Investor Relations *Release*

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Consolidated result for 2009 characterised by high risk provisions; expeditious implementation of restructuring plan main challenge for 2010

2009 – A very difficult year in an economic environment that continues to be highly demanding. Reduction of total assets by 5%, from EUR 43.3 billion to EUR 41.1 billion. This fall is in particular due to a reduction in new business and increased risk provisions.

Positive development in operational business – increase in the net interest income, from EUR 702 million to EUR 869 million (+ 24%); slight improvement in the net fee and commission income from EUR 118 million to EUR 121 million (+3%); total operating expenses reduced by EUR 44 million to EUR 542 million (-8%).

Expenditures in respect of credit risk provisions, at EUR -1,672 million, have tripled by comparison with the comparable figure for 2008 (EUR -533 million); total risk provisions increased to EUR 2,450 million (balance sheet figure). The causes lie in the drastically increased number of overdue amounts in the financing portfolio and the rise in the average duration of arrears, significantly lower valuations for collateral and provisions in respect of individual commitments (cluster risks), particularly with cross-border financing.

Some companies of the Group, in particular in the banking division, achieved profits in 2009. However, the consolidated net result (after taxes and minority interests) in 2009 was clearly negative at EUR -1,581 million (2008: EUR -520 million).

Losses led to a reduction in Group equity. With due consideration given to the restructuring contributions of the former owners and a clear reduction in the RWA, however, the equity ratio per 31 December 2009, at 9.9%, is adequate.

Outlook for 2010: an in-depth restructuring plan is being finalised and envisages a clear redimensioning of the Group. However, the restructuring plan still depends on approval by the Commission of the European Union. According to an agreement reached on 14 December 2009, EUR 450 million was promised by the Republic of Austria and EUR 150 million from the Province of Carinthia, as core capital. The provision of this still outstanding amount of EUR 600 million by 30 June 2010 has been taken into account in our budgets. Economic framework conditions in 2010 continue to be forecast as difficult. Consequently, the 2010 financial year will be very challenging, and for Hypo Group Alpe Adria will be characterised by consolidation in the markets and business areas..

The 2009 financial year was marked by (in some instances) powerful repercussions of the economic crisis, covering all the countries in which Hypo Group Alpe Adria and its Group companies is represented. In spite of this, in the 2009 financial year, by comparison with the previous year, Hypo Group Alpe Adria was able to achieve increases in important areas such as the net interest income and the net fee and commission income. At the same time it was possible – also in consequence of the restructuring measures introduced – to reduce operational expenditure. With the significantly increased risk provisions taken into account, a net loss (after taxes and minority interests) of EUR -1,581 million was posted in the 2009 financial year. This reflects above all the negative repercussions of the economic crisis, which are also shown in a serious increase in the volumes in arrears, and particularly also the clearly lower valuations for the underlying collateral for financing agreements. Total assets fell by EUR 2.2 billion as a result of the restriction of new business, and also because of the significantly increased risk provisions.

Restructuring and shareholder structure
By as early as the first half of 2009, the Group had decided on a comprehensive restructuring package aimed at concentrating the target market area in the Alps-Adriatic region and permanently reducing the cost basis.

With the takeover of all shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria in December 2009, the Republic of Austria became the sole owner of the Group. This went hand in hand with an intensification of the restructuring measures that had already been introduced, with the aim of developing the company in the medium term into a bank fit for the capital market, operating in selected markets with a clear business profile.

In the course of the strategic reorientation, Hypo Group Alpe Adria is subjecting all markets and segments in which it is currently active to an intensive evaluation process. On the basis of these evaluations, it will in future place its main focus of activity on markets and segments with sustainable competencies and potential for value increases.

Development of the result
The consolidated income statement clearly shows a healthy core, which has even been able to achieve increases in earnings in this year of crisis.

The **net interest income** was significantly increased as against the comparable value for the previous period, from EUR 702 million to EUR 869 million. This corresponds to an increase of EUR 167 million or 24% compared with the previous year. This development is attributable on the one hand to higher customer margins in new and existing business, to the increased (by about EUR 1 billion, to EUR 29 billion) average volume of receivables from customers by comparison with the comparable period in the previous year, and to the capital measures in the fourth quarter of 2008.

At EUR 121 million, the net fee and **commission income** also posted an improvement by comparison with the previous year (+3%). This is all the more remarkable because this position also contains significant additional expenditures for the maintenance of the liquidity reserve. The reason for this rise consists in particular in the fact that the commission expenses arising in connection with the securities and deposit business have been significantly reduced, while the commission earnings achievable in this segment have at the same time been maintained at a relatively stable level.

In the field of **risk provision** on loans and advances, the risk costs more than tripled in 2009, by EUR -1,139 million, from EUR -533 million to EUR -1,672 million, this being mainly attributable to the significantly more restrictive risk provision policy in light of the current economic environment, and also to high levels of extraordinary expenses arising from individual commitments. In the banking segment, it was above all the cross-border financing portfolios that are operated from within Austria that were affected by this negative development. Significant expenses also resulted from the leasing companies of the Group, special emphasis being placed in this regard on the south-eastern European countries such as Croatia and Bulgaria, but also on the Ukraine.

