BANK

Annual Report 2012

Hypo Alpe-Adria-Bank AG

Austria

Key data

Hypo Alpe-Adria-Bank AG in EUR m

	2012	2011
Total assets	3,861	5,740
Primary funds (customer deposits, own issues)	3,175	3,423
Credit volume	2,867	4,686
Own capital funds	216	310
of which Tier 1	198	157
Net interest income	39	51
Operating income	68	83
Operating expenses	49	65
Operating result	19	18
Result from ordinary activities	17	10
CIR	72.90 %	78.70 %
ROE*	7 %	5 %
ROA*	0.21 %	0.13 %
Number of employees	453	453

* 2012 figure adjusted for extraordinary result Due to the demerger of approx, EUR 2 bn in assets during the 2012 financial year, a comparison of the key data with the previous year's figures does not yield meaningful results,

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Management report 2012

1. General economic environment

Since the onset of the economic and financial crisis in 2007, the European countries have been forced to deal with its effects. Where initially many experts predicted that the economic situation would begin to recover in 2011, from today's perspective it is clear that these forecasts were too optimistic and macroeconomic figures needed to be revised significantly downwards. For this reason, 2012 too was greatly influenced by the persistent financial and governmental crisis along with a crisis of confidence, and accordingly this also had an influence on the development of the bank's core markets.

The Austrian economy made a good start to 2012. However, domestic demand was unable to balance out the low demand for exports, which meant that economic growth in the second half of the year slowed, resulting in a weak growth figure of only 0.4%. As a consequence, the unemployment rate rose to 4.5%. Nevertheless, the trend in export dynamics continues to be favourable, and the downturn has been slower than in the other European countries. In 2013, modest economic growth of 0.5% is anticipated, and the overall economic situation is expected to stabilise further.

2. Overview of Hypo Alpe-Adria-Bank AG

2.1. Positioning of the bank

Since Hypo Alpe-Adria-Bank AG was founded 117 years ago, the bank has concentrated on public sector financing, the residential building market and the issuing of mortgage bonds. Even after the successful restructuring of Hypo Alpe-Adria-Bank AG, which is wholly owned by Hypo Alpe-Adria-Bank International AG, these core areas have proved their worth as sustainable and strong pillars of the bank's development strategy. In the continuing efforts to reprivatise Hypo Alpe-Adria-Bank AG, the main priority in the past financial year has been to hive off non-strategic areas of the bank's business. On 5 September 2012, the demerger was officially entered into the commercial register. Fiscally and financially, the demerger applies retroactively with effect from 1 January 2012. The remainder of Hypo Alpe-Adria-Bank AG is a focussed, profitable bank that is able to refinance itself. It is positioned as a regional universal bank, strongly anchored in Carinthia and with a clear niche strategy for the Vienna and Salzburg locations. Hypo Alpe-Adria-Bank AG places its main focus on developing sustainable customer relationships in the strategic business areas of retail and private banking, SME and corporate banking, and public sector financial services.

True to its maxim "Supportive. Friendly. Fair", the bank offers individually tailored advice to its customers by means of a specialised range of products. The focus of the 15 branches in Carinthia, Vienna and Salzburg is on personal communication, shared trust and forward-looking assistance that is based on mutual cooperation.

After the last few difficult years, the rehabilitation of the bank's risk situation, the measures taken to reduce the costs and complexity of internal processes, plus the concentration on solid banking business in sustainable business areas make it evident that the realignment of Hypo Alpe-Adria-Bank AG has been the right call and that the bank is now on a successful recovery path.

2.2. Retail Banking segment

In the area of retail banking, a major point of emphasis during 2012 was put on the continued and sustainable optimisation of the branch network, along with enhancing the services provided to the bank's customers. To this end, the competence centre concept was extended to include the Domgasse branch. Alongside the competence centre for doctors and the liberal professions, which has been in existence since 2011, the former "Alpe-Adria-Zentrum" branch was integrated into Domgasse and expanded to become a competence centre for small and medium-sized companies. As a consequence, the Domgasse branch perfectly complements the Carinthian structure of retail customers, SME clients and sole proprietors as well as doctors and the liberal professionals.

Since mid-2012, Hypo Alpe-Adria-Bank AG has pioneered a service that enables customers to convert their e-cards into citizen cards free of charge in every branch in Carinthia. In this way, Hypo Alpe-Adria-Bank AG is able to offer not only traditional banking services, but also citizens' service functions.

Building on its principle of service orientation, the regional bank also offers individually customised services as required. In the context of these efforts, a temporary ATM was set up for the first time at the Wiesenmarkt festival in St. Veit. This offer was received very positively by the local population, as is demonstrated by the number of transactions.

In the liquidity segment, the cooperation with locally based Carinthian companies was further intensified by offering individually tailored account packages for their employees.

On the financing side, the emphasis is on home financing. In this area, the bank can build on its many years of experience and its in-house specialists. As a result, the bank was able to further expand its market share in this segment.

In 2012, the long-standing tradition of the "Hypo Kunstpfandbrief" (art mortgage bond) was also continued. The bank was able to form a successful partnership with the renowned Carinthian artist Professor Karl Brandstätter. With this mortgage bond, in addition to a gilt-edged investment, the investor receives an original limited edition colour etching which is hand-signed and numbered – a valuable combination of financial investment and art.

Savings deposits were kept at a solid level, which underlines the confidence that the Carinthian population places in the bank.

In the investment and insurance field, Hypo Alpe-Adria-Bank AG is able to call on its cooperation with strong business partners. In order to satisfy the requirements and wishes of its customers, Hypo Alpe-Adria-Bank AG has entered into partnerships with Franklin Templeton and BNP Paribas, and offers products developed jointly with these partners.

In contrast to the decline observed across Austria as a whole, the retail banking division was able to achieve a significant increase in building savings/loan contracts in 2012, thus continuing the positive trend of the previous year.

In the field of financial planning, the bank has been able to roll out the "Together Platform" tool jointly with a cooperation partner. This tool enables customer account managers to directly issue policies for insurance applications online. In this respect, Hypo Alpe-Adria-Bank AG has assumed a pioneering role in the banking market. In the past financial year, the focus in the area of financial planning was on planning for the future, risk insurance and, in particular, on income protection insurance. The latter is intended to absorb the financial consequences in the event of long-term illness or accident.

2.3. Corporate Banking segment

In the 2012 financial year, the corporate banking portfolio evolved in a very stable manner and was further enhanced by the hiving off of non-strategic business, so that despite lower volumes and a challenging internal and external environment, it was possible to achieve excellent results. The refinancing base in corporate banking was increased by EUR 180 m in the year under review by the building-up of loans eligible for investment in premium reserve stock and credit claim assets.

In addition, the requirements-based consulting approach was further developed by introducing the "Hypo Business Dialog": As part of the structured discussion along the value-added chain of a company, customer account managers in corporate banking conduct a comprehensive review of the current situation and the future objectives of a company. Based on this analysis, customers are offered tailor-made solutions that will help them to succeed to an even greater extent in a rapidly changing and challenging economic environment. Over and above this – supported by the "Compass for Medium-Sized Businesses" – a consultation on opportunities is carried out based on customers' past annual financial statements.

Targeted events with cooperation partners, such as the Export Business Breakfast with the Carinthian Economic Chamber, also supported our market presence. During the 2012 financial year, corporate banking was able to acquire new customers through this quality-oriented consultancy approach and a systematic acquisition campaign, thus generating over EUR 100 m in new business.

The bank will continue to systematically pursue its strategy of providing requirements-based solutions for corporate customers and adding new customers to its client base throughout the 2013 financial year. In the context of the excellent cooperation with and the ongoing support of our customers, the focus is on generating sustainable results on a solid basis.

2.4. Public Finance segment

As one of only a few banks in Austria, Hypo Alpe-Adria-Bank AG has established a separate division for the support of public sector clients. The employees in the public finance division see themselves as "the experts" at the side of public sector clients.

Public finance continued to produce highly satisfying results in 2012 and thus successfully maintained its position as a stable factor for the bank.

The previous year's strategy was continued, with particular emphasis being placed on advisory services, investments, debt management and cash management. Moreover, as part of a fixed interest rate campaign, a portfolio of around EUR 220 m was changed from variable to fixed interest rates. As a result, it was possible to achieve a "stable" planning basis for interest costs at a very low level for these customers.

In 2013, the public finance division will continue to support its customers as a strong and competent partner both in the field of financing and in the investment area. Thanks to Hypo Alpe-Adria-Bank AG's long-standing expertise in the financing sector and a maximum degree of security in investments, public sector customers have access to all of the traditional banking products, as well as modern, yet consistently low-risk, transparent solutions.

