpe Adria group as a going concern, please refer to note (126) Important proceedings as well as note (93.3.) Joint Risk Assessment & Decision Process ("JRAD").

Hypo Alpe Adria continuously assesses the recoverability of its problem loans and leasing receivables and allows for impairment by accruing risk provisions for loans and advances should there be indications to suggest impairment. To assess the recoverability, the amount, the time period, and probability of payment is measured. This measurement is based on a detailed analysis of carefully ascertained assumptions which are subject to uncertainties. When making estimates it was assumed that economic growth will remain subdued on the relevant markets, and this is reflected in the measurement of available collateral for the credit and leasing portfolios. A different assessment of these assumptions results in significantly different valuations of risk provisions for loans and advances. The actual loan defaults can therefore differ significantly from the risk provisions for loans and advances reported in these consolidated financial statements. Considering the current weakness in the economy, the possibility cannot be discounted that it will be necessary to make further provisions for the existing loan portfolio in 2012. For further information on the methodology employed in making risk provisions for loans and advances, please see note (20) Risk provisions for loans and advances. For the valuation of certain real estate items offered as collateral, which were of sufficient quality and in an appropriate location, a moderate recovery in the market in the coming years was assumed for the calculation of present value for the purposes of making loan loss allowances (specific risk provisions). It has also been assumed that a reversal of impairment losses can be achieved through active restructuring and targeted wind-down management. If developments in the real estate markets prove to be different to the assumptions made, this will influence the potential for reversals of impairment losses, with corresponding effects on the actual future earnings realised from real estate. Subsequent to the Review Rush exercise completed at the beginning of 2011, the value of the commercial and private real estate collateral was updated where necessary in accordance with the stipulations of the regulatory authorities ("Valuation Rush"). For further information, please refer to note (91.2.) Revaluation of real estate collateral in the risk report.

The fair value of financial instruments for which there are no active markets is established by means of various valuation models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is established on the basis of estimates. In Hypo Alpe Adria fair value is calculated through comparison with the fair value of another financial instrument that is essentially identical and analysis of discounted cash flows and option pricing models. Further details on measuring financial instruments are given in note (10) Financial instruments: recognition and measurement (IAS 39).

The measurement of equity investments in non-consolidated entities relates primarily to special purpose entities (SPEs). The intrinsic value of these SPEs is verified annually through new expert appraisals, whereby these valuations are based on cash flow forecasts on the basis of time periods specific to projects and markets as well as on discounted interest rates.

Deferred tax assets from loss carry-forwards are recorded when it is probable that future taxable profits will be made which will enable these tax losses to be offset. The basis for these estimates is the respective business plans which have a time horizon of five years. Given the history of losses and the uncertainties arising from the restructuring of the group, there has been no capitalisation of loss carry-forwards since 2010 for the members of the Hypo Alpe-Adria-Bank International AG Austrian tax group. The recognition of tax risks has been carried out in accordance with the recognition criteria in IAS 37. There is no recognition of deferred tax risks viewed as unlikely to materialise or the extent of which cannot be reliably estimated, either as a provision or as a contingent liability.

The costs of the performance-based pension plan are calculated using an actuarial process. The actuarial valuation is based on assumptions relating to discount rates, expected returns and asset values, future salary levels, mortality and future rises in pension rates. The assumptions and estimates made for the calculation of long-term employee obligations are described in note (33) Provisions for pensions and similar provisions. Quantitative data on long-term employee benefit provisions is given in note (81) Provisions.

Hypo Alpe Adria takes the view that it must make discretionary decisions as a lessor – in particular with regard to differentiating between finance leases and operate leases – and uses as its criterion whether all principal risks and opportunities are transferred from the lessor to the lessee.

(4) Scope of consolidation

These consolidated financial statements comprise 24 Austrian companies (2010: 32) – including Hypo Alpe-Adria-Bank International AG – and 81 (2010: 81) foreign subsidiaries:

	2011 Fully consolidated	2011 Equity method	2010 Fully consolidated	2010 Equity method
Start of period (1.1.)	**108**	**5**	**117**	**5**
Newly included in period under review	9	0	6	1
Merged in period under review	-2	0	-9	-
Excluded in period under review	-14	-1	-7	-
Reclassified	0	0	1	-1
End of period (31.12.)	**101**	**4**	**108**	**5**
thereof Austrian companies	22	2	30	2
thereof foreign companies	79	2	78	3

The following nine companies were included in the consolidation for the first time in the 2011 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100.0%	Fully consolidated	Foundation
PROBUS Real Estate GmbH	Vienna	100.0%	Fully consolidated	Foundation
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.0%	Fully consolidated	Foundation
Alpe-Adria-Projekt GmbH	Munich	100.0%	Fully consolidated	Foundation
CEDRUS Handels- und Beteiligungs GmbH	Vienna	100.0%	Fully consolidated	Foundation
TCK d.o.o.	Ljubljana	100.0%	Fully consolidated	Materiality
TCV d.o.o.	Ljubljana	100.0%	Fully consolidated	Foundation
BORA d.o.o. Banja Luka	Banja Luka	100.0%	Fully consolidated	Foundation
SKIPER OPERACIJE d.o.o.	Savudrija	100.0%	Fully consolidated	Foundation

Hypo Alpe-Adria-Leasing d.o.o. Banja Luka was founded in 2011 as a direct subsidiary of Hypo Alpe-Adria-Bank A.D. Banja Luka and offers new financing services for leasing in Bosnia and Herzegovina. The leasing business which had previously been run out of Sarajevo was closed down, HYPO ALPE-ADRIA-LEASING d.o.o. Sarajevo was renamed HETA d.o.o. Sarajevo and the company was allocated to the segment "Wind-down financials".

PROBUS Real Estate GmbH was set up in 2011 to manage the real estate sales activities in a single centre of expertise und to manage the real estate stock. The company additionally assists the country subsidiaries with asset management and provides services primarily in the area of transaction services relating to large real estate sales and the sale of property portfolios with the objective of achieving the rapid disposal of the extensive property portfolio.

CEDRUS Handels- und Beteiligungs GmbH is a recently founded company based in Klagenfurt am Wörthersee, to which certain assets were transferred in 2011 as part of a spin-off by HYPO Vermögensverwaltung Gesellschaft m.b.H – including the holding in HYPO ALPE-ADRIA-LEASING HOLDING GMBH.

The companies which deal with the winding-down of the portfolio (see note (130) Rationalisation of the portfolio in the SEE network) have been included for the first time. These are: BORA d.o.o. Banja Luka Bosnia and Herzegovina, TCK d.o.o. Slovenia, and TCV d.o.o. Slovenia, to which the portfolios of going concern entities were transferred as of 31 December 2011.

Skiper Operacije d.o.o. is a newly-founded operating company which took over the administration of Hoteli Skiper d.o.o. in the third quarter of 2011.

Companies which are of secondary importance to Hypo Alpe Adria, either because of reduced business activities or because of planned liquidation, are excluded from the scope of consolidation. 17 fully-consolidated subsidiaries were excluded from the scope of consolidation in the course of the 2011 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
WS Liegenschaftsverwaltungs GmbH in Liqu.	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Liquidation
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
Hypo Cityimmobilien-Klagenfurt GesmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
TRP Projektentwicklungs GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
Lamplhof Betriebs GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
Schlosshotel Velden GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Sale
Schloss Velden Appartementerrichtungs GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Sale
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH in Liqu.	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Liquidation
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH in Liqu.	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Liquidation
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
PROJEKT NEKRETNINE d.o.o.	Zagreb	100.0%	Fully consolidated	Merger
MAGUS d.o.o. u likvidaciji	Zagreb	100.0%	Fully consolidated	Materiality
Brokersko dilerska kuća HYPO ALPE-ADRIA-VRIJEDNOSNICE d.o.o., Sarajevo	Sarajevo	100.0%	Fully consolidated	Merger
BROKERSKO-DILERSKO DRUŠTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD-U LIKVIDACIJI	Belgrade	100.0%	Fully consolidated	Materiality
HYPO Alpe-Adria Leasing Kft.	Budapest	100.0%	Fully consolidated	Materiality
PRAMOLLO S.P.A. - IN LIQUIDAZIONE	Udine	100.0%	At equity	Liquidation
Hypo Group Netherlands Finance B.V.	Amsterdam	100.0%	Fully consolidated	Materiality

In the 3rd quarter of 2011, all shares in Schlosshotel Velden GmbH and Schloss Velden Appartmenterrichtungs GmbH were transferred to an investor. As a result of the impairment charges already recorded against the asset value of the Schlosshotel in the previous year, the sale only produced a result of EUR 0.2 m which had no material impact on the 2011 income statement.

(5) Business combinations

No business acquisitions were made in 2011.

The 83.97% interest acquired in TLM-TVP d.o.o., Sibenik was capitalised for the first time in the consolidated financial statements as at 31 December 2010 in accordance with IFRS 3.45 on the basis of a provisional purchase price allocation (PPA), as not all information was available at the time to make a final purchase price allocation. The final purchase price allocation has been made in the 2011 financial year and resulted in an adjustment to the prior-year reported result after tax of EUR -24.6 m.

The final adjustments to the initial consolidation, which was made on 1 September 2010, are as follows:

EUR m

Assets	TLM-TVP d.o.o.	Preliminary purchase price allocation adjustments	Final purchase price allocation additional adjustment	TLM-TVP d.o.o. after purchase price allocation adjustments
Loans and advances to credit institutions	0.3	0.0	0.0	0.3
Loans and advances to customers	0.9	0.0	0.0	0.9
Tangible assets	49.2	-29.8	-4.5	15.0
Other assets	54.8	0.0	-4.1	50.7
Total assets	**105.2**	**-29.8**	**-8.6**	**66.9**

EUR m

Liabilities	TLM-TVP d.o.o.	Preliminary purchase price allocation adjustments	Final purchase price allocation additional adjustment	TLM-TVP d.o.o. after purchase price allocation adjustments
Liabilities to credit institutions	71.8	1.3	-0.1	73.0
Provisions	0.7	0.0	19.9	20.6
Other liabilities	32.6	0.0	1.3	33.9
Equity	0.1	-31.1	-29.6	-60.6
Total liabilities	**105.2**	**-29.8**	**-8.6**	**66.9**

As a result of the final purchase price allocation, total adjustments of EUR -38.4 m were made to the assets and liabilities acquired, which were recognised as an expense for 2010. As a consequence of the final purchase price allocation exercise, a further EUR -8.6 m had to be written down on the preliminary valuation, as the fair value was found to be lower on an individual asset basis. There was a requirement for an additional EUR 19.9 m in provisions, primarily due to open administrative proceedings.

EUR m

	1.1.-31.12.2010 Incl. final purchase price allocation	Final purchase price allocation additional adjustment	1.1.-31.12.2010 Incl. preliminary purchase price allocation adjustment
Interest and similar income	1,853.3	0.0	1,853.3
Interest and similar expenses	-971.4	0.0	-971.4
Net interest income	**881.9**	**0.0**	**881.9**
Fee and commission income	139.9	0.0	139.9
Fee and commission expenses	-32.0	0.0	-32.0
Net fee and commission income	**107.9**	**0.0**	**107.9**
Result from trading	10.8	0.0	10.8
Result from hedge accounting	2.0	0.0	2.0
Result from fin. investments - designated at fair value through profit or loss	-28.6	0.0	-28.6
Result from fin. investments - available for sale	-42.8	0.0	-42.8
Result from other financial investments	-10.3	0.0	-10.3
Other operating result	-123.9	-25.4	-98.5
Operating income	**796.9**	**-25.4**	**822.3**
Risk provisions for loans and advances	-1,213.5	0.0	-1,213.5
Operating income after risk provisions for loans and advances	**-416.6**	**-25.4**	**-391.2**
Personnel expenses	-266.1	0.0	-266.1
Other administrative expenses	-224.7	0.0	-224.7
Depreciation and amortisation on tangible and intangible assets	-103.2	0.8	-104.0
Operating expenses	**-594.0**	**0.8**	**-594.8**
Operating result	**-1,010.6**	**-24.6**	**-985.9**
Result from companies accounted for at equity	2.1	0.0	2.1
Result before tax	**-1,008.5**	**-24.6**	**-983.8**
Taxes on income	-70.6	0.0	-70.6
Result after tax	**-1,079.0**	**-24.6**	**-1,054.4**
thereof attributable to non-controlling interests	6.3	0.1	6.2
thereof attributable to equity holders of parent (consolidated result after tax and non-controlling interests)	-1,085.3	-24.8	-1,060.6

The adjusted consolidated statement of financial position for 2010 is as follows:

EUR m

ASSETS	31.12.2010 Incl. final purchase price allocation	Final purchase price allocation additional adjustment	31.12.2010 Incl. preliminary purchase price allocation adjustment
Cash and balances at central banks	843.6	0.0	843.6
Loans and advances to credit institutions	5,178.7	0.0	5,178.7
Risk provisions for loans and advances to credit institutions	-13.1	0.0	-13.1
Loans and advances to customers	28,217.5	0.0	28,217.5
Risk provisions for loans and advances to customers	-3,189.6	0.0	-3,189.6
Trading assets	34.3	0.0	34.3
Derivative financial instruments	1,262.8	0.0	1,262.8
Financial investments - designated at fair value through profit or loss	878.2	0.0	878.2
Financial investments - available for sale	2,527.3	0.0	2,527.3
Financial investments - held to maturity	42.3	0.0	42.3
Investments in companies accounted for at equity	5.1	0.0	5.1
Other financial investments	1,034.3	0.0	1,034.3
Intangible assets	55.7	0.0	55.7
Tangible assets	453.4	-3.1	456.5
Tax assets	86.1	0.0	86.1
Assets classified as held for sale	274.7	0.0	274.7
Other assets	1,062.8	-4.0	1,066.8
Risk provisions for loans and advances on other assets	-8.1	0.0	-8.1
Total assets	**38,746.1**	**-7.1**	**38,753.2**

EQUITY AND LIABILITIES	31.12.2010 Incl. final purchase price allocation	Final purchase price allocation additional adjustment	31.12.2010 Incl. preliminary purchase price allocation adjustment
Liabilities to credit institutions	6,351.2	1.1	6,350.0
Liabilities to customers	8,120.4	0.0	8,120.4
Debt securities in issue	20,141.8	0.0	20,141.8
Trading liabilities	0.0	0.0	0.0
Derivative financial instruments	649.4	0.0	649.4
Provisions	211.4	19.6	191.8
Tax liabilities	35.5	0.0	35.5
Liabilities included in disposal groups classified as held for sale	39.8	0.0	39.8
Other liabilities	587.6	1.3	586.3
Subordinated capital	1,187.8	0.0	1,187.8
Equity	1,421.3	-29.1	1,450.4
thereof attributable to equity holders of parent	921.0	-24.5	945.4
thereof attributable to non-controlling interests	500.3	-4.7	504.9
Total equity and liabilities	**38,746.1**	**-7.1**	**38,753.2**

(6) Consolidation methods

Business combinations are accounted for in accordance with IFRS 3 (Business Combinations) using the acquisition method. All identifiable assets and liabilities of the respective subsidiary are recognised at their acquisition-date fair values. 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. If the difference is negative, the resulting gain is recognised in profit or loss. 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 included in the consolidated income statement as from the date of acquisition.

For reporting shares in joint ventures the equity method has been used for consolidation and the carrying amount determined by the equity method is shown separately in the statement of financial position. There are in total five companies included in the consolidation which have been accounted for using the equity method.

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 non-controlling shareholders in equity, without impact on profit or loss.

In the course of eliminating intragroup balances, loans and receivables between consolidated subsidiaries are eliminated in full. In the same way, intragroup income and expenses are eliminated within the framework of expense and income consolidation.

Interests in equity attributable to non-group shareholders and the non-group share in profit or loss of consolidated subsidiaries are recognised separately in equity and in the income statement under the item non-controlling interest.

(7) Foreign currency translation

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

Open forward transactions are translated at forward rates.

The assets and liabilities of foreign operations are translated into euros at the closing rates. Income and expense is translated at the average rates for the period, as long as these do not differ significantly from the actual exchange rates. The resulting exchange differences are reported in other income. The entry for a foreign operation in other income is to be reclassified in the income statement in the event of the sale of the foreign operation.

Exchange differences attributable to non-controlling interest are shown under non-controlling interest.

The functional currency of the two leasing subsidiaries in Serbia is the euro rather than the local currency (RSD).

IAS 29 "Financial Reporting in Hyperinflationary Economies" is not relevant to Hypo Alpe Adria and has therefore not been applied.

The following rates published by the ECB and Oesterreichische Nationalbank were used for foreign currency translation of the foreign financial statements:

Foreign currency translation Rates in units per EUR	Closing date 31.12.2011	Average 2011	Closing date 31.12.2010	Average 2010
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.53700	7.44410	7.38300	7.29530
Swiss franc (CHF)	1.21560	1.23330	1.25040	1.37870
Serbian dinar (RSD)	104.64090	102.30590	105.49820	102.90290
Hungarian forint (HUF)	314.58000	280.46000	277.95000	276.03920
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	10.29810	11.09210	10.57310	10.55410
Macedonian denar (MKD)	61.50500	61.53170	61.50500	61.49890

(8) Prior-year adjustments

As a result of the final purchase price allocation for TLM-TVP, an adjustment to the other assets and other liabilities values was also necessary. This had material effects on the statement of consolidated income and the consolidated statement of financial position. For detailed information on the final purchase price allocation please refer to note (5) Business combinations.

In the interests of increased transparency, Hypo Alpe Adria has adjusted the presentation of the derivative financial instruments. Derivative financial instruments previously reported under trading assets, trading liabilities, other financial investments, other liabilities and positive and negative fair values are now summarised and reported under the single item derivative financial instruments, with the prior-year values adjusted accordingly. Apart from the reclassification of the items, there were no further effects on the statement of consolidated income or the consolidated statement of financial position. The change to balance sheet reporting of derivative financial instruments is shown in the table below:

EUR m

	31.12.2010	1.1.2010
Trading assets old	**66.9**	**72.9**
+/- Reclassification to derivative financial instruments	-32.6	-20.7
Trading assets new	**34.3**	**52.2**

EUR m

	31.12.2010	1.1.2010
Derivative financial instruments old (hedge accounting)	**1,048.1**	**933.3**
+/- Reclassification from trading assets, financial assets, other assets	214.7	179.4
Derivative financial instruments new	**1,262.8**	**1,112.7**

EUR m

	31.12.2010	1.1.2010
Financial investments - designated at fair value through profit or loss	**996.0**	**1,039.6**
+/- Reclassification to derivative financial instruments	-117.8	-119.9
Financial investments - designated at fair value through profit or loss new	**878.2**	**919.7**

EUR m

	31.12.2010	1.1.2010
Other assets old	**1,131.1**	**1,091.2**
+/- Reclassification to derivative financial instruments	-64.3	-38.9
- Adjustment final purchase price allocation	-4.0	0.0
Other assets new	**1,062.8**	**1,052.3**

EUR m

	31.12.2010	1.1.2010
Trading liabilities old	**6.2**	**4.8**
+/- Reclassification to derivative financial instruments	-6.2	-4.8
Trading liabilities new	**0.0**	**0.0**

EUR m

	31.12.2010	1.1.2010
Derivative financial instruments old (hedge accounting)	**167.8**	**126.7**
+/- Reclassification from trading assets and other liabilities	481.6	278.1
Derivative financial instruments new	**649.4**	**404.8**

EUR m

	31.12.2010	1.1.2010
Other liabilities old	**1,061.7**	**978.6**
+/- Reclassification to derivative financial instruments	-475.4	-273.3
- Adjustment final purchase price allocation	1.3	0.0
Other liabilities new	**587.6**	**705.3**

In addition, certain item classifications were made in the 2011 consolidated financial statements relating to the 2010 financial year that were different to the prior-year classification: adjustments to the prior-year values were made in connection with this.

(9) Securitisation

The securitisation of debt portfolios is an established instrument used by Hypo Alpe Adria to gain access to additional sources of liquidity through placing asset-backed securities (ABS) with investors or as part of a repurchase agreement in the international capital market. Beyond its main use as a method of refinancing, the securitisation method should be deployed as an integrative part of the overall management of the bank. Hypo Alpe Adria acts both as the originator as well as the investor and co-arranger in the securitisation of its debt portfolios. Hypo Alpe Adria, additionally, conducts swap partner and credit enhancement activities for individual transactions.

According to IAS 39.17, a financial asset may only be derecognised when either the contractual right to payment streams from a financial asset expires or the financial asset is transferred and that proportion of the risks and rewards of ownership which is transferred is derecognised. In accordance with IFRS, all securitisation transactions continue to be recognised unchanged in the consolidated statement of financial position; there is no derecognition.

In 2011 there were three issues of securitisation transactions, which had been concluded in 2002 (first transaction) and 2009 (second and third transactions). In all three transactions the Italian banking subsidiary Hypo Alpe-Adria-Bank S.p.A. securitised its leasing portfolios, with the SPE Dolomiti Finance S.r.l. handling the securitisation.

The first transaction, which was concluded in 2002, includes lease receivables in its portfolio (with an original volume of EUR 250 m; current volume EUR 29.6 m), which are subject to both fixed and variable interest.

The second transaction, which was concluded on 30 April 2009 through Dolomiti Finance S.r.l., securitises a leasing portfolio with a volume of EUR 243.5 m. The current volume was reduced to EUR 162.0 m in January 2011. The portfolio mix consists of real estate, car and equipment leasing contracts. Two ABS tranches were created out of this structure, one of which was given an "AAA" rating by a rating agency and listed on the Irish stock exchange.

The third transaction was successfully concluded on 10 August 2009, also through Dolomiti Finance S.r.l. A leasing portfolio of the Italian banking subsidiary with an original volume of EUR 408.5 m was securitised. The portfolio mix also comprises real estate, car and equipment leasing contracts. For this transaction, new loans meeting the set criteria can be sold off periodically during the four-year revolving period. Three ABS tranches were created out of this structure, two of which were also given an "AAA" rating or "A" by a rating agency. The AAA security was bought by the European Investment Bank (EIB).

All securitisation transactions were terminated ahead of term in 2011.

(10) Financial instruments: recognition and measurement (IAS 39)

In accordance with IAS 39, all financial assets and liabilities must be recognised in the statement of financial position. Recognition and derecognition of derivatives and regular way contracts are recorded at Hypo Alpe Adria on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows expire or when the transfer qualifies for derecognition under IAS 39. Financial liabilities are derecognised when the obligation has been paid or has expired.
In general, the fair value of a financial asset is determined by reference to quoted prices. If no quoted prices exist, the future cash flows of a financial instrument are discounted to present value using the relevant interest rate curve. Measurement is carried out by means of processes and financial calculations which are standard for this sector. When measuring options, option price models that take into account actual market parameters are used. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost.

Fair values are determined using the market parameters available and standard models. If there are no market parameters available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in standard models to measure the value of the instrument. Care is taken to select similar framework conditions such as similar creditworthiness, similar term, similar payment structure or a closely-linked market, in order to arrive at the best possible market benchmark. If one cannot be determined, then the parameters must be estimated by experts on the basis of past experience with an appropriate risk premium applied.

Financial instruments are initially recognised at their fair value (usually the acquisition 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 or 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 or 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 one of the following applies:

1. The financial asset contains one or more embedded derivatives
2. The fair value approach eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch)
3. A group of financial assets and/or financial liabilities 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 financial performance, (see note (48) Result from financial assets – designated at fair value through profit or loss.)

Financial investments held to maturity
This category may only include financial assets with fixed or determinable payments and fixed maturity which the group intends and is 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 in profit or loss and are shown in the item interest and similar income as well as interest and similar expenses.

Loans and receivables
Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost. Impairments (risk provisions) are disclosed as credit risk provisions as a separate item in the statement of financial position under risk provisions for loans and advances (see notes (20) Risk provisions for loans and advances, (52) Risk provisions for loans and advances and (62) Risk provisions for loans and advances and provisions for risk in the lending business).

Financial investments available for sale
This is a residual category. It includes all financial assets that are not assigned to any of the aforementioned categories. Subsequent measurement is at fair value, whereby gains and losses – after taking into account deferred taxes – are recognised in other comprehensive income. Upon disposal, the differential amounts to the carrying amount recorded in the available-for-sale reserve are released to profit or loss. Impairment losses and any reversals are immediately offset against the value of the asset shown in the balance sheet. Premiums and discounts on debt instruments are spread in the accounts over the respective term by means of the effective interest method. In the same way, impairment losses are recognised in profit or loss. Please refer to note (24) Financial assets – available for sale, for further details.

Financial liabilities at fair value through profit or 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 debt securities in issue, 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 reported under interest expense.

Embedded derivatives
Structured finance products are characterised by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

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 those of the host contract;
2. the structured finance product is not measured at fair value with changes in fair value recognised in 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 the income statement. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

(11) Classes of financial instruments according to IFRS 7

In the scope of application of IFRS 7 there are – in addition to the financial instruments as defined by IAS 39 – financial instruments which must be recognised according to other specific standards, as well as financial instruments not recognised in the statement of financial position. All of these financial instruments must, in accordance with IFRS, be allocated to specific classes, which are defined according to objective criteria and take into account the characteristics of the individual financial instruments. As a result of the way in which the statement of financial position is presented, the characteristics of the financial instruments have already been taken into account. For this reason, the classes have been defined and directed at those items in the statement of financial position which contain financial instruments.

The table below shows the classes defined and used by Hypo Alpe Adria:

Type of class	Essential valuation standard At fair value through profit or loss	At cost	Other	Categories as per IAS 39
Asset classes				
Cash and balances at central banks			Nominal value	n/a
Loans and advances to credit institutions		x		LAR/LAC
Loans and advances to customers		x		LAR/LAC
of which: receivables from financing leasing		x		n/a
Trading assets	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Financial investments - afvtpl	x			FVO
Financial investments - afs			at fair value through other comprehensive income	AFS
Financial investments - htm		x		HTM
Investments in companies accounted for at equity				n/a
Other financial investments		x		
Assets classified as held for sale			Net disposal value	n/a
Liability classes				
Liabilities to credit institutions	x	x		LAR/LAC
Liabilities to customers	x	x		LAR/LAC/FVO
Debt securities in issue	x	x		LAR/LAC/FVO
Trading liabilities	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Liabilities included in disposal groups classified as held for sale			Net disposal value	n/a

(12) Fair value

Fair value is defined as the amount which can be achieved in a sale transaction between informed, willing parties in an arm's length transaction.

Quoted prices in active markets (Level I)
The fair value of financial instruments traded in active markets is best established through quoted prices where these represent market values/prices used in regularly occurring transactions. This applies above all to listed equity securities, debt instruments, which are traded on the interbank market, and listed derivatives.

Value determined using observable parameters (Level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or recognised valuation models using observable prices or parameters must be used to determine fair value. This level includes the majority of the OTC derivative contracts and non-quoted debt instruments.

Value determined using non-observable parameters (Level III)
This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using valuation models appropriate to the individual financial instrument. This model makes use of management assumptions and estimates which are dependent on the pricing transparency and complexity of the financial instrument.

(13) Hedge accounting

Hedged items such as loans and advances, financial investments or financial liabilities may be measured differently to hedging derivatives, 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). Throughout the hedging period there should be continual monitoring of whether the derivatives are compensating for changes in the value of the underlying transaction effectively (retrospective effectiveness). The proportion of the change in value of the hedged item and the hedging instrument must lie within a range of 80% to 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 Alpe Adria only uses fair value hedges in hedge accounting. 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, the measurement effects of hedged items and the hedging instrument are fully offset and have no impact on the income statement. In the event 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 (10) Financial instruments: recognition and measurement (IAS 39). Positive market values of derivatives which are used for hedging are stated in the item financial investments – designated at fair value through profit or loss, while negative market values are stated in the item other liabilities.

(14) Leasing

The decisive factor 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 incident to ownership of an asset to the lessee; an operate lease is a lease other than a finance lease.

The majority of the lease contracts entered into by Hypo Alpe Adria as lessor are classified as finance leases. In the statement of financial position, these are recorded under receivables from financing leasing at the net investment value (present value) – in this connection, please refer to note (60) Loans and advances to credit institutions and note (61) Loans and advances to customers. 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 operate 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 the 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 on buildings is presented as interest and similar income. Gains or losses on disposal, along with any depreciation, are reported in result from other financial investments.

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

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

(15) Investment properties

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. 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 reported in the statement of financial position under other financial investments (see note (69) Other financial investments).

Investment properties are carried at cost less accumulated depreciation and any impairment losses, adopting the cost method provided for in IAS 40, with straight-line depreciation applied over the useful life for tangible assets. Current rental income and scheduled depreciation on rented buildings is offset and shown in interest and similar income. Capital gains/losses from disposal and any impairment losses are recognised in result from other financial investments. For further information, see note (27) Other financial investments.

(16) Repurchase agreements

A repurchase agreement 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 in its statement of financial position because the material risks and rewards remain with the seller. The amount received is presented as a liability by the seller, whereas the buyer recognises a receivable.

(17) Fiduciary transactions

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

(18) Cash and balances at central banks

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

Treasury bills which are permitted by central banks for refinancing purposes are not shown in this item but, depending on their valuation category, are shown as financial assets.

(19) Loans and advances

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

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

Interest income is recognised in the item interest and similar income.

(20) Risk provisions for loans and advances

Credit default risks are accounted for by creating specific (loan loss allowances) and portfolio based risk provisions (portfolio impairments) and by setting aside reserves for off-balance-sheet commitments.

Specific risk provisions are created as soon as there are objective indications that a loan may not be recoverable, the size of the allowance 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 the respective contractual interest rate into account and considering the provided collateral.

As specific risk provisions are based on the net present value of future cash flows, the future interest income of an impaired loan is determined through the addition of accrued interest. An increase in present value on the following reporting date is recognised as interest income (unwinding).

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

After taking into account the customer segment and volume involved, Hypo Alpe Adria assumes the following LIP (Loss Identification Period) factors when calculating portfolio-based risk provisions for loans and advances: for banks and states: 0.1 (2010: 0.1); for corporate and retail customers: 0.5 to 1 (2010: 0.33 to 1); and for customers with a rating of 5A and significant payment arrears, a LIP factor of 1.0 (2010: 1.0).

Amounts identified as irrecoverable after the collateral has been liquidated are charged against an existing specific risk provision or directly written off. Recoveries of loans and advances previously written-off are recognised in profit or loss. Allocations and reversals of impairment and provisions for credit commitments and guarantees are recognised in the income statement under risk provisions for loans and advances.

In addition to loans and advances, financial instruments are measured and subjected to a recoverability test by Hypo Alpe Adria and the following indicators, which are used throughout the group, give an objective indication – whether individually or as a whole – of when impairment should be applied to a financial instrument:

For loans and advances in the LAR category this is from that point in time at which the customer exhibits considerable financial difficulties, or at any rate if the customer is more than 90 days in arrears with repayment.

The same indicators apply for investments in debt instruments (AFS) as for loans and advances carried at amortised cost. Here, however, there is an additional objective indication of the existence of impairment, namely, if there is a material reduction in fair value below the amortised cost. Hypo Alpe Adria defines a material reduction as being when the market value is more than 10% below the amortised cost.

(21) 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 the item derivative financial instruments and not in trading assets. Derivatives used for hedging of base contracts, for which the fair value option (FVO) was applied, 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 or other appropriate methods 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.

(22) Derivative financial instruments

Positive and negative fair values of derivative financial instruments are reported separately under assets or liabilities if they meet the criteria for hedge accounting as per IAS 39.

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

(23) 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' (fair value option – FVO). This designation cannot, however, be made for equity instruments that have no quoted market value and whose fair value cannot be determined reliably.

By classifying financial instruments in this category, hedging relationships can be reflected without meeting the rigid rules of hedge accounting. Included in this category are, however, 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 using the net present value method or by using other appropriate valuation techniques.

Realised and unrealised gains and losses are recognised in the item result from financial investments – designated at fair value through profit or loss. Interest income, dividends received and interest expense from these financial instruments are included in net interest income.

(24) Financial investments – available for sale

Hypo Alpe Adria has classified most bonds and other fixed-interest securities, as well as shares and other variable-rate securities, as financial investments – available for sale, if they are traded in an active market. These investments are measured at their fair value, which corresponds to their quoted price. Alternatively, 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 acquisition cost unless a fair value can be determined.

The measurement result for this category is recognised – after consideration of deferred taxes – in other comprehensive income. 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 other net income and not in the income statement. Capital gains and losses are reported in the item result from financial investments – available for sale.

Income from fixed-interest securities, including premiums and discounts, dividends and income from non-fixed income securities (shares, investment funds, participations, etc.) are recognised as interest and similar income.

For investments in equity instruments (AFS) which are recognised at fair value, a significant reduction of the fair value below the cost of acquisition is an indicator of the existence of impairment. A significant factor is taken to be a reduction of the fair value by more than 20% below the historical acquisition cost or a permanent reduction in the market value for more than nine months below the historical costs of acquisition. If these limits are breached, the amount of the difference is recognised as an expense.

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

(26) Investments in companies accounted for at equity

Investments in associated companies and in joint ventures accounted for at equity are shown in a separate item in the statement of financial position.

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 accounted for at equity.

(27) Other financial investments

This item includes investment properties and movable lease assets let under operating lease agreements.

With regard to the measurement of investment properties and assets used for leasing purposes (operate lease), further information is given in note (15) Investment properties.

(28) Intangible and tangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are measured at acquisition or manufacturing cost less depreciation. Internally generated software is recognised in accordance with 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, it is instead subject to annual impairment testing in accordance with IAS 36. More frequent testing is required if events and circumstances indicate that an impairment may have occurred. If and when such tests reveal impairment, impairment is applied on the basis of a discounted cash flow calculation taking into consideration the interest rate which is applied to the respective asset, whereby the asset's individual useful life in the group is also considered. A possible change in the amount of the referential interest rate used as a basis can have a significant effect on impairment expense included and therefore also on the carrying amount of the asset.

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

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

Depreciation rate	in percent	in years
for immovable assets	2 - 4%	25 - 50 yrs
for movable assets	5 - 33%	3 - 20 yrs
for software	20 - 33%	3 - 5 yrs

In the case of events and circumstances that indicate impairment, the expense is recognised in profit or loss. Scheduled depreciation and impairment losses are recognised separately in the income statement, whereas gains or losses on disposals are reported in other operating result.

(29) Taxes on income

Current and deferred tax assets and liabilities are recognised jointly in the statement of financial position as tax assets or liabilities. Current taxes are calculated in accordance with tax regulations in the respective countries.

Deferred tax assets and liabilities 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 deferred tax liabilities are recognised in accordance with IAS 12.39 (b) because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax assets are recognised for temporary differences, which lead to a tax credit when recovered. The tax assets and deferred tax liabilities have been netted as required by IAS 12.

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. In accordance with IAS 12 long-term deferred taxes are not discounted. Deferred tax assets are recorded in respect of unused tax loss carry-forwards if it is deemed probable that future taxable profits will be available. This assessment is based on business plans passed by the Executive Board. The recoverability of a deferred tax asset due to tax loss carry-forwards and temporary differences is reviewed at the end of each reporting period.

The accrual and release of deferred tax assets or liabilities is either recognised in profit/loss for the period, in other profit/loss or directly in equity (e.g. revaluation reserve for available-for-sale financial instruments).

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 reconciliation 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.