Hypo Group Alpe Adria was able to achieve a positive development on the costs side in the 2009 financial year. The **operating expenses** were reduced in 2009 by comparison with the previous year by EUR 44 million or 8%, to EUR 542 million. The staff costs, EUR 269 million in the previous year, were reduced to EUR 263 million, corresponding to a reduction of more than 2%. This is essentially attributable to the lower number of employees by comparison with the previous year in the core business area of the Group (this figure fell from 7,552 to 7,195).

Per 31 December 2009, the **Cost/Income Ratio** stood at 65%. As against the comparable figure for the previous year (2008: 91%) this corresponds to an improvement of 26 percentage points, primarily attributable to the clear increase in the interest and trading result.

After allocation of the current result shares to minority shareholders in the Group, a negative **consolidated net result for the year** (after taxes and minority interests) emerges, in the amount of EUR -1,581 million (2008: EUR -520 million).

Thus, in spite of the positive development of the operating earnings as a whole, and in spite of successes in limiting operating expenses, a negative consolidated result has once again had to be posted for the financial year, essentially caused by the drastic rise in expenditure in respect of credit risk provisions.

Development of the balance sheet

The balance sheet total for Hypo Group Alpe Adria decreased by comparison with the total per 31.12.2008, from EUR 43.3 billion to EUR 41.1 billion, corresponding to a fall of EUR 2.2 billion or -5%. This reduction in the balance sheet total was caused on the assets side (on the one hand) by the reduction in new financing business and the general curtailment of new business applying in respect of some companies of the Group.

Own capital funds

The significant losses that occurred in the 2009 financial year led to a clear reduction in the relevant quotas under supervisory law by comparison with the previous year. This could also not be compensated for by a former shareholder's waiver of its claim and the measures introduced to compensate for the risk-weighted assets (RWA). In the case of the latter, it was in particular the curtailment of new business applied to many companies, the drastically increased risk provisions requiring deduction from the assets side, and also the efforts made to improve collateral eligibility and to increase data quality that was responsible for a clear reduction in the RWA base.

An increase in the core capital of the Bank as required by supervisory law was achieved as a result of the capital measures of the former shareholders of HGAA, which were already taking effect before 31 December 2009. The waiver of claims by BayernLB and the redistribution of supplementary capital also had a positive effect on the core capital provision of the Group, in the total amount of EUR 885 million. A positive effect was also achieved by the transfer of Tier 1 eligible participation capital in the amount of EUR 61 million, which was made available by two former shareholders. On the other hand, the core capital was reduced because of the pressure on earnings that arose in 2009, in particular in consequence of the drastically high risk provisions in credit and leasing business.

The entire eligible capital pursuant to the Austrian Banking Law (Bankwesengesetz, BWG) per 31 December 2009 was EUR 3,000 million (2008: EUR 4,173 million), while the statutory minimum requirement stood at EUR 2,426 million (2008: EUR 2,797). This corresponds to excess cover of EUR 574 million (2008: EUR 1,376 million) i.e. a level of cover of 124% (2008: 149%).

The equity ratio in relation to the bank book (credit risk) was 10.7% per 31 December 2009 (2008: 12.7%). The corresponding core capital quota (Tier 1 ratio) after 50% of the deductible items were taken into account was 7.2% at the end of 2009 (31 December 2008: 8.3%).

Thus, per 31 December 2009 the equity ratio stood at 9.9% (2008: 11.9%), above the minimum ratio of 8.0% as required by law in Austria.

Risk management

In the 2009 year under review, Hypo Group Alpe Adria has further expanded its risk control and management instruments. In many areas significant progress has been made. A decisive factor in this progress consists in the requirements resulting from the new equity capital agreement pursuant to Basel II, or the new MaRisk. In addition, the control systems of the Bank have been successively brought into line with international standards.

Hypo Group Alpe Adria has a risk management and control system that is being continuously adapted to internal and external requirements in a future-oriented manner. In the context of the further development of the applied procedures for risk reduction and risk control, care is being taken to satisfy not only the requirements of supervisory law, but also the requirements of the strategic orientation of the Group.

As a result of the introduction of a new credit process, proper consideration is being given to the currently difficult market environment.

Outlook for 2010

Against an economic background that continues to be very volatile, HGAA will continue to drive forward its efficiency and structural optimisation project started in April 2009, which envisages a comprehensive reorganisation and a market strategy that is adapted to current framework conditions. Generally speaking, the year 2010 will also be a year of consolidation in those markets and business areas in which HGAA operates. In future, the focus will be on markets with fully developed competencies and potential for value increases, so that a healthy business mix for the future can be assured.