2.5. Treasury and Securities Services

In the course of the demerger, all of the group holding company's refinancing funds were repaid, thus enabling Hypo Alpe-Adria-Bank AG to position itself as a bank that is refinanced from its own resources. Furthermore, in the year under review, measures were put in place to strengthen the bank's independent access to the capital market. In particular, as an important future funding source, the development of the mortgage premium reserve stock was accelerated, with approximately EUR 100 m in assets being added to the cover pool. In the context of implementing these activities, increasing emphasis was placed on assets-side products such as mortgage bond covering loans.

Issues were placed on the capital market for both institutional investors and our retail customers. In addition to mortgage bonds, housing and senior bonds, this also includes the new issue of "art mortgage bonds", which successfully commenced in 2011.

As a consequence of the forthcoming changes in the regulatory provisions at EU level (Basel III, EMIR/CRD IV, etc.), another area of focus for the Treasury was to adapt/realign its activities in order to prepare for these future requirements. To this end, preparations were made for participating in Central Counterparty Clearing for derivatives with regard to the EMIR IV regulations and arrangements were made for the planned regulatory provisions arising from Basel III with regard to liquidity management (LCR) and maintaining liquidity reserves in the securities inventory.

In cooperation with the other market segments, the specialist Treasury Sales unit professionally and successfully supports our customers in controlling interest rate and currency risks through the offer of tailored products.

3. Business development in Hypo Alpe-Adria-Bank AG

3.1. Balance sheet development

Hypo Alpe-Adria-Bank AG reported total assets of EUR 3,861 m as at 31.12.2012 (31.12.2011: 5,740 m).

Total assets
in EUR m

Pursuant to a demerger and acquisition agreement dated 10.08.2012 and entered in the Commercial Register on 05.09.2012, Hypo Alpe-Adria-Bank AG transferred non-strategic assets amounting to EUR 1,981 m to its parent company, Hypo Alpe-Adria-Bank International AG, through an acquisition-type demerger by way of universal succession retroactively with effect from the demerger date of 31.12.2011. For more information on the demerger, please refer to the notes. As a consequence of the demerger, a comparison of the key data with the previous year's figures does not yield meaningful results. Despite the continuing difficult general economic conditions and the turbulence in the markets, the bank was able to post a positive result for the 2012 financial year, thereby confirming that the path taken is delivering successful results.

The lending volume came to EUR 2,867 m (31.12.2011: EUR 4,686 m). The allocation by segment excluding accrued interest is as follows: EUR 1,249 m to public finance, EUR 799 m to corporate banking, EUR 694 m to retail banking and EUR 114 m to securitised receivables (private placements of securities). The majority of non-performing loans were transferred to the absorbing company, Hypo Alpe-Adria-Bank International AG. The residual volume of around 4% of the total exposure attests to the considerable improvement in quality of the loan portfolio.

Balance sheet structure

in EUR m

Assets	31.12.2012	31.12.2011	31.12.2010
Loans and advances to credit institutions	500	456	162
Loans and advances to customers	2,867	4,685	5,152
Fixed-income securities, shares and investment certificates	412	454	497
Investments in associated companies	4	5	6
Other assets	78	140	149
Balance sheet total	**3,861**	**5,740**	**5,967**

Liabilities	31.12.2012	31.12.2011	31.12.2010
Liabilities to credit institutions	412	1,919	1,997
Liabilities to customers	1,575	1,678	1,749
Debt securities in issue and subordinated capital	1,618	1,898	1,972
Own capital funds/Tier 1 capital	150	150	149
Other liabilities including net profit	106	95	100
Balance sheet total	**3,861**	**5,740**	**5,967**

Development of non-performing loans
Rating class 5A to 5E, in EUR m

Loans and advances to credit institutions stood at EUR 500 m (31.12.2011: EUR 456 m), with short-term cash investments of EUR 408 m constituting the major part of this balance sheet item. The balance sheet items treasury bills and bonds and other fixed-income securities are used exclusively for liquidity reserves and amount to EUR 410 m (31.12.2011: EUR 445 m). In the year under review, a sum of EUR 160 m was invested in top quality securities that satisfy the future liquidity requirements under Basel III. Furthermore, securities in the amount of EUR 80 m were repaid according to schedule.

With regard to liabilities, primary funds (customer deposits and own issues) came to EUR 3,175 m (31.12.2011: EUR 3,423 m), which equates to 82% of funding. Of this, EUR 792 m was accounted for by savings deposits and EUR 783 m by demand and timed deposits. The loan to deposit ratio, which shows the proportion of lending to primary funds (including own issues), stood at 90.3% as at 31.12.2012 (31.12.2011: 136.9%) and is thus remarkable for a regional bank. Liabilities to banks stood at EUR 412 m (31.12.2011: EUR 1,919 m). Following the demerger, the entire refinancing line of Hypo Alpe-Adria-Bank International AG, which amounted to EUR 1,354 m on the reference date of 31.12.2011, was repaid. The balance sheet item debt securities in issue amounted to EUR 1,600 m (31.12.2011: EUR 1,745 m). In the year under review, EUR 44 m of new issues were placed and EUR 50 m repaid.

The subordinated liabilities, which also constitute Tier 2 capital, amounted to EUR 18 m as at 31.12.2012 (31.12.2011: EUR 112 m), and the supplementary capital stood at EUR 0 m (31.12.2011: EUR 40 m). The supplementary capital was terminated early in the course of the demerger. Please refer to the information given in the notes with regard to details on the termination of supplementary capital instruments.

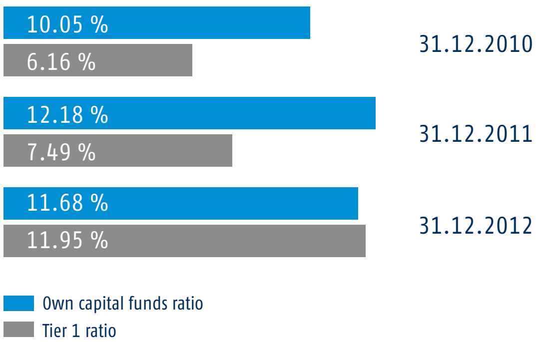
3.2. Own capital funds

Total own capital funds as defined by the Austrian Banking Act (BWG) came to EUR 164 m as at 31.12.2012 (31.12.2011: EUR 265 m). The legal minimum requirement stood at EUR 112 m. This represents a surplus of EUR 52 m, or a coverage of 146% (31.12.2011: 152%).

The own capital funds ratio in relation to the banking book (credit risk) amounted to 13.31% as at 31.12.2012 (31.12.2011: 13.31%). The Tier 1 ratio was, at 11.95%, also well above the level as at 31.12.2011 (7.49%). The improvement in the Tier 1 ratio can be attributed to the demerger; in comparison to 31.12.2011, the assessment basis shows a reduction of 35%.

In relation to the total capital base (including market and operational risk), the Tier 1 ratio was 11.68% as at 31.12.2012 (31.12.2011: 12.18%), significantly over the legally required minimum level of 8.0% in Austria.

Development of own capital funds/Tier 1 rations
in per cent



3.3. Development of the result

In the year under review, Hypo Alpe-Adria-Bank AG was again able to register a sustainable positive result. The main factors driving this development are the already advanced restructuring measures and the demerger of large parts of the non-performing loans and non-strategic business areas on the one hand, and on the other hand the satisfactory progress of the bank's core business. Despite the spin-off of certain assets, it was possible to maintain the results of operations at a stable level. The credit risk provisions were also at a historically low level in the year under review, which can be ascribed in particular to the successful intensive work on the remaining non-performing loan items, and the strict adherence to the risk-appropriate allocation of new business. The realignment of the bank and the optimised credit portfolio in terms of risk-conscious diversification will also have a positive effect both on the results of operations and on provisions.

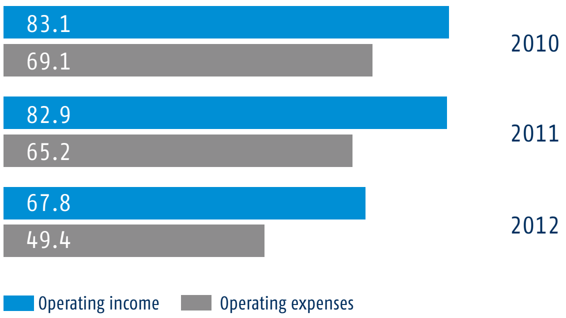
Against this backdrop, income from operations (net interest income, fee and commission income, income from securities and equity interests, other income) in the year under review stood at EUR 67.8 m, as compared to EUR 82.9 m in 2011. Net interest income came to EUR 39 m (31.12.2011: EUR 50.5 m) and continues to be impacted by the persistently flat interest rate curve. Dividends from shares and shareholding rights totalled EUR 2,5 m (31.12.2011; EUR 2.0 m).