(30) Assets held for sale

According to IFRS 5, an asset held for sale is defined as an asset whose carrying amount can only be realised through a disposal as opposed to ongoing usage. Other important prerequisites leading to such a classification would be:

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

If investments, which had previously been accounted for at equity in the consolidated financial statements, are classified as assets held for sale, 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 at the end of the reporting period according to the special rules of IFRS 5 and measured at the lower of carrying amount and fair value less costs to sell.

In the statement of financial position, 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. Detailed information can be found on this in note (30) Assets held for sale and (75) Assets classified as held for sale.

(31) Other assets

The main items in other assets include deferred expenses, receivables other than those arising from banking activities, short-term real estate projects and certain short-term lease assets.

Receivables other than those arising from banking activities mainly include loans and advances, 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, the item other assets also includes buildings under construction as well as buildings in the preparatory phases of construction whose utilisation is planned after completion. These assets are measured at acquisition or manufacturing cost in consideration of the lower of cost or market rule. Impairment is applied if the carrying amount on the reporting date exceeds the net sale value, or if a restriction of the utilisation possibilities has resulted in a reduction in value or depreciation. In accordance with IAS 23, borrowing costs incurred during the manufacturing period must be recognised as part of the value of the acquired asset. Gains and losses from disposals, as well as valuation losses, are included in other operating result.

Other assets also include operate leases not leased out as of the reporting date, as well as returned assets awaiting the signing of a new contract or pending sale (remarketing). They are measured at amortised cost less impairment losses to reflect reduction in value. The measurement result is shown in the income statement in the item interest and similar income.

(32) Liabilities

Liabilities to credit institutions and customers, including debt securities in issue, are recognised at amortised cost unless they are designated at fair value through profit or loss. Costs of issues as well as premiums and discounts for debt securities in issue 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 profit or loss.

(33) Long-term employee provisions

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

In the former case, a fixed contribution is paid to an external provider. These payments are recognised under staff expense in the income statement. Except for these, 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 payments. 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 – Employee Benefits, 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 statement of financial position is stated as the present value of the defined benefit obligation. Actuarial gains and losses are recognised immediately in staff expense. The option offered by IAS 19.92 ('corridor' method) is not exercised.

The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate of 4.75% (2010: 4.75%) as of 31 December 2011, as well as the consideration of wage and salary increases – unchanged against the previous year – of the active employees at a rate of 3.0% p.a. and an increase in pay to already retired former employees at a rate of 2.0% p.a. Fluctuation deductions are considered, the maximum deduction being 6.0%. The basic biometric data are taken from the Generations Life Expectancy Tables of the AVO (Austrian Actuarial Society) 2008 P for employees.

Provisions for long-term employee benefits are calculated on the basis of the earliest possible legal retirement age. Local rules are applied in the case of employees working abroad.

Expenses to be recognised in profit or loss are divided into term-of-service costs (which are reported in staff expense), as well as interest costs (which are reported in interest and similar expenses).

(34) Provisions for credit commitments and guarantees

Provisions for credit commitments and guarantees are created for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions. Provisions for both individual cases and those at portfolio level are accrued.

Changes to the provisions for credit commitments and guarantees to be recognised in profit or loss are shown in the income statement under risk provisions for loans and advances.

(35) Provisions for restructuring

Provisions are only recorded for restructuring if the general criteria for accruing provisions in accordance with IAS 37.72 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 reported as a separate position under other operating result – see note (51) Other operating result.

(36) 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.

Additions to and releases from other provisions are shown at other operating result.

(37) Other liabilities

This item includes deferred income. Accruals and deferrals are stated at nominal value, while liabilities are stated at amortised cost.

(38) Subordinated capital

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

Subordinated liabilities may or may not involve debt securities in issue and in the event of liquidation or insolvency, creditors are only satisfied after all other creditors as specified in the contracts.

Supplementary capital is contractually furnished by the bank/credit institution for at least eight years and any right of ordinary or extraordinary termination is waived. Here, the remaining maturity must be at least three years. Interest is only paid by the issuer to the extent it is covered by annual profits as shown in the separate financial statements in line with the Austrian Commercial Code/Banking Act. In accordance with section 23 (7) (3) of the Austrian Banking Act, before liquidation, supplementary capital may only be paid back after the net losses arising during its period have been proportionately deducted.

As a general rule, hybrid capital is provided for the entire term of the enterprise and subordinated to all other liabilities. It differs from common subordinated capital in that it is ranked below subordinated capital. In accordance with IFRS, hybrid capital is classified as debt in the consolidated financial statements because of the fact that coupons are essentially compulsory.

For further information on subordinated capital, see note (128) Servicing of subordinated capital.

(39) Equity (incl. non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities and obligations which cannot be terminated 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 (equity participation) issued.

The cumulative gain or loss includes the cumulated profits made by the group with the exception of the share of profit to which external parties are entitled.

The item available-for-sale reserve reflects changes in fair values – after deductions for deferred taxes – arising from available-for-sale financial assets.

Non-controlling interests in the equity of subsidiaries in accordance with IAS 1 are presented as a separate item within equity.

(40) Income/expenses

In accordance with IAS 18, income is recognised when it is probable that the group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Earnings from dividends are recognised at the time that a legal right to payment arises. The interest income and interest expense on financial instruments recognised at amortised cost and those financial investments held for sale on which interest is to be paid are recognised using the effective interest method: this is the interest rate on the net carrying amount of the financial asset or liability, applied to the estimated payments over the expected term of the financial instrument or, where appropriate, a shorter period of time.

Notes to the income statement

(41) Segment reporting

The basis for segment reporting is provided by IFRS 8 – Operating Segments. Segment reporting is based on the information provided regularly to the Executive Board in its capacity as primary decision maker in accordance with IFRS 8.7 (the so-called management approach). The basis for segment reporting is Hypo Alpe Adria's business structure itself.

In line with the restructuring plan produced for the purpose of the EU proceedings, each part of the group which will be systematically wound down is reported separately from the remaining business activities. The "continuance" group units which will not be wound down consist of the strategic SEE network, i.e. bank and leasing companies in Slovenia, Bosnia and Herzegovina and Serbia, along with banking units in Montenegro, Croatia, Italy (2010: Italy including leasing units) and the core part of the Austrian banking business. In the first half of 2011 the sales process relating to the bank in Austria and the bank in Italy was initiated, with the objective of disposing of the two subsidiary companies in the medium term. Both operations will be included in segment reporting with their core business under "Austria" (only core business) and "Italy" (2011: not including leasing business) until such time as they are no longer part of the Hypo Alpe Adria group.

Business activities classified as "wind-down" are subdivided into the segments "financials" and "other investments". Included under "financials" are all group leasing companies which operate in the countries Croatia, Germany, Austria, Hungary, Macedonia, Bulgaria, Bosnia, Ukraine and in Italy (since 2011), and which should be wound down in the medium term. Also included in this segment are the securities portfolios of the investment companies HBInt. Credit Management ltd. and Norica Investments ltd. as well as the customer portfolios of Hypo Alpe-Adria-Bank International AG and the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which relate to the cross-border and large-volume corporate lending business.

All equity investments (participation companies) which are not banking and leasing businesses operating in the areas of industry, tourism or real estate are designated "other investments" and are to be sold off.

The division "Consolidation/Head Office" includes the effects from the consolidation between different business segments as well as every part of the group holding which features a reference to the core business activities.

41.1. SEE network

The business units included in this segment generated total net interest income of EUR +401.6 m (2010: EUR +464.6 m) and net fee and commission income of EUR +61.1 m (2010: EUR +70.3 m) and thus contributed 53.3% and as much as 83.6% to the respective total figures for the group. Compared to the previous year, however, this represents a decline of EUR -63.0 m and EUR -9.2 m respectively. The trading result, which includes the result from foreign currency translation, came to EUR +17.2 m (2010: EUR +8.2 m), the other operating result was negative, at EUR -9.7 m (2010: EUR -11.9 m). Nearly 80% (2010: 33.9%) of total risk costs – namely EUR -182.9 m (2010: EUR -411.2 m) were incurred by this segment, with particularly high risk provisions necessary for the Slovenian operations. The operating expenses for the SEE network came to EUR -254.5 m (2010: EUR -233.0 m), which represents an increase of EUR 21.5 m compared to the previous year. The segment achieved a result before tax of EUR +30.7 m (2010: EUR -117.6 m); after accounting for income tax expense of EUR -12.5 m (2010: EUR +0.4 m), the segment result after tax comes to EUR +18.2 m (2010: EUR -117.2 m). The SEE network – if the special effects from the fair value option in the Consolidation/Head Office segment are excluded – is thus the most profitable segment for the Hypo Alpe Adria group. The segment's assets reduced considerably compared to the previous year, to EUR 12.5 bn (2010: EUR 14.4 bn). This reduction is primarily due to the division of the portfolios into core business and wind-down business portfolios. While a "synthetic" transfer (in Montenegro this took the form of a "true sale") to wind-down units took place in 2011 as part of a portfolio rationalisation project in the banking units in Slovenia, Montenegro and Bosnia and Herzegovina, this will only happen in the banking units in Croatia and Serbia in 2012, although it has already been recognised in the segment assets as at 31 December 2011 (see note (130) Portfolio rationalisation in the SEE network and banks in Austria and Italy).

41.2. Italy

The Italy segment, which is represented by the bank in Udine, is mainly composed of leasing transactions in the real estate segment. Market conditions continued to be very difficult, in particular in the area of lease financing with a value of EUR 1 – 2 m, which resulted in new financing being below expectations in 2011. In total, the segment achieved net interest income of EUR +100.7 m (2010: EUR +118.3 m) and net fee and commission income of EUR +7.4 m (2010: EUR +12.3 m). Risk provisions for loans and advances, at EUR -38.7 m (2010: EUR -46.1 m), were at the levels expected. After taking into account operating expenses of EUR -59.7 m (2010: EUR -60.4 m) and income tax expense of EUR -7.3 m (2010: EUR -10.7 m), the segment result after tax amounted to EUR +3.0 m (2010: EUR +9.4 m). At the beginning of 2012, a transfer was made of a EUR 800.0 m receivables portfolio to a wind-down company in preparation for the sale of the Italian business, so as to achieve a more attractive basis for selling to potential investors through offering a redimensioned bank. This portfolio transfer had already been recognised in the segment assets for Italy at year end 2011. Due to both the lower volume of new business and the portfolio transfer, the segment assets reduced from EUR 4.5 bn (2010) to EUR 3.5 bn (2011).

41.3. Austria

The part of Austrian banking operations which is to be retained by the group achieved net interest income of EUR +47.1 m in the 2011 financial year (2010: EUR +55.7 m) and net fee and commission income of EUR +16.5 m (2010: EUR +13.1 m). After allowing for operating expenses of EUR -52.8 m (2010: -62.6 m), risk provisions for loans and advances of EUR -0.2 m (2010: EUR -21.5 m), income tax expense of EUR -0.6 m (2010: EUR 0.0 m) and other items contributing to the result and totalling EUR -4.3 m (2010: EUR -1.5 m) there is a positive segment result after tax of EUR +5.9 m (2010: EUR -16.6 m). The improvement in the result is primarily due to the reduction in new risk provisions. Total assets for the segment amount to EUR 4.3 bn as at 31 December 2011 and are thus some EUR -0.6 bn lower than the comparable figure for the previous year (EUR 4.9 bn).

41.4. Wind-down financials

The group leasing and financing companies and the sub-divisions of the Austrian banks which as per the restructuring plan drawn up for EU purposes are not considered to be part of the future continuance group, generated total net interest income of EUR +149.3 m in 2011 (2010: EUR +182.0 m), which was down on the previous year, and negative net fee and commission income of EUR -19.6 m (2010: -5.7 m), primarily due to the annual guarantee charges of EUR -20.0 m in connection with the guarantee agreement concluded with the Republic at the end of 2010. The result was impacted by the measurement of financial investments AFVTPL and AFS in this segment, resulting primarily from negative results from the recognition and sale of securities at the HBInt. Credit Management investment company. The other operating result amounts to EUR -10.1 m (2010: EUR -21.8 m) and is primarily due to the impairment of leased property and movables which, following premature termination of the contracts, had to be transferred to the companies' own inventories. The provisions for loans and advances, compared to the prior-year figure of EUR -735.0 m, were reduced almost to zero, coming to EUR -7.1 m. Taking into account operating expenses of EUR -96.0 m (2010: EUR -109.6 m), of which EUR -72.9 m (2010: EUR -78.9 m) was accounted for by administration expenses, the result after tax for this segment is negative, at EUR -19.5 m (2010: EUR -808.5 m). The assets allocated to this segment have a value of EUR 9.7 bn as at 31 December 2011 (2010: EUR 7.8 bn) and include the non-performing loans (NPL) transferred or still to be transferred as a consequence of the portfolio rationalisation project for the "going concern" units. This is the main reason why the total assets for the segment have risen by nearly EUR 1.9 bn in comparison to 31 December 2010.

41.5. Wind-down other investments

The real estate, industrial and tourism participations, which are also being wound down, posted negative net interest income (due to the nature of their operations) of EUR -7.5 m (2010: EUR -20.5 m) and negative net fee and commission of EUR -1.4 m (2010: EUR -1.1 m). As the refunding of some of these companies is conducted in a foreign currency, exchange rates – in particular for the Swiss franc – led to negative result from trading of EUR -8.6 m (2010: EUR -9.5 m). Other operating income includes revenues and expense directly related to service provision and contributed EUR +36.6 m (2010: EUR -46.4 m) to the segment result. The prior-year negative result was due, above all, to the impairment of goodwill. Operating expenses, at EUR -57.6 m (2010: EUR -90.2 m) were markedly higher than the income achieved and, taking into account the financing result, led to a negative segment result of EUR -52.7 m after tax (2010: EUR -173.8 m). The total value of assets for the segment has now reduced, following disposal of the tourism participations, from EUR 0.4 bn (2010) to EUR 0.3 bn.

41.6. Consolidation/Head Office

This segment includes the core activities of the Austrian group holding company, namely controlling and managing funds for the group companies, as well as consolidation effects between the individual segments. As a result of the financing function performed for the group, this segment reported net interest income of EUR +62.0 m, which was significantly lower than the prior-year figure of EUR +81.7 m. The reason for the decline in net interest income is the lower volume of funding for the subsidiaries in 2011 as well as the negative interest margins for investing surplus liquid funds with the central bank. Net fee and commission income was also lower than in the previous year, at EUR +9.2 m (2010: EUR +19.0 m); the trading result came to EUR +16.4 m (2010: EUR +26.3 m). The prime reasons for the positive overall segment result of EUR 117.9 m before income tax expense (2010: EUR +27.6 m) were the positive effects totalling EUR +125.3 m from the fair value measurement of own issues. Impairment write-downs on securities, in particular Greek securities held by Hypo Alpe-Adria-Bank International AG, and the impairment write-down on other investments led to charges of EUR -35.5 m against the result from financial investments AFS. The result from other financial investments, which is shown as EUR +9.9 m for the financial year (2010: EUR +6.2 m), contains in the first instance the income from the regular redemption of a supplementary capital bond (EUR +10.0 m). The material effects of consolidation between the segments were accounted for in the other operating result (EUR -13.4 m) and in administration expenses. The segment showed a net result, after income taxes of EUR -4.3 m (2010: EUR 0.0 m), of EUR +113.6 m (2010: EUR +27.6 m). The value of total assets for the segment amounts to EUR 4.8 bn as at the reporting date and is some EUR 2.0 bn below the prior-year value, due to the scheduled reduction of the liquidity reserves previously held.

41.7. Segment presentation

EUR m

Period 1.1. - 31.12.2011	SEE network	Italy *	Austria *	Wind-down financials	Wind-down parti-cipations	Consolidation /Head Office	Sum
Net interest income	401.6	100.7	47.1	149.3	-7.5	62.0	753.3
Net fee and commission income	61.1	7.4	16.5	-19.6	-1.4	9.2	73.1
Result from trading	17.2	1.4	2.3	-8.5	-8.6	16.4	20.2
Result from hedge accounting	0.0	0.0	-0.3	0.0	0.0	0.5	0.2
Result from fin. investments - afvtpl	0.0	-0.2	-0.3	-17.1	-1.4	125.3	106.3
Result from fin. investments - afs	-1.2	0.0	-3.8	-4.4	-9.9	-35.5	-54.8
Result from fin. investments - htm	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result from other financial investments	-0.6	0.1	0.0	-4.8	-2.8	9.9	1.9
Other operating result	-9.7	-0.7	-2.2	-10.1	36.6	-13.4	0.5
Operating income	**468.3**	**108.8**	**59.4**	**84.8**	**5.0**	**174.4**	**900.7**
Risk provisions for loans and advances	-182.9	-38.7	-0.2	-7.1	-1.0	0.0	-229.8
Operating income after risk provisions	**285.4**	**70.1**	**59.3**	**77.7**	**4.1**	**174.4**	**670.9**
Personnel expenses	-113.8	-32.3	-35.1	-16.7	-26.6	-56.4	-281.0
Other administrative expenses	-113.6	-23.2	-16.1	-72.9	-13.3	1.4	-237.7
Depreciation and amortisation on tangible and intangible assets	-27.1	-4.2	-1.6	-6.4	-17.6	-1.4	-58.3
Operating expenses	**-254.5**	**-59.7**	**-52.8**	**-96.0**	**-57.6**	**-56.4**	**-576.9**
Segment result (Operating result)	**30.9**	**10.4**	**6.5**	**-18.3**	**-53.5**	**117.9**	**93.9**
Result from companies accounted for at equity	-0.2	0.0	0.0	0.0	1.1	0.0	0.9
Result before tax	**30.7**	**10.4**	**6.5**	**-18.3**	**-52.4**	**117.9**	**94.8**
Taxes on income	-12.5	-7.3	-0.6	-1.2	0.5	-4.3	-25.5
Result after tax	**18.2**	**3.0**	**5.9**	**-19.5**	**-51.8**	**113.6**	**69.3**
Segment assets	12,517.3	3,492.6	4,286.6	9,707.6	281.9	4,846.5	35,132.5
thereof non-current assets	1,100.0	41.7	11.3	208.8	46.8	-3.5	1,405.2
Loans and advances to customers	9,109.9	3,097.5	2,766.8	11,260.8	5.5	481.9	26,722.4
Liabilities to customers	4,368.0	584.6	1,671.6	86.5	1.1	1,489.3	8,201.1
Risk-weighted assets (RWA)	10,144.6	2,665.8	1,458.8	7,728.5	320.5	792.8	23,111.0

* Austria segment - not including the part of the bank and the leasing subsidiaries to be divested, Italy segment - not including HYPO ALPE-ADRIA-LEASING S.r.l. (unit to be divested).

Abbreviations:
HA: hedge accounting
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale
htm: held to maturity

EUR m

Period 1.1. - 31.12.2010	SEE network	Italy	Austria *	Wind-down financials	Wind-down parti-cipations	Consolidation /Head Office	Sum
Net interest income	464.6	118.3	55.7	182.0	-20.5	81.7	881.9
Net fee and commission income	70.3	12.3	13.1	-5.7	-1.1	19.0	107.9
Result from trading	8.2	-2.8	1.7	-13.1	-9.5	26.3	10.8
Result from hedge accounting	0.0	0.1	4.6	0.0	0.0	-2.7	2.0
Result from fin. investments - afvtpl	0.0	0.1	-1.7	-18.7	0.0	-8.3	-28.6
Result from fin. investments - afs	-2.6	0.0	-2.8	-24.1	-7.0	-6.3	-42.8
Result from fin. investments - htm	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result from other financial investments	-1.4	0.2	-10.6	-3.0	-1.9	6.2	-10.3
Other operating result	-11.9	-1.6	7.3	-21.8	-46.4	-49.6	-123.9
Operating income	**527.2**	**126.5**	**67.5**	**95.6**	**-86.3**	**66.4**	**796.9**
Risk provisions for loans and advances	-411.2	-46.1	-21.5	-735.0	0.4	0.0	-1,213.5
Operating income after risk provisions	**116.0**	**80.5**	**45.9**	**-639.4**	**-86.0**	**66.5**	**-416.6**
Personnel expenses	-107.6	-32.3	-35.6	-19.8	-26.1	-44.7	-266.1
Other administrative expenses	-96.8	-23.3	-24.1	-78.9	-15.3	13.7	-224.7
Depreciation and amortisation of tangible and intangible assets	-28.7	-4.8	-2.9	-10.9	-48.8	-7.3	-103.2
Operating expenses	**-233.0**	**-60.4**	**-62.6**	**-109.6**	**-90.2**	**-38.3**	**-594.0**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	2.1	0.0	2.1
Result before tax	**-117.6**	**20.1**	**-16.7**	**-748.8**	**-173.1**	**27.6**	**-1,008.5**
Taxes on income	0.4	-10.7	0.0	-59.6	-0.7	0.0	-70.6
Result after tax	**-117.2**	**9.4**	**-16.6**	**-808.5**	**-173.8**	**27.6**	**-1,079.0**
Segment assets	14,390.2	4,498.7	4,917.9	7,766.1	392.8	6,780.4	38,746.1
thereof non-current assets	1,118.1	42.4	11.8	265.6	78.6	26.9	1,543.5
Loans and advances to customers	11,532.3	4,162.5	3,758.9	8,753.7	8.4	1.8	28,217.5
Liabilities to customers	4,267.5	794.6	1,752.3	85.7	0.7	1,219.5	8,120.4

* Austria segment - not including the part of the bank and the leasing subsidiaries to be divested.

** Prior-year values adjusted - see note (5) Business combinations.

Abbreviations:

HA: hedge accounting
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale
htm: held to maturity

(42) Interest and similar income

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Interest income	**1,378.5**	**1,494.5**
from loans and advances to credit institutions	37.7	27.8
from loans and advances to customers	1,003.0	1,036.4
from bonds, treasury bills and other fixed interest securities	90.7	83.0
from derivative financial instruments, net	233.3	323.7
Other interest income	13.8	23.6
Current income	**312.5**	**358.8**
from shares and other non-fixed interest securities	4.3	3.8
from leasing business	273.2	322.6
from investment properties	35.0	32.4
Total	**1,691.0**	**1,853.3**

Interest income also includes unwinding revenue of EUR 175.2 m (2010: EUR 141.6 m) as well as fees and commissions with interest characteristics. A significant part of the other interest income is the interest on the minimum reserve. Income from the leasing business includes interest income from finance leases and income from operating leases, consisting of hire payments less scheduled depreciation. Ongoing revenue from investment properties also represents the balance of rental income amounting to EUR 51.9 m (2010: EUR 45.6 m) and scheduled depreciation on rented properties totalling EUR -17.0 m (2010: EUR -13.2 m). Interest and similar income breaks down as follows in accordance with IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2011	1.1. - 31.12.2010
Interest income		**1,378.5**	**1,494.5**
from loans and advances to credit institutions and customers	LAR	1,023.5	1,055.9
from trading assets	HFT	0.8	0.8
from derivative financial instruments, net	HFT (Fair Value Hedges)	233.3	323.7
from financial investments - designated at fair value through profit or loss	FVO	31.3	30.5
from financial investments - available for sale	AFS	80.9	74.7
from financial investments - held to maturity	HTM	1.5	1.7
from balances at central banks	-	6.8	7.1
Other	-	0.5	0.2
Current income		**312.5**	**358.8**
from shares and other non-fixed interest securities	AFS	4.3	3.7
from shares and other non-fixed interest securities	HFT	0.0	0.1
from leasing business	-	273.2	322.6
from investment properties	-	35.0	32.4
Total		**1,691.0**	**1,853.3**

(43) Interest and similar expenses

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Interest expenses	**-905.8**	**-934.9**
for liabilities to credit institutions	-115.8	-108.6
for liabilities to customers	-249.4	-238.5
for debt securities in issue	-502.4	-547.6
for subordinated capital	-35.7	-34.1
for other liabilities	-2.5	-6.1
Similar expenses	**-32.0**	**-36.5**
commissions for statutory guarantee	-22.3	-17.8
commissions for state-guaranteed bond issue	-9.6	-18.7
Total	**-937.8**	**-971.4**

Other interest-like expenses include the commissions paid to the State of Carinthia for the statutory guarantee as well as the commissions due to the Republic of Austria for the 2011 bonds underwritten by the state.

This commission is calculated on the actual amounts for which the State of Carinthia is the unlimited guarantor.

Interest and similar expenses breaks down as follows in accordance with IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2011	1.1. - 31.12.2010
Interest expenses		**-905.8**	**-934.8**
for financial liabilities - designated at fair value through profit or loss	FVO	-32.9	-30.3
for financial liabilities - at cost	Fin. Liabilities At Cost	-871.3	-899.7
for financial liabilities to central banks	Fin. Liabilities At Cost	-1.6	-5.0
Other	-	0.0	0.1
Similar expenses		**-32.0**	**-36.5**
commissions for statutory guarantee		-22.3	-17.8
commissions for state-guaranteed bond issue	-	-9.6	-18.7
Total		**-937.8**	**-971.3**

(44) Fee and commission income

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Credit business	42.9	58.7
Securities and custodian business	13.4	15.5
Bank transfers incl. payment transactions	36.7	36.0
Other financial services	28.2	29.8
Total	**121.2**	**139.9**

(45) Fee and commission expenses

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Credit business	-24.6	-9.1
Securities and custodian business	-6.0	-6.5
Bank transfers incl. payment transactions	-8.6	-9.1
Other financial services	-8.7	-7.3
Total	**-48.1**	**-32.0**

(46) Result from trading

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Foreign exchange transactions	22.9	12.2
Shares and index related transactions	-2.7	-1.4
Total	**20.2**	**10.8**

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

(47) Result from hedge accounting

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

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Valuation result from secured underlying transactions	-124.7	-166.7
Valuation result from hedging derivatives	124.9	168.6
Total	**0.2**	**2.0**

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

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Result from financial assets and related derivatives	**-21.0**	**-31.3**
from loans and advances to customers and credit institutions	-1.9	7.1
from equity instruments	-2.1	-18.7
from debt instruments	-17.0	-19.7
from treasury bills	0.0	0.0
Result from long-term financial liabilities and related derivatives	**127.3**	**2.6**
from debt securities in issue	44.3	8.1
from subordinated capital	79.9	-5.1
from other liabilities	3.2	-0.4
Total	**106.3**	**-28.6**

The fair value option (FVO) applies to financial assets and liabilities that include embedded derivatives which must be stated separately. By designating the entire instrument in the category at fair value through profit or loss, the compulsory separation of hedging instruments is avoided.

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. In addition, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

Changes in the fair value of financial liabilities which are attributable to a change in the bank's own credit spreads or to the widening of the liquidity spread amounted cumulatively to EUR 88.4 m in the year under review (2010: EUR 57.0 m), which led to a positive effect of EUR +24.9 m on the income statement (2010: negative effect of EUR -17.9 m).

The positive changes in fair value of own, third-party liabilities which are recognised in profit or loss came to EUR 124.8 m on a cumulative basis in 2011 (2010: EUR 22.7 m), which led to a positive effect of EUR 102.2 m on the income statement (2010: negative effect of EUR -14.9 m).

(49) Result from financial investments – available for sale

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Income from financial investments – available for sale	**15.4**	**9.1**
Capital gains	8.7	6.4
Income from write-up	6.7	2.7
Expenses from financial investments – available for sale	**-70.2**	**-51.9**
Losses from disposal	-19.1	-7.7
Expenses from impairment	-51.1	-44.2
Total	**-54.8**	**-42.8**

(50) Result from other financial investments

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Result from investment properties	**-14.5**	**-1.0**
Other income	1.0	3.0
Other expenses	-15.5	-4.0
Result from operate lease assets	**5.1**	**-5.2**
Other income	14.7	14.2
Other expenses	-9.6	-19.4
Other income from financial investments	**11.3**	**-4.1**
Total	**1.9**	**-10.3**

Other revenue from investment properties and operate lease assets primarily relates to profit on disposal, but also, to a small extent, to income from reversals in impairment.

EUR -14.7 m (2010: EUR -3.3 m) of other expenses from investment properties in 2011 relates to impairment of assets.

Other expenses from operate leases of EUR -2.7 m in 2011 (2010: EUR -9.5 m) is the result of impairments on operating leases assets, the majority of which relate to the Croatian leasing unit as was the case in the previous year.

(51) Other operating result

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010 *
Other rental income	1.7	5.9
Net capital gains/losses	4.9	3.8
Result from reversals and recognition of provisions	18.1	0.1
Other tax expenses (incl. bank tax except income tax)	-24.7	-7.7
Expenses from complete or partial sale of fully consolidated companies	0.5	0.2
Impairment of goodwill	0.0	-56.2
Impairment loss for vacant assets	-32.8	-76.4
Restructuring expenses	-0.9	-0.1
Income from certain assets earmarked for sale and disposal groups	-0.5	-3.6
Remainder of other result	34.1	10.1
Total	**0.5**	**-123.9**

* Prior-year figures adjusted - see note (5) Business combinations.

Other rental revenue is the result of second-tier letting of buildings used for own activities, which is of minor importance.

EUR 9.0 m of the result from reversals and recognition of provisions is connected to the conditions relating to participation capital. The EUR 9.0 m recorded in the previous year was able to be reversed in its entirety, as certain targets had been met as at 31 December 2011. In addition, provisions of EUR 4.0 m for a planned recapitalisation of an Austrian participation were able to be reversed and shown again in the income statement.

Other tax expenses include a banking levy of EUR -18.4 m, which was levied for the first time in 2011.

The item impairment of goodwill includes an adjustment of the prior-year figure as a result of the final purchase price allocation for TLM-TVP d.o.o. – see note (5) Business combinations.

The item impairment expenses for unrented leasing items results from negative earnings of EUR -3.5 m (2010: EUR +6.9 m) in relation to “leases to go” and from returns in the leasing business (remarketing) with a value of EUR -15.7 m (2010: EUR -37.1 m), as well as bail out purchases amounting to EUR -13.7 m (2010: EUR -46.1 m).

Detailed information on restructuring expenses can be found in note (114) Restructuring expenses.

Remaining other result relates primarily to other, non-bank-related income and expenditure. The income includes the sales revenues of EUR +88.6 m (2010: EUR +80.0 m) and EUR +130.2 m (2010: EUR +42.9 m) from the packaging manufacturer Aluflexpack d.o.o. and TLM-TVP d.o.o. respectively. Their related manufacturing costs, at EUR -56.7 m (2010: EUR -57.5 m) and EUR -125.6 m (2010: EUR -42.2 m) respectively, come under expenditure. This item also includes the revenues and direct other expenses of the Schlosshotel Velden operation, which was owned by Hypo Alpe Adria until mid-year 2011.

(52) Risk provisions for loans and advances

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

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Allocations	**-772.9**	**-1,825.7**
for risk provisions for loans and advances	-753.2	-1,771.9
for provisions for credit commitments and guarantees	-19.7	-53.8
Releases	**512.7**	**629.7**
for risk provisions for loans and advances	466.3	577.1
for provisions for credit commitments and guarantees	46.4	52.7
Receipts from loans and advances previously impaired	**57.2**	**11.8**
Directly recognised impairment losses	**-26.8**	**-29.3**
Total	**-229.8**	**-1,213.5**

Hypo Alpe Adria further improved the credit risk organisation and its related processes, the limit system, the procedure for issuing new loans and the processing of non-performing loans.

Through successful liquidation and restructuring, a reduction in the volume of business and improvements in the monitoring and collections processes, the effect on the income statement for 2011 of the item risk provisions for loans and advances was reduced to acceptable proportions for an organisation of Hypo Alpe Adria's size.

Detailed information on risk provisions for loans and advances is given in note (62) Risk provisions for loans and advances.

(53) Personnel expenses

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Wages and salaries	-200.4	-187.1
Social security	-55.1	-53.5
Long-term employee provisions	-10.6	-10.3
Other employee costs	-14.9	-15.2
Total	**-281.0**	**-266.1**

The long-term employee provisions contain contributions to defined contribution plans totalling EUR 0.2 m (2010: EUR 0.3 m). In addition, payments totalling EUR 0.7 m (2010: EUR 0.5 m) were made into the employee severance and retirement fund for the employees in Austria.

(54) Other administrative expenses

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010 *
Infrastructure costs	-45.6	-46.3
IT and telecommunications	-42.9	-41.1
Advertising costs	-17.3	-18.0
Legal and advisory costs	-26.0	-22.8
Expense for audit and audit-related services	-6.7	-4.2
Expenses related to restructuring	-30.2	-20.2
CSI Hypo	-16.1	-18.4
Staff training cost	-3.5	-4.8
Administration expenses related to HBInt. Credit Management	-5.6	-5.5
Other general administrative expenses	-43.8	-43.3
Total	**-237.7**	**-224.7**

* Prior-year figures adjusted as a result of reassignment.

The vehicle and fleet costs, as well as the office expenses, which were shown separately in 2010, have been summarised under the item infrastructure costs in 2011. Similarly, the communications and IT costs shown separately in 2010 have been summarised under IT and telecommunications in 2011. Insurance costs are included in other general administration costs in 2011. The costs for securitisations, totalling EUR 1.5 m, which were included under audit and audit-related services in 2010, are included under other general administration costs in 2011. Prior-year values have been accordingly adjusted.

The item audit and audit-related services includes costs of EUR 4.0 m (2010: EUR 3.3 m) for the audit firm Ernst & Young, see note (115) Audit expenses.

(55) Depreciation and amortisation of tangible and intangible assets

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010 *
Land & buildings	-14.3	-36.3
Plant and equipment	-19.6	-42.0
Intangible assets	-24.4	-24.9
Total	**-58.3**	**-103.2**

* Prior-year figures adjusted - see note (5) Business combinations.

In the 2011 financial year tangible and intangible assets amounting to EUR -12.4 m (2010: EUR -107.9 m, adjusted) were impaired.

(56) Result from companies accounted for at equity

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Share of profits	1.1	2.1
Share of losses	-0.3	0.0
Total	**0.9**	**2.1**

(57) Taxes on income

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Current tax	-21.7	-49.9
Deferred tax	-3.8	-20.7
Total	**-25.6**	**-70.6**

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

EUR m

	31.12.2011	31.12.2010 *
Result before tax	**94.8**	**-1,008.5**
Theoretical income tax expense based on Austrian corporate tax rate of 25%	**-23.7**	**252.1**
Tax effects		
from divergent foreign tax rates	-5.2	-40.7
from previous year	-2.2	-1.1
from foreign income and other tax-exempt income	2.0	8.3
from investment-related tax relief and other reducing the tax burden	20.3	23.0
from non-tax deductible expenses	-25.2	-60.4
from non-recognition of deferred taxes on loss carry-forwards and temporary differences	-19.8	-271.7
from the amortisation of deferred taxes on loss carry-forwards and temporary differences	0.0	-102.5
from non-recognition of deferred taxes due to permanent differences	26.8	60.2
from other tax effects	1.5	62.2
Effective tax burden (shown in income statement)	**-25.5**	**-70.6**
Effective tax rate	**26.9%**	**-7.0%**

* Prior-year figures adjusted - see note (5) Business combinations.

(58) Non-controlling interests

In the income statement, non-controlling interests in the income statement of the relevant group companies are included as follows:

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
HBInt. Credit Management Limited	**-2.3**	**-5.8**
Share in interest income	5.8	5.6
Share in measurement result	-8.1	-11.3
Norica Investments Limited	**13.6**	**13.0**
Share in interest income	13.6	13.0
Non-controlling interests of other co-owners	**-1.2**	**-1.0**
Total	**10.2**	**6.2**

At HBInt. Credit Management Limited, the total result stemming from the measurement and sale of securities amounted to EUR -16.5 m (2010: EUR -23.3 m) in 2011. In the consolidated financial statements, EUR -8.1 m (2010: EUR -11.3 m) thereof are assigned to the 49% non-controlling shareholder as a loss covered by the equity contribution.