In the context of the grant process before the Commission of the European Union, the Bank will submit a restructuring plan in the first half of 2010, setting out a withdrawal from certain markets and business areas. Depending on the result of this grant process, the present image of the Group may significantly alter.

As a result of the additional transfer of core capital in the amount of EUR 600 million, planned for the first half of 2010, a stable basis is being established from the regulatory point of view.

Following the turbulences of recent months, the new shareholder structure, with the Republic of Austria as a reliable owner, should also have a further stabilising effect.
With regard to the consolidated result expected for the 2010 financial year, the management is not able to provide any reliable forecast because of the high level of uncertainty in relation to important parameters of the development of the economy and the currencies in the markets in which HGAA operates.

On the basis of the restructuring measures that were introduced in the financial year ended and which are already having positive effects, the comprehensive provisions made for identifiable risks in the financing portfolio, and the in-depth EU restructuring plan as currently available, the foundation has been laid for the sustainable reorientation and positive development of Hypo Group Alpe Adria.

Please feel free to contact us for further information; alternatively you will also find more information on the Investor Relation pages of our website (www.hypo-alpe-adria.com).

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Key data based on IFRS Financial Statements

Hypo Alpe-Adria-Bank International AG (Group)

in EUR m

	2009	2008	2007	2006
Income statement	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**
Net interest income	869.0	702.2	599.2	506.3
Net fee and commission income	121.2	117.6	121.3	90.6
Risk provisions on loans and advances	–1,672.3	–533.3	–274.1	–127.1
Operating expenses (general administrative expenses)	–541.5	–585.6	–491.1	–418.6
Operating result – prior to risk provisions on loans and advances	292.0	59.8	160.1	268.9
Operating result – after risk provisions on loans and advances	–1,380.3	–473.5	–114.0	141.8
Result before tax	–1,394.6	–472.4	–56.1	141.6
Result after tax	–1,550.6	–518.3	–70.3	100.9
Consolidated net income (after minority interests)	–1,581.0	–519.7	3.1	83.5
Balance sheet	**31.12.**	**31.12.**	**31.12.**	**31.12.**
Loans and advances to customers	30,116.6	30,566.7	25,650.7	20,495.9
Liabilities to customers	7,649.8	8,716.9	8,473.6	6,626.5
Liabilities evidenced by certificates and subordinated capital	21,968.1	23,005.8	21,615.9	18,704.4
Equity (incl. minority interests)	1,990.1	2,529.8	1,659.1	875.9
Total assets	41,078.7	43,336.1	37,938.5	31,007.0
Risk-weighted assets (banking book)	27,907.7	32,831.6	28,246.6	22,009.9
Key figures	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**
Return on equity (ROE) before tax	n.a.	n.a.	n.a.	19.1 %
Return on equity (ROE) after tax	n.a.	n.a.	n.a.	13.6 %
Return on equity (ROE) after tax and minority interests	n.a.	n.a.	n.a.	22.0 %
Cost/income ratio	65.0 %	90.7 %	75.4 %	60.9 %
Net interest income/Ø risk-weighted assets (banking book)	2.8 %	2.4 %	2.4 %	3.3 %
Risk/earnings ratio	192.4 %	75.9 %	45.7 %	25.1 %
Risk/Ø risk-weighted assets (banking book)	5.3 %	1.8 %	1.1 %	0.9 %
Return on assets (ROA) before tax	n.a.	n.a.	n.a.	0.6 %
Return on assets (ROA) after tax and minority interests	n.a.	n.a.	n.a.	0.3 %
Bank specific figures	**31.12.**	**31.12.**	**31.12.**	**31.12.**
Own capital funds acc. to BWG	2,999.8	4,173.2	2,872.2	1,989.8
Own capital funds requirement acc. to BWG	2,425.8	2,796.8	2,295.6	1,785.6
Surplus capital	574.0	1,376.4	576.6	204.2
Tier 1 capital	2,018.4	2,746.5	1,769.4	1,178.2
Tier 1 ratio (banking book)	7.2 %	8.3 %	6.3 %	5.4 %
Tier 1 ratio – incl. market and operational risk	6.6 %	7.8 %	6.2 %	5.3 %
Own capital funds ratio – total (solvency ratio)	9.9 %	11.9 %	10.0 %	8.9 %
Moody's rating	**31.12.**	**31.12.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	Baa2	A2	A2	Aa2
Long-term (liabilities covered by statutory guarantee)	Aa2	Aa2	Aa2	Aa2
Short-term	P-2	P-1	P-1	P-1
Bank Financial Strength Rating	E	D-	D-	D-
Employees & outlets	**31.12.**	**31.12.**	**31.12.**	**31.12.**
Employees at closing date	7,733	8,114	7,542	6,468
in core business	7,195	7,552	6,963	6,138
in other business	538	562	579	330
Employees average	7,969	7,867	7,109	6,108
in core business	7,409	7,274	6,536	5,681
in other business	560	592	573	427
Number of locations	354	384	342	327
Austrian	34	39	40	40
Foreign Countries	320	345	302	287