The net fees and commissions, as the balance between fee and commission income and expenses, came to EUR 16.4 m in the year under review and, as a consequence of the demerger, was below the level of the previous year (31.12.2011: EUR 18.2 m). The increase in the share of fee and commission income in overall income reflects the focus of the bank on commission-bearing banking and insurance products in order to reduce the dependency of results on the more volatile interest-based business.

In the year under review, Hypo Alpe-Adria-Bank AG reported operating expenses of EUR 49.4 m as at 31.12.2012 (31.12.2011: 65.2 m). The restructuring measures that have been implemented, especially in the last two years, are already taking full effect in relation to both administrative and staff expenses.

As a consequence of the above, the operating result – as the balance of operating income and operating expenses – came to EUR 18.4 m.

Operating income/expenses
in EUR m



The result on the measurement and disposal of receivables, contingent liabilities and securities held as current assets was negative for 2012, at EUR 3.3 m.
The individual items break down as follows: the balance from the measurement of receivables and contingent liabilities held as current assets is EUR -3.1 m (31.12.2011: EUR -0.6 m), the balance from the measurement and disposal of securities held for liquidity is EUR -0.2 m (31.12.2011: EUR -3.9 m). The measurement item was burdened, inter alia, by the strategic reduction of areas that were not needed, which resulted in impairment adjustments.
In the course of working through the problems of the past, certain errors were identified in the investment advice given. A provision totalling EUR 1.7 m (31.12.2011: EUR 4.0 m) was formed in the 2012 financial year for potential costs arising from legal risks. During the year under review, the 2011 provision of EUR 4.0 m was fully utilised. The provision made in the financial statements is intended to cover future costs associated with legal risks. This sum is intended for use in the event of advisor liability on the grounds of faulty advice given to customers, to pay for resulting legal costs and any compensation payments, where these are necessary. In each specific case, any such use was assessed in consultation with an external legal expert to ensure objectivity.
The balance of measurement and disposal of financial assets (securities and equity investments) held as fixed assets comes to EUR 1.9 m (31.12.2011: EUR 1.0 m). A significant contributor to this figure are the proceeds from the sale of the 100% shareholding in Hypo Alpe-Adria-Insurance Services GmbH to the SIVAG Group in January 2012.
Taking into account the abovementioned effects, Hypo Alpe-Adria-Bank AG recorded a positive result from ordinary activities of EUR 17.0 m (31.12.2011: EUR 10.2 m).

The extraordinary result of EUR 38.1 m comprises the effects of the early termination of the supplementary capital (EUR 40.0 m), compensation payments of EUR -2.0 m and an early repayment of a dedicated bank refinancing facility with an early repayment penalty of EUR -5.4 m plus the associated interest hedges with a positive market value of EUR 6.0 m. Furthermore, the demerger costs of EUR 0.5 m are also shown in this item. For more details with regard to the early termination of the supplementary capital, please refer to the notes.
After allowing for taxes and tax effects from the group taxation arrangement of EUR 6.9 m, the net profit for the 2012 financial year came to EUR 48.1 m (31.12.2011: EUR 7.4 m).

3.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 72.9% as at the reporting date (78.7% as at 31.12.2011). The return on equity (ROE) after tax stands at 7% for the 2012 financial year (31.12.2011: 5%), the return on assets (ROA) at 0.21% (31.12.2011: 0.13%). In the year under review, the return on equity and return on assets are shown adjusted for the extraordinary profit.

Please refer to the information provided in the notes with regard to the use of derivative financial instruments.

4. Analysis of non-financial key performance indicators

4.1. Employees

As at the reporting date of 31.12.2012, Hypo Alpe-Adria-Bank AG employed 453 staff at 15 locations throughout Austria. The number of employees thus remained stable in comparison with the figure at year-end 2011. Considerably more than half of the employees are women (250 employees as at 31.12.2012). Taking into account different part-time working models, there is an employment level of 380 full time equivalents (31.12.2011: 378 full time equivalents). With 421 members of staff, the majority were employed at sites in Carinthia. Vienna accounted for 18 employees, and Salzburg for 14.

Employee numbers
2010–2012

For over 25 years, Hypo Alpe-Adria-Bank AG has provided successful training for apprentices with a focus on practical aspect. This tradition was re-established in 2012 and a total of eight apprentices were taken on, who were enrolled in various different learning models, such as the apprenticeship with secondary school certificate model, as well as the traditional banking apprenticeship.

In terms of training and development, the highlight of 2012 was the sales training course supported by external sales consultants for the retail banking division. Approx. 130 employees received training over a period of three days.

The core of the training course was made up by the “Hypo Account Dialog” and the “Hypo Future Dialog” sales tools. These tools are adapted to the life cycle of a private customer and thus cover all requirement areas (loans, financial planning, investments and liquidity).

In addition, the branch managers took part in an accompanying coaching course, so that as part of their management role they would be able to ensure the realisation and monitoring of the related tasks and contents during the process of implementation. The retail banking divisional management team took part in a seminar transfer coaching course, in order to be able to provide the correct level of strategic background support.

In the corporate division, similar to the “Future Dialog” intended for retail customers, a “Business Dialog” was developed for corporate clients, which is utilised in the context of the division’s consultancy activities and the acquisition of new and existing customers. The topic of “comprehensive corporate analysis” was also examined in more detail in a two-module training course provided by Korn & Korn (5 days) for each corporate customer account manager that had not taken part in this cycle in the previous year.

In September 2012, employees took part in an assessment and development centre (AD/DC) for potential future managers. During this event, 19 candidates qualified for the managers of the future programme, which includes a management training course with 3 modules and a bank management game over 3 days. The training course commences in February 2013. Supplementary, individually tailored modules and job rotations are undertaken according to defined subject areas.

In the 2012 financial year, a total of 295 events took place amounting to 670 training days within a budget of EUR 460,000.

4.2. Customers

As we work in partnership with our customers, our focus is on personal interaction and, building on that basis, developing sustainable solutions in the areas of financing, personal wealth, financial planning and liquidity. In this regard, the employees of Hypo Alpe-Adria-Bank AG see themselves as money coaches – responding to the individual needs of the approximately 56,000 customers in their respective current life cycle phases is of particular importance.

Offering added value for our customers is a further cornerstone of customer account management at Hypo Alpe-Adria-Bank AG. For example, as part of the Hypo Academy, the renowned motivational trainer Peter F. Kinauer gave a lecture on the topic “Now or never! How to conquer the future” to over 300 customers in the Hypo Arena, in which every last seat was filled. Since mid-2012, Hypo Alpe-Adria-Bank AG has been offering a free service for all residents of Carinthia, using the slogan “Carinthia looks ahead – we turn your e-card into a citizen card” to promote the initiative: All Hypo branches in Carinthia have been equipped with citizen card terminals, at which both customers and non-customers alike can have their e-cards activated as citizen cards. This process takes just a few minutes and, if they wish, customers can also check their current pension account status – another service which is free of charge. In this respect, Hypo Alpe-Adria-Bank AG as a traditional Carinthian bank is taking a pioneering role among the region’s banks and demonstrates once again that it is not all about profit but rather passion and enthusiasm for the benefit of its customers.

4.3. The environment and social responsibility

Hypo Alpe-Adria-Bank AG constantly endeavours to meet its corporate social responsibilities.

In 2012, for example, the in-house “Green Bank” working group was founded. As part of its activities, measures have been initiated and continue to be developed which are aimed at the sustainable use of resources, thereby protecting the environment to the maximum extent possible. In the course of these efforts, measures to reduce the consumption of printing paper and toner and campaigns to save the energy spent on lighting and heating have been put in place.

Despite high temperatures, employees and branch managers proved that the “Green Bank” is doing its part to take environmental protection in Carinthia seriously. For example, grass cutting work was carried out near Hermagor. In this way, the employees of Hypo Alpe-Adria-Bank AG have also been able to demonstrate their social commitment.