The share of interest income attributable to the non-controlling interest in Norica Investment Limited includes a standard special dividend and the share of profit/loss.

Notes to the statement of financial position

(59) Cash and balances at central banks

EUR m

	31.12.2011	31.12.2010
Cash on hand	122.1	126.2
Balances with central banks (due on demand)	635.4	717.4
Total	**757.5**	**843.6**

Balances with central banks only include those balances which are due on demand. Balances that are not due on demand are shown under loans and advances to credit institutions. The balances at central banks also serve to meet the requirements for minimum reserves. As at the reporting date, the minimum reserve held as due on demand amounted to EUR 255.2 m (2010: EUR 390.9 m).

(60) Loans and advances to credit institutions

60.1. Loans and advances to credit institutions – by product

EUR m

	31.12.2011	31.12.2010
Minimum reserve (not due on demand)	496.9	525.4
Giro and clearing business	497.4	380.8
Money market placements	1,821.6	3,992.5
Loans	236.6	244.7
Finance lease receivables	11.9	12.5
Other loans and advances	68.9	22.9
Total	**3,133.4**	**5,178.7**

60.2. Loans and advances to credit institutions – by region

EUR m

	31.12.2011	31.12.2010
Austria	1,576.1	3,319.2
Central and Eastern Europe (CEE)	641.9	618.2
Other countries	915.4	1,241.3
Total	**3,133.4**	**5,178.7**

(61) Loans and advances to customers

61.1. Loans and advances to customers – by product

EUR m

	31.12.2011	31.12.2010
Current account credit	835.3	1,018.2
Bank loans	10,218.9	10,920.9
Mortgage loans	4,922.9	5,294.9
Municipal loans	2,559.0	2,491.1
Finance lease receivables	5,620.9	6,233.7
Other loans and advances	2,565.4	2,258.7
Total	**26,722.4**	**28,217.5**

61.2. Loans and advances to customers – by type of customer

EUR m

	31.12.2011	31.12.2010
Public sector	4,997.7	4,915.5
Corporate clients	14,676.4	15,972.4
Retail clients	7,048.3	7,329.6
Total	**26,722.4**	**28,217.5**

61.3. Loans and advances to customers – by region

EUR m

	31.12.2011	31.12.2010
Austria	4,248.7	4,613.0
Central and Eastern Europe (CEE)	16,617.7	17,335.9
Other countries	5,856.0	6,268.6
Total	**26,722.4**	**28,217.5**

(62) Risk provisions for loans and advances and provisions for credit risk

62.1. Risk provisions for loans and advances and provisions for credit risk – development during the year

The reversals from impairment in 2011 include reversals from specific risk provisions amounting to EUR +17.5 m (2010: EUR +163.7 m) in conjunction with the guarantee agreement concluded with the Republic of Austria at the end of 2010 – see note (127) Guarantee agreements. As a result of the guarantee agreement, specific risk provisions totalling EUR 181.2 m were not required.

EUR m

	as at 1.1.2011	Foreign exchange - differences	Allocations	Releases	Use	Changes to the consolidated Group	Un-winding	as at 31.12.2011
Specific risk provisions	**-2,975.8**	**22.5**	**-702.0**	**355.5**	**212.0**	**-21.5**	**175.2**	**-2,934.0**
Loans and advances to credit institutions	-12.8	-0.1	-0.9	0.5	0.0	0.0	0.0	-13.1
Loans and advances to customers	-2,955.8	22.5	-700.8	354.6	211.9	-22.0	175.2	-2,914.3
public sector	-2.8	0.0	-2.1	0.1	0.0	0.0	0.4	-4.4
corporate clients	-2,649.0	22.4	-530.0	297.9	174.6	-22.0	159.0	-2,547.1
retail clients	-303.9	0.1	-168.7	56.7	37.3	0.0	15.8	-362.8
Other financial assets	-7.2	0.1	-0.3	0.4	0.1	0.5	0.0	-6.6
Portfolio-based risk provisions	**-235.0**	**0.9**	**-51.3**	**110.8**	**0.0**	**-1.4**	**0.0**	**-176.0**
Loans and advances to credit institutions	-0.3	0.0	0.0	0.2	0.0	0.0	0.0	-0.1
Loans and advances to customers	-233.8	0.9	-51.3	110.1	0.0	-1.4	0.0	-175.5
Other financial assets	-0.9	0.0	0.0	0.4	0.0	0.0	0.0	-0.4
Subtotal risk provisions for loans and advances	**-3,210.8**	**23.4**	**-753.2**	**466.3**	**212.0**	**-22.9**	**175.2**	**-3,110.0**
Provisions for credit commitments	**-75.8**	**0.2**	**-19.7**	**46.4**	**0.6**	**0.0**	**0.0**	**-48.2**
Individual provisions	-47.5	0.1	-12.7	37.9	0.6	0.0	0.0	-21.6
Portfolio provisions	-28.4	0.2	-6.9	8.5	0.0	0.0	0.0	-26.6
Total	**-3,286.6**	**23.6**	**-772.9**	**512.7**	**212.6**	**-22.9**	**175.2**	**-3,158.2**

EUR m

	as at 1.1.2010	Foreign exchange - differences	Allocations	Releases	Use	Changes to the consolidated Group	Un-winding	as at 31.12.2010
Specific risk provisions	**-2,205.7**	**-30.5**	**-1,634.2**	**431.5**	**175.5**	**146.0**	**141.6**	**-2,975.8**
Loans and advances to credit institutions	-23.6	-0.5	-0.1	2.3	9.2	0.0	0.0	-12.8
Loans and advances to customers	-2,180.3	-30.1	-1,627.4	428.7	165.8	146.0	141.6	-2,955.8
public sector	-2.4	0.0	-1.0	0.3	0.0	0.0	0.3	-2.8
corporate clients	-2,018.0	-24.3	-1,420.3	368.5	129.6	192.0	123.5	-2,649.0
retail clients	-159.9	-5.8	-206.1	60.0	36.1	-46.0	17.8	-303.9
Other financial assets	-1.7	0.1	-6.7	0.5	0.6	0.0	0.0	-7.2
Portfolio-based risk provisions	**-244.4**	**0.0**	**-137.7**	**145.6**	**0.0**	**1.4**	**0.0**	**-235.0**
Loans and advances to credit institutions	-0.2	0.0	-0.4	0.3	0.0	0.0	0.0	-0.3
Loans and advances to customers	-243.6	0.0	-137.0	145.3	0.0	1.4	0.0	-233.8
Other financial assets	-0.6	0.0	-0.3	0.0	0.0	0.0	0.0	-0.9
Subtotal risk provisions for loans and advances	**-2,450.1**	**-30.5**	**-1,771.9**	**577.1**	**175.5**	**147.4**	**141.6**	**-3,210.8**
Provisions for credit commitments	**-119.9**	**0.3**	**-53.8**	**52.7**	**44.9**	**0.0**	**0.0**	**-75.8**
Individual provisions	-86.5	0.1	-38.1	32.1	44.9	0.0	0.0	-47.5
Portfolio provisions	-33.5	0.2	-15.7	20.5	0.0	0.0	0.0	-28.4
Total	**-2,570.0**	**-30.2**	**-1,825.7**	**629.7**	**220.5**	**147.4**	**141.6**	**-3,286.6**

Additionally, please refer to note (3) Use of estimates and assumptions/uncertainties in connection with estimates, (52) Risk provisions for loans and advances and (88) Risk report et seq.

The risk provisions for loans and advances in the statement of financial position are reported under note (81) Provisions.

62.2. Risk provisions for loans and advances – by region

EUR m

	31.12.2011	31.12.2010
Austria	-266.5	-329.0
Central and Eastern Europe (CEE)	-2,475.9	-2,344.6
Other countries	-367.7	-537.2
Total	**-3,110.0**	**-3,210.8**

(63) Trading assets

EUR m

	31.12.2011	31.12.2010 *
Bonds and other fixed-interest securities	11.6	18.3
Shares and other non-fixed interest securities	0.5	16.0
Total	**12.0**	**34.3**

* Prior-year figures adjusted, see note (8) Prior-year adjustments.

(64) Derivative financial instruments

EUR m

	31.12.2011	31.12.2010 *
Positive market value of derivative financial instruments - trading	28.2	32.6
Positive market value of derivative financial instruments - banking book	1,405.8	1,230.2
Total	**1,434.0**	**1,262.8**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

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

EUR m

	31.12.2011	31.12.2010 *
Loans and advances to customers and credit institutions	563.9	580.6
Bonds and other fixed-interest securities	159.2	256.7
Shares and other non-fixed interest securities	37.5	40.8
Total	**760.6**	**878.2**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

(66) Financial investments – available for sale

EUR m

	31.12.2011	31.12.2010
Bonds and other fixed-interest securities	2,568.8	2,444.2
Shares and other non-fixed interest securities	58.5	52.2
Participations without intention for sale (< 20%)	5.3	8.4
Other participations (associated companies 20% - 50%)	2.9	13.4
Shares in affiliated, non-consolidated companies (> 50%)	16.2	9.2
Total	**2,651.7**	**2,527.3**

(67) Financial investments – held to maturity

EUR m

	31.12.2011	31.12.2010
Bonds and other fixed-interest securities	36.5	42.3
Total	**36.5**	**42.3**

(68) Investments in companies accounted for at equity

EUR m

	31.12.2011	31.12.2010
Shares in other associated companies	1.4	5.1
Total	**1.4**	**5.1**

The list of associated companies accounted for at equity is shown in note (136) Scope of consolidation.

(69) Other financial investments

EUR m

	31.12.2011	31.12.2010
Investment properties	837.5	795.7
Assets used for operate lease	147.9	238.6
Total	**985.4**	**1,034.3**

The majority of investment properties include land and buildings let under operating lease agreements.

(70) Development of financial assets and financial investments

The development of real estate held as financial investments and of the operate lease assets were reported under development of financial investments in 2010, whereas they are reported under tangible assets in 2011. Prior-year figures have been adjusted accordingly. For further details, please refer to note (73) Development of fixed assets.

31.12.2011	Acquisition costs 1.1.2011	Foreign exchange - differences	Additions
Financial investments - held to maturity	**42.3**	**0.0**	**2.9**
Bonds, treasury bills and other fixed-interest securities	42.3	0.0	2.9
Financial investments - available for sale	**80.8**	**0.0**	**8.3**
Shares in affiliated, non-consolidated companies (>50%)	29.6	0.0	7.8
Other participations (associated companies 20% - 50%)	21.9	0.0	0.0
Participations without intention for sale (under 20%)	29.3	0.0	0.5
Companies accounted for at equity	**12.1**	**0.0**	**0.0**
Total	**135.2**	**0.0**	**11.3**

31.12.2010	Acquisition costs 1.1.2010	Foreign exchange - differences	Additions
Financial investments - held to maturity	**42.1**	**0.0**	**3.1**
Bonds, treasury bills and other fixed-interest securities	42.1	0.0	3.1
Financial investments - available for sale	**94.6**	**-0.7**	**35.8**
Shares in affiliated, non-consolidated companies (>50%)	36.3	-0.2	14.1
Other participations (associated companies 20% - 50%)	46.5	-0.5	3.7
Participations without intention for sale (under 20%)	11.8	0.0	17.9
Companies accounted for at equity	**12.5**	**0.0**	**0.0**
Total	**149.3**	**-0.7**	**38.9**

(71) Intangible assets

EUR m

	31.12.2011	31.12.2010
Purchased software	18.2	20.1
Internally generated software	10.1	2.5
Other intangible assets	18.9	19.8
Prepayments for intangible assets	12.8	13.2
Total	**60.0**	**55.7**

EUR m

Disposals	Other changes	Acquisition costs 31.12.2011	Cumulated change 31.12.2011	Carrying amount 31.12.2011	Carrying amount 31.12.2010
-8.8	**0.0**	**36.5**	**0.0**	**36.5**	**42.3**
-8.8	0.0	36.5	0.0	36.5	42.3
-4.3	**-6.4**	**78.4**	**-54.1**	**24.4**	**31.2**
-0.7	-2.2	34.5	-18.3	16.2	9.4
-2.5	-4.2	15.2	-12.3	2.9	13.4
-1.1	0.0	28.7	-23.5	5.3	8.4
0.0	**-1.3**	**10.8**	**-9.4**	**1.4**	**5.1**
-13.1	**-7.7**	**125.7**	**-63.4**	**62.2**	**78.6**

EUR m

Disposals	Other changes	Acquisition costs 31.12.2010	Cumulated change 31.12.2010	Carrying amount 31.12.2010	Carrying amount 31.12.2009
-2.9	**0.0**	**42.3**	**0.0**	**42.3**	**42.1**
-2.9	0.0	42.3	0.0	42.3	42.1
-2.6	**-46.3**	**80.8**	**-49.6**	**31.2**	**70.8**
-0.3	-20.3	29.6	-20.2	9.4	27.6
-1.8	-26.2	21.9	-8.5	13.4	34.6
-0.5	0.2	29.3	-20.9	8.4	8.6
0.0	**-0.4**	**12.1**	**-7.0**	**5.1**	**1.7**
-5.6	**-46.7**	**135.2**	**-56.6**	**78.6**	**114.6**

(72) Tangible assets

EUR m

	31.12.2011	31.12.2010 *
Land and buildings	309.9	391.9
Plant and equipment	49.8	61.5
Total	**359.8**	**453.4**

* Prior-year figures adjusted - see note (5) Business combinations.

(73) Development of fixed assets

73.1. Development of acquisition costs and carrying amounts

31.12.2011	Acquisition costs 1.1.2011	Foreign exchange - differences	Additions
INTANGIBLE ASSETS	**194.5**	**-2.2**	**24.3**
Goodwill	**56.1**	**-1.1**	**0.0**
Software	**87.1**	**-0.8**	**17.2**
purchased	65.7	-0.5	5.2
self generated	21.4	-0.3	12.0
Other intangible assets	**37.3**	**-0.3**	**0.7**
Prepayments for intangible assets	**13.9**	**-0.1**	**6.4**
TANGIBLE ASSETS	**738.0**	**-14.8**	**54.1**
Land and buildings	**493.1**	**-13.5**	**34.2**
Land	38.9	-3.4	1.1
Buildings	435.2	-9.6	22.4
Assets under construction	19.0	-0.5	10.7
Plant and equipment	**245.0**	**-1.4**	**19.9**
INVESTMENT PROPERTIES	**901.0**	**-12.6**	**74.8**
investment properties leased out/rented	750.0	-10.7	33.6
vacant investment properties	48.4	-0.9	6.4
assets under construction (future investment properties)	102.5	-1.0	34.8
OPERATE LEASE ASSETS (movable assets)	**416.4**	**-5.0**	**79.4**
Total	**2,249.9**	**-34.7**	**232.5**

31.12.2010	Acquisition costs 1.1.2010	Foreign exchange - differences	Additions
INTANGIBLE ASSETS	**124.0**	**-4.6**	**84.0**
Goodwill	**0.5**	**-0.7**	**56.2**
Software	**76.2**	**-1.8**	**15.4**
purchased	60.3	-0.8	4.5
self generated	15.9	-0.9	10.8
Other intangible assets	**38.6**	**-0.3**	**1.2**
Prepayments for intangible assets	**8.6**	**-1.9**	**11.2**
TANGIBLE ASSETS	**705.8**	**-7.2**	**68.9**
Land and buildings	**465.4**	**-3.2**	**52.8**
Land	43.3	-0.2	0.5
Buildings	405.8	-2.9	38.8
Assets under construction	16.3	0.0	13.5
Plant and equipment	**240.3**	**-4.1**	**16.1**
INVESTMENT PROPERTIES	**823.7**	**0.3**	**208.1**
investment properties leased out/rented	666.4	0.7	131.2
vacant investment properties	43.8	-0.5	4.5
assets under construction (future investment properties)	113.5	0.0	72.4
OPERATE LEASE ASSETS (movable assets)	**529.7**	**-7.2**	**65.3**
Total	**2,183.1**	**-18.8**	**426.3**

Other changes includes the reclassified assets held for sale, with a value of EUR -110.6 m (2010: -14.9 m).

EUR m

Disposals	Other changes	Acquisition costs 31.12.2011	Cumulative depreciation 31.12.2011	Carrying amount 31.12.2011	Carrying amount 31.12.2010
2.5	**-1.9**	**217.2**	**-157.2**	**60.0**	**55.7**
0.0	**-0.5**	**54.5**	**-54.5**	**0.0**	**0.0**
7.5	**1.5**	**112.5**	**-84.2**	**28.4**	**22.7**
-1.3	1.5	70.6	-52.3	18.2	20.1
8.8	0.0	41.9	-31.8	10.1	2.5
-2.5	**1.3**	**36.7**	**-17.8**	**18.9**	**19.8**
-2.6	**-4.2**	**13.5**	**-0.7**	**12.8**	**13.2**
-27.1	**-167.3**	**582.9**	**-223.1**	**359.9**	**453.3**
-13.0	**-96.0**	**404.8**	**-94.7**	**310.1**	**391.9**
-1.3	-5.3	30.0	-0.2	29.8	38.3
-4.8	-75.6	367.6	-92.6	275.0	336.5
-6.8	-15.1	7.2	-2.0	5.3	17.0
-14.1	**-71.2**	**178.1**	**-128.3**	**49.8**	**61.5**
-80.3	**70.9**	**953.7**	**-116.2**	**837.5**	**795.7**
-71.8	148.7	849.9	-73.0	776.9	681.7
-2.4	1.2	52.7	-37.0	15.7	13.0
-6.1	-79.1	51.1	-6.2	44.9	101.1
-198.1	**0.1**	**292.7**	**-144.8**	**147.9**	**238.6**
-303.0	**-98.2**	**2,046.5**	**-641.2**	**1,405.3**	**1,543.4**

EUR m

Disposals	Other changes	Acquisition costs 31.12.2010	Cumulative depreciation 31.12.2011	Carrying amount 31.12.2010 *	Carrying amount 31.12.2009
-8.4	**-0.4**	**194.5**	**-138.8**	**55.7**	**63.6**
0.0	**0.0**	**56.1**	**-56.1**	**0.0**	**0.0**
-5.0	**2.3**	**87.1**	**-64.5**	**22.7**	**32.8**
-0.5	2.3	65.7	-45.6	20.1	22.7
-4.4	0.0	21.4	-18.9	2.5	10.1
-2.2	**0.1**	**37.3**	**-17.5**	**19.8**	**22.9**
-1.2	**-2.8**	**13.9**	**-0.7**	**13.2**	**7.9**
-29.3	**0.0**	**738.0**	**-284.7**	**453.3**	**484.7**
-16.3	**-5.7**	**493.1**	**-101.2**	**391.9**	**397.8**
-1.5	-3.2	38.9	-0.6	38.3	42.8
-11.7	5.2	435.2	-98.7	336.5	339.8
-3.1	-7.7	19.0	-1.9	17.0	15.2
-13.1	**5.7**	**245.0**	**-183.5**	**61.5**	**86.8**
-116.0	**-15.0**	**901.0**	**-105.2**	**795.7**	**725.8**
-107.8	59.6	750.0	-68.3	681.7	604.2
-0.2	0.8	48.4	-35.5	13.0	9.6
-8.0	-75.4	102.5	-1.4	101.1	112.0
-172.7	**1.3**	**416.4**	**-177.7**	**238.6**	**362.8**
-326.5	**-14.2**	**2,249.9**	**-706.5**	**1,543.4**	**1,636.8**

* Prior-year figures adjusted - see note (5) Business combinations.

73.2. Development of depreciation

31.12.2011	Cumulative depreciation 1.1.2011	Foreign exchange - differences
INTANGIBLE ASSETS	**-138.8**	**2.0**
Goodwill	**-56.1**	**1.1**
Software	**-64.5**	**0.6**
purchased	-45.6	0.5
self generated	-18.9	0.2
Other intangible assets	**-17.5**	**0.2**
Prepayments for intangible assets	**-0.7**	**0.0**
TANGIBLE ASSETS	**-284.7**	**2.6**
Land and buildings	**-101.2**	**1.3**
Land	-0.6	0.0
Buildings	-98.7	1.3
Assets under construction	-1.9	0.0
Plant and equipment	**-183.5**	**1.2**
INVESTMENT PROPERTIES	**-105.2**	**1.0**
investment properties leased out/rented	-68.3	0.2
vacant investment properties	-35.5	0.7
assets under construction (future investment properties)	-1.4	0.1
OPERATE LEASE ASSETS (moveable assets)	**-177.7**	**1.8**
Total	**-706.5**	**7.4**

31.12.2010	Cumulative depreciation 1.1.2011	Foreign exchange - differences
INTANGIBLE ASSETS	**-60.3**	**1.5**
Goodwill	**-0.5**	**0.7**
Software	**-43.4**	**0.7**
purchased	-37.6	0.4
self generated	-5.8	0.3
Other intangible assets	**-15.7**	**0.2**
Prepayments for intangible assets	**-0.7**	**0.0**
TANGIBLE ASSETS	**-221.1**	**3.3**
Land and buildings	**-67.6**	**0.6**
Land	-0.6	0.0
Buildings	-66.0	0.5
Assets under construction	-1.1	0.0
Plant and equipment	**-153.5**	**2.8**
INVESTMENT PROPERTIES	**-97.9**	**0.9**
investment properties leased out/rented	-62.2	0.4
vacant investment properties	-34.2	0.4
assets under construction (future investment properties)	-1.5	0.0
OPERATE LEASE ASSETS (moveable assets)	**-166.9**	**4.4**
Total	**-546.3**	**10.1**

The development of real estate held as financial investments and of the operate lease assets were reported under tangible assets in 2011. Prior-year figures have been adjusted accordingly. For further details, please refer to note (69) Other financial investments.

EUR m

Disposals	Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2011
2.5	**-13.0**	**-11.4**	**1.5**	**0.0**	**-157.2**
0.0	**0.0**	**0.0**	**0.5**	**0.0**	**-54.5**
0.4	**-10.3**	**-11.4**	**1.0**	**0.0**	**-84.2**
0.4	-8.6	0.0	1.0	0.0	-52.3
0.0	-1.7	-11.4	0.0	0.0	-31.8
2.2	**-2.7**	**0.0**	**0.0**	**0.0**	**-17.8**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**-0.7**
9.0	**-32.9**	**-1.0**	**83.9**	**0.0**	**-223.1**
1.0	**-13.3**	**-1.0**	**18.5**	**0.0**	**-94.7**
0.0	0.0	0.0	0.4	0.0	-0.2
1.0	-13.3	-1.0	18.1	0.0	-92.6
0.0	0.0	0.0	0.0	0.0	-2.0
8.1	**-19.6**	**0.0**	**65.4**	**0.0**	**-128.3**
25.3	**-17.3**	**-14.7**	**-7.0**	**1.8**	**-116.2**
22.3	-17.0	-5.0	-7.0	1.8	-73.0
1.5	-0.3	-3.5	0.0	0.0	-37.0
1.4	0.0	-6.2	0.0	0.0	-6.2
79.2	**-50.3**	**-2.2**	**0.0**	**4.4**	**-144.8**
116.1	**-113.5**	**-29.3**	**78.4**	**6.2**	**-641.2**

EUR m

Disposals	Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2010 *
0.9	**-12.6**	**-68.6**	**0.3**	**0.0**	**-138.8**
0.0	**0.0**	**-56.2**	**0.0**	**0.0**	**-56.1**
0.3	**-10.1**	**-12.3**	**0.3**	**0.0**	**-64.5**
0.3	-9.1	0.0	0.3	0.0	-45.6
0.0	-1.0	-12.3	0.0	0.0	-18.9
0.6	**-2.5**	**0.0**	**0.0**	**0.0**	**-17.5**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**-0.7**
10.6	**-39.0**	**-39.3**	**0.3**	**0.4**	**-284.7**
2.0	**-14.1**	**-22.2**	**0.2**	**0.0**	**-101.2**
0.0	0.0	0.0	0.0	0.0	-0.6
1.8	-14.1	-21.1	0.2	0.0	-98.7
0.2	0.0	-1.2	0.0	0.0	-1.9
8.6	**-24.9**	**-17.1**	**0.1**	**0.4**	**-183.5**
6.1	**-13.4**	**-3.3**	**1.7**	**0.6**	**-105.2**
6.1	-13.2	-1.8	2.1	0.2	-68.3
0.0	-0.2	-1.5	-0.3	0.4	-35.5
0.0	0.0	0.0	0.0	0.0	-1.4
60.4	**-69.7**	**-9.5**	**0.0**	**3.6**	**-177.7**
78.1	**-134.7**	**-120.6**	**2.3**	**4.6**	**-706.5**

* Prior-year figures adjusted - see note (5) Business combinations.

(74) Tax assets

For information on tax liabilities, please refer to note (82) Tax liabilities.

EUR m

	31.12.2011	31.12.2010
Current tax assets	27.9	24.1
Deferred tax assets	76.5	62.0
Total	**104.4**	**86.1**

Legally valid tax assessment notices for Hypo Alpe-Adria-Bank International AG have been issued for the years up to and including 2003. The assessment for corporation tax due in 2004 pursuant to section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature. The tax assessments for 2005, 2006, 2007, 2008 and 2009 are, by contrast, legally valid. The corporate income tax return for 2010 has not yet been submitted to the tax authorities. An audit of social security contributions is currently taking place which affects all Austrian members of the group.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS recognition, for the following positions:

EUR m

	31.12.2011	31.12.2010
Loans and advances to credit institutions	6.8	17.5
Loans and advances to customers	2.9	8.0
Risk provisions for loans and advances	41.6	58.5
Trading assets	0.1	1.5
Financial investments	31.2	9.2
Tangible assets	0.5	0.6
Intangible assets	0.3	0.3
Other assets	92.7	202.9
Tax loss carry-forward	21.9	8.2
Liabilities to credit institutions	2.1	0.7
Liabilities to customers	0.8	0.9
Debt securities in issue	170.9	158.8
Provisions	3.4	5.6
Other liabilities	-90.7	161.8
Subordinated capital	4.7	5.4
Deferred tax assets	**289.2**	**639.9**

	31.12.2011	31.12.2010
Loans and advances to credit institutions	1.2	1.2
Loans and advances to customers	52.4	43.9
Risk provisions for loans and advances	10.9	9.1
Trading assets	0.0	3.4
Financial investments	164.5	302.4
Tangible assets	0.6	0.7
Intangible assets	3.2	3.5
Other assets	7.3	123.8
Liabilities to customers	1.0	1.0
Provisions	0.7	0.9
Other liabilities	2.8	100.1
Subordinated capital	0.0	0.0
Deferred tax liabilities	**244.6**	**590.0**
Balance of deferred taxes	**44.6**	**49.9**

* Prior-year figures adjusted - see note (5) Business combinations.

Deferred tax assets – tax amounts
From deferred tax assets recognised, EUR 21.9 m (2010: EUR 8.2 m) were the result of recognising tax assets in respect of usable tax loss carry-forwards. Because they did not meet the requirements for recognition, deferred tax assets from tax loss carry-forwards in the various group companies amounting to EUR 769.9 m (2010: EUR 770.8 m, adjusted) were not recognised. The difference for deferred taxes recognised in other comprehensive income amounted to EUR 2.3 m (2010: EUR -4.2 m) in 2011.

(75) Assets held for sale

As at 31 December 2011, the assets held for sale which must be itemised separately in accordance with IFRS 5 comprise the participations in the Aluflexpack and TLM-TVP group of companies, which is for sale, the leasing entity in Ukraine and a tourism participation in Carinthia: offers have been received for these from potential investors and a sale within the next twelve months is judged to be highly probable. The assets of the Ukrainian leasing company are included in the segment "wind-down financials" and those of the other companies are included in "wind-down other investments".

The assets of the German leasing entity shown in this position in the previous year have had to be reclassified in the balance sheet and are reported under "wind-down financials" in segment reporting, due to the abandonment of the short-term intention to sell. The assets of the Schlosshotel Velden group, which were shown under this item in 2010, are no longer included due to the sale of the group during 2011.

EUR m

	31.12.2011	31.12.2010
Cash and balances at central banks	0.0	10.3
Loans and advances to credit institutions	2.3	29.6
Loans and advances to customers	49.1	140.7
Risk provisions for loans and advances	-33.9	-26.7
Financial investments - available for sale	0.4	0.0
Investments in companies accounted for at equity	4.5	0.0
Other financial investments (investment properties)	0.0	1.7
Intangible assets	0.3	0.3
Tangible assets	33.7	44.5
Tax assets	0.0	1.2
Other assets	82.3	73.0
Total	**138.8**	**274.6**

(76) Other assets

EUR m

	31.12.2011	31.12.2010 *
Deferred income	**102.4**	**123.5**
Other assets	**982.2**	**939.3**
Assets under construction (project development), short-term	36.6	35.8
Finished property projects held as current assets	133.3	139.5
Leases to go (lease assets not yet leased out) and repossessed assets	549.4	457.6
Remaining receivables and other assets, not specific to banking	53.1	105.6
Other assets	173.0	169.2
Value added taxes and other tax assets	36.9	31.6
Total	**1,084.7**	**1,062.8**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

(77) Liabilities to credit institutions

77.1. Liabilities to credit institutions – by product

EUR m

	31.12.2011	31.12.2010
To central banks	**170.2**	**75.1**
To other credit institutions	**5,508.2**	**6,276.1**
Due on demand	42.9	126.0
Time deposits	2,608.2	2,818.5
Loans from banks	922.7	1,549.0
Money market securities	1,402.7	1,251.6
Other liabilities	531.7	531.1
Total	**5,678.4**	**6,351.2**

77.2. Liabilities to credit institutions – by region

EUR m

	31.12.2011	31.12.2010
Austria	154.2	133.0
Central and Eastern Europe (CEE)	678.8	1,145.2
Other countries	4,845.4	5,073.0
Total	**5,678.4**	**6,351.2**

(78) Liabilities to customers

78.1. Liabilities to customers – by type of customer

EUR m

	31.12.2011	31.12.2010
Saving deposits	**1,446.7**	**1,422.9**
Demand and time deposits	**6,754.4**	**6,697.4**
from public sector	613.4	679.3
from corporate clients	3,347.0	3,552.0
from retail clients	2,794.0	2,466.1
Total	**8,201.1**	**8,120.4**

78.2. Liabilities to customers – by region

EUR m

	31.12.2011	31.12.2010
Austria	1,544.6	1,573.5
Central and Eastern Europe (CEE)	4,247.9	3,900.6
Other countries	2,408.6	2,646.2
Total	**8,201.1**	**8,120.4**

The liabilities to customers include liabilities designated at fair value through profit or loss amounting to EUR 427.6 m (2010: EUR 425.0 m) – see note (117) Loans and advances and financial liabilities designated at fair value.

(79) Debt securities in issue

EUR m

	31.12.2011	31.12.2010
Issued bonds	**14,880.4**	**17,694.7**
"Pfandbriefe" and municipal bonds	1,350.1	1,203.5
Bonds	13,530.3	16,491.2
Liabilities issued by the "Pfandbriefstelle"	**2,265.8**	**2,445.7**
Other debt securities in issue	**1.2**	**1.4**
Total	**17,147.4**	**20,141.8**

Debt securities in issue include liabilities designated at fair value through profit or loss amounting to EUR 439.1 m (2010: EUR 914.0 m) – see note (117) Loans and advances and financial liabilities designated at fair value.

(80) Derivative financial instruments

EUR m

	31.12.2011	31.12.2010 *
Negative market value of derivative financial instruments - trading	1.9	6.2
Negative market value of derivative financial instruments - banking book	714.4	643.2
Total	**716.3**	**649.4**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

(81) Provisions

81.1. Provisions – detail

EUR m

	31.12.2011	31.12.2010 *
Pensions	9.7	9.6
Severance payments	17.1	17.3
Provisions for anniversary payments	2.0	2.0
Provisions for credit commitments and guarantees	48.2	75.8
Restructuring provisions as per IAS 37.70	15.6	18.8
Other provisions	91.3	87.8
Total	**183.9**	**211.4**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

The development of risk provisions for loans and advances is reported under note (62) Risk provisions for loans and advances and provisions for credit risk.

Hypo Alpe Adria has created restructuring provisions as a result of the restructuring plan for the group, which should be implemented by 2015.

The item other provisions shows provisions related to punitive interest as per section 97 of the Austrian Banking Act (BWG), for consulting and legal costs, tax proceedings and other miscellaneous provisions.

The provisions are, in the main, short-term in character, with the exception of employee benefit provisions.

81.2. Provisions – development of provisions for retirement benefit and severance pay

Provisions for retirement benefits and severance pay were as follows. The data was summarised on the grounds of non-materiality.

EUR m

	31.12.2011	31.12.2010
Provisions at end of previous period	**26.9**	**27.2**
+ Current service costs	1.6	2.3
+ Interest expenses	1.0	1.1
+/- Actuarial gains/losses	0.6	-1.0
- Payments in reporting year	-3.3	-1.6
+/- Other changes	0.0	-1.0
Provisions as at the end of period	**26.8**	**27.0**

The present value of liabilities for service provision in the past five years amounted to EUR 26.8 m in 2011, EUR 27.0 m in 2010, EUR 27.2 m in 2009, EUR 25.1 m in 2008 and EUR 24.4 m in 2007.

81.3. Provisions – development of other provisions

The development of other provisions in the year under review was as follows:

EUR m

	Carrying amount 1.1.2011	Foreign exchange - differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2011
Provisions for anniversary payments	2.0	0.0	0.1	-0.1	-0.1	0.0	2.0
Restructuring provisions (IAS 37.72)	18.8	0.0	0.9	-2.9	-1.1	0.0	15.6
Other provisions	89.1	-2.0	41.0	-14.7	-22.4	0.3	91.3
Total	**110.0**	**-2.0**	**42.1**	**-17.7**	**-23.6**	**0.3**	**108.9**

EUR m

	Carrying amount 1.1.2010	Foreign exchange - differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2010 *
Provisions for anniversary payments	1.7	0.0	0.3	0.0	-0.2	0.2	2.0
Restructuring provisions (IAS 37.72)	25.2	-0.1	1.1	-2.7	-4.8	0.0	18.8
Other provisions	41.8	-0.3	46.4	-15.1	-5.9	20.8	87.8
Total	**68.7**	**-0.4**	**47.9**	**-17.8**	**-10.8**	**21.1**	**108.6**

* Prior-year figures adjusted - see note (5) Business combinations.

Other miscellaneous provisions include in part legal and consultancy expenses, in particular in connection with Project CSI. Additionally, they include provisions for punitive interest pursuant to section 97 of the Austrian Banking Act (BWG) of EUR 10.7 m (2010: EUR 10.3 m).

(82) Tax liabilities

In 2011, deferred tax assets and liabilities were netted in as far as the specifications of IAS 12 permitted. For details on tax assets, see note (74) Tax assets.

EUR m

	31.12.2011	31.12.2010
Current tax liabilities	2.8	23.5
Deferred tax liabilities	31.8	12.0
Total	**34.6**	**35.5**

With regard to the final judgement on the handling of the tax for the portfolio transfer which took place in the financial year (see note (130) Rationalisation of the SEE network portfolio), certain residual risks remain that it could have disadvantageous effects in tax terms. On the basis of the current legal position, Hypo Alpe Adria judges it to be unlikely that these residual risks will come into effect, or they cannot be assessed with any certainty: neither a provision nor a contingent liability has been recognised in the consolidated financial statements for 2011.