Providing help in the region quickly and unbureaucratically is another area of emphasis in Hypo Alpe-Adria-Bank AG’s social commitment programme. For this reason, the “Muttropfen” (drops of courage) campaign set up by the Lavamünd middle school in support of the town’s flood victims was subsidised with an immediate donation. As part of the traditional "Advent Banking" event, consulting hours were converted into cash and made available to the Parent-Child Centre at the Wörthersee Clinic so that toys for the children's playroom could be purchased.

In the realm of culture, support was provided to the renowned Trigonale and Kultur.Raum.Kirche music festivals, while in the sporting arena, the bank sponsored the multiple European and world paratriathlon champion Christian Troger.

Under the Hypo "ProFuturo" umbrella brand, Hypo Alpe-Adria-Bank AG made it possible for 20 socially deprived children and young people from the De La Tour social welfare organisation to spend a day skiing with Olympic champion Franz Klammer. Assisted living groups enjoyed a joint skiing day in Bad Kleinkirchheim with Franz Klammer as their ski instructor, together with committed executives, branch managers and employees of Hypo. Fun and exercise in the snow was the priority on this day.

4.4. Research and development

By dint of its sector, Hypo Alpe-Adria-Bank AG does not conduct any research and development activities.

5. Risk management

Hypo Alpe-Adria-Bank International AG carries out certain central risk management functions for Hypo Alpe-Adria-Bank AG, which are regulated by Service Level Agreements.

5.1. Risk strategy, risk controlling and risk monitoring

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

The following central principles apply to the overall controlling process:

- 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, pursuant to the Minimum Standards for the Credit Business (MsK) and the Austrian Banking Act (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.

5.2. Risk management organisation

Ensuring adequate risk management and controlling structures and processes is the responsibility of the Chief Risk Officer, who is a member of the bank's Executive Board. In view of the minimum standards imposed on the lending business and appropriate levels of internal control, the Chief Risk Officer acts independently of the market and trading units.

The core tasks of risk management are the management of counterparty risks; the restructuring of problem loans;

monitoring the credit-granting process; as well as risk controlling and monitoring of counterparty, market, liquidity and operational risks at portfolio level. The Chief Risk Officer 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 is responsible for monitoring adherence to regulatory own capital funds requirements.

5.3. Measures to improve risk management

In the 2012 financial year, a range of measures were implemented to improve risk management.

New rating procedures

The rating landscape was completed by the group holding company through the introduction of the new rating tools for banks, insurance companies, federal states and regional authorities. The bank now has all of the necessary rating systems at its disposal to take a position on the creditworthiness of all customer groups in every business segment. Hypo Alpe Adria uses the following rating tools: Corporate, Small and Medium Enterprises, Retail Behaviour Rating, Expert, Support, Start-Up, Project Finance, Commercial Real Estate, Municipalities, Countries, Insurances and Banks as well as scorecards for retail/private customers.

The procedures comply with the standards stipulated by the regulatory authorities and the data is available and updated daily through holding it centrally.

In addition to the newly validated rating procedures leading to considerably improved risk assessments, a higher level of rating effectiveness and data quality will be achieved through the holding of data centrally and through systematic reporting.

In the meantime, almost the entire portfolio for every segment has now been rated using the relevant new rating procedures.

The back office is responsible for the checking the completeness and quality of the ratings. Risk controlling regularly monitors the quality of the ratings at portfolio level using a standardised reporting procedure and informs the Executive Board directly of its findings at monthly intervals.

Basel III – Credit risk

Due to the preliminary Basel III requirements, some changes have been made in respect of credit risk with regard to the own capital funds requirement. The redefinition of certain asset classes requires a review and/or adjustment of the receivables classifications. For the purposes of a "maximum harmonisation approach", national areas of discretion have been dispensed with almost entirely. New requirements with regard to exposures secured by real estate are based on the provisions prescribed by the national supervisory authorities.

Ongoing evaluation of real estate collateral and other types of security

The bank has extensive current valuation reports for commercial and private real estate collateral at its disposal which fully reflect the macroeconomic situation.

All commercial real estate (CRE) collateral items with a market value of more than EUR 1 m recorded in the system have been subjected to an individual valuation procedure and updated or re-evaluated either by external appraisers approved by CREM or directly by CREM employees.

The real estate collateral items that were first evaluated using the statistical procedure in 2011 (all RRE and CRE items with a market value of less than EUR 1.0 m) were again updated using this statistical procedure in 2012. These valuation tools were first validated in the autumn of 2012.

Within the framework of "Collateral Management and Monitoring", the credit processing department is responsible for monitoring the up-to-dateness of all collateral items on a regular basis, checks any changes to them and monitors compliance with the applicable regulations and correct maintenance in the security systems. This made it possible to achieve a complete re-evaluation.

5.4. 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 was adapted to the bank's new circumstances and requirements. Regular credit risk reporting is carried out on a monthly basis. There is standardised reporting of liquidity risk on a daily, weekly and monthly basis.

In stress cases the reporting frequency can be increased if required. Market risk reports are compiled on a daily basis.

5.5. Capital management

As part of the overall management of risk, the bank's capital management is based on a multi-dimensional planning process, which consolidates strategic, risk-oriented and regulatory aspects as part of a long-term operational plan.

Regulatory capital adequacy (solvency)

Capital resource planning is the starting point for the allocation of regulatory 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.

Capital resource planning is mainly based on an internal target for the Tier 1 ratio (ratio of Tier 1 capital to risk positions) and an internally set target ratio for the overall own capital funds ratio (ratio of capital resources to risk positions) for the bank.

Economic capital (risk-bearing capacity)

In addition to ensuring the regulatory capital requirements which are met by Hypo Alpe-Adria-Bank International AG, securing the bank's ability to bear economic risks forms a central part of controlling activities. To this end, Hypo Alpe-Adria-Bank AG has an institutionalised internal process as regards risk-bearing capacity (ICAAP, or "Internal Capital Adequacy Assessment Process").

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, concentration, market price, operational and other risks (reputation, strategic, capital and business risk). 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).

In the course of managing risks associated with economic capital, the bank monitors the risk profile and ensures adequate risk-bearing capacity by comparing risk capital with the risk capital requirement. The upper limit for loss – and thus the available risk capital – is determined from the sum of the capital elements.

5.6. Credit risk

In terms of scale, credit risks constitute the most significant risks for the bank. They mainly arise from the lending business. 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.

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 and specific directives.

In line with a directive on authority levels defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board and Executive Board, as well as by key staff in the front office and the analysis units of the risk office for standard, mass-market credit applications. The internal credit committee is a permanent institution of the bank and the highest body for making credit decisions, at the same level as the Executive Board.

Risk measurement

Hypo Alpe-Adria-Bank AG utilises various 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.

The responsibility for checking the completeness and the quality of the ratings lies with the back office and with the front office for standard, mass-market applications (4-eyes principle). At portfolio level, Group Credit Risk Control regularly checks the quality of the ratings at portfolio level and reports on them to the Executive Board.

Risk limitation

The control of total commitments with an individual client or a group of affiliated clients is carried out by the respective customer segment or business area. Limits are set for banking divisions and countries and monitored independently by Risk Controlling.

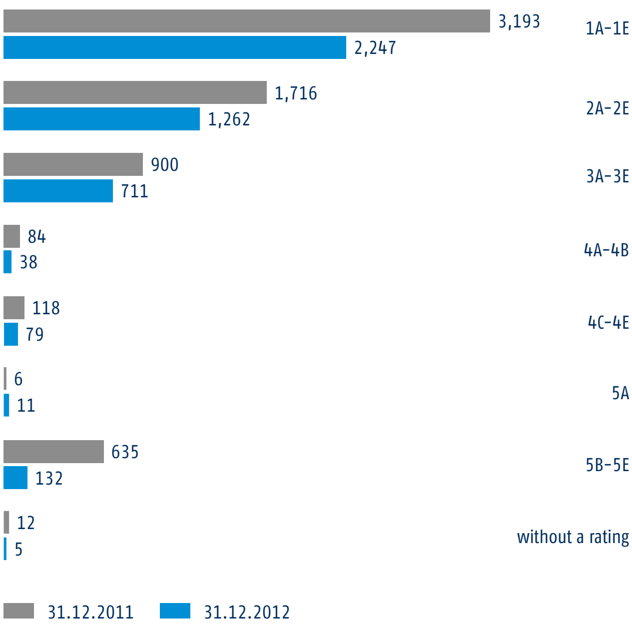
Another important instrument in limiting risk is the collection and crediting of generally accepted collateral. The valuation is processed in line with the collateral policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are generally concluded for trading transactions involving derivatives.