(83) Liabilities included in disposal groups classified as held for sale

EUR m

	31.12.2011	31.12.2010
Liabilities to credit institutions	26.9	0.0
Liabilities to customers	0.0	20.2
Tax liabilities	-0.2	5.2
Other liabilities	51.2	14.4
Total	**77.8**	**39.8**

(84) Other liabilities

EUR m

	31.12.2011	31.12.2010 *
Deferred expenses	245.8	240.1
Accruals und other obligations	278.2	347.5
Total	**524.0**	**587.6**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

(85) Subordinated capital

EUR m

	31.12.2011	31.12.2010
Subordinated liabilities	952.2	940.8
Supplementary capital	83.9	105.6
Hybrid capital	119.6	141.4
Total	**1,155.6**	**1,187.8**

Subordinated liabilities and supplementary capital include liabilities designated at fair value through profit or loss of EUR 70.4 m (2010: EUR 108.7 m), see also note (117) Loans and advances and financial liabilities designated at fair value. The servicing of subordinated capital is described in note (128) Servicing of subordinated capital.

(86) Equity

EUR m

	31.12.2011	31.12.2010 *
Equity holder of the parent	**925.6**	**921.0**
Issued capital	808.6	1,623.3
Available for sale reserves	-121.4	-78.2
Foreign currency translation	-67.4	-56.9
Retained earnings (incl. net consolidated income)	305.8	-567.2
Non-controlling interest	**487.7**	**500.3**
Total	**1,413.3**	**1,421.3**

* Prior-year figures adjusted - see note (8) Prior-year adjustments.

The subscribed capital is shown in the individual financial statement of Hypo Alpe-Adria-Bank International AG as at 31 December 2011. At EUR 469.1 m (2010: EUR 62.5 m) it equates to the share capital in Hypo Alpe-Adria-Bank International AG, which is divided into 191,825,860 (2010: 7,809,276) no-par bearer shares with voting rights. The development of the share capital is as follows:

in EUR

	Subscribed capital	Number of shares
on 1.1.2011	**62,474,208.00**	**7,809,276**
Nominal capital reduction 2.6.2011	-43,377,156.49	
after capital reduction	**19,097,051.51**	**7,809,276**
Capital increases according to KapBG 20.07.2011	449,999,997.78	184,016,584
as at 31.12.2011	**469,097,049.29**	**191,825,860**

Issued capital also includes participation capital with a nominal value of EUR 339.5 m (2010: EUR 1,560.8 m), issued in the years 2008 to 2010. Of this amount, EUR 275.1 m relates to the participation capital issued by Hypo Alpe-Adria-Bank International AG in December 2008 and June 2010 and subscribed by the Republic of Austria. The other changes in the statement of equity changes are related to the capital reduction (decapitalisation) undertaken by Hypo Alpe-Adria-Bank International AG, in 2011, which led to a netting out of the net loss (EUR 814.6 m) against the issued capital. For more on the decapitalisation measures and conversion of the participation capital from the Federal Republic into share capital, please refer to note (123) Participation capital.

(87) Statement of cash flows

The statement of cash flows as defined in IAS 7 shows the change in cash and cash equivalents through cash flows from operating activities, investment activities and financing activities.

The cash flow from operating activities at Hypo Alpe Adria includes cash in and outflow as a result of loans and advances to credit institutions and customers, from liabilities to credit institutions and customers as well as debt securities in issue. Changes in trading assets and liabilities are also included.

The cash flow from investing activities is recorded for payments for and receipts from securities and participations, intangible and tangible assets and receipts from selling/payments made for the acquisition of subsidiaries.

The cash flow from financing activities shows payments made and received for equity and subordinated capital. Capital increases, dividend payments and changes in subordinated capital are covered by this item.

The cash and cash equivalents are shown in the balance sheet item cash and balances at central banks, which covers the cash reserves and deposits at central banks which are due on demand.

The relevance of the statement of cash flows for banks is seen as low. Hypo Alpe Adria, therefore, does not use it as an instrument of management.

Risk report

(88) Risk strategy, control and monitoring

Hypo Alpe Adria controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and ensuring the ability to bear risks at any time, thus protecting the bank's creditors. 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 controlling process in Hypo Alpe Adria:

- 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.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Minimum Requirements for Risk Management (MaRisk) and the BWG.
- The group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, measuring, combining, directing and monitoring the different risk types.
- Appropriate limits are set and effectively monitored for material risk types. The system for applying limits is currently being enhanced (see Target risk portfolio – limit control).

(89) Organisation and 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 the Hypo Alpe Adria Executive Board. This individual acts independently of market and trading units, with a focus on the minimum requirements for risk management (MaRisk).

The core tasks of risk management are the individual risk management of counterparty risks; the reorganisation of problem loans; monitoring the credit-granting process; 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 equity requirements. Hypo Alpe Adria has separated the CFO and CRO roles into two independent functions.

The Audit division is a permanent function which audits the business activities of Hypo Alpe Adria; in terms of organisation, it reports to the Chairman of the Executive Board; and it also reports in detail to the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Alpe Adria. 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.

(90) Restructuring of internal policies and guidelines for risk management

Internal policies and guidelines for risk management were restructured at the end of June 2011. Existing guidelines were modified where required, new sections were integrated into the existing framework of group regulations (strategy, policies, guidelines and manuals). The main objective of restructuring is to adjust to the changes in the organisation (e.g. specific regulations for retail risk) and to simplify the existing structure thereby making them easier to use throughout the group. Potential gaps in regulations should be closed and any redundancy avoided.

In order to provide a clear overview, the Group Risk Regulations were divided into eight sections (risk strategy, ICAAP & participation risk, credit underwriting & monitoring, credit rehabilitation, credit processes, credit-related tools, market & liquidity risk, operational risk). The division was made taking into account the structure of the group and risk requirements according to Basel II.

Furthermore, a position was created in risk controlling to ensure overall coordination and swift implementation in the subsidiaries. Through this, it can also be ensured that the guidelines are checked every year by the specialist areas (policy owners) concerned to ensure they are still up-to-date.

(91) Measures to improve risk management

91.1. Project Portfolio Transfer

In the second half of 2011 a project was set in motion in Hypo Alpe Adria to manage the transfer of predominantly non-performing credit portfolios from the SEE network into local wind-down units, and in so doing pursue the objective of bringing the risk profile of the core banks of Hypo Alpe Adria into line with the industry average for the region.

With the exception of Serbia and Croatia (where discussions have already started with the regulatory authorities and will continue in 2012) the transfer of the credit portfolios took place at the end of 2011.

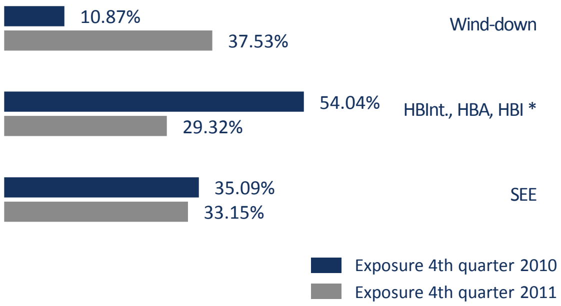
In nearly every country the transfer took place by way of a "synthetic" transfer (pass-through note/pass-through agreement). The servicing of the customer remains the responsibility of the company transferring. In Montenegro the transfer was effected through a "true sale" under commercial law.

As the portfolios were in the main composed of highly risky or non-performing exposures, the effect of derecognition has been to normalise the key performance figures for the units concerned, in particular with regard to net interest income, the NPL ratio and strengthening the capitalisation ratios.

Portfolio rationalisation is also to be carried out in the banking units in Italy and Austria. This will be completed by means of demerger during 2012.

An overview of the portfolio transfer is given below:

Exposure after portfolio transfer
in percent



* Holding function for Hypo Alpe-Adria-Bank International AG, Hypo Alpe-Adria-Bank AG (Austria) and Hypo Alpe-Adria-Bank S.p.A (Italy) after portfolio transfer.

The objective of all these measures is to intensify management focus on the continuity and wind-down actions that need to be taken in order to ensure that the differing objectives are met. By systematically dividing up the portfolios in Hypo Alpe Adria, the Executive Board and the owner will have the greatest possible room for negotiation when preparing for the reprivatisation of Hypo Alpe Adria while at the same time pushing ahead with the wind-down of the NPL portfolio.

Effective structures and experienced teams were created within the CRO Rehabilitation area to manage the "wind-down bank", and they will implement the "Wind-Down Business Plan", which conforms with the wider restructuring plans, in such a way as to preserve value and capital.

91.2. Revaluation of property collateral

As a consequence of the "Review Rush" project which ended at the start of the year, in 2011 all commercial and private property offered as collateral was revalued ("Valuation Rush"), in keeping with the principle of keeping entirely up-to-date with market prices. This was carried out by the newly-created property valuation function CREM (Corporate Real Estate Management), which in terms of organisation comes under the Group Operation Officer, but is controlled by the Chief Risk Officer. Due to the huge number of assessments needed for properties from all of Hypo Alpe Adria's regions, external experts were called in to assist – however, every assessment was checked by CREM for plausibility and was validated before being entered into the systems.

The "Valuation Rush" project and the process to ensure completeness were closely monitored by Group Credit Processing (GCP).

The entire inventory of property collateral, which covers just under 85,000 items, was systematically split into three groups according to certain criteria:

1. All commercial property (CRE) offered as collateral and with a value of over EUR 1 m was subjected to an individual valuation process and, having deployed an external expert, was validated by CREM.
2. For a large number of commercial properties with a previous value on the system of less than EUR 1 m, a current statistical process (CREP) was used. As part of the revaluation process, a sample of approx. 450 commercial properties was identified, for which an up-to-date independent expert valuation was commissioned. The sample was selected according to risk and statistical criteria. Based on a hedonic measurement approach, the calculated implications for the commercial properties by region and asset classes were computed across.
3. For the majority of residential real estate (RRE) properties, a tool analogous to CREP was used (RREP). Indices, established in part with the help of external experts, were compiled for the portfolio for the appropriate regions and asset classes, which were then used for the revaluations.

Hypo Alpe Adria has, for the first time, as of 31 December 2011, a comprehensive database of expert valuations of commercial and residential property offered as collateral, which is up-to-date, unquestionably methodical and which entirely reflects the macro-economic situation.

This has manifested itself through an average loss of market value of 28% for commercial properties offered as collateral and 18% for residential properties.

The experiences of the "Review Rush" project, above all for the CRE area, confirmed that the collateral values entered in the system (Internal Collateral Value/ICV = market value less safety "haircuts") for calculating impairment charges in an impairment process conforming to IFRS requirements were not appropriate. For this reason, the impairment charges needed were calculated, for the 2010 financial statements, by taking the existing ICVs on the basis of a desktop valuation and scaling them down by applying high individual mark-downs; and then using these values for further calculations. Due to this pull-forward effect, the effects on impairment in 2011 were kept within reasonable limits.

For credit on residential property (retail segment) the ICVs are lower due to lower market values. The lower collateral values are taken fully into account through the "Collective Impaired" measurement approach.

As part of collateral management and monitoring, GCP has the responsibility for continually updating the collateral values for CRE and RRE. The CREM, which is appropriately set up for the regions' requirements, is an efficient centre of expertise (comprising 36 employees in total) handling collateral valuation and ensuring the supply of high-quality and methodologically error-free expert valuations.

All members of the CREM function attended a "Valuation Academy" in 2011, which had been developed together with the Danube University Krems, to ensure a good level of basic knowledge for dealing with valuations.

91.3. Risk Inventory Project

A risk inventory was conducted in the second half of 2011, with the objective of:

- identifying and appropriately measuring risk
- ensuring appropriate levels of internal capital are held in proportion to the risk profile; and
- using and developing further suitable risk management systems

for the long term and improving risk management at Hypo Alpe Adria further.

In addition, a stress test for the whole bank was developed which will allow the bank to quantify more precisely its future risk capital requirement and the capital buffer that should be held for unforeseen circumstances. On the basis of this concept, the bank can determine the optimum level of buffer, so that a sufficiently high buffer is held in a difficult market environment as well.

91.4. Target risk portfolio – limit controlling

On the basis of the experience gained from the financial crisis and in order to give Hypo Alpe Adria better controlling, a credit risk controlling system was implemented in 2010 and 2011 which had as its target the introduction of a strict, group-wide portfolio limit system. It was implemented in the core countries as well as at group level of Hypo Alpe Adria in the first half of 2011.

The limit system and the limit process, as efficient controlling instruments for Hypo Alpe Adria, allow the bank to manage its credit portfolio in a targeted way and to assess and limit risk according to capacity. By setting upper limits for losses from transactions, the aim is to ensure that these risks can be covered by the capital available. In order to do this properly, the maximum credit risk limit at Hypo Alpe Adria is derived directly from the aggregate risk cover available. The maximum risk limit is also then broken down into sub-limits, in the interests of effective and granular controlling.

A target risk portfolio was modelled in the second half of 2011 for this purpose, with which the risk profile for Hypo Alpe Adria should be lastingly improved. The aim is to create a sustainable and risk-sensitive portfolio, in accordance with the stipulations in the restructuring plan, for every institution in the core country markets as well as for Hypo Alpe-Adria-Bank AG (Austria) und Hypo Alpe-Adria-Bank S.p.A (Italy) by 2016.

In order to calculate the target portfolio, the current business plan, the remaining terms of the portfolio inventory, a target split with regard to rating, sector/product and size, as well as prolongation rates supplied by the subsidiaries of Hypo Alpe Adria were all used. The result of this calculation is a target portfolio structure for 2016, which can also be broken down for the individual years. Due to the more risk-sensitive rating, sector/product and size classifications, the calculated target portfolio structure has an improved risk profile both at the level of the individual institution as well as at SEE network level. As a result it is possible to manage new business from the point of view of risk.

The credit portfolio has limits set, and is monitored and managed by rating, sector/product, size and country. The limiting factors are the internal capital usage and net exposure resulting from the target portfolio calculation by segment at the level of the subsidiary. By using these limit dimensions any concentration risks should in future be limited, monitored and managed at portfolio level.

The limit planning process is linked to the existing budgeting process for planning total assets, income, aggregate risk cover and risk-weighted assets in accordance with the standard approach.

The target credit portfolio for 2016 will be managed through annual milestones, which will serve as a benchmark in the budget rounds and, where appropriate, lead to annual modification of the credit policies.

The limits agreed will be monitored monthly by the subsidiary concerned as well as centrally. If limits are exceeded, certain measures – defined in advance – are to be implemented (forecast for the limit variables, reallocation of limits, increasing collaterals, etc.) and the defined escalation process set in motion. Reallocations or increases of limits may only be made with the approval of the group Executive Board.

The monitoring and escalation process implemented will ensure that agreed limits are adhered to and that the target portfolio can be achieved. The focus here is on reducing high-risk parts of the portfolio.

91.5. Creation of retail risk management

In order to support the retail strategy, the Group Retail Risk Management division was set up in 2011 as the equal partner of the Retail sales and marketing function. It reports directly to the Group Chief Risk Officer. Its responsibilities include retail portfolio management, data analysis and reporting, fraud prevention, determining the collection strategy as well as making decisions on credit and checking/assuring quality.

In the first phase, a detailed development plan was developed, so as to create a uniform structure across the group and to determine the appropriate resources needed.

Following this, Retail Risk Managers were established in all of Hypo Alpe Adria's core countries in South-Eastern Europe, and measures to build up the individual teams defined. The Group Retail Risk Management team at Head Office has been almost fully recruited.

The Group Credit Policy was published in June 2011. On the basis of this policy, detailed product standards were defined with and for every core country market for the relevant retail customer segment.

The group is supporting and pushing through the centralisation of core credit processes through standardised procedures to help increase efficiency and optimise checks. To that effect, in a first step the pilot project "Underwriting of private customers" was successfully launched and centralised in Serbia and Croatia.

Additionally, a retail risk data infrastructure project was started, which has the aim of increasing the quality of data and helping to make risk and performance analyses in low-volume retail customer transactions efficient.

Hypo Alpe Adria has also decided to develop the existing group-wide application scorecard through creating product scorecards for the private customer business, so as to meet the requirements of a standardised, fast and above all risk-conscious credit decision.

91.6. New rating procedures

In 2011 Hypo Alpe Adria developed and implemented new rating procedures for the segments Corporate, SME, Retail (behavioural scoring), Commercial Real Estate Finance, Project Finance and Start-ups on a central rating platform in the data centre. The procedures comply with the standards stipulated by the regulatory authorities and the data is up-to-date through holding it centrally on a daily basis.

The in-house-developed rating procedures had been initially validated during development and will be tied into a continuous validation process in 2012. The validation covers both quantitative and qualitative analyses. It checks the rating factors, selectivity and calibration of the procedure, data quality and the design of the model using statistical and qualitative analyses as well as user feedback.

In order to ensure universal use of the newly-developed rating tool and to update the risk assessment for each portfolio, a so-called "rating rush" was carried out immediately after the introduction of a new tool. The objective of the rating rush was to put the majority of the portfolio to be rated (in most cases more than 95%) through a risk assessment in a short period of time (approx. three months).

All new rating developments will be completed by June 2012 and the portfolios will be assigned a rating using the new procedures almost in their entirety. For those rating procedures not yet running on the new platform, IRBA-compliant rating procedures from the company RSU Rating Service Unit GmbH & Co. KG, based in Munich, can be used.

The responsibility for checking the completeness and the quality of the rating lies with the back office for risk-relevant business and the front office for non-risk-relevant business (4-eyes principle). Group Credit Risk Control regularly checks the quality of the ratings at portfolio level and reports on them monthly to the Executive Board. Standardised rating reporting has been set up at group and at local level.

Rating Tools 2011

- ✓ CO – Corporate
- ✓ SC – Small and Medium Enterprises
- ✓ RB – Retail Behavior Rating
- ✓ EX – Expert
- ✓ SU – Support
- ✓ ST – Start-Up
- ✓ PJ – Project Finance

Rating Tools 2012

- MU – Municipalities
- CT – Countries
- IN – Insurances
- BN – Banks
- PI – Scorecards for Private Individuals

91.7. Monitoring – early warning system

Hypo Alpe Adria introduced a group-wide monitoring process (based on the early warning system (EWS) installed by the bank) in all core countries, in order to ensure uniform and ongoing monitoring of the corporate credit portfolio.

The monitoring process is an important part of the Credit Management division's duties (underwriting, reviewing and monitoring). It is different to the review process, which is heavily oriented towards the continual monitoring of each Group of Borrowers (GoB), and has the following aims:

- preventing the migration of performing loans into the non-performing segment, in the interests of NPL reduction
- preventing the migration of performing loans (1A–3E) to the watch list segment (4A–4E), in the interests of risk prevention
- defining and implementing appropriate measures to prevent blank risk/net exposure from default-threatened commitments (e.g. through demanding more collateral or reducing non-secured exposures)
- determining and monitoring exit strategies for commitments with an unacceptable risk profile
- systematically improving the quality of the performing loan portfolio and preventing the migration of performing loans to the watch list portfolio

91.8. Loss Identification Period (LIP) for calculating portfolio impairment

The impairment write-downs take into account all losses on loans that have been incurred but have not yet been identified. The assessment of this time interval between the default occurring and it being identified is done using the LIP factor.

Specifically, the period of time between the default by the borrower and its recognition by the credit institution is called the loss identification period (LIP). The LIP correction factor is expressed in months, e.g. 6/12 (equals 0.5 or half a year).

LIP factors are influenced, above all, by the reporting requirements of the borrower and the internal review process of credit commitments by the credit institutions or leasing companies.

In addition to the established review processes, intensive and extensive checks of the corporate portfolio were carried out in the past years (Asset Screenings, Review Rush). Additionally, the portfolio was almost completely subjected to the new rating procedure as part of the rating rush (2nd quarter of 2011).

Furthermore, a standardised, monthly corporate monitoring process was successfully set up and launched in 2011. The process is primarily based on an early warning system, a monitoring process embedded in the credit process and additional reporting.

As a result of the creation of the Group Retail Risk Management division and the introduction of a group-wide behavioural scoring rating for the Retail division (in June 2011), here, too, an efficient monthly monitoring system was created.

The LIP factors were estimated for specific sectors dependent on the prevailing processes and developments for risk monitoring (see descriptions above).

The currently valid LIP factors for banks and states stand at 0.1, because it is assumed that identification of default will be immediate.

In the retail and corporate areas there is a minimum lower limit of 0.5, which equates to default identification period of six months and appears to be justified in view of the significant improvements to processes.

These factors will continue to be regularly checked and, where necessary, adapted to reflect new circumstances.

91.9. Loss Given Default (LGD) project – Credit Conversion Factor (CCF)

A project to estimate loss rates and conversion factors was initiated by Hypo Alpe Adria in 2011, the objective of which was to estimate LGDs and CCFs based on internal data and statistical models, so as to improve risk management in relation to more precise loss data estimates and thereby to optimise follow-up risk-adjusted calculations and processes (e.g. pricing, risk provision planning). In order to ensure uniform data collection and additionally to implement automatic default identification through the group, a standardised loss database (webFER) was made available to all subsidiaries in December 2011. It will start to be used, in stages, in the first half of 2012.

91.10. Improvements to the impairment write-down process in accordance with IFRS

The management process for handling impairment write-downs in the group was standardised further in 2011. By implementing detailed instructions on the impairment process (calculating, approval and reporting) it was possible to achieve group-wide standardisation of the processes involved.

As part of the calculation of impairment requirement as per IFRS, mandatory use of the group-wide tool already implemented was stipulated, so as to ensure a uniform logic in calculating IFRS impairment write-downs. Additionally, an IT-based tool has been developed for loan loss allowances which is currently in test phase (roll-out 2012) and will replace the previous IFRS tool by 31 March 2012. The IT-based tool is based on the already implemented calculation logic and will, amongst other benefits, deliver significant improvements in the areas of automation, documentation and reporting.

91.11. Wind-down of the wind-down portfolio

The comprehensive and value-preserving wind-down of the existing NPL portfolio from the business areas identified as non-strategic is a major prerequisite for the successful restructuring of Hypo Alpe Adria.

The wind-down strategy for the "Wind-Down Financials" and "Wind-Down Industrials" was defined with the aim of retaining as high a level of value as possible. An opportunistic sale of partial portfolios or whole units at the best possible liquidation rates is, however, always viewed as a possible alternative. The parts of Hypo Alpe Adria's business identified as wind-down cover both selected leasing companies, wind-down portfolios of individual banking institutions (Wind-Down Financials) as well as the non-strategic participations (Wind-Down Industrials).

Supplementing the reorganisation of the Risk division of Hypo Alpe Adria which took place in 2010 (and included the setting up of Group Task Force (GTFR) and of Group Credit Rehabilitation (GCR) as the central rehabilitation units), as part of the work on the management concept, Hypo Leasing Holding (HLH) was installed as the central leasing wind-down unit, charged with the winding-down of the "Wind-Down Financials" (excluding the wind-down portfolios of Hypo Alpe-Adria-Bank AG (Austria) and Hypo Alpe-Adria-Bank International AG) and with the wind-down units subordinate in legal and organisational terms to HLH. Additionally, existing bank and leasing structures were reorganised to give improved operational implementation of the wind-down.

A clear definition of responsibilities was ensured thanks to the specialist units.

As part of the portfolio rationalisation in the SEE network banks, an additional EUR 1.2 bn was transferred to the “Wind-Down Financials" portfolio last year.

In 2011 the wind-down portfolios were subject to a detailed planning process in GTFR and GCR, which serves as a basis for the wind-down plan for the wind-down portfolio. Currently the plan is being completed and detailed at local level and in the area of the supplementary portfolio as well as details for the concrete wind-down targets in 2012 being worked on.

Tracking tools have already been developed at group level to enable the development of the wind-down portfolio to be followed closely. The further development and group-wide implementation of tracking tools will make improved and more targeted management of these portfolios possible. In 2011, governance responsibility and the management structure in the area of the wind-down portfolio in particular were strengthened through relevant projects and measures; and appropriate resources allocated to the units charged with winding down.

In 2012 the focus will be on the wind-down of these portfolios in a manner that preserves value and capital as much as possible, in line with the restructuring plan.

91.12. Improvements in liquidity risk management

Both the reporting and risk measurement have been refined in the area of liquidity risk on the basis of quality-assured and automated databases across the group. In the area of stochastic model assumptions, statistical procedures as part of back-testing were introduced to enable forecasting of future cash flows. The minimum standards demanded by the regulatory authorities and arising from EBA and the Basel III stipulations are currently being implemented and are already included in part in internal controlling. The implementation of the Basel III requirements relating to liquidity is being worked on in an internal project in 2012.

91.13. Credit Spread Project

Together with interest rate risk, credit spread risk is the greatest risk factor in market risk, which Hypo Alpe Adria takes account of with a suitable risk measurement system in line with regulatory and accounting stipulations.

In the group-wide portfolio and risk management system developments have been and continue to be pushed forward to this end, to replace the procedures currently in place and create the required new functionality in the risk system allowing adequate risk measurement and accounting treatment. In concrete terms, this calls for complete integration of the credit spread risk factor in the following thematic area, to enable targeted management:

- Data on markets and partners
- Instrument measurement (pricing)
- Performance calculation & IFRS
- Value-at-Risk & back-testing
- Stress testing

The first of three planned project phases was successfully concluded at the end of November 2011. This meant that significant project milestones can now be deployed.

(92) Risk reporting

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 risk report developed in 2009 was developed further throughout the course of 2011 and new key performance indicators (KPIs) for credit risk were defined. In addition to the existing Management Summary section, the risk-bearing capacity including stress tests, credit and country risk, market risk, liquidity risk, operational risk and equity risk, the report has been extended to include the following: depiction of credit risk by tax-relevant groupings: the SEE network, Hypo Alpe-Adria-Bank AG (Austria) and Hypo Alpe-Adria-Bank S.p.A (Italy), Hypo Alpe-Adria-Bank International AG and the wind-down companies (including portfolio transfer).

Regular credit risk reporting is carried out on a monthly basis, while operational risk reporting is drawn up ad hoc and submitted to the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board every six months and in meetings to the CRO every month.

Uniform guidelines on liquidity risk and market risk reporting were introduced across the group which include standardised daily, weekly and monthly reporting.
In cases of stress the frequency of reporting on market risk and liquidity risk is increased.

As part of governance, all the reports issued at group level are also available at local level and these are distributed regularly to the units.

(93) Capital management

As part of the overall management of risk, capital management at Hypo Alpe Adria is based on a multi-dimensional planning process, which consolidates strategic, risk-oriented and regulatory aspects as part of a long-term operational plan. As part of the initial process for planning, Hypo Alpe Adria's strategy is adjusted at certain time intervals and/or as required. The Executive Board confirms or adjusts the strategy.

Risk management prepares a risk limit for Hypo Alpe Adria on the basis of the strategy approved, which is then transposed onto the bank's individual operating units in cooperation with the business segments. The risk limit covers the significant framework conditions for the business strategy of the business segments as well as the intended target rating of the bank.

Building on these framework conditions, the business segments and business divisions carry out their operational planning, which flows into a long-term plan with a time horizon of five years.

93.1. Regulatory capital adequacy (solvency)

Capital resource planning is the starting point for the allocation of on-balance sheet equity. Capital resources are composed of the liable equity capital, which is made up of Tier-1 and Tier-2 capital, plus third-ranking funds. Tier 1 capital is mainly composed of issued capital plus reserves as well as participation capital and silent contributions. Additional own funds include supplementary capital and non-current subordinated liabilities. Third-ranking funds consist of current subordinated liabilities.

Capital resource planning is mainly based on an internal target for the Tier-1 ratio (ratio of Tier-1 capital to risk-weighted assets) and an internally set ratio for the overall indicator ratio (ratio of capital resources to risk positions) for Hypo 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 ratio under different conditions or stress scenarios.

Within these framework conditions and as part of the stress scenarios, the ratings of the three rating agencies Moody's, Standard & Poor's and Fitch are continuously observed for the central states and their effect on the target ratios mentioned above. The potential rating downgrades and their implications are simulated on the computer and the possible effects reported to the Executive Board in the regular CSG meetings (CSG – Capital Steering Group).

From 2013 onwards the known Basel III-relevant regulations will be integrated into the planning process (subject to national adoption).

93.2. Economic capital (risk-bearing capacity)

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

Hypo Alpe Adria has an institutionalised internal process as regards risk-bearing capacity (ICAAP "Internal Capital Adequacy Assessment Process").

The bank manages its risks as part of the overall bank management process, which makes risk capital available for the different types of necessary risk involved in following strategies, and limits those risks by placing upper limits on them.

These limits provide a fixed framework for decision makers to operate within, and they ensure, both in terms of methodology and procedure, that the assumed risks can be offset with sufficient aggregate risk cover.

The economic aggregate risk cover (ARC) is used as the basis for annual limit planning and is updated and monitored on a monthly basis. The ongoing monitoring of limits for central types of risk will therefore be possible in the future.

The risk-bearing capacity report is produced every quarter by Group Credit Risk Control and Group Market Risk Control and presented in the Group Asset Liability Committee (Group ALCO) as well as in the risk report submitted to the Executive Board and Supervisory Board.

The Group Risk Executive Committee (GREC) was given new terms of reference in 2011 and now provides the operational basis for economic risk controlling. The committee discusses and sets the risk standards (methods, processes, systems and organisation) for the whole of the group. The Chairman of the committee is the Group Chief Risk Officer. In addition to all the managers for the different risk departments, the Group Financial Officer is also a member of the GREC.

Decisions on the minimum/target rating (confidence level) to be applied are made by the Executive Board.

In the course of managing risks associated with economic capital, the risk profile of the bank is monitored by means of risk-bearing capacity reporting; any necessary control measures are implemented where required.

The types of risk relevant to determining the risk capital requirements include credit, country, liquidity, market, equity, operational and other risks (exchange rate risks from equity investments). The primary method used to determine the amount of the risk capital requirement depending on the type of risk is value-at-risk methodology (VaR methodology). The confidence level ascertained stands at 99.90% (on the basis of a one-year holding period).

A detailed risk inventory was carried out in Hypo Alpe Adria in 2011, in order to take the new framework conditions (e.g. concentration on core countries, new business model) into account. The actions are being implemented in the first half of 2012.

An upper limit for loss is derived from the aggregate risk cover. The risk capital available to cover this maximum loss limit is then allocated at risk type level in line with the Executive Board's strategic and operational targets.

The aggregate risk cover provides information on the extent to which unexpected losses from assumed risks can be borne in an emergency. The individual positions of the aggregate risk cover result from a mix of values taken from the statement of financial position and profit or loss.

In the course of managing risks associated with economic capital, Hypo Alpe Adria monitors the risk profile and ensures adequate risk-bearing capacity by comparing risk capital with the risk capital requirement. This is implemented independently by the subsidiaries and, at group level, by Hypo Alpe Adria.

The strategic equity investments held by Hypo Alpe Adria (subsidiary banks and leasing subsidiaries in the core countries of Hypo Alpe Adria) have their own independent risk management processes. As the superordinated institution in the group, Hypo Alpe Adria exercises a monitoring function on the one hand, and on the other exercises its authority to draw up guidelines particularly with regard to processes and methods. These also take into account the specific needs, framework conditions and business strategies of the subsidiaries as appropriate.

93.3. Joint Risk Assessment & Decision Process ("JRAD")

In the summer of 2011 an audit was conducted by the Oesterreichische Nationalbank (OeNB) on behalf of the Financial Market Authority (FMA) and in collaboration with the national banks of Slovenia and Italy, to ascertain the adequacy of Hypo Alpe Adria's capital resources in accordance with section 129 of the EU Directive 2006/48/EC.

The Nationalbank used the key financial figures for Hypo Alpe Adria as at 31 December 2010 as well as the results of on-site audits in 2010 and data supplied to the authorities up until that point in the year.

As a result of the risk profile and the data supplied at the time, the authorities judged a total capital ratio of 12.04% to be appropriate, with the losses that might theoretically be expected to be covered by actual loss provisions.

From the bank's perspective, there were considerable deficiencies in the quality of the data used by the authorities at the time, which have been resolved in the mean time, allowing a much better quality risk profile to be presented. Furthermore, the significant measures taken by Hypo Alpe Adria to reduce its NPL portfolio, which will reduce the size of the gap in coverage significantly by 31 December 2012, were not taken into account. Measures to address credit risk have included the creation, in addition to a restructuring and liquidation unit, of a group-wide task force to reduce the toxic concentration risk. In order to reduce the risk attached to leased objects, local remarketing units were set up and a property liquidation company founded (Probus). The success already achieved in 2011 supports the conclusion that the targets the bank set itself are achievable in 2012 as well – despite the difficult environment in macro-economic terms.

For the active portfolio not allocated to "wind-down" a target risk portfolio has been defined so as to achieve a structural improvement in the risk profile in the medium term. In addition to setting stringent stipulations with regard to new business risk, a considerable reduction in the size of the watch loan portfolio is to be achieved through an early warning system and specially-developed monitoring system.

Lastly it is important to draw attention to the fact that the bank has made significant progress in the assessment of risk parameters (e.g. rating procedures, loss given defaults), which has resulted in the risk profile becoming even more precise. Further measures and initiatives have already been implemented and will be completed by 2012, which will also lead to an improvement in the risk versus own capital ratio. The lessons learned from all these measures will flow into a JRAD process which, it was recently announced, is to take place in the second half of 2012.

Hypo Alpe Adria continues to be in close and continuing contact with the owner and the FMA/OeNB.

Hypo Alpe Adria plans to achieve the capital ratio calculated for it by the authorities by its own means. If the planned risk reduction and further improvement of the risk profile should not be sufficient to cover the capital quota set down by the authorities in its entirety, there would potentially be a risk to continuing as a going concern. This will be mitigated by the sole shareholder, the Republic of Austria.

(94) Credit risk (Counterparty default risk)

94.1. Definition

In terms of scale, credit risks constitute the most significant risks for Hypo Alpe Adria. They mainly arise from the lending business. Credit risk (or counterparty risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised securities, reduced by the recovery rate of unsecured portions. This definition includes default 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 credit risks, such as country and equity risks, are separately measured, controlled and monitored.

94.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific directives.

In line with a group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board, Executive Board and Credit Committee, as well as by key staff in the front office and the analysis units of the risk office.

The Credit Committee is a permanent institution of Hypo Alpe Adria and the highest body for making credit decisions, subordinate only to the Executive Board.

The Group Risk Executive Committee (GREC) is responsible for all methodological matters relating to credit risk, unless a decision by the Executive Board is required for issues of fundamental importance.

94.3. Risk measurement

Hypo Alpe Adria utilises several rating methods for the individual 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.

As described in section 91.6, Hypo Alpe Adria uses a rating method developed in-house. Up until the end of 2011, Hypo Alpe Adria also used modules from the "RSU Rating Service Unit GmbH & Co. KG", which conform to the requirements of the internal rating based approach (IRBA).

94.4. Risk limitation

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

In the banking division, limits are set and monitored independently by Risk Controlling. If limits are exceeded, this is communicated immediately to the CRO and reported to the Group Risk Executive Committee.

In all other segments, limit control is carried out through a group-wide ruling on authorisation levels ("Pouvoir-Ordnung").

At portfolio level there are country limits to prevent the formation of concentrations; breaches of limits are passed to the Executive Board, and the operational areas are required to work together with the back office to define measures to control these concentrations.

Another important instrument in limiting risk in Hypo Alpe Adria is the collection and crediting of generally accepted collateral. The valuation is processed in line with the collateral policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually concluded for trading transactions involving derivatives. There are collateral agreements in place for certain business partners, which limit the default risk with individual trading partners to an agreed maximum amount, and provide an entitlement to request additional collateral if the amount is exceeded.

The methods used to accept collateral (form requirements, preconditions) are governed by the internal processing guidelines for each individual type of collateral.

94.5. Strategy and procedures to evaluate and manage eligible collateral

The stipulations for the evaluation and processing of collateral are governed by the collateral policy. Ensuring ongoing legal enforceability generally involves the use of standardised contracts and ongoing legal monitoring – in particular of foreign legislation – through cooperation with external lawyers.

The calculation and determination of the collateral values are documented in a traceable and plausible manner as per defined guidelines. Where appraisals are available, statements regarding the merchantability and marketability of the collateral offered must be in place for the purpose of estimating a liquidation value. Appraisals which meet the valuation standards of Hypo Alpe Adria and which have been prepared by internal, certified experts or by specially-selected external experts may be used. The R&S and Basel II Assistent tools currently used are validated annually and adjusted to take account of market values (see also 91.2 Revaluation of real estate collateral).

All subsidiaries have access to collateral management systems which also document the valuation criteria. The system landscape is homogenised in accordance with existing options and the required purpose. For example, a uniform collateral solution is applied in the CEE region.

The collateral policy contains a description of all collateral generally accepted by banks, as well as monitoring requirements. The main types of collateral include mortgages (approx. 60% of the collateral portfolio), pledges, cessions and guarantees.

94.6. Portfolio overview - credit risk

In economic risk controlling, the fair value of an asset is used for the calculation of the relevant exposure. For accounting purposes exposure is calculated on the basis of carrying amounts.

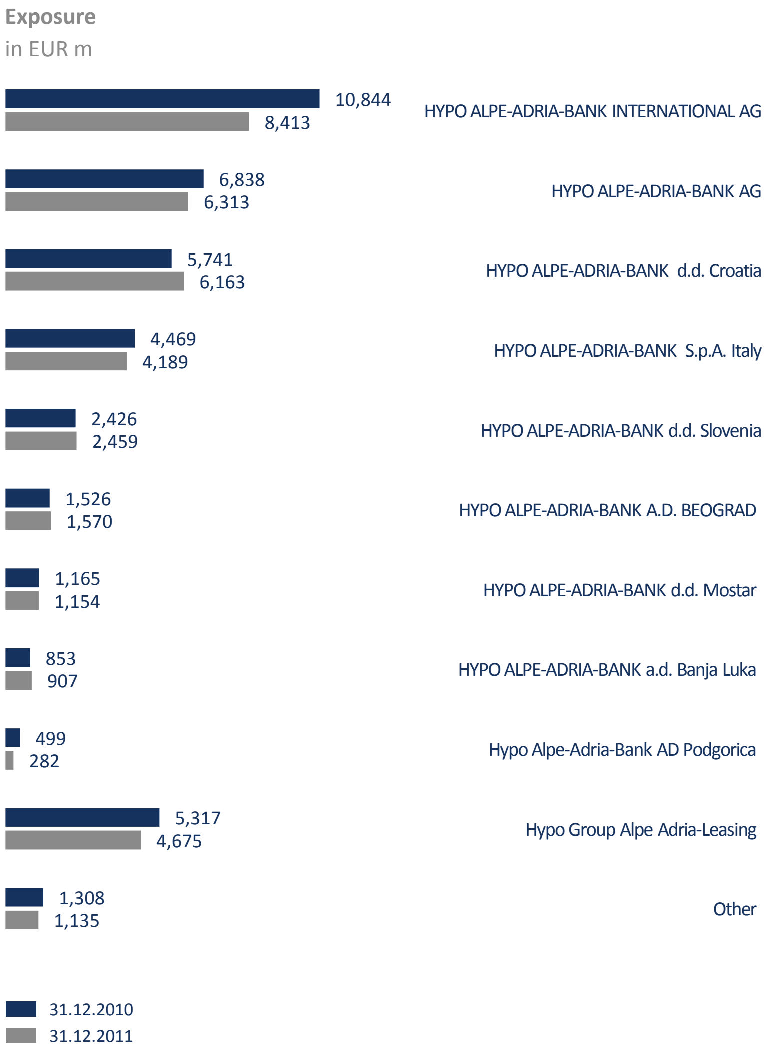
Breakdown of gross exposure in the group in accordance with IAS 7.36:

EUR m

	31.12.2011	31.12.2010
Cash and balances at central banks	757	844
Loans and advances to credit institutions	3,136	5,179
Risk provisions on loans and advances	-13	-13
Loans and advances to customers	26,722	28,218
Risk provisions on loans and advances	-3,090	-3,198
Trading assets	12	67
Positive fair value from hedge accounting derivatives	1,434	1,048
Financial investments – designated at fair value through profit or loss	761	996
Financial investments – available for sale	2,652	2,527
Financial investments – held to maturity	36	42
Investments in companies accounted for at equity	1	5
Other financial investments	986	1035
thereof operate leases	148	239
thereof investment properties	838	796
Contingent liabilities	756	830
Other liabilities – irrevocable loan commitments	945	1,281
Total	**35,094**	**38,860**

Distribution of gross exposure within the group:
In the year under review gross exposure within the group fell by EUR 3.9 bn or 9.2%. This reduction is due to very limited intake of new business. In total, there are free lines of credit at Hypo Alpe Adria amounting to around EUR 1.7 bn.

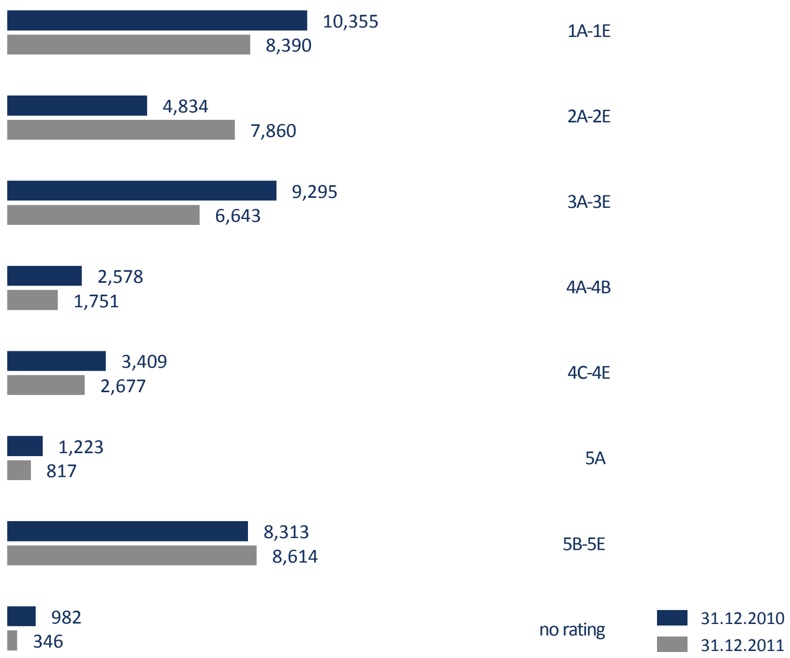
Within the group gross exposure breaks down as follows:



Gross exposure by rating class in the group:
Around 44% of the gross exposure is categorised as rating classes 1A to 2E. This exposure relates in the main to loans and advances to credit institutions and public institutions.

There was only a slight increase in gross exposure in the classes 5B–5E (impaired exposure until it is written off) and 5A (arrears > 90 days). The shift in rating distribution can be attributed to the application of the new rating modules (new scale for default probability per rating class).

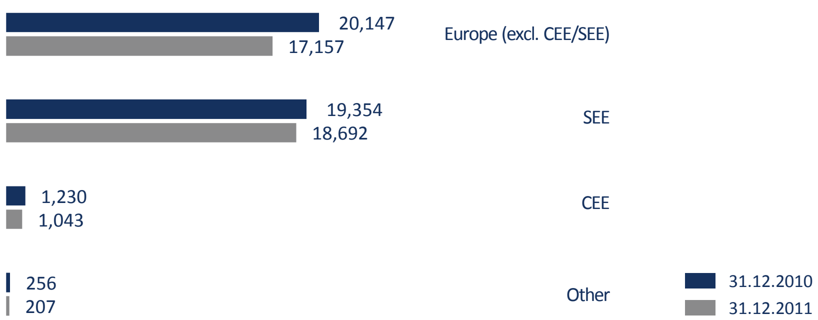
Exposure by rating class
in EUR m



Exposure by region within the group:

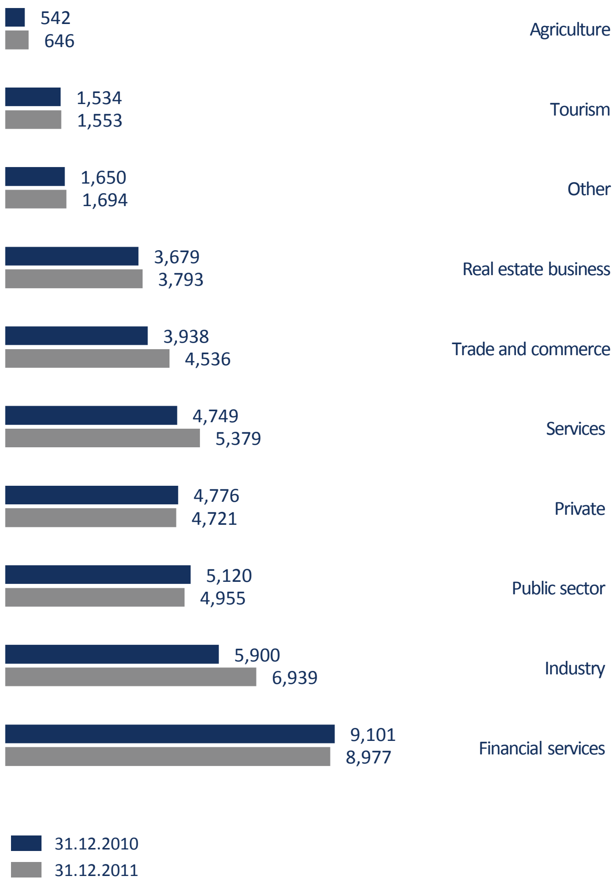
The country portfolio of Hypo Alpe Adria is concentrated on the EU and SEE regions. There was, essentially, a reduction in exposure in each country/region.

Exposure by region
in EUR m



Exposure by sector within the group:
A uniform classification code (NACE Codes 2.0) is used in Hypo Alpe Adria for the economic control and strategic focus of industry exposure. This code is mapped into ten industry sectors for reporting purposes. Here, the lower-risk industry groups, credit institutions and the public sector, account for a share of 33.3%. The well diversified private clients sector has a share of 13.1%.

Exposure by business sector
in EUR m



Concentration risks relating to industry sector have arisen in the real estate and tourism sectors. These risks are being reduced in a targeted manner by the Group Task Force founded in 2010.

There was a slight increase in the public sector portfolio. This is a result of the Hypo Alpe Adria strategy to grow business in the area of public sector clients in the SEE region.

Exposure by sector and region:
When split by industry and region it becomes clear that the majority of financial services providers come from Europe (excluding CEE/SEE). These are primarily large banks with which Hypo Alpe Adria has built up good business relationships over many years.

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Services	1,549	2,269	199	61	4,077
Financial services	5,198	1,574	60	62	6,894
Trade and commerce	726	2,687	109	16	3,537
Industry	2,656	3,848	159	0	6,664
Agriculture	89	360	24	0	473
Public sector	3,792	1,451	196	23	5,462
Private	776	4,043	41	3	4,863
Real estate business	1,460	979	182	0	2,621
Other	644	409	18	42	1,113
Tourism	267	1,073	54	0	1,395
Total	**17,157**	**18,692**	**1,043**	**207**	**37,098**

The figures relate to the customer's official home country. The corporate and retail business is mainly focused on Hypo Alpe Adria's core countries in SEE. The business strategy foresees a further increase in this share, particularly in the retail business.

Exposure size category of the transactions:
Around 65.4% of the exposure is found in the size range (<=EUR 10 m).
The bank is pursuing a strict strategy of reducing concentration risk in the corporate banking area.
The largest share of the EUR 12.8 bn exposure in the range >EUR 10 m is due to banks or the public sector (51.3%).
These transactions are necessary for securing liquidity, minimum deposit levels, long-term investments and for hedge transactions.

EUR m

Size classes	31.12.2011	31.12.2010
< 10,000	1,512	1,708
10-20,000	1,164	1,270
20-50,000	2,088	2,053
50-100,000	1,881	2,219
100-250,000	3,803	3,287
250-500,000	2,440	2,432
500-1,000,000	1,836	1,976
1,000-3,500,000	4,568	4,885
3,500-10,000,000	4,984	5,355
> 10,000,000	12,822	15,804
Total	**37,098**	**40,988**

94.7. Breakdown of financial assets by degree of impairment

Financial assets which are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2011 Collateral	Exposure	31.12.2010 Collateral
1A-1E	8,345	1,439	10,343	1,018
2A-2E	7,584	3,174	4,738	1,815
3A-3E	5,924	3,268	8,563	4,961
4A-4B	1,311	728	2,153	1,270
4C-4E	1,784	1,073	2,803	1,801
No rating	260	115	885	411
Total	**25,208**	**9,796**	**29,485**	**11,276**

Financial assets which are overdue, but not impaired: *

EUR m

Classes of loans and advances	Exposure	31.12.2011 Collateral	Exposure	31.12.2010 Collateral
Financial investments	**8**	**0**	**23**	**0**
– 181 to 365 days	8	0	23	0
– over 1 year	0	0	0	0
Loans and advances to credit institutions	**0**	**0**	**0**	**0**
– overdue by up to 30 days	0	0	0	0
– overdue 61 to 90 days	0	0	0	0
– overdue 91 to 180 days	0	0	0	0
– overdue 181 to 365 days	0	0	0	0
– overdue over 1 year	0	0	0	0
Loans and advances to customers	**4,812**	**3,234**	**4,519**	**3,241**
– overdue by up to 30 days	850	587	795	538
– overdue 31 to 60 days	570	398	538	415
– overdue 61 to 90 days	267	193	206	163
– overdue 91 to 180 days	787	643	1,095	931
– overdue 181 to 365 days	2,058	1,208	1,687	1,055
– overdue over 1 year	281	205	196	138
Total	**4,820**	**3,234**	**4,542**	**3,241**

* For technical reasons, all customers in the restructuring class (5C) are shown as overdue > 90 days.

Impaired financial assets:

EUR m

		31.12.2011	31.12.2010
Financial investments	Exposure	0	0
	Provisions	0	0
	Collateral	0	0
Loans and advances to credit institutions	Exposure	24	47
	Provisions	13	13
	Collateral	5	11
Loans and advances to customers	Exposure	7,046	6,914
	Provisions	2,942	3,011
	Collateral	3,083	3,323
Total gross exposure		**7,070**	**6,961**
Total loan loss allowances (incl. provisions for risks from the lending business)		**2,956**	**3,023**
Total collateral		**3,088**	**3,334**

94.7.1. RENEGOTIATIONS

Within the framework of renegotiations, a change in conditions relating to creditworthiness was applied to financial assets with a total carrying amount of EUR 266.3 m in 2011.

94.7.2. LIQUIDATED COLLATERAL

In the financial year 2011 collateral amounting to around EUR 512.9 m was liquidated (bail-out purchases). Of this, around EUR 73.4 m related to bail-out purchases by banks and EUR 439.5 m related to assets repossessed by leasing companies.

(95) Equity risk

95.1. Definition

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

95.2. General requirements

Prior to 2009, to achieve its business objectives, Hypo Alpe Adria (or a subsidiary) had invested in companies which either served to expand its business spectrum, provide services for the bank or function as purely financial holdings. 2011 was characterised by the ongoing restructuring measures in Hypo Alpe Adria leading to portfolio rationalisation and also to disposals in individual cases.

The handling of equity risks is governed by the group participation policy. The policy governs in particular the differentiation between equity investments which are strategic and non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for equity investments at Hypo Alpe Adria and at its strategic or non-strategic shareholdings across the group, as well as to describe the investment process, controlling and reporting in more detail.

Hypo Alpe Adria influences the business and risk policy of associated companies through its representation on shareholder and supervisory committees.

In addition, all equity investments are monitored for results and risk on a continuous basis.

95.3. Risk measurement

The measurement of equity risk is carried out within Hypo Alpe Adria for the ICAAP using the standard approach (practical implementation: ICAAP = carrying amount * risk weighting as per Austrian Solvency Regulation (always 100%) * statutory capital adequacy 8%).

95.3.1. RISK CONTROL AND MONITORING
Hypo Alpe Adria has, in the Group Credit Risk Control division, its own independent, central unit with the authority to set guidelines on all methods and processes connected with the management of equity risk. The operational implementation of risk controlling instruments is the responsibility of the business units in charge.

Strategic equity investments are integrated into the annual strategy and planning process of Hypo Alpe Adria. Representation on shareholder and supervisory committees allows Hypo Alpe Adria to exert influence over business and risk policies.

When it acts as a provider of equity capital or a lender of capital, Hypo Alpe Adria evaluates the additional risks, especially those arising from its status as a lender of capital.

(96) Country risk

96.1. Definition
Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner, because of governmental directives or economic/political problems, or does not meet them at all.

For example, country risks may arise from 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, exchange controls, payment or delivery prohibitions, moratoria, embargos, wars, revolutions, or coups in the respective countries.

96.2. General requirements
As part of its business activities and in pursuit of its long-term strategy, Hypo Alpe Adria knowingly assumes country risks which are limited in size.

96.3. Risk measurement
Country risk is measured in relation to the gross exposure relevant to country risk for each country and takes into account the respective country rating and the country's specific LGD.

Gross exposure related to country risk is composed of all non-EMU-cross-border transactions for which a currency mismatch exists between the currency of the debtor country and the account currency (the currency in which the business transaction is conducted).

The external country ratings used to assess country risk, as well as the country's specific probability of default (PD) and loss given default (LGD), are provided by renowned rating agencies.

The IRB approach for companies, banks and countries as outlined in the Austrian Solvency Regulation is used in order to quantify country risk. The country risk determined by this method is offset with equity capital.

96.4. Risk limitation
Country risk is limited by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, with the respective limit discussed and approved by the Management Board.

Cross-border transactions by the group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries subject to separate controls which emanate directly from the Executive Board.

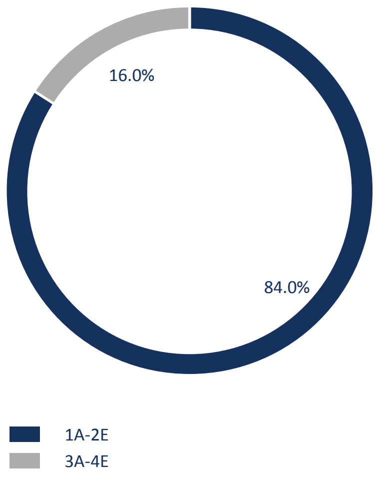
96.5. Risk control and monitoring
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports (e.g. GIIPS) are also prepared as required.

96.6. Portfolio overview - country risk
Exposure by country rating:

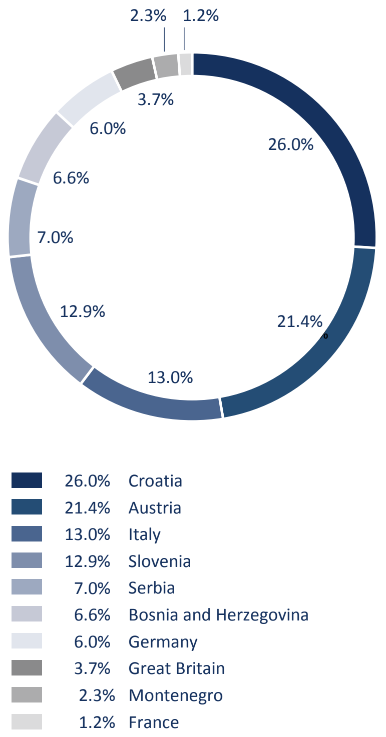
The share of exposure in countries with investment grade ratings amounts to 84.0%.

Consequently, at the end of 2011 some EUR 5.9 bn of exposure was in countries with a non-investment grade rating. This is in line with Hypo Alpe Adria's strategy of conducting business in its core SEE market.

Exposure country rating breakdown
in percent



Top 10 countries by exposure
in percent



Top 10 countries by exposure:
The top 10 countries account for 91.9% of total volume, with Austria and Croatia accounting for the largest share. Hypo Alpe Adria's strategy is to focus on the core markets in the SEE network.

96.7. Side-note: GIIPS states, including Hungary and Croatia

Hypo Alpe Adria’s activities in the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) are kept to a minimum. The only exception is Italy, where the group supports and funds a strategic subsidiary, Hypo Bank Italy. Hypo Alpe Adria has a strategic subsidiary in both Croatia (Hypo Bank Croatia) and Hungary (Hypo Leasing Hungary), which are both adequately funded.

The country limits for all the GIIPS states are currently frozen at Hypo Alpe Adria. An exception is made for Italy; transactions within Hypo Alpe Adria may continue to be carried out.

As the SEE region is Hypo Alpe Adria's core market – through its subsidiaries, Hypo Alpe Adria is present primarily in Croatia, Serbia, Montenegro and Bosnia and Herzegovina – the group is monitoring economic developments in these countries and the forecasts for their economies for 2012 even more closely. This is being done through close monitoring by the subsidiaries involved and through the group holding company, so that they can react swiftly to changes in market conditions.

It can be stated for all the SEE country markets that the original economic growth forecasts for 2012 have to be withdrawn, not least because of those countries' strong foreign economic ties with the eurozone, which continues to be the focus of the sovereign debt crisis. At the time of writing, the assumptions are for a maximum growth in GDP of 0.4% for this region.

As extensively discussed in the group management report, above all Serbia (close economic connections with Greece) and Bosnia and Herzegovina are affected by high unemployment, which will not reduce in 2012. The accession of Croatia to the EU, provisionally set for 1 July 2013, and the improved prospects of Serbia being accepted as EU accession candidate as a result of the recent EU-brokered agreement over a rapprochement with Kosovo should have a positive economic effect in the future.

In summary, it can be said that the economies of the SEE country markets will experience a slow-down in 2012, representing an increased challenge to Hypo Alpe Adria in the current year. The group will address this challenge with stringent monitoring of customer accounts and portfolios, renewed efforts in processing collections and non-performing loans, with the result that assets requiring liquidation will be sold in such a way as to preserve value, even in this difficult market environment.

The table below shows only the direct exposure (securities and customer business) as at 31 December 2011 to central banks, states, regions and credit institutions.

EUR m

Breakdown by country and risk segment		Total fair value 2011	Total fair value 2010
Greece	State and central bank	6.1	54.2
	Regions and municipalities	0.0	0.0
	Banks	0.0	14.1
	Total	**6.1**	**68.3**
Ireland	State and central bank	0.0	0.0
	Regions and municipalities	0.0	0.0
	Banks	50.8	75.2
	Total	**50.8**	**75.2**
Italy	State and central bank	93.6	108.2
	Regions and municipalities	37.4	52.5
	Banks	129.6	201.5
	Total	**260.6**	**362.3**
Portugal	State and central bank	0.0	0.0
	Regions and municipalities	20.0	20.0
	Banks	25.1	47.0
	Total	**45.1**	**67.0**
Spain	State and central bank	0.0	0.0
	Regions and municipalities	102.5	102.3
	Banks	139.8	160.8
	Total	**242.3**	**263.1**
Hungary	State and central bank	24.3	26.2
	Regions and municipalities	0.0	0.0
	Banks	43.4	87.4
	Total	**67.6**	**113.7**
Croatia	State and central bank	1,190.6	942.5
	Regions and municipalities	41.3	40.3
	Banks	34.1	26.7
	Total	**1,266.0**	**1,009.5**
Total		**1,938.4**	**1,959.2**

There follows below a short overview of the economic and political status in the individual, relevant GIIPS states as well as of Hungary and Croatia:

96.7.1. GREECE:

As a result of the deteriorating economic situation in the country in 2011, Hypo Alpe Adria made an impairment write-down on the exposure to Greece still existing within the group as at 30 June 2011. The main reason for the impairment can be seen as the demand for private creditors (banks and insurance companies) to play a role in the aid package for Greece ("haircut") – the first explicit acknowledgement of unfavourable treatment of private sector creditors (resolution passed at a summit meeting in Brussels on 21 July 2011). Further cuts in the ratings for Greece in the course of 2011 were further signs of the capital markets' lack of confidence. Hypo Alpe Adria decided to immediately start reducing its exposure to Greece. This has in the main been completed. The nominal value of exposures to Greece within Hypo Alpe Adria has fallen to EUR 71 m in 2011.
All items relating to Greece within Hypo Alpe Adria have been impaired since June 2011.

96.7.2. ITALY:

Italy passed a further, drastic austerity package totalling EUR 33 bn at the beginning of December 2011, which contains far-reaching cuts to the pensions system, increases in income taxes and savings in the area of public administration. The main objective is to reduce sovereign debt.

At the same time, Prime Minister Monti announced the second phase of his rationalisation measures, with new growth stimuli for the economy (liberalisation of shop opening hours, deregulation of transport, pharmacies, banks and insurance companies, etc.) as well as reforms to social welfare and the employment market ("Italian growth package"). This package is intended to stimulate additional annual growth in GDP of 1.5%. In the same way the intention is to ease the general squeeze on taxes by rigorously combating tax evasion.

At the beginning of January 2012, the Italian Ministry of Economics announced that the deficit in public spending was, unexpectedly, EUR 5.5 bn less than forecast. This can be viewed as the first positive effect of the strict savings measures of recent months.

In the first bond auctions of 2012 Italy would appear to be back on a course of consolidation and pressure is easing as investor confidence grows. At the end of January the yield on Italian 10-year government guaranteed bonds fell to under 6%.

For these reasons, Hypo Alpe Adria does not consider there to be an impairment requirement on its exposure to Italy at the time of writing.

96.7.3. IRELAND:

Ireland succeeded in regaining the confidence of the financial markets in the 3rd quarter of 2011. The country has developed well in macroeconomic terms since the crisis. Competitiveness has increased, prices and wages have decreased. The still high level of debt is primarily due to the property crisis. The government's aim is to reduce the deficit to 3% of GDP by 2015. Ireland's government revenues are in surplus, government spending remains on course.

In the middle of January 2012, the "troika" announced that Ireland had met all the household targets set for it for 2011 by the EU Commission, ECB and IMF, and thus has fulfilled the prerequisites for receiving further tranches of credit amounting to EUR 6.5 bn (EU) and EUR 3.2 bn (IMF). Ireland's objective is to win back sufficient confidence on the part of the financial markets by 2013 at the latest that it can begin to arrange bonds on the markets again at acceptable conditions.

For these reasons, Hypo Alpe Adria does not consider there to be an impairment requirement on its exposure to Ireland at the time of writing.

96.7.4. PORTUGAL:

The IMF, EU and ECB saw the first signs of success in the rehabilitation of state finances in Portugal in the middle of August. On that basis, the IMF authorised a further tranche of credit totalling EUR 3.98 bn on 13 September 2011. The government repeatedly assured financial markets that it will stick "exactly" to the savings measures agreed with the EU and IMF.

On 13 October 2011 the Portuguese government announced that it intended to tackle the budget deficit over the next two years with draconian savings measures (increasing VAT to 23%, halting the payment of 13th and 14th month salaries for better-earning civil servants, authorising the strictest household budget in the history of Portugal).

At the end of December 2011/beginning of January 2012 it was announced that Portugal was making progress with the rehabilitation of its state finances. Prime Minister Coelho announced that Portugal would achieve the deficit agreed with its international funding providers (4.5% of gross domestic product) for 2012 already in 2011. Further, that Portugal had already raised 10% more than the amount targeted in its drive to bring in unpaid taxes (2011).

The capital markets rewarded Portugal for its restructuring efforts – at the beginning of January 2012, the country was able to place short-term bonds totalling EUR 1 bn at the lowest interest rate enjoyed since April 2011. This is a sign that the assessment of the risk attached to Portuguese state debt has significantly improved.

For these reasons, Hypo Alpe Adria does not consider there to be an impairment requirement on its exposure to Portugal at the time of writing.

96.7.5. SPAIN:

Following the change in government at the end of November, the new Prime Minister Mariano Rajoy of the conservative People's Party announced a radical austerity policy. Savings in the household budget totalling EUR 16.5 bn were announced for 2012 in order to ensure that Spain would meet its obligation to reduce the budget deficit to 4.4% of gross domestic product. The measures include a freeze on hiring in public services and the dissolution of a range of public authorities. On top of that, central government, the regions and municipalities will be obliged by law to adopt more discipline in their household spending. From the middle of December onwards, Spain was able to raise funding successfully on several occasions; in some cases more bonds were placed than planned, and at significantly better conditions.

At the end of the year a further austerity package totalling EUR 8.9 bn was passed. Reform proposals for the employment market and budget policy as well as the financial sector are planned for the middle of February. These measures are intended to rebuild market confidence in the country.

For these reasons, Hypo Alpe Adria does not consider there to be an impairment requirement on its exposure to Spain at the time of writing.

96.7.6. HUNGARY:

Hungary is negotiating with the IMF and the EU for further funding aid, which will probably be granted now that the laws contravening EU law (e.g. increasing government control through the Hungarian central bank) have been rescinded.

The market appears to assume that Hungary has given up on its confrontation course with the EU and will reach an agreement with the EU and IMF. As a result, Hungary was successfully able to raise funding at low interest rates on the capital markets on 12 January 2012. Analysts assume that Hungary is primarily facing a political crisis at the moment; and that it has fulfilled all requirements (e.g. adjusting the exchange rate for the forint) and is in a position to deal with sovereign debt, which stands at 77% of GDP.

For these reasons, Hypo Alpe Adria does not consider there to be an impairment requirement on its exposure to Hungary at the time of writing.

96.7.7. CROATIA:

Croatia is expected to become the 28th member of the European Union on 1 July 2013. The anticipated accession to the EU can without doubt be viewed as an additional stimulus to the Croatian economy. Even in the preparation phase, and most certainly after accession, numerous new business opportunities will open up through the EU-funded investments in infrastructure and modernisation. Entry into the EU will have a positive effect on tourism, Croatia's largest economic sector, which generates approximately 15% of GDP.

The Croatian economy should thus recover by 2013. The economic outlook for the current and the upcoming year allows only for a slight increase in gross domestic product. In 2010, GDP per head of population stood at around 60% of the average for the whole of the EU – a significant amount compared with new Eastern European EU entrants such as Romania. According to the EBRD in Eastern Europe, following a reduction in 2010 of 1.2%, the economy should grow by 0.5% in 2011. In the 2nd quarter of 2011 the economy grew by 0.8% (fell by 0.2% in 2011). The Croatian central bank (HNB) assumes that the gross domestic product will increase by 0.4% in 2012. There should be new economic stimuli from 2012 again. A recovery is expected in 2013. Croatia may draw down EUR 700 m of subsidies from various EU funding pots prior to becoming an EU member; and is currently being monitored for reforms still to be carried out.

For these reasons, Hypo Alpe Adria does not consider there to be an impairment requirement on its exposure to Croatia at the time of writing.

(97) Market price risk

97.1. Definition

Market risks consist of potential losses arising from a change in market prices. Hypo Alpe Adria classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility and share price risks, as well as risks from alternative investments. Hypo Alpe Adria pays particular attention to identifying, measuring, analysing and managing market risk; the organisational division Group Market Risk Control is responsible for all market risks at group level.

Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from management of assets and liabilities.

In addition to market risks, market liquidity risks may also be incurred if, in the event 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, these are taken into account as part of the risk limitations for market risks.

97.2. General requirements

The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury units. Resolutions on the combined business and risk strategy at group level are passed exclusively in the Group Asset Liability Committee (Group ALCO).

97.3. Risk measurement

Hypo Alpe Adria calculates its market risk 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%. 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 capital adequacy requirements for the risk-bearing capacity calculation, values are scaled to the uniform confidence level of 99.9 percent, assuming liquidation over a specific time period for each risk factor.

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 taking into account the increased significance of interest risk in the current market situation.

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.

The interest rate risk in the banking book is determined as a present value risk, as are all market risks at Hypo Alpe Adria. The risk of interest rate changes in the banking 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 positions are accounted for in accordance with internal models.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept.

In line with Basel II specifications, a 200-basis-point interest rate shock scenario is calculated for the interest rate risk in the banking book. The present value changes calculated in relation to the regulatory equity lie well below the so-called “outlier criterion”. In addition, a large number of possible market fluctuations can be calculated and illustrated through a calculation of standard, forward, historic and extreme scenarios.

97.4. Risk limitation

In line with the group’s current risk strategy, a limit for market risk of ten percent of the risk capital has been set. This defined risk capital represents the maximum loss for assuming market risks.

The allocation of capital for market risk is carried out by Group Market Risk Control, after deduction of a market risk limit reserve, and is determined by setting risk-factor limits for the individual market risk factors (interest risk, currency risk, share risk, credit spread risk, volatility risk and alternative investment risk). Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios.

The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the limit system early on.

97.5. Risk control and monitoring

As part of the daily reporting process to the group's Executive Board, the value-at-risk and performance figures for the trading book are reported on a daily basis, while banking book investments and market risk steering figures are submitted on a weekly basis. A daily report is also made to the Executive Board (daily market risk report by the individual institutions and an overview of the shares of Hypo Alpe Adria), in which the risk and performance figures of the group's subsidiary banks are communicated.

Here the value at risk at unit level is compared against the defined limits; should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

The Board also receives a separate monthly report on the actual market risk situation for Hypo Alpe Adria, as well as on back-testing and stress test results, with a commentary on potentially significant developments as part of the market risk report.

The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset Liability Committee, which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity controlling. In addition to group-level monitoring and controlling, all subsidiaries and subsidiary portfolios are also monitored and controlled.

97.6. Overview - market risk

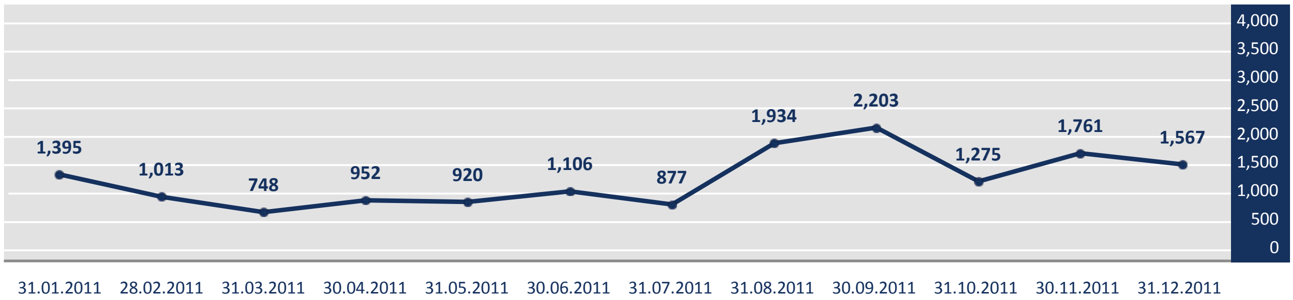
97.6.1. INTEREST RATE RISK

The chart below shows the progression of interest rate risk (including the interest rate risk of the trading book) for Hypo Alpe Adria in 2011.