The stipulations for the evaluation and processing of collateral are governed by the collateral policy. This also contains a description of the collateral normally accepted by the bank. The main types of collateral include mortgages (approx. 60% of the collateral portfolio), pledges, assignments and guarantees.

Distribution of exposure

In the year under review, the bank's exposure reduced by EUR 2,180 m or 32.7%. For the most part, this massive reduction in the exposure of the bank can be attributed to the transfer of a predefined portfolio to the group holding company as part of the demerger. In total, there are free lines of credit and loans available totalling some EUR 243 m.

Exposure by rating class
in EUR m

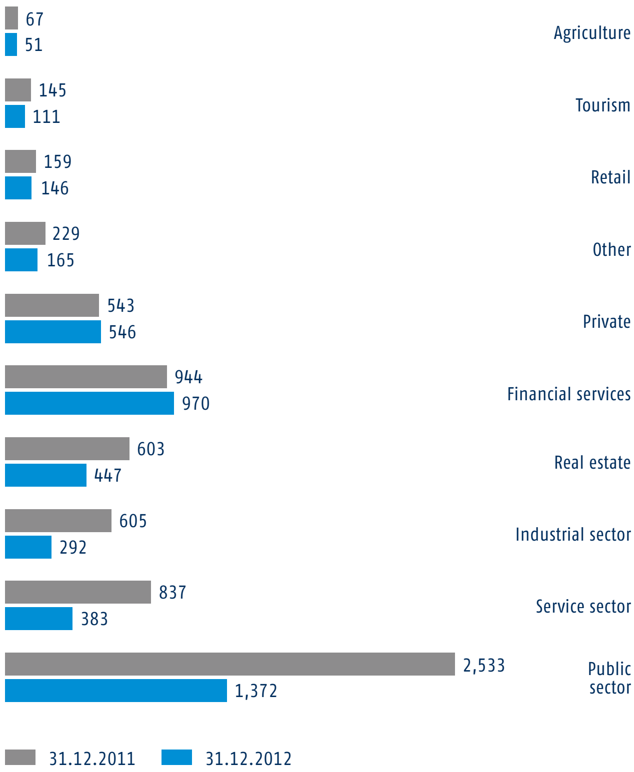


Around 78% of the exposure is categorised as rating classes 1A to 2E. This relates in the main to loans and advances to credit institutions and public institutions.

Due to the transfer of a predefined wind-down portfolio, the exposure in the categories 5B–5E (impaired commitments through to derecognition) has decreased considerably.

A uniform classification code (NACE Code 2.0) is used for the economic control and strategic focus of industry exposure. This code is mapped into ten industry sectors for reporting purposes. The lower-risk industry groups – credit institutions and the public sector – account for a share of 52.2%. The well-diversified retail/private client sector has a share of 12.2%.

Exposure by industry sector
in EUR m



Size classes	31.12.2012	31.12.2011
< 10,000	35	417
10,000 – 20,000	25	144
20,000 – 50,000	46	132
50,000 – 100,000	71	78
100,000 – 250,000	274	394
250,000 – 500,000	208	623
500,000 – 1,000,000	154	193
1,000,000 – 3,500,000	355	566
3,500,000 – 10,000,000	497	814
> 10,000,000	2,820	3,303
Total	**4,485**	**6,664**

Some 37.1% of exposure lies in the area < EUR 10 m. The bank continues to pursue a strict strategy of systematic reduction of concentration risk. A majority share of the EUR 2,820 bn exposure in the area > EUR 10 m is attributable to banks and the public sector (69.5%).

5.7. Country risk

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

For example, country risks may arise from possible deterioration of national economic conditions, 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.

Country risk is limited by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. Risk Controlling monitors adherence to the country limits on a monthly basis and reports any breaches as part of its regular country limit utilisation reporting directly to the Executive Board. Ad hoc reports are also prepared as required.

As at 31 December 2012, Hypo Alpe-Adria-Bank AG had no direct sovereign and banking risks in the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain).

5.8. Concentration risk

Concentration risks within a portfolio are the result of an unequal distribution of loan receivables against individual borrowers and/or groups of borrowers. This also includes concentrations of loan receivables in individual industry sectors, geographic areas and concentrations resulting from an unequal distribution of guarantors.

Accordingly, the following concentration risks are analysed, measured and managed by the bank: concentrations in counterparty default, concentration risks in industrial sectors, geographic concentrations plus concentrations of guarantors.

5.9. Market price risk

Market risks consist of potential losses arising from a change in market prices. Hypo Alpe-Adria-Bank AG 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 associated with Alternative Investments. At Hypo Alpe-Adria-Bank AG, particular attention is paid to identifying, measuring, analysing and managing market risk. The organisational division Group Market Risk Control is responsible for all market risks.

General requirements

The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury units.

Risk controlling and monitoring

All market risks are monitored centrally by the Group Market Risk Control function, which is unconnected to trading functions. 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.

Overview – Market risk Interest rate risk:

The interest rate risk (excluding non-interest-bearing items) of the bank stood at EUR 83,000 at year-end 2012.

The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics.

The regulatory limit of 20% was not even close to being reached or exceeded at any point in the year. Utilisation as at 31.12.2012 stood at 2%.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities, thereby mitigating interest rate risk.

Foreign currency risk: The main risk driver for the bank's foreign currency risk is the CHF currency. The value at risk for this foreign currency risk was approximately EUR 10,000 per day as at 31.12.2012, at a confidence interval of 99%.

Credit spread risk: the credit spread risk within the bank stood at approx. EUR 692,000 at year-end 2012 with a 1-day value at risk and 99% confidence level. The key influencing factor in this regard is the liquidity reserve in the form of securities. Consequently, there is very limited scope for reducing risk from these positions.

The significant decrease in the credit spread risk over the course of the year is a result of declining volatilities in the risk-relevant credit spreads and of the transfer of selected positions in the course of the demerger to Hypo Alpe-Adria-Bank International AG.

5.10. Liquidity risk

Liquidity risk is defined 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.

General requirements

The strategic principles of handling liquidity risks 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 risk controlling is the responsibility of the Group Market Risk Control division. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

The bank 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.

Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk 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
- Access to further central bank-eligible securities
- Issue potential in the cover register

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), 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 evaluating the liquidity situation, the liquidity ratio (minimum liquidity position) and "time to wall" (maximum liquid time horizon) indicators are calculated for up to one year, although utilisation over the first 4 weeks is taken to be particularly important.

Besides structural controlling, care is also taken to ensure that general regulatory requirements are adhered to; this means meeting the minimum reserve as well as 1st and 2nd grade liquidity reserves. The new liquidity ratios under Basel III (liquidity coverage ratio and net stable funding ratio) have already been calculated and taken into account in the management systems.

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been defined and are monitored constantly.

5.11. Operational risk

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

The aim of operational risk management at Hypo Alpe-Adria-Bank AG is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). For the operational risk capital requirement in accordance with Basel II, Hypo Alpe-Adria-Bank AG currently utilises the basic indicator approach (BIA).

6. Internal control system (ICS)

Hypo Alpe-Adria-Bank AG has an internal control system (ICS) for accounting procedures, in which suitable structures and procedures are defined and implemented.

Hypo Alpe-Adria-Bank AG's internal control system is part of the internal control system for Hypo Group Alpe Adria and 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 internal control system (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 Executive Board of Hypo Alpe-Adria-Bank AG is responsible for the implementation and monitoring of the ICS in relation to accounting procedures for the 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 Internal Audit units and the Compliance department to assist it in monitoring compliance. Internal Audit checks the effectiveness of the internal control system and the reliability of the accounting function as part of its regular auditing activity.

The effectiveness of the internal control system is monitored by the Audit Committee or the Supervisory Board of Hypo Alpe-Adria-Bank AG in accordance with the stipulations of the Austrian Stock Corporation Act.

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 misstatements in the financial reporting will be avoided or uncovered.

6.1. ICS-related activities in 2012

In the context of the OP&K project, the processes relevant to the ICS were identified and prioritised using significant accounts, and worked through gradually using the list of priorities. In 2012, particular attention was paid to the Treasury-relevant processes, which were analysed jointly with Hypo Alpe-Adria-Bank International AG on an inter-institutional level and subjected to a risk assessment.

6.2. Outlook

On the basis of the processes relevant to the ICS, the risk owner and control owner will be identified and trained up. Test scenarios will be developed and periodically reviewed. The group-wide policy was modified to reflect local circumstances and was subsequently implemented and rolled out. In 2013, the “carve out process” will be subject to a particularly stringent ICS monitoring process.

7. Events after the balance sheet date

No further events of particular significance for the bank, which could have led to a change in the presentation of the financial position and results of operations, were recorded after the reporting date of 31.12.2012.

8. Forecast

After implementing comprehensive internal restructuring measures and separating out business segments that were not part of the future strategic core business, Hypo Alpe-Adria-Bank AG has turned into a smaller, even more customer-oriented universal bank with a less complex structure.

In February 2013, the Hypo Alpe Adria group submitted an adapted restructuring plan to the European Commission within the framework of the ongoing state aid proceedings. The outcome of the state aid proceedings is not yet known; however a conclusion is expected for the first half of 2013.

As part of the restructuring plan, the next sustainable and value preserving step is the continuation of the reprivatisation of Hypo Alpe-Adria-Bank AG, which commenced in 2012. Depending on the outcome of the sale negotiations, a signing in the course of 2013 appears to be a realistic goal from today's perspective.

During the selling process, final organisational measures are still to be put in place within the group in order to transfer areas of activity to Hypo Alpe-Adria-Bank AG that to date have been dealt with centrally by the group holding company. In particular, these include operational and strategic risk areas. Once these measures have been implemented, Hypo Alpe-Adria-Bank AG can position itself as an independent banking institution in the domestic market.

For 2013, the Executive Board anticipates a steady continuation of the operational results of the previous two financial years. As the state aid proceedings are still pending, an impact on the anticipated earnings situation cannot be ruled out.

Klagenfurt am Wörthersee, 1 March 2012
Hypo Alpe-Adria-Bank AG

THE EXECUTIVE BOARD:

Gerhard Salzer (Chairman)	Mag. Friedrich Racher (Deputy Chairman)	Mag. Peter Lazar

Financial statement 2012

Balance Sheet as at 31 December 2012

		31. 12. 2012 EUR	31. 12. 2011 EUR thousand
ASSETS			
1. Cash in hand, balances with central banks and post office giro institutions		**29,366,264.70**	**41,424**
2. Treasury bills and other bills eligible for refinancing with central banks			
Treasury bills and similar securities			
		193,383,841.33	**152,692**
3. Loans and advances to credit institutions			
a) Repayable on demand	499,892,624.10		30,384
b) Other loans and advances	12,675.53		426,054
		499,905,299.63	**456,438**
4. Loans and advances to customers		**2,867,414,683.21**	**4,685,267**
thereof:			
assets held in trust pursuant to section 2 (1a) PfandbriefG EUR 0.00			
(prior year: EUR 771,830 thousand)			
5. Bonds and other fixed-income securities			
a) Public sector issuers	0.00		8,850
b) Other issuers	216,550,255.59		283,244
thereof:		**216,550,255.59**	**292,094**
own bonds EUR 38,329,023.59			
(prior year: EUR 45,386 thousand)			
6. Shares and other variable-yield securities		**1,754,089.42**	**9,542**
7. Investments in associated companies		**4,143,458.67**	**4,145**
thereof:			
in credit institutions EUR 2,905,887.30 (prior year: EUR 2,906 thousand)			
8. Shares in affiliated companies		**393,272.95**	**537**
9. Intangible fixed assets		**209,994.80**	**296**
10. Tangible fixed assets		**5,732,245.12**	**10,965**
thereof:			
land and buildings used by the bank for its own activities EUR 3,090,290.79			
(prior year: EUR 7,987 thousand)			
11. Other assets		**42,029,769.17**	**85,754**
12. Deferred assets		**502,361.93**	**607**
Total assets		**3,861,385,536.52**	**5,739,761**
1. Foreign assets		**449,127,259.13**	**1,101,240**

			31. 12. 2012 EUR	31. 12. 2011 EUR thousand
EQUITY & LIABILITIES				
1.	**Liabilities to credit institutions**			
	a) Repayable on demand	50,278,015.87		45,422
	b) With agreed maturities or periods of notice	362,128,147.99		1,873,817
			412,406,163.86	**1,919,239**
2.	**Liabilities to customers**			
	a) Savings deposits	791,683,963.63		784,052
	thereof:			
	aa) repayable on demand EUR 81.745.429,95 (prior year: EUR 57,287 thousand)			
	bb) with agreed maturities or periods of notice EUR 709,938,533.68 (prior year: EUR 726,765 thousand)			
	b) Other liabilities	783,409,354.16		894,243
	thereof:		**1,575,093,317.79**	**1,678,295**
	aa) repayable on demand EUR 479.859.804,18 (prior year: EUR thousand 484.006)			
	bb) with agreed maturities or periods of notice EUR 303,549,549.98 (prior year: EUR thousand 410.237)			
3.	**Debt securities in issue** (Bonds issued)		**1,599,629,568.11**	**1,744,851**
4.	**Other liabilities**		**24,289,605.12**	**41,907**
5.	**Deferred liabilities**		**238,795.61**	**145**
6.	**Provisions**			
	a) Provisions for severance payments	8,412,581.00		6,614
	b) Provisions for pensions	4,925,479.00		3,494
	c) Tax provisions	972,000.00		967
	d) Other	19,346,557.76		34,056
			33,656,617.76	**45,131**
7.	**Subordinated liabilities**		**18,121,600.00**	**112,852**
8.	**Supplementary capital**		**0.00**	**40,297**
9.	**Issued capital**		**30,000,000.00**	**30,000**
10.	**Capital reserves**			
	a) appropriated	82,008,562.42		
	b) unappropriated	323,552.95	**82,332,115.37**	**82,332**
11.	**Revenue reserves**			
	a) Statutory reserves	0.00		**0**
	b) Other reserves	282,247.06		**0**
			282,247.06	**0**
12.	**Liability reserves under section 23 (6) BWG**		**36,995,640.00**	**36,996**
13.	**Retained profit**		**48,146,268.84**	**7,482**
14.	**Untaxed reserves**			
	Valuation reserves due to special depreciation allowances		**193,597.00**	**234**
	Total equity and liabilities		**3,861,385,536.52**	**5,739,761**
1.	**Contingent liabilities**			
	Guarantees and other collateral securities		**141,816,959.35**	**253,719**
2.	**Loan exposures**		**240,021,000.00**	**250,854**
3.	**Liabilities from fiduciary transactions**		**33,506,187.47**	**75,531**
4.	**Eligible capital under section 23 (14) BWG**		**164,201,920.89**	**264,635**
	thereof:			
	own capital funds pursuant to section 23 (14) (7) BWG (prior year: EUR 1,472 thousand)	895,077.40		
5.	**Own capital funds requirement pursuant to section 22 (1) BWG**		**112,498,985.82**	**173,781**
	thereof:			
	own capital funds requirement pursuant to section 22 (1) (1) and (4) BWG (prior year: EUR 172,309 thousand)	111,603,908.42		
6.	**Foreign liabilities**		**407,401,582.26**	**673,840**

Income Statement for the period from 1 January to 31 December 2012

				2012 EUR	2011 EUR thousand
1.	Interest and similar income thereof: fixed-income securities EUR 16,696,063.32 (prior year: EUR 29,223 thousand)			163,189,583.58	262,302
2.	Interest and similar expenses			(124,149,329.08)	(211,844)
I.	**NET INTEREST INCOME**			**39,040,254.50**	**50,458**
3.	Income from securities and equity interests				
	a) Shares, other equity interests and variable-yield securities		2,167,469.22		2,035
	b) Associated companies		36,132.67		76
	c) Affiliated companies		347,052.11		2,042
				2,550,654.00	4,153
4.	Fee and commission income			18,125,165.67	21,013
5.	Fee and commission expenses			(1,728,799.20)	(2,767)
6.	Net income from trading activities			2,382,888.55	1,273
7.	Other operating income			7,389,656.13	8,697
II.	**OPERATING INCOME**			**67,759,819.65**	**82,827**
8.	General administrative expenses				
	a) Staff costs				
	aa) Wages and salaries	(19,514,491.94)			(24,525)
	bb) Cost of statutory social security contributions and other pay-related contributions	(6,204,699.90)			(6,448)
	cc) Other social welfare expenditures	(477,969.25)			(549)
	dd) Expenses for pensions and other retirement benefits	(1,115,187.87)			(1,682)
	ee) Pension provision allocation	(1,431,015.00)			0
	ff) Expenses for severance payments and contributions to employee severance funds	(2,190,638.92)			(1,220)
			(30,934,002.88)		(34,424)
	b) Other administrative expenses		(16,146,365.11)		(26,960)
	(operating expenditure)			(47,080,367.99)	(61,384)
9.	Value adjustments for fixed assets (balance sheet items 9 and 10)			(1,256,770.41)	(1,627)
10.	Other operating expenses			(1,065,782.16)	(2,174)
III.	**OPERATING EXPENSES**			**(49,402,920.56)**	**(65,185)**
IV.	**OPERATING RESULT**			**18,356,899.09**	**17,642**