The interest rate gap profile for Hypo 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, with local models for country-specific transactions. All interest rate gap profiles of local banks are consolidated at group level and combined into the group interest rate gap profile. All interest-bearing balance sheet items are taken as the basis for calculating interest-rate risk and thus for limiting risk. Non-interest-bearing items are not included in the calculation, but are taken into account in other risk types such as equity risk.

Development in interest rate risk for Hypo Alpe Adria in 2011:

Interest Rate Risk (Trading Book + Banking Book) – VaR (99%, 1 day)
in TEUR

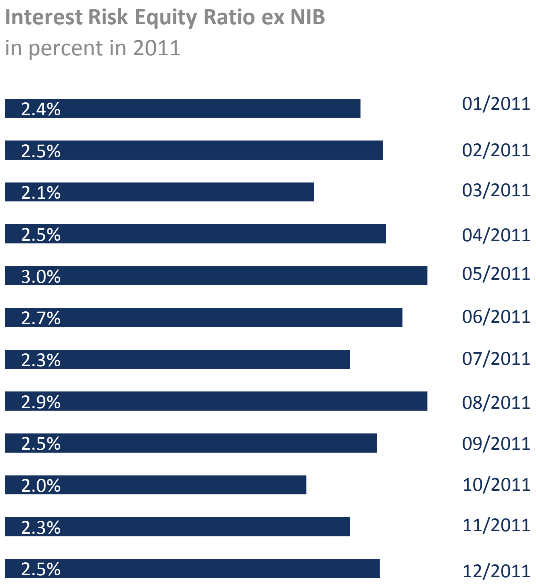


The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the group interest rate gap profile; a second step calculates the risk equity ratio as a percentage of equity capital.

The regulatory limit of 20% and the internal limit of 15% were not even close to being reached or exceeded at any point in the year.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges or portfolio hedges, thereby mitigating interest rate risk.

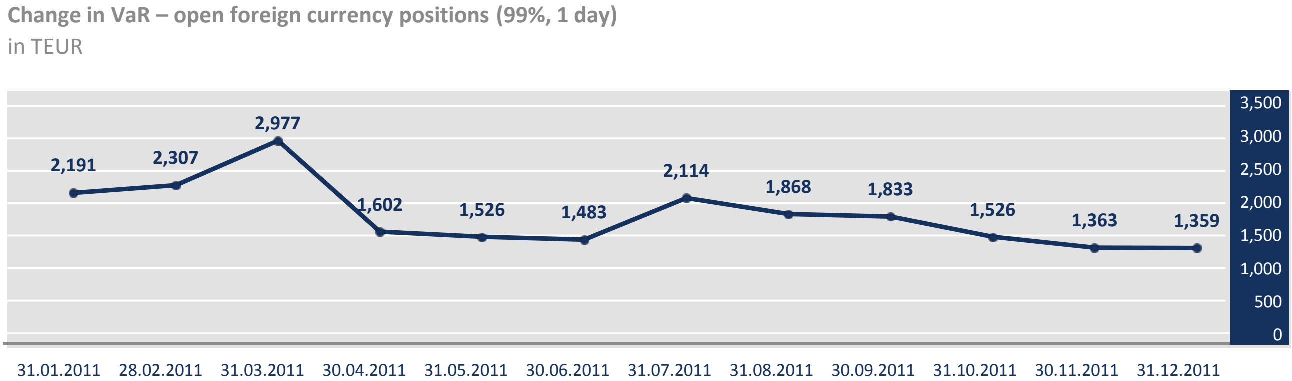
Interest risk equity ratio ex NIB in percent in 2011:



Regulatory requirements state that the proportion of interest rate risk – in the form of the standardised 200-bp rise in directly relevant interest-bearing positions (excluding non-interest-bearing (NIB) positions) – in equity may not exceed 20%. An internal limit for the interest risk equity ratio of a maximum of 15% has been set; however, this has only been sparingly used because of the positive offsetting effects in the interest rate gap profiles. Non-interest-bearing (NIB) positions do not therefore affect interest in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German minimum requirements for Risk Management (MaRisk).

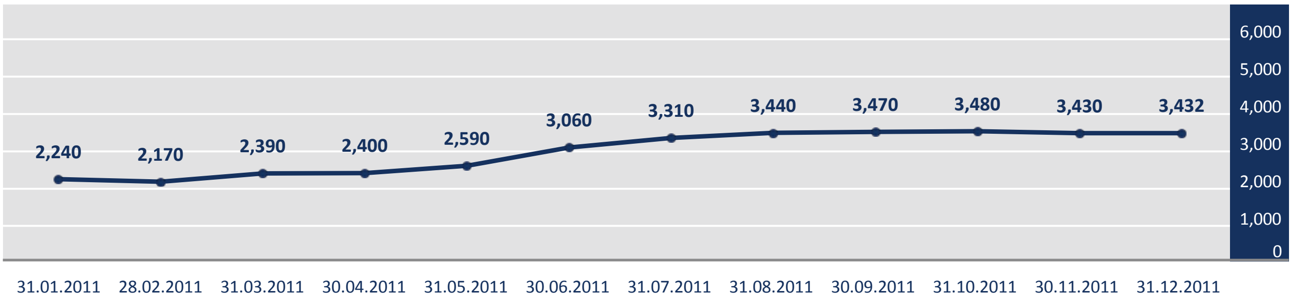
97.6.2. OPEN CURRENCY POSITIONS

The data base for determining the value at risk for open foreign currency positions at the group level of Hypo Alpe Adria is based on the figures in the OeNB report and contains operational business activities. Open foreign currency positions thereby cover the entire FX risk of Hypo Alpe Adria. The main risk drivers for open foreign currency positions at Hypo Alpe Adria are the HRK and USD currencies. The value at risk for this FX risk was approximately EUR 1.4 m per day as at 31 December 2011, at a confidence interval of 99%.
Change in the open currency positions of Hypo Alpe Adria in 2011:



In addition to the FX risk from operational business activities, there is an additional open foreign currency position in Hypo Alpe Adria from the consolidation of the strategic investments of Hypo Alpe-Adria-Bank International AG in Hypo Alpe Adria Bank a.d. Beograd and Hypo Alpe Adria Bank d.d Zagreb. As at 31 December 2011, the value at risk (99%, 1 day) for this strategic FX risk came to approx. EUR 3.43 m.
Change in the open currency positions in 2011 resulting from strategic holdings:

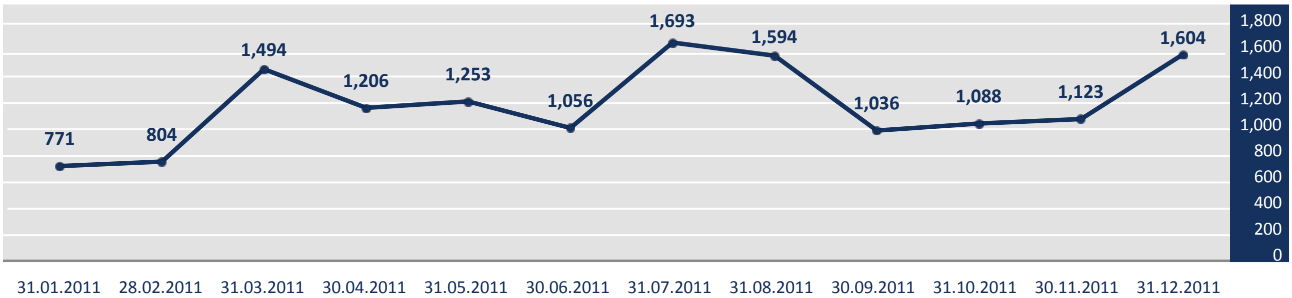
Change in Strategic FX Risk – VaR (99%, 1 day)
in TEUR



97.6.3. EQUITY RISK

The share capital held in the group is susceptible to market (price) risks, which arise from the uncertainty surrounding the future value of these shares. The largest proportion of the risk lies in the share portfolio in the banking book investments of Hypo Alpe Adria Bank Slovenia, Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria). The value at risk for the equity price risk in Hypo Alpe Adria amounted to EUR 1.60 m at 31 December 2011 with a one-day holding period and a confidence level of 99%. In line with the risk strategy, no further increase in share positions from an investment viewpoint is planned in Hypo Alpe Adria.
Changes in equity price risk in Hypo Alpe Adria in 2011:

Change in Equity Risk – VaR (99%, 1 day)
in TEUR

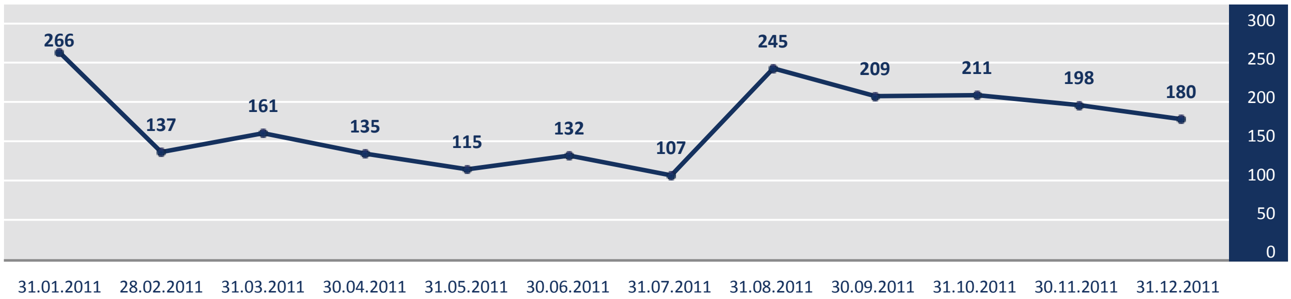


The main risk drivers of equity price risk in Hypo Alpe Adria are positions which arise from liquidating collateral related to credit risk transactions, where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements.

97.6.4. ALTERNATIVE INVESTMENT RISK

The alternative investment risk within Hypo Alpe Adria stood at EUR 0.18 m at year end 2011 with a 1-day value at risk and 99% confidence level. In line with the current risk strategy, the alternative investments book contains a wind-down portfolio – there are sales orders already in place for all investments in the alternative investments book of Hypo Alpe Adria.
Changes in the alternative investment risk of Hypo Alpe Adria in 2011:

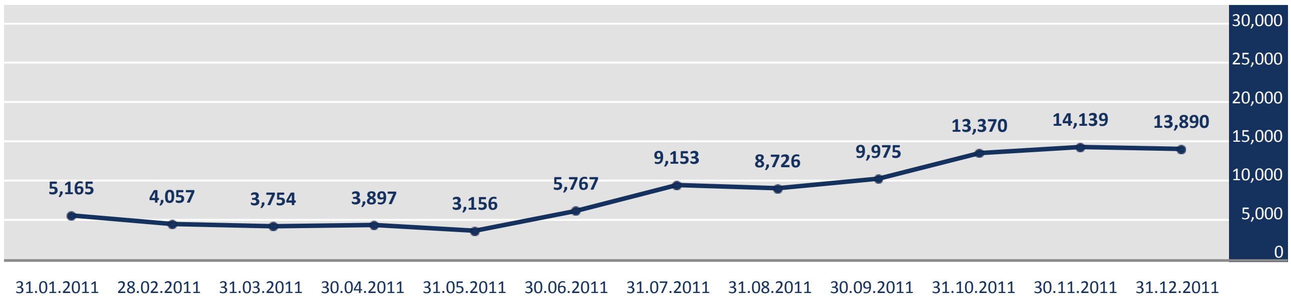
Change in VaR – Alternative Investment Risk – VaR (99%, 1 day)
in TEUR



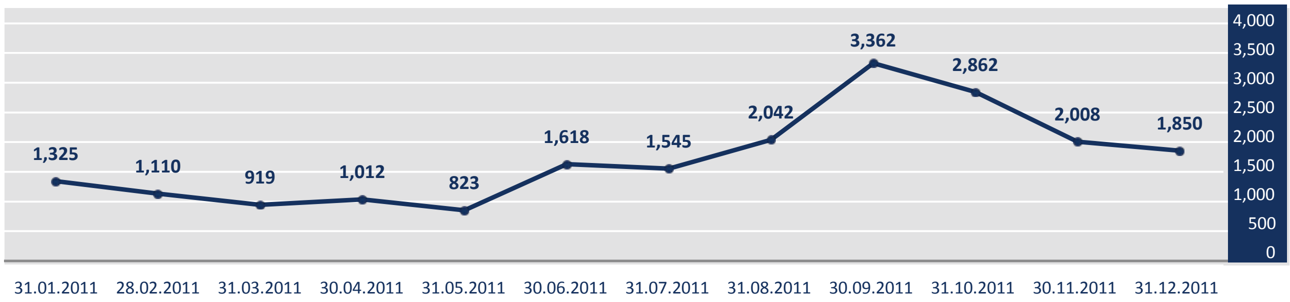
97.6.5. CREDIT SPREAD RISK

The liquid credit spread risk within Hypo Alpe Adria stood at EUR 13.89 m at year end 2011 with a 1-day value at risk and 99% confidence level – the illiquid credit spread risk stood at EUR 1.85 m at year end 2011 with a 1-day value at risk and 99% confidence level. Credit spread risk is the main risk driver for market risk at Hypo Alpe Adria. The most important influences are the liquidity reserves in the form of securities in Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria). Consequently, there is very limited scope for reducing risk from these positions.
Changes in credit spread risk in Hypo Alpe Adria in 2011:

Change in Credit Spread Risk (liquid) – VaR (99%, 1 day)
in TEUR



Change in Credit Spread Risk (illiquid) – VaR (99%, 1 day)
in TEUR

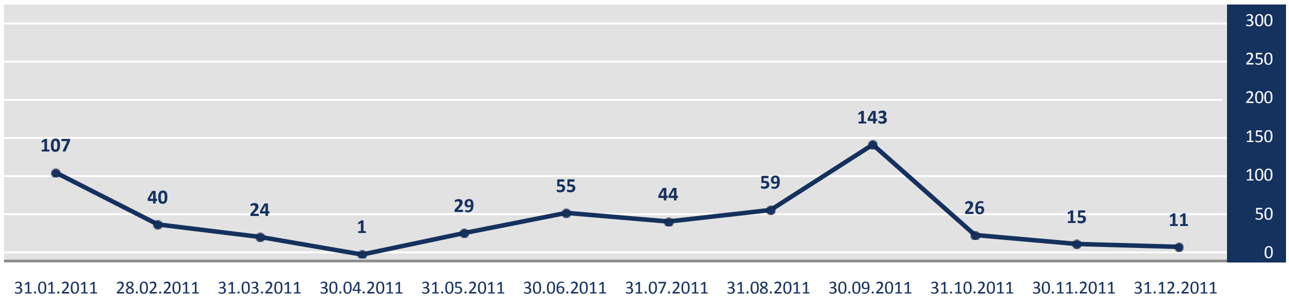


97.6.6. VOLATILITY RISK

The volatility risk for Hypo Alpe Adria at year end 2011 stood at EUR 0.01 m, with a 1-day value at risk and a confidence level of 99%. Volatility risk is defined within Hypo Alpe Adria as the risk of changes in the present value of open option positions held by the treasury unit caused by a change in implicit volatility.

Change in volatility risk in Hypo Alpe Adria in 2011:

Volatilitätsrisiko – VaR (99 %, 1 Tag)
in TEUR



(98) Liquidity risk

98.1. Definition
Hypo Alpe Adria defines liquidity risk as the risk of not being able to meet due payment obligations in full or on time, or – in the event 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.

98.2. General requirements
The strategic principles of handling liquidity risks at Hypo Alpe Adria are defined in the risk strategy. The overriding 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 and controlling of liquidity risks are governed by a liquidity manual which applies across the entire group.

Liquidity steering and management at group level are the responsibility of the Group Balance Sheet Management & Treasury division of Hypo Alpe Adria. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at group level, takes place. The local treasury units are responsible for operational liquidity steering and liquidity offsets. At group level, liquidity risk controlling is the responsibility of the Group Market Risk Control division of Hypo Alpe Adria, and of the respective risk control unit at local level. It is here that risk measurement, mitigation as well as timely and consistent reporting are carried out.

Hypo 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 crises or tackle acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain the ability to pay and to prevent damage to the bank's reputation.

98.3. Risk measurement
The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe Adria is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

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

- Free access to central bank and interbank funds
- ECB-eligible securities
- Issue potential in the cover register
- Senior bond issues
- Subsidised loans
- Securitisation potential

In addition to the normal scenario, other scenario analyses conducted 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 the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared in the risk-bearing capacity calculation to the economic equity.

98.4. Risk controlling
A bundle of different liquidity reserves ensures that Hypo 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.

Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly liquidated as well as guaranteed interbank lines of credit.

Liquidity controlling for the group is carried out both at a local level, in particular for HRK and RSD, 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. Short-term forecast data is elicited directly from client transactions by the sales units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity 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.

98.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and "time-to-wall" key indicators under normal and stress conditions and on the other hand through the integration of the structural liquidity risk into the bank's overall controlling (risk-bearing capacity).

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilisation of the liquidity potential, threshold values are being defined for all scenarios and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the controlling units responsible for liquidity risk.

98.6. Overview - liquidity situation

The situation on the international money and capital markets stabilised over the course of 2011. In addition to funding activities which fall within covered debt securities (covered bonds, Pfandbriefe), there was once again an increase in senior unsecured transactions, although it was predominantly issuers with higher credit standing who satisfied the increased interest from investors.

As a result of the problems in Greece and the eurozone in general, there was increased volatility in all segments, in particular the countries on the periphery, as the year progressed.

On the interbank money market secured repo transactions were repeatedly preferred over normal deposit trading; overall, this meant that certain individual banks became ever more dependent on the ECB in the second half of the year, as characterised by the renewed loss in confidence in the interbank market (record highs for one-day lending from corporate banks, highs for short-term deposits by the institutions with the European Central Bank).

This loss in confidence was countered by the ECB with the following measures (amongst others):

- reduction in interest rates
- reduction in the ECB remittance criteria for repos in December
- buying of sovereign and covered bonds by the ECB

After the outflow of primary funds in 2009, Hypo Alpe Adria was able to record increases in 2011, as it had done in 2010. This growth can be attributed to revived investor trust and to the group's strategy. The Financial Institutions and Retail are worthy of mention here. Due to the continuing low level of economic growth in the core countries, there was reduced requirement for funding. This led to the net result that more loans were repaid than loans issued.

In the fourth quarter of 2011 a securitisation of the Italian property leasing portfolio was carried out. This transaction led to an inflow of funds totalling more than EUR 100 m.

Overall, the liquidity situation of Hypo Alpe Adria is characterised by over-liquidity, which was reduced in 2011 in line with plan. For 2012 the assumptions on the basis of cash flow accounting are for stable and increasing over-liquidity.

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

- Current accounts, call money and cash collaterals are due on the next working day
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented

EUR m

at 31 December 2011	1 Y (2012)	2 Y (2013)	3 Y (2014)	4 Y (2015)	5 Y (2016)	6 Y (2017)	> 6 Y (> 2017)	Total
Financial liabilities *								
Liabilities to credit institutions	789	2,395	642	386	211	30		4,453
Liabilities to customers	6,399	345	185	15	63	10	37	7,053
Debt securities in issue	2,552	2,629	1,349	2,784	2,038	4,152	1,309	16,814
Promissory notes	0	10	105	275	424	1,304	374	2,492
Total	**9,740**	**5,379**	**2,281**	**3,460**	**2,736**	**5,496**	**1,720**	**30,812**

* Relevant to liquidity.

Maturities of financial liabilities
as of 31 December 2011 in EUR m

As the graph shows, in addition to the conservative modelling of liabilities in the first maturity band, the main due dates for issues and refinancing stretch out to 2017. This is taken account of in the funding planning, with particular care directed at broadening the liquidity resources and defining measures and a framework for ensuring the financing base for Hypo Alpe Adria's business activities.

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book: Hedge transactions on the asset side of the balance sheet (e.g. fixed rate bonds)
- Market Risk Steering ALM: Hedge transactions to steer the interest rate gap profile
- Market Risk Steering B2B: Back-to-Back transactions by Hypo Alpe-Adria-Bank International AG on the basis of the hedge demand of individual subsidiaries
- Market Risk Steering FVO: Hedge transactions under the Fair Value Option
- Market Risk Steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies
- Market Risk Steering HA: Hedge transactions in the course of hedge accounting

EUR m

at 31 December 2011	1 Y (2012)	2 Y (2013)	3 Y (2014)	4 Y (2015)	5 Y (2016)	6 Y (2017)	7 Y (2018)	> 7 Y (> 2018)	Total
Net cash flow from derivatives									
Banking book	-1	-22	-37	-27	-17	-12	-4	-3	-122
Market Risk Steering ALM	0	0	0	0	0	0	0	0	-1
Market Risk Steering B2B	0	0	0	0	0	0	0	0	1
Market Risk Steering FVO	94	6	10	13	21	9	9	-1	160
Market Risk Steering FX	0	-4	3	7	-188	1	-30	-32	-243
Market Risk Steering HA	24	226	339	207	140	99	114	11	1,160
Total	**117**	**206**	**315**	**199**	**-44**	**97**	**90**	**-25**	**956**

* Relevant to liquidity.

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions.

(99) Operational risk

Hypo Alpe Adria defines operational risk (“OpRisk”) as 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.

The aim of operational risk management at Hypo Alpe Adria is the use of a “proactive approach” (risk management) instead of a “reactive approach” (managing losses). Consolidated subsidiaries must implement operational risk 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.

For this reason, all banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidated group, are taken account of in every aspect of operational risk management.

Other non-consolidated subsidiaries are required to agree the scope of implementation separately with the group.

The OpRisk responsibility of sub-organisations of the subsidiaries is the responsibility of the subsidiary concerned.

In order to ensure synergy effects are achieved, 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.

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.

The operational risk management software (“Inform”) forms the platform for implementing the appropriate instruments at Hypo Alpe Adria.

The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within Hypo Alpe Adria has been set at EUR 5,000. All losses, from 1 January 2006 onwards, must be recorded.

The priorities of OpRisk in 2011 lay in improving the quality of data in the OpRisk database. This was carried out through regular checks and feedback on quality with/from the subsidiaries as well as establishing a series of a range of data quality checking routine, the results of which are to be followed up on by the subsidiaries themselves.

One other focal point involved training the local Operational Risk Officers. A specialist seminar was organised to this end, which dealt with the extensive theory of operational risk management but also focussed on practical implementation of measures (using case studies and group work). In addition, the flow of information to management was intensified and increased emphasis placed on defining measures and developing avoidance strategies with regard to larger loss events.

(100) Outlook for 2012

In the year under review, Hypo Alpe Adria has developed its risk controlling and risk management instruments further. Thanks to targeted training sessions and seminars for staff in the risk departments and through recruiting experienced employees, their technical expertise was further improved.

In 2012 the risk management function will be further improved, so as to equip it for the internal and external challenges of the future. When developing the procedures to be applied for mapping and managing risk, attention will be paid not just to meeting requirements under supervisory law but also to taking account of the group's future strategy.

This applies particularly to the following areas:

100.1. Risk-bearing capacity

On the basis of the risk inventory carried out in 2011 across the group, the risk-bearing capacity will be revised and adapted to the new framework conditions in the first quarter of 2012. The new risk-bearing capacity will be examined from three perspectives in the future: that of the group, the individual institution and the strategic viewpoint.

The new methodology will then be implemented taking into account the country-specific supervisory law stipulations, so as to provide a disciplined standpoint and stringent controlling.

100.2. Strategic risk management platform

Risk management has been using the statistical software package SAS for the credit portfolio analysis, carrying credit risk stress tests and the carrying out of further analyses and processes such as collateral allocation and distribution since the end of 2010. In order to do justice to the increasing and ever more complex internal and regulatory requirements, the existing SAS architecture will be expanded.

This will give risk management a high-performing platform to conduct analyses and complex calculations. It will help to avoid data redundancy and to create an effective, iterative risk management system.

100.3. Rating process

Four further rating modules will be developed and rolled out in 2012, to round off the rating landscape. These will cover the segments banks, states, regional administrative bodies and insurance companies. As part of the new strategy for retail banking within Hypo Alpe Adria, retail scorecards will also be developed in the first half of 2012, which should speed up the processing of new business and at the same time ensure adequate risk mapping both at product and customer level.

For the internally developed rating tools which will be rolled out in the first half of 2012, an ongoing "rating rush" will be established to give the whole of Hypo Alpe Adria's portfolio an up-to-date risk assessment based on a state-of-the-art rating process and totally up-to-date data.

100.4. Basel III – key liquidity figures

From the point of view of liquidity, quantitative key figures are being introduced under Basel III which measure both the short-term liquidity situation in a severe stress case (liquidity coverage ratio) as well as the long-term liquidity structure (net stable funding ratio). The aim is to have a large enough pool of liquid assets available for short-term stress cases and, in the medium-to-long term to balance the structure across both sides of the balance sheet. In addition, monitoring instruments in the form of specific measurement parameters are to be introduced. These are:

- contractual maturity mismatches
- finance concentrations
- available unencumbered assets
- liquidity coverage ratio by main currencies
- market-related monitoring instruments

According to the Basel III document, the liquidity provisions come into effect in 2015 (liquidity coverage ratio) and 2018 (net stable funding ratio). The reporting process starts up in January 2013 at the latest. Efforts are being directed at fulfilling the entire Basel III requirements within Hypo Alpe Adria by the 3rd quarter of 2012.

100.5. Asset liability management system

The specifications for a new ALM system were modified to take account of Hypo Alpe Adria's current strategy in the 2nd quarter of 2011. The requirements focus on market and liquidity risks as well as funds transfer pricing at the level of the total bank. On the basis of this preliminary work, a request for proposal (RfP) was published in 2011, the aim of which is to identify the best value supplier for Hypo Alpe Adria. The plan is to start work on a preliminary study with the best value supplier in the 1st quarter of 2012 and subsequently to begin the implementation phase in 2012.

100.6. Risk Academy

A special training programme will be launched for risk management in 2012.

The technical knowledge base required for the Risk Academy, based on the four-pillar principle of the functional and organisational alignment for risk management, had already been set in 2011 in the "Risk Academy Programme".
Alongside the vertical, functional and organisational structuring of the Risk Office for

- Risk Controlling
- Credit Management
- Credit Rehabilitation and
- Credit Processing

a horizontal differentiation appropriate to the career development path has been created, which will make it possible to arrange the relevant training modules in line with the stage of career development reached.

The focus of the training will be oriented to the career development level of the trainee (Junior – Professional – Specialist) and in this way will enable, on the one hand, a broad (cross-discipline) knowledge base, coupled to the specific requirements of daily work in the relevant risk management area, to be communicated; and on the other hand, supplementary and in-depth knowledge to be provided, enabling the employee to be a specialist in his/her particular risk-specific thematic area.

This methodological approach should create, within the framework of the Risk Academy, a group-wide comprehensive training programme for all staff in the Risk Office, which thanks to its modular nature allows both new recruits and existing employees to determine their own areas of focus while maintaining a uniform standard of training, and thus to expose as quickly as possible any gaps in training and fill these gaps accordingly.

Further information on risk management, the organisational structure and the risk capital situation is published by Hypo Alpe Adria in a disclosure report in accordance with sections 26 and 26a BWG. This disclosure report is available online on the group's website (www.hypo-alpe-adria.com) under Investor Relations.

Supplementary information

(101) Analysis of remaining maturity

Analysis of remaining maturity as at 31.12.2011	Due on demand or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	813.2	1,803.1
Loans and advances to customers	4,010.3	2,209.1
Trading assets	0.5	0.2
Derivative financial instruments	4.5	2.5
Financial investments - designated at fair value through profit or loss	60.6	3.5
Financial investments - available for sale	1,134.7	262.7
Financial investments - held to maturity	0.0	0.0
Other assets	51.3	321.5
Liabilities to credit institutions	1,005.7	578.0
Liabilities to customers	2,052.1	1,519.0
Debt securities in issue	2.0	134.3
Trading liabilities	0.0	0.0
Derivative financial instruments	0.4	2.0
Other liabilities	65.4	140.5
Subordinated capital	0.0	230.8

Analysis of remaining maturity as at 31.12.2010	Due on demand or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	664.7	3,870.7
Loans and advances to customers	3,071.4	2,130.3
Trading assets	16.1	0.4
Derivative financial instruments	7.8	21.1
Financial investments - designated at fair value through profit or loss	46.5	8.9
Financial investments - available for sale	969.6	128.7
Financial investments - held to maturity	0.0	6.0
Other assets	63.5	144.5
Liabilities to credit institutions	905.9	1,214.3
Liabilities to customers	1,987.8	1,459.4
Debt securities in issue	8.1	1,204.7
Trading liabilities	0.0	0.0
Derivative financial instruments	0.4	5.8
Other liabilities	58.0	237.2
Subordinated capital	0.0	0.0

The remaining term to maturity is the period between the end of the reporting period and the time of the contractually defined maturity of the loan or liability. Where loans or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount.

The maturity analysis is made according to the discounted cash flow.

EUR m

from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total
135.9	2,752.1	300.4	80.8	**3,133.4**
3,331.4	9,550.9	7,968.1	9,203.4	**26,722.4**
0.0	0.8	4.2	7.0	**12.0**
18.0	25.0	1,169.3	239.7	**1,434.0**
28.4	92.4	109.6	558.6	**760.6**
176.5	1,573.8	886.5	191.4	**2,651.7**
0.0	0.0	36.5	0.0	**36.5**
133.0	505.7	132.9	446.0	**1,084.7**
1,324.7	2,908.4	2,086.7	683.2	**5,678.4**
2,247.3	5,818.4	1,104.8	1,277.9	**8,201.1**
2,413.3	2,549.6	9,497.3	5,100.4	**17,147.4**
0.0	0.0	0.0	0.0	**0.0**
120.8	123.1	412.0	181.2	**716.3**
134.1	340.1	48.3	135.6	**524.0**
214.6	445.4	170.4	539.8	**1,155.6**

EUR m

from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total *
263.4	4,798.8	245.7	134.3	**5,178.7**
3,596.3	8,798.0	9,129.2	10,290.3	**28,217.5**
3.6	20.0	11.7	2.6	**34.3**
64.2	93.1	777.2	392.5	**1,262.8**
62.1	117.4	155.9	604.9	**878.2**
358.4	1,456.6	857.8	212.9	**2,527.3**
0.0	6.0	0.0	36.3	**42.3**
210.8	418.9	372.9	271.0	**1,062.8**
547.8	2,668.1	2,708.9	974.2	**6,351.2**
1,881.8	5,329.0	1,199.8	1,591.6	**8,120.4**
2,194.3	3,407.1	9,244.6	7,490.0	**20,141.8**
0.0	0.0	0.0	0.0	**0.0**
130.5	136.7	284.9	227.8	**649.4**
106.0	401.1	50.6	135.8	**587.5**
11.2	11.2	564.5	612.1	**1,187.8**

* Prior-year figures adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

(102) Finance leases

Receivables under finance leases are included in loans and advances to credit institutions and to customers; they break down as follows:

EUR m

	31.12.2011	31.12.2010 *
Minimum lease payments (agreed instalments + guaranteed residual value)	**6,379.3**	**7,113.8**
Non-guaranteed residual value (+)	**589.6**	**606.0**
Gross investment value (=)	**6,968.9**	**7,719.8**
up to 1 year	1,370.7	1,325.1
from 1 year to 5 years	2,669.9	2,898.5
over 5 years	2,928.3	2,891.2
Unrealised financial income (interest) (-)	**-1,336.2**	**-1,473.7**
up to 1 year	-223.5	-252.0
from 1 year to 5 years	-585.8	-633.4
over 5 years	-526.9	-588.2
Net investment value (=)	**5,632.8**	**6,246.2**

* Prior-year figures corrected due to error.

The cumulated risk provision for uncollectable outstanding minimum leasing payments for 2011 is EUR 255.8 m (2010: EUR -258.6 m).

EUR m

	31.12.2011	31.12.2010 *
Present value of non-guaranteed residual values	**589.6**	**606.0**
up to 1 year	28.8	29.6
from 1 year to 5 years	79.1	82.0
over 5 years	481.7	494.4
Present value of minimum lease payments	**5,043.1**	**5,640.2**
up to 1 year	1,118.4	1,156.1
from 1 year to 5 years	2,005.0	2,429.6
over 5 years	1,919.7	2,054.4

The net investments from finance leases also include the present value of the non-guaranteed residual value.
Leased assets corresponding to finance leases break down as follows:

EUR m

	31.12.2011	31.12.2010
Real estate leases	3,699.3	4,005.7
Vehicle leases	849.0	1,050.1
Boat leases	167.7	200.9
Other movables	916.8	989.5
Total	**5,632.8**	**6,246.2**

(103) Operate leases

The future minimum lease payments from non-terminable operate leases are as follows for each of the years shown below:

EUR m

	31.12.2011	31.12.2010
up to 1 year	89.5	113.8
from 1 to 5 years	198.8	255.6
over 5 years	133.8	172.8
Total	**422.0**	**542.2**

The breakdown by leased assets of minimum lease payments from non-terminable operate leases is as follows:

	31.12.2011	31.12.2010
Real estate leases	335.9	379.4
Vehicle leases	48.2	116.4
Boat leases	13.1	23.2
Other movables	24.9	23.2
Total	**422.0**	**542.2**

(104) Borrowing costs

Borrowing costs arising in relation to qualified assets as per IAS 23 are capitalised together with manufacturing costs. Essentially, qualified assets comprise buildings under construction, properties held as investment properties or properties used by third parties 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 financing cost rates applicable across the group:

EUR m

	31.12.2011	31.12.2010
Borrowing costs capitalised during the period	0.7	2.3
Financing cost rates in %	1.7	1.6

(105) Development costs

In 2011 Hypo Alpe Adria did not capitalise any development costs for self generated software as defined in IAS 38 – Intangible assets.

EUR m

	31.12.2011	31.12.2010
Development costs capitalised during the period	7.6	5.7

(106) Assets/liabilities in foreign currencies

The following balance sheet amounts are in foreign currency denominations:

EUR m

	31.12.2011	31.12.2010
Assets	19,245.7	12,511.5
Liabilities	25,684.7	4,073.3

The majority of the difference between the respective sums is hedged through currency swaps (FX swaps and cross-currency swaps) and FX futures.

(107) Fiduciary transactions

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

EUR m

	31.12.2011	31.12.2010
Loans and advances to customers	75.5	87.4
Fiduciary assets	**75.5**	**87.4**
Liabilities to credit institutions	75.5	87.4
Fiduciary liabilities	**75.5**	**87.4**

(108) Repurchase agreements

At the end of the year, the following repurchase and reverse repurchase commitments from repurchase operations existed:

EUR m

	31.12.2011	31.12.2010
Liabilities to credit institutions	335.4	368.2
Liabilities to customers	0.0	16.1
Repurchase agreements	**335.4**	**384.3**

EUR m

	31.12.2011	31.12.2010
Loans and advances to credit institutions	4.0	1.9
Loans and advances to customers	16.3	18.7
Reverse repurchase agreements	**20.3**	**20.6**

(109) Assets given as collateral

Assets with a value of EUR 1,339.3 m (2010: EUR 999.0 m) were transferred to third parties as collateral for own debts. These assets continue to be shown in the statement of financial position of Hypo Alpe Adria.