		2012 EUR	2011 EUR thousand
add carry		**18,356,899.09**	**17.642**
11./12.	Net gain/loss from the disposal and remeasurement of receivables and securities held as other current assets	(3,321,617.42)	(8,446)
13./14.	Net gain/loss from the disposal and remeasurement of securities classified as financial assets	1,916,997.41	984
V.	**RESULT FROM ORDINARY ACTIVITIES**	**16,952,279.08**	**10,180**
15.	Extraordinary income	45,998,318.51	
16.	Extraordinary expenses	(7,878,491.68)	
17.	**Extraordinary result**	**38,119,826.83**	
18.	Taxes on income	(3,347,224.18)	(339)
19.	Other taxes not shown in item 15	(3,619,165.89)	(2,399)
VI.	**PROFIT FOR THE YEAR**	**48,105,715.84**	**7,442**
20.	Changes in reserves thereof: allocation to liability reserves EUR 0.00 (prior year: EUR 0 thousand)	40,553.00	40
VII.	**NET PROFIT FOR THE YEAR**	**48,146,268.84**	**7,482**

Schedule 3 to the notes

Cash Flow Statement

	2012 EUR thousand	2011 EUR thousand
Pre-tax profit	**55,072**	**10,180**
Appreciation in value	**0**	**0**
Depreciation	**2,068**	**2,278**
of tangible fixed assets	1,147	1,495
of intangible fixed assets	110	132
of financial assets	811	651
Gains (losses) from disposals	**0**	**0**
of tangible and intangible fixed assets	0	0
of financial assets	0	0
Change in loans and advances and other assets	**1,572,674**	**158,894**
Loans and advances to credit institutions	−43,467	−294,570
Loans and advances to customers	1,572,313	446,652
Other assets	43,724	6,900
Deferred assets	105	11
Change in provisions	**−11,479**	**−14,342**
for severance payments	1,799	−326
for pensions	1,431	−214
Other provisions	−14,709	−13,803
Change in payables and other liabilities	**−1,772,780**	**−221,771**
Liabilities to credit institutions	−1,506,833	−77,756
Liabilities to customers	−103,202	−70,783
Debt securities in issue	−145,221	−73,855
Other liabilities	−17,617	599
Deferred liabilities	94	24
Change in securities classified as current assets	**108,098**	**10,742**
Bonds and other fixed-income securities	100,310	17,381
Shares and other variable-yield securities	7,788	−6,638
Taxes	**−6,961**	**−1,772**
Taxes on income	−3,347	−339
Other taxes	−3,619	−2,400
Tax provisions	5	967
Change to the fund for general banking risks	**0**	**0**
Fund for general banking risks	0	0
Cash flow from operating activities	**−53,308**	**−55,791**
Changes in tangible and intangible fixed assets	**4,063**	**−1,115**
Investments	3,873	−1,626
Proceeds from sales	190	512
Changes in financial assets	**220,105**	**102,675**
Securities classified as fixed assets	220,773	101,474
Associates and affiliated companies	−668	1,203
Cash flow from investment activities	**224,168**	**101,560**

	2012 EUR thousand	2011 EUR thousand
Dividends paid	**−7,200**	**0**
to shareholders of the parent company	−7,200	0
to non-controlling interests	0	0
Changes in subordinated and equity capital	**−135,026**	**325**
Capital contributions	0	324
Subordinated liabilities	−94,729	1
Hybrid capital		
Supplementary capital	−40,297	0
Changes in minorities	0	0
Changes due to exchange rates, scope of consolidation	**0**	**0**
Cash flow from financing activities	**−142,226**	**325**
Cash flow	**28,634**	**46,094**
Cash and cash equivalents at beginning of the period	**194,116**	**148,022**
Cash in hand, balances with central banks	41,424	44,456
Treasury bills and bills of exchange eligible for refinancing	152,692	103,566
Cash and cash equivalents at end of the period	**222,750**	**194,116**
Cash in hand, balances with central banks	29,366	41,424
Treasury bills and bills of exchange eligible for refinancing	193,384	152,692
Effective change in cash and cash equivalents	**28,634**	**46,094**

Notes to the financial statement for the 2012 financial year

Basic Accounting Principles

The separate financial statements of Hypo Alpe-Adria-Bank AG have been prepared in accordance with the provisions of the Austrian Banking Act (BWG), as amended, and – where applicable – in accordance with the provisions of the Austrian Business Enterprise Code (UGB) and the Austrian Stock Corporation Act (AktG), both as amended.

The financial statements consist of the balance sheet, the income statement and the notes. In addition, a management report has been prepared which is consistent with the financial statements.

The balance sheet and income statement are presented in the form prescribed in annex 2 to section 43 BWG. The option accorded under section 53 (3) and 54 (2) of the BWG to combine certain items in the income statement has been exercised. Except where otherwise stated, all amounts are shown in thousands of euros (EUR thousand). The tables may contain rounding differences.

Accounting and measurement policies

The separate financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present a true and fair view of the bank's net assets, financial position and results of operations.

The principle of individual measurement was applied and a going concern assumption made for the measurement of assets and liabilities.

With regard to the continuance of the credit institution as a going concern, the Executive Board has made the same assumptions that underpin the group's restructuring plan drawn up for the purposes of the EU state aid proceedings, although the future development of the business continues to be uncertain given the current volatility in economic and financial markets.

In February 2013, the HAA group submitted an adapted restructuring plan to the European Commission within the framework of the currently ongoing state aid case. This restructuring plan allows for a reprivatisation of Hypo Alpe-Adria-Bank AG. For this reason, the sole owner, Hypo Alpe-Adria-Bank International AG, already commenced the process of reprivatising Hypo Alpe-Adria-Bank AG in 2012. The outcome of the state aid proceedings is not yet known; however a conclusion is expected for the first half of 2013. The outcome may have an impact on the anticipated earnings situation of the bank.

The principle of prudence was applied, paying particular attention to the special features of the banking business: only profits and gains realised at the balance sheet date were reported, and all recognisable risks and impending losses were taken into account.

Assets and liabilities in foreign currencies are translated using mean rates of exchange on the balance sheet date. Forward transactions are translated at the applicable forward rate.

Loans and advances to credit institutions and customers are generally included at their nominal value. Premiums and discounts are recognised under accrued assets and liabilities and amortised over the life of the security.

Credit risks have been accounted for by specific and portfolio-based risk provisions for loans and advances and for off-balance-sheet commitments. Risk provisions for individual transactions are created where there is an objective indication of credit risk, taking into account the amount of the expected loss. The size of the specific risk provision is calculated on the basis of the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the collateral provided. The calculation of portfolio-based risk provisions is derived essentially from the Basel II model, although internal parameters are also applied. General risk provisions as defined in section 57 (1) BWG are not created.

Securities earmarked for permanent use in the context of the bank's business operations are shown on the balance sheet as financial assets in accordance with section 56 (1) BWG and valued according to the modified lower of cost or market principle. The option accorded under section 56 (2) and (3) BWG (distribution of the difference between acquisition and repayment costs over the remaining term) was not exercised. Impairment write-downs of financial assets are made where the loss in value is expected to be permanent. The bank checks as appropriate – and at least once a year – whether a permanent impairment has arisen in the financial assets. Where a permanent deterioration of the creditworthiness of an issuer has been identified, an extraordinary impairment write-down is made.

All other securities (liquidity reserves) form part of current assets and, to the extent that they are stock exchange listed securities, they are shown at market value in accordance with section 56 (5) BWG. Unlisted securities are valued strictly at the lower of cost or market principle. Repurchased liabilities are allocated to current assets. Own issues such as these are measured at cost of acquisition, with any difference between a higher repurchase value and the repayment amount being immediately recognised in the income statement. If there is a difference as a result of the repurchase value being lower than the repayment amount, this is only recognised in the income statement upon redemption.

Securities forming part of the trading book are included at market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. Where no stock market price is available, the future cash flows of the financial instrument are discounted to the present value using the applicable interest rate. The calculation applies standard investment mathematics procedures.

Investments in associated companies and **shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down.