EUR m

	31.12.2011	31.12.2010
Liabilities to credit institutions	325.1	**192.5**
Liabilities to customers	2.6	**1.7**
Debt securities in issue	1,011.6	**804.8**
Total	**1,339.3**	**999.0**

(110) Subordinated assets

The following assets are shown in the statement of financial position as subordinated assets:

EUR m

	31.12.2011	31.12.2010
Loans and advances to customers	13.9	31.9
Financial investments - available for sale	14.7	58.8
Total	**28.6**	**90.7**

(111) Contingent liabilities and other off-balance-sheet liabilities

The following off-balance-sheet liabilities existed at the end of the reporting period:

EUR m

	31.12.2011	31.12.2010
Contingent liabilities	**755.6**	**829.9**
from bills of exchange transferred for settlement	1.1	2.8
from credit guarantees	453.1	527.4
from letters of credit	22.2	16.7
from other guarantees	260.1	271.4
from other contingent liabilities	19.0	11.6
Other liabilities	**961.7**	**1,375.7**
from irrevocable credit commitments	944.7	1,281.2
from other liabilities	17.0	94.5
Total	**1,717.3**	**2,205.6**

Other liabilities include liabilities from the acquisition or construction of investment properties and tangible assets totalling EUR 15.6 m (2010: EUR 93.3 m).

(112) Liability for commitments issued through the "Pfandbriefstelle"

As members of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG are, in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other members for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association of the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003, or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at EUR 9.0 bn as of the reporting date 31 December 2011 (2010: EUR 10.3 bn). This equates to almost the entire sum of the Pfandbriefstelle's liabilities as of 31 December 2010. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to the institutions already referred to, in the amount of EUR 2.3 bn (2010: EUR 2.5 bn), the resulting amount which must be reported in accordance with section 237 (8a) of the Austrian Commercial Code comes to EUR 6.7 bn (2010: EUR 7.8 bn).

(113) Breakdown of securities admitted to stock exchange trading

EUR m

	31.12.2011	31.12.2010
Trading assets		
Bonds and other fixed-interest securities	11.5	18.2
thereof listed	11.5	18.2
thereof unlisted	0.0	0.0
Shares and other non-fixed interest securities	0.5	16.0
thereof listed	0.4	9.3
thereof unlisted	0.0	6.7
Financial investments - designated at fair value through profit or loss		
Bonds and other fixed-interest securities	159.2	256.7
thereof listed	159.2	256.7
thereof unlisted	0.0	0.0
Shares and other non-fixed interest securities	37.5	40.8
thereof listed	1.8	0.1
thereof unlisted	35.7	40.7
Financial investments - available for sale		
Bonds and other fixed-interest securities	1,523.3	1,564.7
thereof listed	1,469.8	1,521.6
thereof unlisted	53.5	43.0
Shares and other non-fixed interest securities	58.5	52.2
thereof listed	49.6	48.0
thereof unlisted	8.9	4.2
Financial investments - held to maturity		
Bonds and other fixed-interest securities	36.5	42.3
thereof listed	36.5	42.3
thereof unlisted	0.0	0.0

(114) Restructuring expenses

The restructuring costs comprise the following elements:

EUR m

	1.1. - 31.12.2011	1.1. - 31.12.2010
Restructuring provisions	0.0	-0.1
Other restructuring costs	-0.9	0.0
Total	**-0.9**	**-0.1**

The group-wide restructuring plan passed in 2009, which contains an ongoing cost-cutting policy as well as measures to streamline internal organisation and increase efficiency, continues to stand as the medium-term goal. In this context, provisions were made for severance and redundancy costs applicable until 2015.

(115) Audit expenses

The following fees were incurred by the audit company Ernst & Young in the period under review:

EUR m

	31.12.2011	31.12.2010
Audit fees for the annual financial statements	**-2.6**	**-2.4**
expenses for the current year	-2.3	-2.4
expenses relating to the previous year	-0.3	0.0
Fees for other services	**-1.5**	**-0.9**
other assurance services	-0.9	-0.4
tax consultancy	0.0	0.0
other services	-0.6	-0.5
Total services	**-4.0**	**-3.3**

The audit expenses incurred in the 2011 financial year include the net audit fee (excluding value-added tax) as well as the related cash expenditures. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna), invoices for services rendered directly by other companies within the Ernst & Young network to Hypo Alpe-Adria-Bank International AG or to its subsidiaries have been included in the total sum.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) annual financial statements, the group reporting packages of the subsidiaries audited by Ernst & Young, as well as the costs of the consolidated financial statement itself.

The other assurance services mainly comprise costs incurred for the limited review of the half-year interim financial statement of Hypo Alpe Adria at the level of Hypo Alpe-Adria-Bank International AG and of the group companies involved.

(116) Measurement categories in accordance with IAS 39

The statement of financial position as of 31 December 2011 is broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2011
Cash and balances at central banks	757.5						757.5
Loans and advances to credit institutions	3,133.4						3,133.4
Loans and advances to customers	26,722.4						26,722.4
Risk provisions for loans and advances	-3,110.0						-3,110.0
Trading assets		12.0					12.0
Derivative financial instruments		54.8	136.2			1,243.1	1,434.0
Financial investments - afvtpl			760.6				760.6
Financial investments - afs				2,651.7			2,651.7
Financial investments - htm					36.5		36.5
Other financial investments		985.4					985.4
Other assets **	119.9	0.0	0.0	0.4	0.0	0.0	120.3
Total financial assets	**27,623.1**	**1,052.2**	**896.8**	**2,652.0**	**36.5**	**1,243.1**	**33,503.7**
Liabilities to credit institutions	5,678.4						5,678.4
Liabilities to customers	7,773.5		427.6				8,201.1
Debt securities in issue	16,708.3		439.1				17,147.4
Derivative financial instruments		323.6	118.7			274.0	716.3
Subordinated capital	1,085.2		70.4				1,155.6
Other liabilities **	131.3	0.0	0.0	0.0	0.0	0.0	131.3
Total financial liabilities	**31,376.6**	**323.6**	**1,055.9**	**0.0**	**0.0**	**274.0**	**33,030.1**

** Other assets/other liabilities show accruals and financial instruments which are included in the other assets/other liabilities on the assets/liabilities side.

Abbreviations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit and loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

The statement of financial position as of 31 December 2010 is broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2010 *
Cash and balances at central banks	843.6						843.6
Loans and advances to credit institutions	5,178.7						5,178.7
Loans and advances to customers	28,217.5						28,217.5
Risk provisions for loans and advances	-3,210.8						-3,210.8
Trading assets		34.3					34.3
Derivative financial instruments		96.9	117.8			1,048.1	1,262.8
Financial investments - afvtpl			878.2				878.2
Financial investments - afs				2,527.3			2,527.3
Financial investments - htm					42.3		42.3
Other financial investments		1,034.3					1,034.3
Other assets **	279.0	0.0	0.0	0.0	0.0	0.0	279.1
Total financial assets	**31,308.0**	**1,165.5**	**996.0**	**2,527.4**	**42.3**	**1,048.1**	**37,087.3**
Liabilities to credit institutions	6,351.2						6,351.2
Liabilities to customers	7,695.4		425.0				8,120.4
Debt securities in issue	19,227.8		914.0				20,141.8
Derivative financial instruments		295.1	186.5			167.8	649.4
Subordinated capital	1,079.0		108.7				1,187.8
Other liabilities **	139.3	0.0	0.0	0.0	0.0	0.0	139.3
Total financial liabilities	**34,492.7**	**295.1**	**1,634.2**	**0.0**	**0.0**	**167.8**	**36,589.8**

* Prior-year figures adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

** Other assets/other liabilities show accruals and financial instruments which are included in the other assets/other liabilities on the assets/liabilities side.

Abbreviations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit and loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

(117) Loans and advances and financial liabilities designated at fair value

Hypo Alpe Adria uses the fair value option primarily to avoid accounting mismatches for securities and loans which are hedged with interest rate and credit derivatives.

This applies equally for bonds issued with long-term fixed interest rates. Based on the management strategy, the interest sums are switched from fixed to variable-rate using interest rate swaps. Over and above this, the fair value option is used for financial instruments with embedded derivatives.

The following valuations in the individual balance sheet items have resulted from applying the fair value option:

EUR m

	31.12.2011	31.12.2010
Loans and advances to customers and credit institutions	563.9	580.6
Bonds and other fixed-interest securities	159.2	256.7
Shares and other non-fixed interest securities	37.5	40.8
Total	**760.6**	**878.2**
Liabilities to customers	427.6	425.0
Debt securities in issue	439.1	914.0
Subordinated capital	70.4	108.7
Total	**937.2**	**1,447.7**

The valuation result from the application of the fair value option comes to a total of EUR +106.3 m (2010: EUR -28.6 m), see note (48) Result from financial investments.

As of 31 December 2011, the maximum potential default risk for loans and advances designated at fair value recognised in profit or loss is EUR 534.4 m (2010 adjusted: EUR 553.9 m). The change in the fair value that is attributable to changes in the credit rating is EUR -1.1 m in the 2011 financial year (2010: EUR 2.1 m); since the designation, the cumulated change amounts to EUR -7.5 m (2010 adjusted: EUR -6.4 m). The fair value changes attributable to changes in the credit rating were determined 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.

The fair value of a financial liability takes into account the credit risk of this financial liability. The table below shows the fair value change attributable to credit risk for financial liabilities designated at fair value.

EUR m

	31.12.2011	31.12.2010 *
Cumulative changes in fair value	+216.1	+79.2
Fair value change in reporting year	+136.8	-3.0

* Prior-year figures corrected due to error.

The fair value of the issued liabilities takes into account the credit risk of the group. The fair value of these financial liabilities is determined with the help of a valuation method. One such method takes account of the credit risk through discounting the contractually determined payment flows of the liability using a risk-adjusted interest rate curve, which shows the interest rate level at which the group could issue similar instruments as of the end of the reporting period.

The negative effects in profit or loss of the liabilities designated at fair value in the year under review result from the improvement in the calculation of the credit spreads for Hypo Alpe Adria, which can be attributed to the new ownership structure.

For all financial liabilities designated at fair value, the contractual repayment sum due to be paid by the group on maturity was EUR 39.4 m higher than the amount shown in the statement of financial position as of 31 December 2011 (2010 adjusted: EUR 59.0 m). The contractual repayment sum due to be paid by the group on maturity equates to the sum that the group must repay at the earliest possible due date set down in the contracts. If the amount due to be repaid has not been determined (as is the case, for example, with perpetuals), the amounts for these financial instruments will not be recognised.

(118) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
Where available, quoted prices or prices for the corresponding financial instruments on other representative markets (Reuters, Bloomberg, etc.) have been 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 discounted cash flow methods. 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 non-fixed interest rates is required. As the carrying amount of the loans and advances already takes into account market changes in the sense of market interest rate changes, the difference between the carrying amount and the fair value is not substantial, and the fair value was not determined separately.

Within the scope of hedge accounting, Hypo 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 statement of financial position 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 serves above all to minimise the market value risk caused by interest rate changes.

With regard to hedging risks arising from interest rate changes, 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 Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

(119) Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value according to their level in the fair value hierarchy (see note (12) Fair value) .

EUR m

31.12.2011	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	12.0	0.0	0.0	12.0
Derivative financial instruments	0.0	1,429.5	4.5	1,434.0
Financial investments - designated at fair value through profit or loss	0.0	759.1	1.5	760.6
Financial investments - available for sale	2,210.8	422.9	18.0	2,651.7
Total	**2,222.8**	**2,611.5**	**24.0**	**4,858.4**
Liabilities				
Liabilities to customers	374.2	53.5	0.0	427.6
Debt securities in issue	350.6	88.5	0.0	439.1
Derivative financial instruments	0.0	716.3	0.0	716.3
Subordinated capital	50.7	19.7	0.0	70.4
Total	**775.5**	**877.9**	**0.0**	**1,653.4**

EUR m

31.12.2010	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total *
Assets				
Trading assets	24.3	0.0	10.0	34.3
Derivative financial instruments	0.1	1,253.0	9.6	1,262.8
Financial investments - designated at fair value through profit or loss	1.5	876.7	0.0	878.2
Financial investments - available for sale	1,956.4	524.7	46.4	2,527.5
Total	**1,982.3**	**2,654.5**	**66.0**	**4,702.8**
Liabilities				
Liabilities to customers	370.5	54.5	0.0	425.0
Debt securities in issue	819.4	94.6	0.0	914.0
Derivative financial instruments	0.0	649.3	0.0	649.4
Subordinated capital	75.0	34.2	0.0	109.2
Total	**1,265.0**	**832.6**	**0.0**	**2,097.6**

* Prior-year figures adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

The reconciliation of the financial instruments in level III is shown in the table below.

EUR m

31.12.2011	At start of reporting period (+)	Total gains/ losses	Re-valuation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period (-)
Assets									
Trading assets	10.0	2.2	0.0	0.0	-8.8	0.0	-3.5	0.0	0.0
Derivative financial instruments	9.6	-5.0	0.0	0.0	0.0	0.0	0.0	-0.1	4.5
Financial investments - designated at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	1.5
Financial investments - available for sale	46.4	-1.0	-8.1	8.0	-6.9	0.0	-17.1	-3.3	18.0
Total	**66.0**	**-3.7**	**-8.1**	**8.0**	**-15.6**	**1.5**	**-20.6**	**-3.4**	**24.0**

EUR m

31.12.2010	At start of reporting period (+)	Total gains/ losses	Re-valuation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period (-)
Assets									
Trading assets	11.0	0.0	0.0	20.2	-24.8	0.0	0.0	3.6	10.0
Derivative financial instruments	11.7	0.0	0.0	0.0	0.0	0.0	0.0	-2.1	9.6
Financial investments - designated at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Financial investments - available for sale	36.0	-6.4	-0.3	1,006.2	-1,005.6	25.1	-0.3	-8.4	46.4
Total	**58.7**	**-6.4**	**-0.3**	**1,026.4**	**-1,030.4**	**25.1**	**-0.3**	**-6.9**	**66.0**

* Prior-year figures adjusted - see note (5) Business combinations, note (8) Prior-year adjustments.

The column "Total gains/losses" contains both income and expenses from financial instruments which were held as at 31 December 2011, as well as from financial instruments which are no longer on the books as at 31 December 2011. Expense of EUR -1.7 m came from the outgoing financial instruments as of 31 December 2011 (2010: EUR -0.7 m). The bonds designated at fair value are still held as at 31 December 2011, however, there is no carrying amount available for them.

(120) Fair value of financial instruments not measured at fair value in the statement of financial position

In the table below, the respective fair values are shown for the carrying amounts of financial instruments not measured at fair value in the statement of financial position:

EUR m

	31.12.2011 Fair value	31.12.2011 Carrying amount	31.12.2011 Difference	31.12.2010 Fair value	31.12.2010 Carrying amount	31.12.2010 Difference
Assets						
Loans and advances to credit institutions	3,120.1	3,120.1	0.0	5,165.6	5,165.6	0.0
Loans and advances to customers	23,634.7	23,632.6	2.1	25,018.9	25,027.6	-8.7
Financial investments - held to maturity	34.5	36.5	-1.9	42.6	42.3	0.3
Other financial investments (investment properties)	1,011.2	940.5	70.7	1,018.0	933.2	84.8
Total	**27,800.5**	**27,729.6**	**70.8**	**31,245.1**	**31,168.7**	**76.4**
Liabilities						
Liabilities to credit institutions	5,687.7	5,678.4	9.3	6,352.4	6,350.0	2.3
Liabilities to customers	7,658.7	7,773.5	-114.8	7,712.7	7,695.4	17.3
Debt securities in issue	16,466.4	16,708.3	-241.8	19,185.5	19,227.8	-42.3
Subordinated capital	988.9	1,085.2	-96.3	1,008.8	1,079.0	-70.2
Total	**30,801.7**	**31,245.3**	**-443.6**	**34,259.3**	**34,352.3**	**-92.9**

The fair value of real estate held as investment properties comes to EUR 863.0 m (2010: EUR 779.4 m).

(121) Derivative financial instruments

The following business had not yet been transacted at the reporting date:

EUR m

	31.12.2011			31.12.2010		
		Fair values			Fair values	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest- related transactions						
OTC-products	**14,942.9**	**1,279.4**	**358.9**	**16,705.9**	**1,077.1**	**243.5**
- interest rate swaps	14,820.7	1,277.9	357.8	16,603.1	1,075.7	242.1
- forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0
- interest options	9.6	0.1	0.1	0.0	0.0	0.0
- caps, floors	76.4	0.9	0.6	61.5	0.8	0.8
- other interest derivatives	36.2	0.6	0.3	41.3	0.6	0.6
b) Currency-related transactions						
Exchange-traded products:	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
- foreign exchange futures	0.0	0.0	0.0	0.0	0.0	0.0
OTC-products	**5,082.3**	**154.4**	**336.1**	**5,080.5**	**179.8**	**396.2**
- currency swaps	1,448.6	129.9	325.8	1,958.8	110.6	390.4
- cross currency swaps	3,495.3	19.2	9.3	2,827.9	58.0	1.2
- forward exchange contracts - purchases	28.7	0.4	0.1	128.9	0.5	3.9
- forward exchange contracts - sales	28.7	0.1	0.5	135.5	1.1	0.7
- currency swaptions	81.0	4.8	0.4	29.4	9.6	0.0
c) Transactions linked to share price and other indices						
Exchange-traded products:	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
- share/index-linked options	0.0	0.0	0.0	0.0	0.0	0.0
OTC-products	**7.3**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**
- share/index-linked options	7.3	0.2	0.0	0.0	0.0	0.0
d) Credit-linked derivatives						
OTC-products	**30.0**	**0.0**	**21.3**	**30.0**	**0.0**	**9.5**
- credit default swaps	30.0	0.0	21.3	30.0	0.0	9.5
- total return swaps	0.0	0.0	0.0	0.0	0.0	0.0

The majority of derivative transactions serve the purpose of hedging fluctuations related to interest rates, foreign currency rates or fair values. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the statement and measurement of the derivatives, see notes (10) Financial instruments: recognition and measurement and (13) Hedge accounting.

(122) Related party disclosures

Business relations with related parties at the reporting dates shown below are disclosed as follows:

EUR m

as at 31.12.2011	Parent	Affiliated companies	Joint ventures	Key management personnel
Assets	**108.0**	**169.9**	**135.5**	**1.2**
Loans and advances to customers	108.0	139.6	133.4	1.0
Risk provisions on loans and advances	0.0	-33.1	2.1	0.0
Other assets	0.0	63.4	0.0	0.1
Equity and liabilities	**12.7**	**18.2**	**0.6**	**3.6**
Liabilities to customers	0.0	8.3	0.6	3.6
Provisions	10.0	2.4	0.0	0.0
Other financial liabilities	2.7	0.0	0.0	0.0
Subordinated capital	0.0	7.5	0.0	0.0
Liabilities arising from guarantees	**0.0**	**15.5**	**0.0**	**0.0**
Guarantees issued by the group for related party	0.0	15.5	0.0	0.0
Guarantees received by the group from related party	0.0	0.0	0.0	0.0

EUR m

as at 30.12.2010	Parent	Affiliated companies	Joint ventures	Key management personnel
Assets	**125.1**	**186.3**	**75.7**	**2.7**
Loans and advances to customers	125.1	192.5	79.9	2.7
Risk provisions on loans and advances	0.0	-41.3	-4.1	0.0
Other assets	0.0	35.1	0.0	0.0
Equity and liabilities	**13.7**	**18.2**	**0.0**	**3.2**
Liabilities to customers	0.0	12.8	0.0	3.2
Provisions	9.0	0.0	0.0	0.0
Other financial liabilities	4.7	0.0	0.0	0.0
Subordinated capital	0.0	5.3	0.0	0.0
Liabilities arising from guarantees	**0.0**	**50.3**	**88.1**	**0.0**
Guarantees issued by the group for related party	0.0	50.3	88.1	0.0
Guarantees received by the group from related party	0.0	0.0	0.0	0.0

Key management personnel are defined as Executive Board members of subsidiary banks and of significant leasing companies as well as the divisional managers of Hypo Alpe-Adria-Bank International AG. Loans and advances to companies accounted for at equity are shown in the table under the item affiliated companies.

In addition, at the end of the reporting period there are business relations with publicly-owned organisations, to an extent common to the banking industry.

The relationships with members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (133) Relationships with members of the executive bodies.

(123) Participation capital

As a result of the resolution passed in the general shareholders‘ meeting for Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed in the extraordinary shareholders‘ meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Hypo Alpe-Adria-Bank International AG and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 275,111,072.56 (18,000 participation certificates each with a value of EUR 15,283.94848). Under section 23 (3) (8) BWG there is no obligation to make back-payments of dividends on participation capital.

On the basis of the issue agreement and by applying section 102 BWG, the Republic of Austria is in principle entitled to exchange all the participation certificates it owns, at a conversion price to be determined in accordance with the conditions for the participation certificates, into no-par bearer shares in Hypo Alpe-Adria-Bank International AG.

The participation capital subscribed to by the previous owners in the course of the change in ownership of Hypo Alpe-Adria-Bank International AG which became effective on 29 December 2009 currently has a value, after allocation of losses and the capital reduction of EUR 339,539,940.51.

According to the conditions for subscribing to the issue of participation capital in 2009, the holders of participation capital will be entitled to a dividend of 6.0% p.a. for the first time in the 2013 financial year, provided that this is covered by net income for the year after movements in reserves and the payment of dividends on the participation capital totalling EUR 275,111,072.56 and held by the Republic of Austria, and that the relevant resolution has been passed by the Boards.

Participation capital is reported under equity in the item subscribed capital in the consolidated financial statements for Hypo Alpe-Adria-Bank International AG. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is the separate financial statements for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG and the prerequisite is sufficient annual profit after movement in reserves.

(124) Breaches of financial covenants

In the financial year 2011 there were no breaches of financial covenants which could have led to a reclassification in line with IFRS 7.18 of the liability involved on the grounds of maturity.

(125) Statutory guarantee

The guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into between 3 April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The State will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) provides for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid.

Availing themselves of the contractually agreed rights to termination, notice was given by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) to terminate the guarantee commission agreement as of 31 December 2011, whereby the contractual obligation to pay guarantee commission would cease. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at the bank.

Please refer to note (126) Important proceedings for a description of the legal proceedings relating to the payment of guarantee commission for 2010.

The sums for which the State of Carinthia is liable as at 31 December 2011 are as follows:

EUR m

	31.12.2011	31.12.2010 *
Hypo Alpe-Adria-Bank International AG	16,175.1	18,311.1
Hypo Alpe-Adria-Bank AG (Austria)	1,320.6	1,460.3
Total	**17,495.7**	**19,771.4**

* Prior-year values adjusted.

As at 31 December 2011, the State of Carinthia must extend guarantees for fixed-term and non-fixed-term commitments from Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG with a total value of EUR 17.5 bn (corrected value for 2010: 19.7 bn). It was necessary to adjust the amount of liability that had previously been calculated as applying on 31 December 2010, as an internal review in the spring of 2011 brought to light mistakes in the systems used for calculation. With regard to the sum applying on the reporting date of 31 December 2010, there was a requirement to adjust the amount of liability applying to Hypo Alpe-Adria-Bank International AG from the previously shown guaranteed volume of EUR 17.4 bn to EUR 18.3 bn.

The guarantee commissions due to the State of Carinthia which were recognised in profit and loss during the 2011 financial year were as follows:

EUR m

	31.12.2011	31.12.2010
Hypo Alpe-Adria-Bank International AG	20.7	16.7
Hypo Alpe-Adria-Bank AG (Austria)	1.3	1.3
minus advance payments	0.0	-3.7
Total	**22.0**	**14.3**

(126) Important proceedings

126.1. EU proceedings

At the beginning of December 2008, Hypo Alpe-Adria-Bank International AG received an increase in capital of EUR 700.0 m, primarily subscribed to by its then majority shareholder, Bayerische Landesbank (BayernLB). In addition, at the end of December 2008, the Republic of Austria made available participation capital with a value of EUR 900.0 m as part of the Austrian banking package.

In light of the fact that the majority shareholder in Hypo Alpe-Adria-Bank International AG at the time, BayernLB, also received financial assistance in the form of a EUR 10.0 bn capital injection and a guarantee of its ABS portfolio to a maximum sum of EUR 4.8 bn, on 12 May 2009 the Commission citing Art. 88 II of the EC Treaty ordered an examination of the restructuring plan of BayernLB, as well as of the profitability plan for Hypo Alpe Adria, to be delivered to the Commission by the German and Austrian governments.

As a result of the substantial losses sustained by the banking group in 2009, the complete acquisition of all shares by the Republic of Austria was agreed between the previous owners of Hypo Alpe-Adria-Bank International AG and the Republic of Austria on 14 December 2009, which was completed on 30 December 2009. The previous owners made contributions towards the restructuring as part of their disinvestment. Moreover, the Republic of Austria took on commitments with regard to future capital injections. These injections were realised through the subscription of the EUR 450.0 m participation shares issued at the end of June 2010.

The European Commission provisionally approved the measures put forward by the Republic of Austria on 23 December 2009 for a period of up to six months, and instructed the Republic of Austria to present an in-depth restructuring plan for Hypo Alpe Adria in the first half of 2010. Hypo Alpe Adria fulfilled this requirement in April 2010.

Hypo Alpe-Adria-Bank International AG continued to strive for completion of the EU investigation into state aid in 2011. The current restructuring plan was presented at a presentation to the European Commission in Brussels on 24 January 2011. The discussions and subsequent list of questions from the Commission suggest that the Commission is in basic agreement with the bank's new strategy. The results of these direct discussions and the answers to the questions subsequently submitted to obtain more in-depth information on aspects of the plan were incorporated into the revised version of the EU restructuring plan, which was submitted in April 2011.

In response to the sovereign debt crisis in the eurozone and its effects on the European financial sector, the worsening of economic conditions in Europe and in particular in the Hypo core regions of South-Eastern Europe and the conclusion reached by the supervisory authorities in the Joint Risk Assessment Decision (JRAD) process that there is a requirement for additional capital for the bank (see note (129) Own capital funds as defined by the Austrian Banking Act), Hypo Alpe-Adria-Bank International AG has sharpened its strategy. This has included adjusting planning to take account of the worsened economic forecasts and, amongst other measures, resolving to switch the subsidiaries to self-financing through local deposits from 2012 onwards.

The tightening of strategy was also reflected in the continuing dialogue with the EU Commission. In addition to submitting data to show the medium and long-term viability of Hypo Alpe-Adria-Bank International AG and its subsidiaries in South-Eastern Europe, the bank also produced a modified restructuring plan based on the forecast for the 2011 financial year. The document focuses the bank's strategy on reprivatising all saleable units and was submitted by the owner of the bank to the authorities in Brussels at the turn of the year.

On the basis of the above, the Commission will reach judgement on whether the state-aid measures are consistent with EU state-aid rules. The Commission will examine whether the measures planned can return Hypo Alpe Adria to long-term profitability, whether support from the state is being kept to the required minimum, whether the level of own contribution made is appropriate and whether sufficient measures are being undertaken to limit the distortions to competition caused by the financial aid being given. The Commission has also announced that it will examine whether the previous owners have contributed sufficiently to the restructuring costs.

Hypo Alpe Adria will be redimensioned on the basis of this restructuring plan, and this will also lead to a significant number of group companies being relinquished. The current business plan for 2012–2016 has calculated in restructuring and exit costs in connection with this, which could have a negative effect on results for future periods, depending on when a given market is exited and the market conditions prevailing at the time. These expenses can only be accounted for when the specific criteria – in particular the probable exit within a period of 12 months – are met.

In its decision dated 4 August 2010, the EU approved the acquisition of Hypo Alpe Adria by the Republic of Austria in respect of merger control laws. The guarantee agreement concluded at the end of December 2010 with the Republic of Austria (see note (127) Guarantee agreement) has been provisionally approved by the European Commission and the decision was published at the start of 2012. The approval is subject to the Commission agreeing to the bank's restructuring plan based on the state aid provided through the emergency nationalisation in 2009.

At the time of writing, it cannot be estimated with any degree of certainty when the EU state-aid proceedings will be concluded and whether the European Commission will accept the restructuring plan for Hypo Alpe Adria. As the subject of the inspection process, Hypo Alpe-Adria-Bank International AG has declared its willingness to cooperate fully with the Commission.

126.2. Other proceedings

A lawsuit was filed in October 2009 against Hypo Alpe-Adria-Bank International AG by a consultant for payment of unpaid fees totalling EUR 65 thousand (partial suit) and arising out of a consulting contract. The case was suspended temporarily because of an investigation connected to the consulting contract in question that was taking place in parallel; following the ending of the investigation, the case was resumed upon application of the plaintiff in August 2011. Over and above this, the plaintiff is claiming entitlement (not yet filed as a lawsuit) to a success fee totalling approx. EUR 5 m. Hypo Alpe-Adria-Bank International AG assumes that the claims have no basis in law.

At the end of June 2011 Hypo Alpe-Adria-Bank International AG filed an application at the Commercial Court in Vienna for a declaratory judgement on BayernLB, with a total claim value of EUR 0.5 m. Specifically it is about the interpretation of two provisions in the agreement to sell its shareholding, concluded between BayernLB, the Republic of Austria and Hypo Alpe-Adria-Bank International AG. Clarification is sought on whether BayernLB may continue to charge Hypo Alpe-Adria-Bank International AG higher interest rates for loans and advances as a result of Hypo Alpe Adria ceasing to be part of the BayernLB group of credit institutions. It is also sought on the question of which lines of credit according to the shareholding sales agreement are covered by BayernLB‘s waiver.

In December 2011 an application for a declaratory judgement against the bank was made by the State of Carinthia as a participant in connection with the capital reduction resolution passed at the general shareholders' meeting on 30 May 2011. The plaintiff's claim is essentially that the loss allocated to the participation capital is invalid and the entitlement of the participants involved to future interest payments should be on the basis of the nominal value of the capital prior to the reduction. The claim submitted has no effect in terms of company law on the capital reduction which has already been registered and is legally valid; nor on the capital increase which took place on 30 June 2011.

In December 2011, the State of Carinthia filed a claim against Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) because of the non-payment of guarantee commission for 2010; the value of the claim was set at EUR 6.2 m plus interest. Hypo Alpe Adria takes the viewpoint that the law in which the state guarantee is anchored does not provide for any remuneration and that the conclusion of a guarantee commission agreement under private law violates the principle of legality.

At the end of 2010 a borrower filed a lawsuit against Hypo Alpe-Adria-Bank d.d., Zagreb, whereby a case has also been submitted against Hypo Alpe-Adria-Bank International AG, but has not yet been served. The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff’s claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0 m. Hypo Alpe Adria assumes that there is no basis whatsoever for this lawsuit in view of the borrower’s previous violations of the contract and the improper use of funds which led to the termination of the credit lines.

On 12 April 2011 a purchase agreement was signed with an investor in relation to the shares in Kärntner Holding Beteiligungs GmbH, which is the owner of the Schlosshotel Velden and apartment complex. This agreement was supplemented with an addendum on 13 July 2011. Due to the fact that the investor violated certain contractual obligations, however, the purchase agreement became retrospectively obsolete (ex tunc dissolution). As a result of the dissolution of the purchase agreement, the good faith deposit of EUR 4 million paid by the investor lapsed in favour of Hypo Alpe-Adria-Bank International AG. Once the purchase agreement had been dissolved, the investor twice tried to obtain an injunction against Hypo Alpe Adria International AG, without success. Both applications for an injunction were rejected at the court of last instance by the Regional Court in Klagenfurt (decisions dated 29 August and 30 September 2011). These decisions are legally binding. It cannot, however, be ruled out at this time that the investor will not try to demand repayment of the good faith deposit through the courts. Hypo Alpe-Adria-Bank International AG takes the view that the investor has no entitlement to a repayment of the good faith deposit.

Hypo Alpe-Adria-Bank International AG has a 49% share in the Liechtenstein bank Alpe Adria Privatbank AG i.L.; the remaining 51% of the shares are held by AAP Holding AG, a company based in Liechtenstein. The general shareholders' meeting in April 2009 passed a resolution to liquidate Alpe Adria Privatbank AG i.L.; this is now well progressed and should be completed in 2012. Hypo Alpe-Adria-Bank International AG and AAP Holding AG are currently in discussions to settle legal claims arising from the sale of the 51% share of Alpe Adria Privatbank AG i.L. by Hypo Alpe-Adria-Bank International AG to AAP Holding AG as well as from a consultancy contract signed between the two parties. Parallel to this, investigations are being conducted, involving the authorities in Liechtenstein and Austria, into various facts and suspicions which show a connection to Liechtenstein, in order to make it possible for Hypo Alpe Adria to examine and pursue any further claims for damages.

In 2002 Hypo Alpe-Adria-Nekretnine d.o.o. acquired 100% of the shares in a Croatian company, which were sold on by the same in 2005 to a third party. In the same year the original vendor claimed the share sale agreement of 2002 was void. This claim was upheld at the first instance in March 2011; Hypo Alpe-Adria-Nekretnine d.o.o. then filed an appeal. A decision from the court of appeal is not expected for one and a half to two years. The consequences of a negative outcome of this case for Hypo Alpe-Adria-Nekretnine d.o.o. would be the reversal of the share sale agreement and all subsequent transactions; the resulting damages cannot be quantified at this point in time.

Bayerische Landesbank (BayernLB) filed a claim in July 2011 against the HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS) calling for the reversal of share purchase agreements made in 2007 and concerning the acquisition of a total of 175,316 shares in Hypo Alpe-Adria-Bank International AG on the grounds of intent to mislead in conjunction with the allowability to count as equity the preference shares that had been issued by Hypo Alpe-Adria-Leasing Holding AG (now Hypo Alpe-Adria-Leasing GmbH). The sum in dispute is set at EUR 50.0 m. MAPS has served a third-party notice on Hypo Alpe-Adria-Bank International AG on the grounds that the actions of supporting the due diligence process and drawing up the consolidated financial statements as at 31 December 2006, in which the preference shares were shown as equity, could, as the actions of employees and executive bodies of Hypo Alpe-Adria-Bank International AG, be attributed to the same. Hypo Alpe-Adria-Bank International AG has joined these proceedings as a third-party intervener. In the event that BayernLB should be successful with a similar case against B & Co BeteiligungsgmbH (as the legal successor to Berlin & Co Capital S.á.r.l.), the latter has signalled it will make a claim against Hypo Alpe-Adria-Bank International AG for repayment of the purchase price paid by Berlin & Co Capital S.a.r.l. On the basis of the current information available to it and the legal position of Hypo Alpe-Adria-Bank International AG, it cannot be assumed that the prerequisites for such a claim have been met.

(127) Guarantee agreements

On 28 December 2010 a guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG, with the Republic taking on liability as a statutory guarantor pursuant to section 1356 of the Austrian Civil Code (ABGB). The liability of the Republic relates to a precisely specified portion of receivables in the portfolio of Hypo Alpe-Adria-Bank International AG and is capped at a maximum of EUR 200.0 m ("maximum guaranteed sum"). Please see note (62.1.) Risk provisions for loans and advances and provisions for credit risk – development, for details on the effect this guarantee has on the consolidated financial statements. Hypo Alpe-Adria-Bank International AG agreed to pay a commission to the Republic of Austria of 10% p.a. for the assumption of liability. The liability of the Republic expires on 30 June 2013 and is subject to Hypo Alpe-Adria-Bank International AG fulfilling the requirements agreed in the contract (see note (126) Important proceedings for further information). To date there have been no claims on the guarantee that might have led to a pay-out. In the event of such a claim on the guarantee, the Republic of Austria is entitled to regress from Hypo Alpe-Adria-Bank International AG, dependent on certain key financial figures. In return for the guarantee agreement, the bank has undertaken to reduce the guarantee liability of the Republic of Austria by buying back government guaranteed bonds (GGB). The bank met this obligation through buying back issues totalling EUR 751.7 m in February 2011. The volume of open guaranteed issues now stands at EUR 598.4 m.

The EU Commission provisionally approved the guarantee agreement as additional state aid on 19 July 2011 because it is consistent with the requirement to recapitalise financial institutions following the financial crisis. The approval was made subject to the Commission approving the bank's restructuring plan based on the state aid provided through the emergency nationalisation in 2009. Please refer, in this connection, to note (126.1.) EU proceedings.

(128) Use of subordinated capital

128.1. Supplementary capital

Both Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) have in the past issued supplementary capital pursuant to section 23 (7) of the Austrian Banking Act (BWG), which has been allocated to own capital funds in accordance with supervisory regulations. According to the restrictions laid down in section 23 (7) (2) of the BWG, interest can only be paid out "if it is covered by the annual profits (before movements in reserves)". As neither the separate financial statements of Hypo Alpe-Adria-Bank International AG nor of Hypo Alpe-Adria-Bank AG (Austria) as of 31 December 2007 to 2010 meet this criterion, following formal adoption of the financial statements, interest on the supplementary capital issues of both credit institutions should not be paid out. The financial statements for Hypo Alpe-Adria-Bank International AG as at 31 December 2011 also do not meet this criterion, and consequently interest on the supplementary capital issues made by Hypo Alpe-Adria-Bank International AG should not be paid out.

According to the specific legal provisions, payment of interest may only be resumed when subsequent financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (before movements in reserves) have been shown.

The financial statements for Hypo Alpe-Adria-Bank AG (Austria) as at 31 December 2011 show an annual profit (prior to movements in reserves). Consequently, Hypo Alpe-Adria-Bank AG (Austria) may resume payments of interest relating to the supplementary capital issues made by it.

Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) assume that there will be an obligation to make back payments of interest for the preceding periods of non-payment; these sums, therefore, continue to be shown and accrued as interest expense in the consolidated income statement, but not paid out. When ongoing payments of interest are resumed by Hypo Alpe-Adria-Bank AG (Austria) the interest payments not made for the preceding periods and relating to the supplementary capital issues made by Hypo Alpe-Adria-Bank AG (Austria) will then be paid out.

In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during the time of the capital. This means that the losses must be allocated in proportion to the paid-in capital in accordance with section 23 (3) BWG and to the supplementary capital (pari passu) of the supplementary capital bond in question. Taking into account the loss allocation required by law, a complete financial loss in relation to supplementary capital issues by Hypo Alpe-Adria-Bank International AG has been established, which can lead to a total loss for the investor. The loss allocation must be applied not only in the case of redemption at term but also in the event of premature repayment by giving notice on the issue or through a premature buy-back of the issue.

128.2. Hybrid capital

Hypo Alpe Adria has in the past made a total of two issues of subordinated hybrid capital, with no obligation to remargin interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75.0 m and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150.0 m). Both issues are essentially for an unlimited term, although the issuer has a unilateral right to terminate.

The primary criterion for interest being paid on these hybrid capital issues is sufficient "distributable funds", as defined in the issue conditions; the secondary criterion is that there is no short-fall on the limits set for the group's own capital funds.

As the separate financial statements in accordance with UGB/BWG for Hypo Alpe-Adria-Bank International AG as of 31 December 2011 show a significant loss for the year (prior to movements in reserves), the main condition for the ongoing payment of interest on the hybrid capital is essentially not met and may therefore not be undertaken.

Hypo Alpe Adria may therefore not undertake to pay out interest on hybrid capital until such time as the separate financial statements adopted for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG show annual profits, which then require the servicing of the hybrid capital in accordance with the issue conditions with regard to "distributable funds".

As there is no supervisory regulatory obligation to remargin missed interest payments, the payments with regard to this hybrid capital do not apply and are therefore not shown as interest expense in the consolidated income statement.

With regard to the buy-back offer announced in 2012, please refer to note (137) Events after the reporting date.

128.3. Subordinated liabilities

As subordinated capital (subordinated liabilities), as defined by section 23 (8) BWG, is not contractually tied either to the existence of sufficient net income or "distributable funds", nor to an annual profit (before movements in reserves), there are currently no contractual restrictions on servicing the interest payments for these issues.

(129) Own capital funds as defined by the Austrian Banking Act (BWG)

The own capital funds of the group as defined by the Austrian Banking Act (BWG) and by the Solvency Regulations (SolvaV) are made up as follows:

EUR m

	31.12.2011	31.12.2010
Core capital (Tier 1)	**1,602.8**	**1,794.7**
Paid-in capital	808.6	1,623.2
Reserves (incl. hybrid capital and non-controlling interests in equity)	1,009.8	220.6
Funds for general banking risks	0.7	0.7
Intangible assets	-56.1	-49.8
Deduction net loss, material negative results	-160.2	0.0
Supplementary elements (Tier 2)	**867.1**	**986.3**
Supplementary capital	65.7	89.0
Subordinated capital	801.4	897.4
Deductions pursuant to Section 23 (13) BWG	**-9.5**	**-13.5**
Tier 3 (reclassified Tier 2 capital)	**38.3**	**9.9**
Own capital funds according to BWG	**2,498.7**	**2,777.5**
Own capital funds requirement according to BWG	**2,048.9**	**2,167.4**
Surplus capital	**449.8**	**610.1**
Coverage	122.0%	128.1%

EUR m

	31.12.2011	31.12.2010
Risk-weighted basis for assessment in acc. with section 22 BWG (banking book)	**23,111.0**	**24,611.1**
thereof 8% minimum own funds requirements	1,848.9	1,968.9
Own funds requirement - securities trading book	8.3	6.5
Own funds requirement - open foreign exchange position	30.0	31.1
Own funds requirement - operational risk	161.7	160.9
Total own capital funds requirement	**2,048.9**	**2,167.4**

EUR m

	31.12.2011	31.12.2010
Assessment basis banking book (risk-weighted)	**23,111.0**	**24,611.1**
Tier 1 ratio	6.9%	7.3%
Own capital funds ratio	10.8%	11.3%
Assessment basis incl. market and operational risk	**25,611.7**	**27,092.4**
Tier 1 ratio	6.2%	6.6%
Own capital funds ratio	9.8%	10.3%

In the 2011 financial year Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of Hypo Alpe Adria, was in compliance with the minimum own funds requirements as defined by the Austrian Banking Act.

(130) Portfolio clean up in the SEE network and in the banks in Italy and Austria

In the second half of 2011, selected credit portfolios (loans and finance leases) belonging to the SEE network subsidiaries in Bosnia and Herzegovina, Montenegro and Slovenia were transferred out to local wind-down companies within the group or were made ready for transfer in 2012 (Croatia, Serbia). The transfer took the form of a "synthetic" transfer in all countries except Montenegro. In Montenegro this took the form of a "true sale" under commercial law.

These transfers facilitated the derecognition of the portfolios in the balance sheet thereby leading to a normalisation of the key financial figures in the units concerned, particularly in relation to net interest income, the NPL quota and strengthening of the capitalisation figures/ratios.

The banks in Italy and Austria were also the subjects of the portfolio rationalisation procedures, which will be implemented in 2012 through demerger and collection processes.

The objective of the measures is to intensify management focus on the continuity and wind-down actions that need to be taken and to provide as optimal a basis as possible for negotiations in the reprivatisation process.

(131) Employee data

	31.12.2011	31.12.2010 *
Employees at closing date (Full Time Equivalent - FTE) *	7,690	7,624
Employees average (FTE) *	7,774	7,927

* Closing date value corrected due to error. The method of calculation for average employee numbers was adjusted in 2011 - as a result the figures are only comparable to a limited extent.

(132) Severance pay and pension payments

The outlay of the parent company for severance pay and pension payments is shown in the table below:

in EUR thousand

		31.12.2011		31.12.2010
	Severance payments	Pension payments	Severance payments	Pension payments
Key management personnel	181.4	0.0	347.0	0.0
Other employees	1,273.4	0.0	992.0	0.0
Members of Executive Board	35.6	0.0	2,881.0	0.0
Total	**1,490.4**	**0.0**	**4,220.0**	**4,220.0**

(133) Relationship with members of the executive bodies

133.1. Advances, loans and guarantees in respect of members of the executive bodies

At the end of the reporting period, the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG had received advances, loans and guarantees from the bank amounting to EUR 0 thousand (2010: EUR 5.8 thousand).

All transactions with members of the executive bodies are handled by the domestic subsidiary, Hypo Alpe-Adria-Bank AG in Klagenfurt am Wörthersee. The account relationships between the executive bodies of the Austrian parent company and Hypo Alpe-Adria-Bank AG (Austria) are unexceptional.

The financial relationship of Hypo Alpe Adria to the members of the Executive Board and Supervisory Board is as follows:

in EUR thousand

	31.12.2011	31.12.2010
Loans and advances	**335.0**	**7.0**
Supervisory Board	335.0	7.0
Liabilities	**869.3**	**1,036.5**
Executive Board	825.6	933.6
Supervisory Board	43.7	102.9

in EUR thousand

	31.12.2011	31.12.2010
At end of previous period	**7.0**	**465.2**
New loans issued during the period	335.1	0.0
Amount owing to bank recorded on the balance sheet	0.0	5.8
Amount received by the bank	-5.8	0.0
Changes to executive bodies	-1.2	-460.2
Credit repaid during the period	0.0	-3.8
At end of period	**335.0**	**7.0**
Interest income	2.9	0.0

in EUR thousand

	31.12.2011	31.12.2010
At end of previous period	**1,036.5**	**1,484.6**
Deposits received during the period	120.1	1,003.3
Changes to executive bodies	-102.9	-1,449.4
Deposits paid out during the period	-184.4	-1.9
At end of period	**869.3**	**1,036.5**
Interest expenses on liabilities	12.2	3.8

133.2. Breakdown of remuneration received by members of the executive bodies of the group's parent company

Remuneration received by the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG for carrying out their functions, received from this or from another group company, is as follows:

in EUR thousand

	31.12.2011	31.12.2010
Executive Board	**2,549.2**	**3,313.1**
thereof ongoing payments	2,549.2	3,313.1
Supervisory Board	**181.8**	**26.0**
Remuneration of former members of the Executive and Supervisory Board and their surviving dependants	**457.6**	**4,079.9**
thereof related to termination	0.0	3,645.0
thereof payments after termination	457.6	434.9
Total	**3,188.7**	**7,419.0**

The members of the Executive Board and Supervisory Board acting in this capacity during the year under review are stated in note (134) Executive bodies.

(134) Executive bodies

Supervisory Board

Chairman of the Supervisory Board:
Johannes DITZ

Deputy Chairman of the Supervisory Board:
Rudolf SCHOLTEN

Members of the Supervisory Board:
Helmut DRAXLER
Alois STEINBICHLER

Appointed to the Supervisory Board by the Works Council:
Erich CLIMA, Chairman of the Works Council, until 19 August 2011
Gerhard PLIESCHNIG, Chairman of the Works Council, from 19 August 2011
Mario ZOLLE, until 19 August 2011
Gernot BAIER, from 19 August 2011

Federal Supervisory Authorities

State Commissioner:
Angelika SCHLÖGEL

Deputy State Commissioner:
Monika HUTTER

Trustees

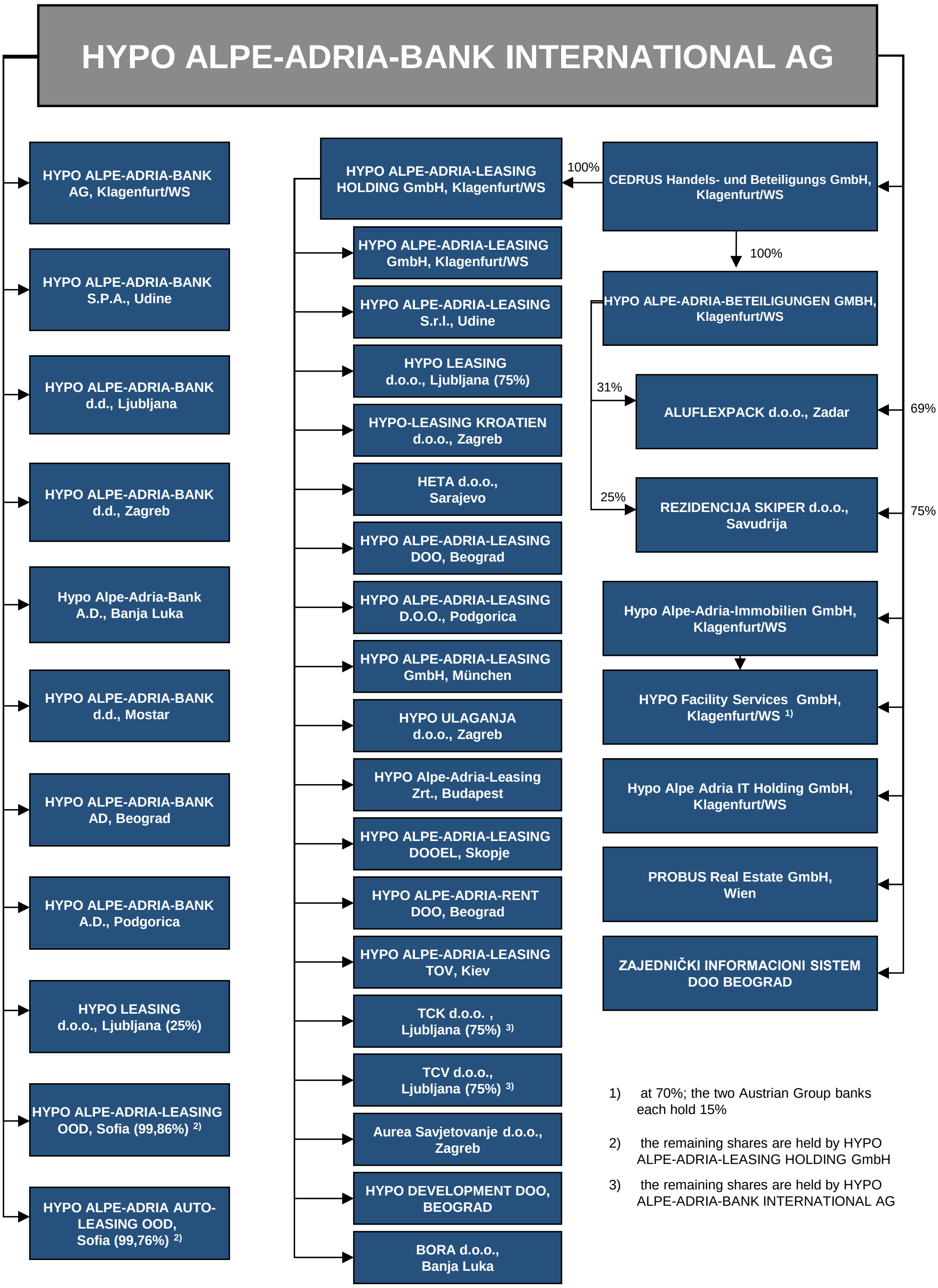
Trustee:
Alexander PESCHETZ, Federal Ministry of Finance

Deputy Trustee:
Jakob KÖHLER, Federal Ministry of Finance

Executive Board

Gottwald KRANEBITTER, Chairman of the Executive Board
Wolfgang EDELMÜLLER, Deputy Chairman of the Executive Board
Johannes PROKSCH, Member of the Executive Board
Rainer SICHERT, Member of the Executive Board

(135) Material subsidiaries as at 31 December 2011



1) at 70%; the two Austrian Group banks each hold 15%

2) the remaining shares are held by HYPO ALPE-ADRIA-LEASING HOLDING GmbH

3) the remaining shares are held by HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

(136) Scope of consolidation

The consolidated group of companies as defined in IFRS as at 31 December 2011 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date	Type
ALFA CAR PROJEKT d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
Alpe Adria Privatbank AG in Liquidation	Schaan	49.0	49.0	31.12.2011	KI
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	100.0	100.0	31.12.2011	FI
Alpe Adria Venture Fund GmbH & Co KG	Vienna	99.3	99.3	31.12.2011	HI
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2011	FI
Alpe-Adria-Projekt GmbH	Munich	100.0	100.0	31.12.2011	FI
ALUFLEXPACK d.o.o.	Zadar	68.9	100.0	31.12.2011	SU
Ananke Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	SU
BETA NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2011	HI
Carinthia I Limited	St. Helier - Jersey	100.0	51.0	31.12.2011	FI
Carinthia II Limited	St. Helier - Jersey	100.0	51.0	31.12.2011	FI
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
D.S. car d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
EPSILON GRAĐENJE d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
ERCS 2008 Kft.	Budapest	100.0	100.0	31.12.2011	SU
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6.0	6.0	31.12.2011	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	100.0	100.0	31.12.2011	FI
HBInt Credit Management Limited	St. Helier - Jersey	51.0	51.0	31.12.2011	FI
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2011	FI
HILLTOP Holding Anstalt	Vaduz	100.0	100.0	31.12.2011	SU
HTC ENA d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU
HYPERIUM DOOEL Skopje	Skopje	100.0	100.0	31.12.2011	SU
Hypo Alpe Adria IT Holding GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.0	100.0	31.12.2011	FI
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.0	100.0	31.12.2011	FI
HYPO Alpe-Adria Leasing Zrt.	Budapest	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	0.2	100.0	31.12.2011	FI
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.7	99.7	31.12.2011	KI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.9	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	100.0	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BANK AG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.0	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BANK d.d.	Mostar	100.0	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100.0	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.0	100.0	31.12.2011	KI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100.0	100.0	31.12.2011	FI

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date	Type
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2011	FI
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100.0	99.7	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING GmbH	Munich	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING HOLDING GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	FH
HYPO ALPE-ADRIA-LEASING OOD	Sofia	99.9	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100.0	100.0	31.12.2011	FI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2011	HI
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	100.0	100.0	31.12.2011	HI
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100.0	100.0	31.12.2011	HI
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.0	100.0	31.12.2011	FI
HYPO CENTER -2 d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
HYPO Facility Services GmbH	Klagenfurt am Wörthersee	70.0	100.0	31.12.2011	HI
Hypo Group Netherland Holding B.V.	Amsterdam	100.0	100.0	31.12.2011	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100.0	100.0	31.12.2011	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt am Wörthersee	99.9	100.0	31.12.2011	FI
HYPO HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2011	HI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	99.0	100.0	31.12.2011	FI
HYPO LEASING d.o.o.	Ljubljana	25.0	100.0	31.12.2011	FI
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	1.0	100.0	31.12.2011	FI
HYPO NEPREMIČNINE d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU
HYPO PC d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU
HYPO SERVICE S.R.L.	Tavagnacco	100.0	100.0	31.12.2011	HI
HYPO ULAGANJA d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	HI
HYPO Wohnbau GmbH	Klagenfurt am Wörthersee	99.0	100.0	31.12.2011	FI
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	100.0	100.0	31.12.2011	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2011	FI
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100.0	100.0	31.12.2011	FI
KÄRNTNER HOLDING BETEILIGUNGS GmbH in Liqu.	Velden am Wörthersee	100.0	100.0	31.12.2011	HI
MM THETA d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU
MM ZETA d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date	Type
Norica Investments Limited	St. Helier - Jersey	51.0	51.0	31.12.2011	FI
ORGOVÁNYI IMMO Ingatlanforgalmazó Kft.	Budapest	100.0	100.0	31.12.2011	SU
PIPER d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
PROBUS Real Estate GmbH	Vienna	100.0	100.0	31.12.2011	HI
QLANDIA MARKETING d.o.o.	Ljubljana	100.0	100.0	31.12.2011	SU
REZIDENCIJA SKIPER d.o.o.	Savudrija	75.0	100.0	31.12.2011	SU
SINGULUS d.o.o.	Zagreb	100.0	100.0	31.12.2011	SU
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2011	SU
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2011	SU
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	0.0	0.0	31.12.2011	FI
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztõ Kft.	Budapest	100.0	100.0	31.12.2011	SU
TCK d.o.o.	Ljubljana	25.0	100.0	31.12.2011	HI
TCV d.o.o.	Ljubljana	25.0	100.0	31.12.2011	HI
TLM-TVP d.o.o.	Sibenik	84.0	84.0	31.12.2011	SU
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100.0	100.0	31.12.2011	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	100.0	100.0	31.12.2011	FI
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2011	SU
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2011	SU
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.-u likvidaciji	Zagreb	100.0	100.0	31.12.2011	HI
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.0	100.0	31.12.2011	HI

The following companies – insofar as the provisions in IFRS 5 do not apply – are shown with their respective financial statements as at 31 December 2011:

EUR m

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Carrying amount of investment as at 31.12.2011	Share of profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.519	29.519	0.0	0.2
DOSOR d.o.o.	Radenci	50.000	50.000	0.1	0
HYPO-BA Leasing Süd GmbH	Klagenfurt am Wörthersee	50.000	50.000	1.3	0
URBANA PRENOVA IZOLA d.o.o.	IZOLA	40.000	40.000	0.0	0

Type:

KI	Credit institution
FI	Financial institution
HI	Services
SU	Other type of company

(137) Events after the reporting date

In January 2012 agreement was reached with a strategic investor concerning the sale of the Croatian Aluflexpack/TLM-TVP group. Closing is subject to the fulfilment of contractually agreed provisions and to certain approvals being granted by the Croatian authorities. No further negative effects on Hypo Alpe Adria are expected from the disposal of this investment; on the contrary – this sale is a further step towards downsizing the group and allowing it to concentrate on its core business.

In its notification dated 3 February 2012, the Austrian Financial Markets Authority (FMA) set down a minimum own funds requirement in relation to consolidated equity of 12.04% and stipulated that the shortfall be covered between the expected loss on the lending business and total risk provisions. The deadline for implementing these measures has been set as 31 December 2012.

In February 2012 Moody's changed its rating outlook for the Republic of Austria from "stable" to "negative". The outlook for all Hypo Alpe-Adria-Bank International AG state-guaranteed bonds was subsequently changed from "stable" to "negative". Furthermore, on 15 February, Moody's changed its rating outlook for the State of Carinthia from Aa3 to A1 with negative outlook, which has had the same effect on the state-guaranteed bonds of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG.

On 29 February Hypo Alpe-Adria Bank International AG announced an offer to investors to buy back in cash the hybrid capital with a nominal value of EUR 225.0 m issued through two Jersey-based companies. The offer, which is provisionally open until 22 March 2012, represents a further step towards rationalising the capital structure, as hybrid capital will no longer count as Tier 1 capital under the Basel III guidelines; and it can also be described as "burden sharing", as demanded by the European Commission in its state-aid approval proceedings.

Klagenfurt am Wörthersee, 12 March 2012
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

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, 12 March 2012
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

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(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Auditors' Report

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt**, for the fiscal year from January 1, 2011 to December 31, 2011. These consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2011, and the notes.

Management's responsibility for the consolidated financial statements and for the accounting system

The company's management is responsible for the group's accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2011, and of its financial performance and its cash flow for the financial year from January 1, 2011 to December 31, 2011, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our opinion we draw attention to the following:

- the disclosures provided by the company’s management in the notes to the consolidated financial statements in note (1) Significant accounting policies and in note (93.3.) Joint Risk Assessment & Decision Process ("JRAD"), in which reference is made to the decision of the Austrian Financial Market Authority that the company must, by December 31, 2012 at the latest, hold at least 12.04% own capital funds against the basis for assessment as defined in the Austrian Banking Act. Furthermore, additional own capital funds requirements are stipulated for any regulatory shortfalls in risk provisions. The company is currently planning to ensure sufficient own capital funds are in place by December 31, 2012. If the measures planned by the company’s management should not lead to the company having the stipulated quota of minimum own capital funds by December 31, 2012, there will then be considerable uncertainty as to the company’s ability to continue as a going concern;

- the disclosures provided by the company’s management in the notes to the consolidated financial statements in note (1) Significant accounting policies and in note (126.1) EU proceedings. When drawing up the separate financial statements, the company’s management assumed a positive ruling by the European Commission in the ongoing state-aid investigation regarding the restructuring plan prepared by the company’s management and submitted to the European Commission. The Commission’s approval is also a prerequisite for the guarantee agreement concluded on 28 December 2011 between the Republic of Austria and the bank which runs until 30 June 2013 (see also the explanations and comments provided by the company’s management in note (127) Guarantee agreements). The date and content of this European Commission ruling cannot be foreseen, as disclosed by the company’s management in the notes. For this reason, material uncertainties exist with regard to the impact the ruling would have on the group’s future business activities;

- the disclosures provided by the company’s management in the notes to the consolidated financial statements in note (3) Use of estimates and assumptions/Uncertainties in connection with estimates, in connection with the assessment of the recoverability of problem loans and lease agreements and the assessment of the value of the interest in non-consolidated companies. The quality of the loan portfolio in the SEE region and the appropriateness of related loan loss provisions depend to a very great extent on future macro-economic – but also potential legislative – developments in these markets. An unfavourable change in economic conditions and/or in the real estate markets – which cannot be excluded – could have a significant influence on the asset values disclosed in the consolidated financial statements (in particular provisions for bad debts and investment values), as well as on the group’s liabilities and thus its equity and own capital funds.

Comments on the consolidated management report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Group´s position. The auditor’s report has to also contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, March 12, 2012

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner
Wirtschaftsprüfer

Dr. Elisabeth Glaser
Wirtschaftsprüfer

The English translation of the Auditors’ Report is for convenience purposes. Only the original German version is legally binding.

Report of the Supervisory Board

In the course of the year under review, the Supervisory Board monitored the work of the Hypo Alpe-Adria-Bank International AG Executive Board and its management team. The Supervisory Board discharged all the duties assigned to it by statute and by the articles and by-laws of the bank.

In written and oral reports, the Executive Board kept the Supervisory Board regularly informed of all key developments in Hypo Alpe-Adria-Bank International AG and its subsidiaries. The Supervisory Board kept up to date on the company's business and risk situations, and discussed current issues with the Executive Board.

The Executive Board presented the Supervisory Board with materials requiring the latter's approval pursuant to statute and the articles and by-laws of the bank. All documents provided to the Supervisory Board were checked for their plausibility and, where necessary, supplementary information was requested. The Executive Board always complied with such requests without delay and to the Board's satisfaction.

Report for the 2011 financial year

To compensate for the loss made in the 2010 financial year, the bank resolved in the middle of 2011 to follow through with decapitalisation and capital conversion measures. The first resolution passed related to decapitalisation. As a result the share capital and participation capital was reduced. Thereafter, the resolution was passed to increase share capital through the conversion of the participation capital.

The economic climate throughout Europe deteriorated from the middle of the year onwards, as a result of the ongoing sovereign debt crisis. This had repercussions on the financial markets and subsequently on the real economy. The economies of South-Eastern Europe, the core markets of Hypo Alpe Adria, were severely affected by these developments. The bank was nevertheless able to stabilise its economic situation.

The Joint Risk Assessment and Decision process, which was conducted for the first time in 2011 together with the banking regulatory authorities, resulted in the notification by the Austrian Financial Market Authority that Hypo Alpe Adria must achieve a total capital ratio of 12.04 percent and ensure that the deficit between the expected losses in the area of credit risk and total risk provisions was covered from 31 December 2012 onwards.

The bank had reacted at an early stage to the discussion with the regulatory authorities about its capital resources; and had already implemented two significant measures in the previous year. Firstly, the risk management data was improved at all levels, so as to reduce the precautionary requirements confirmed by the regulatory authorities through better systems and more effective mechanisms. Secondly, the four pillar strategy was modified and a quicker privatisation process agreed upon which was consistent with the mandate from the owner and the position of the European Union in the state-aid proceedings.

Preparations were made to split the Austrian (HBA) and Italian (HBI) subsidiary operations, which were completed in the case of HBI at the beginning of 2012. A programme of portfolio rationalisation was drawn up for the units in South-Eastern Europe, which will transfer out the non-performing portfolios in the main to wind-down companies; this has in part already been implemented. In so doing, the bank is responding to the first soundings from the market, which show that in the current market environment, banks will only be able to be sold off if they are free of their problem portfolios.

In addition to this, Hypo Alpe Adria was able to record first successes in divesting itself of non-strategic activities and participations in the year under review. Amongst other activities, the sale of the Schlosshotel Velden company was successfully concluded.

Supervisory Board meetings

A total of ten Supervisory Board meetings took place in 2011.

The meetings considered the current business developments at the bank and its significant subsidiaries, reports on credit and market risks, reports from the internal audit function and resolutions dealing with loans and advances coming under the Supervisory Board's authorisation remit. The Supervisory Board addressed in detail the bank's planned restructuring measures. In particular, the Supervisory Board was concerned with identifying the long-term healthy core of the business and the planned disposal of non-strategic participations.

Main points from individual meetings

In the meeting on 18 February 2011, the provisional business plan for 2011 – 2015, the main planning assumptions and actions to ensure achievement of plan were discussed; and a report on legal and consultancy costs in Hypo Alpe Adria in 2010 was reviewed.

On 29 March 2011 the Audit Committee considered in detail the separate and consolidated financial statements for 2010, with the auditors attending the meeting. In the Supervisory Board meeting on the same day, the financial statements and management report for 2010 presented by the Executive Board were examined and subsequently adopted. The consolidated financial statements and consolidated management report for 2010 were also examined and acknowledged by the Supervisory Board.

In the meeting on 29 April 2011 the Supervisory Board looked in detail at the bank's current situation, the main events and the risk situation. This meeting also prepared for the extraordinary shareholders' meeting.

On 30 May 2011 the proposals relating to the choice of auditor for the 2012 financial year were examined. The Supervisory Board checked to ensure their impartiality and reliability, that other prerequisites were met and on that basis presented a resolution on the proposed selection to be passed at the general shareholders' meeting.

At the beginning of August 2011 the Supervisory Board acknowledged the first positive interim result in three years. This was taken as confirmation of the strategy and measures implemented.

On 16 September 2011, in addition to dealing with standard items, the Supervisory Board was also informed of the plans to purge the units in South-Eastern Europe of their toxic portfolios by transferring them to wind-down companies.

In the meeting on 17 October 2011 the Board approved plans to split HBA and HBI as a prerequisite for privatisation.

In the meetings on 12 and 21 December 2011, in addition to dealing with the reports laid down in its standing orders, the Board discussed in detail and approved the business plan for 2012 – 2016 including the personnel, investment and marketing budgets for 2012, as well as the project on portfolio rationalisation.

Committees

The Supervisory Board has, in total, seven committees, which are all composed of members of the Supervisory Board.

The Audit Committee met five times in 2011 with the auditor also taking part when issues such as the bank's annual and the group's consolidated and half-yearly financial statements were discussed. In the 8 March 2011 meeting, the Executive Board presented the provisional separate and consolidated financial statements for 2010. This report was supplemented by information and explanations from the auditor. On 4 August 2011 an interim report by the Executive Board and the auditor was presented on the interim financial statements for 2011. On 12 December the Audit Committee looked at the interim findings of the pre-audit of the 2011 separate and consolidated financial statements, as well as at the internal control system.

The Credit Committee met a total of eleven times during 2011, with other resolutions considered by proxy. In addition to resolutions passed on new and current credit lines, meetings held with the Executive Board discussed in detail issues relating to non-performing loans and reports on specific areas of the portfolio.

The Articles and By-laws Committee met once in 2011.

The Executive Board Committee met once in 2011.

The Strategy Committee did not need to convene as a separate unit, as intensive discussions on strategic issues were carried out with the Executive Board in the course of regular Supervisory Board meetings and on other occasions.

The Remuneration Committee met once in 2011 and acknowledged the bonus policy for Hypo Alpe Adria, which was consistent with CRD III and the BWG and complies with the stipulations of the FMA.

The Privatisation Committee was set up in 2011 and met twice during the year. The Committee serves to ensure an exchange of information between its members and the members of the Executive Board over planned, material privatisation measures for Hypo Alpe Adria, and for the committee members to discuss and receive expert advice on such privatisation measures, in particular on the sale of the group's banking and leasing subsidiaries or other holdings, the sale of which is, according to standing order section 5 (4) (f), the responsibility of the Supervisory Board.

Separate and consolidated financial statements for 2011

The separate financial statements of Hypo Alpe-Adria-Bank International AG were prepared in accordance with the provisions of the Austrian Banking Act (BWG) and, where applicable, with the provisions of the Austrian Commercial Code (UGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements and the group management report of Hypo Alpe Adria, and the annual financial statements and management report of Hypo Alpe-Adria-Bank International AG as at 31 December 2011 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Straße 19, IZD Tower, A-1220 Vienna, FN 267030t. The respective reports were granted an unqualified auditors' opinion, supplemented by additional comments relating to capital resources/the JRAD notification, the ongoing state-aid proceedings conducted by the European Commission (including the guarantee agreement) and the regional risk in South-Eastern Europe.
The Audit Committee established that a sufficiently thorough audit of the separate financial statements and of the consolidated statements for the financial year 2011 had been carried out on the basis of the documentation made available. The

auditor took part in the Audit Committee meeting which dealt with the consolidated and separate financial statements for 2011, 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 96 (4) of the Austrian Stock Corporation Act (AktG), and acknowledge the consolidated financial statements; and endorse, in both cases, the results of the annual audits.

The Supervisory Board has reviewed the separate financial statements and management report submitted by the Executive Board, which was granted an unqualified audit opinion supplemented by additional comments by the auditor, and concurs with the audit results. The separate financial statements have been approved by the Supervisory Board, thereby adopting them in accordance with section 96 (4) of the Austrian Stock Corporation Act (AktG). The Supervisory Board has also examined the 2011 consolidated financial statements and management report for the group, and has concurred with the recommendation of the Audit Committee.

Members of the Boards

Supervisory Board

The members of the Supervisory Board for HBInt. are:

Chairman of the Supervisory Board: Johannes Ditz
Deputy Chairman of the Supervisory Board: Rudolf Scholten
Member: Alois Steinbichler
Member: Helmut Draxler

The representatives appointed to the Supervisory Board by the Works Council were, up until the time of the Works Council elections, Erich Clima and Mario Zolle. Gerhard Plieschnig and Gernot Baier have been the representatives of the Works Council on the Supervisory Board since September 2011.

Executive Board

The members of the Executive Board for HBInt. are:

Chairman of the Executive Board: Gottwald Kranebitter
Deputy Chairman of the Executive Board: Wolfgang Edelmüller
Member: Johannes Proksch
Member: Rainer Sichert

There were no changes made to the distribution of responsibilities amongst the Executive Board members during the year.

On behalf of the Supervisory Board

Johannes Ditz
Chairman of the Supervisory Board

Vienna, 12 March 2012

Imprint

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Forward-looking statements and forecasts are based on information and data available at the time of going to press (12 March 2012). Changes after this date could influence the facts and forecasts given in the Annual Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a translation. Only the German is the authentic language version.
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