Intangible assets, together with **tangible assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2 and 10 percent, for movable assets they range from 4 to 33 percent, and for software they are 25 percent. Low-value items for which the cost of acquisition is less than EUR 400 are written off immediately in the year of acquisition. In the year under review, impairment write-downs totalling EUR 99 thousand were necessary as a result of the closure of the building located at 8. Mai-Straße.

Liabilities are shown either at original nominal values or at the amounts repayable. Any issue costs such as premiums and discounts are written off over the life of the underlying debt and shown in net interest income. Other issue costs are shown immediately as an expense.

Provisions for pensions were calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19 in the year under review. The so-called corridor method of distributing the actuarial gains and losses was not used. The calculation used an interest rate of 3.25 percent (2011: 4.75 percent) and an unchanged annual pension increase of 2 percent.

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were likewise calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19 (without applying the corridor method). The calculation used an interest rate of 3.25 percent (2011: 4.75 percent) and assumed an unchanged salary increase rate of 3 percent p.a., taking into account a deduction of 0 percent (2011: 0 percent) to reflect employee turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (ASVG, 2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment.

Other provisions are based on the amounts expected to be required, taking into account all liabilities for which exact amounts have not yet been determined.

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the hedging book or to the trading book, depending on their purpose. Derivatives with a negative market value which are not being used to hedge an underlying transaction and anticipated losses for not entirely effective hedges are treated as liabilities. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option pricing models based on generalised Black-Scholes models or Hull-White models, drawing on current market parameters, are used to measure options and financial instruments with similar characteristics.

There were no changes to accounting and measurement methods in the year under review.

Demerger of Hypo Alpe-Adria-Bank AG

Pursuant to a demerger and acquisition agreement dated 10.08.2012 and entered in the Commercial Register on 05.09.2012, HBA has transferred its non-core business (consisting of the "NPL Germany" branch of activity, which comprises the business operations existing on the demerger date of the transferring company's former "EU Branch Munich", including all of the financing transactions executed but not concluded by the EU Branch Munich as of the demerger date, including the employees assigned to it, and the assets designated as being assigned to this branch of activity, hereinafter referred to as the "non-core business") to HBInt through an acquisition-type demerger by way of universal succession and continuance of HBA, and HBInt has acquired these assets which consist of the non-core business and are the subject of the demerger.

The motivation for the demerger was to establish the marketability of HBA.

The intervention of the government in connection with the nationalisation of the HBInt group was always intended as a temporary measure: Section 2 (3) of the Austrian Financial Market Stability Act (FinStaG) states that the shares in a company that are acquired by the federal government must be privatised as soon as is practicable. The European Commission likewise requires that a restructuring must be completed as early as possible and no later than five years from the date of acquisition.

In the context of exercising this remit, comprehensive restructuring measures were introduced within HBInt and its subsidiary banks in 2010. Following their implementation, exploratory discussions were initiated in 2011. In the same year, an official announcement was made regarding the sale of HBA. These endeavours were continued despite the difficult market environment in order to be ready for a possible sale in good time and to be able to initiate any additional measures depending on the market reaction.

The discussions with interested parties in the course of the public announcement showed that in the current difficult market environment, a sale would only be possible if the bank's portfolio was purged and streamlined. This led to the inevitable conclusion that HBA would only be marketable if restructuring measures were implemented.

On 28.09.2011, the Supervisory Board of HBInt issued its consent to a motion by the Executive Board to restructure HBA on the basis of the financial statements as at 31.12.2011 in preparation for a sale.

The restructuring of HBA was carried out by means of a demerger of those segments that did not belong to HBA's core business (assets and liabilities) and their acquisition by HBInt pursuant to the provisions of the Austrian Demerger Act (SpaltG) utilising the exemptions from taxes and duties accorded under the Austrian Reorganisation Tax Act (UmgrStG) retroactively with effect from the reference date of 31.12.2011, midnight.

The objective of the demerger was to establish HBA as a bank that is largely unburdened by risk portfolios and thus marketable – a bank that possesses all of the necessary licenses for maintaining ongoing banking operations and in which selected assets and liabilities of the company that existed prior to the demerger are concentrated.

Due to the joint and several liability prescribed by the SpaltG, HYPO ALPE-ADRIA BANK AG is liable for all liabilities it incurred prior to entry of the demerger in the Commercial Register on 05.09.2012 and which were transferred to HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, up to the amount of the net assets assigned to HYPO ALPE-ADRIA-BANK AG in the context of the demerger.

Due to the demerger, the 2012 figures cannot be taken as a basis for comparison with those of the previous year.

Notes to the Balance sheet

1. Relations with affiliated and associated companies

The following balance sheet items include loans and advances and liabilities in respect of affiliated or associated companies

EUR thousand

	31.12.2012	31.12.2011
A3. Loans and advances to credit institutions	**42,244**	**191,181**
of which to affiliated companies	42,244	191,181
of which to associated companies	0	0
A4. Loans and advances to customers	**15,544**	**33,548**
of which to affiliated companies	2,078	1,515
of which to associated companies	13,466	32,033
A5. Bonds and other fixed-income securities	**973**	**1,870**
of which to affiliated companies	0	982
of which to associated companies	973	888
P1. Liabilities to credit institutions	**26,409**	**1,354,915**
of which to affiliated companies	26,409	1,354,915
of which to associated companies	0	0
P2. Liabilities to customers	**37,568**	**26,879**
of which to affiliated companies	21,833	13,722
of which to associated companies	15,735	13,157
P3. Debt securities in issue	**0**	**0**
of which to affiliated companies	0	0
of which to associated companies	0	0
P7. Subordinated liabilities	**0**	**15,000**
of which to affiliated companies	0	15,000
of which to associated companies	0	0

The most important companies are:

EUR thousand

Loans and advanced to affiliated companies	Hypo Alpe-Adria-Bank International AG	31,729 (2011: EUR 187,186 thousand)
Liabilities to affiliated companies	Hypo Alpe-Adria-Bank International AG	26,147 (2011: EUR 1,354,663 thousand)

2. Maturities of balance sheet items

Maturities in accordance with section 64 (1) (4) BWG were as follows:

EUR thousand

	31.12.2012	31.12.2011
A3: Loans and advances to credit institutions	**499,905**	**456,438**
– payable on demand	499,893	30,384
– up to three months	2	256,587
– three months to one year	7	74,392
– one year to five years	3	44,015
– over five years	0	51,060
A4: Loans and advances to customers	**2,867,415**	**4,685,267**
– payable on demand	85,375	187,413
– up to three months	116,508	222,397
– three months to one year	280,071	525,458
– one year to five years	861,563	1,307,861
– over five years	1,523,898	2,442,138
P1: Liabilities to credit institutions	**412,406**	**1,919,239**
– payable on demand	50,278	45,423
– up to three months	4	104,207
– three months to one year	17,600	378,338
– one year to five years	342,666	626,308
– over five years	1,858	764,963
P2: Liabilities to customers	**1,575,093**	**1,678,296**
– payable on demand	561,605	541,293
– up to three months	229,295	290,601
– three months to one year	396,016	560,024
– one year to five years	265,724	166,829
– over five years	122,453	119,549

3. Securities including accrued interest

EUR thousand

	31.12.2012	31.12.2011
2a. Treasury bills and other bills eligible for refinancing with central banks	**193,384**	**152,692**
of which listed	193,384	152,692
of which fixed assets	169,779	103,891
of which accrued interest in fixed assets	2,926	1,821
of which current assets	20,349	46,037
of which accrued interest in current assets	330	943
3. Loans and advances to credit institutions	**0**	**234**
of which not listed	0	234
4. Loans and advances to customers	**115,068**	**361,572**
of which not listed	115,068	361,572
of which fixed assets	114,177	359,716
of which accrued interest in fixed assets	891	1,855
of which current assets	0	0
of which accrued interest in current assets	0	0
5. Bonds and other fixed-income securities	**216,550**	**292,094**
of which listed	180,343	251,712
of which not listed	36,207	40,382
of which fixed assets	159,418	134,651
of which accrued interest in fixed assets	2,299	1,773
of which current assets	54,634	154,054
of which accrued interest in current assets	198	1,616
6. Shares and other variable-yield securities	**1,754**	**9,542**
of which listed	1,682	7,828
of which not listed	72	1,714
of which current assets	1,754	9,542
7. Investments in associated companies	**4,143**	**4,145**
of which not listed	4,143	4,145
8. Shares in affiliated companies	**393**	**537**
of which not listed	393	537

Breakdown of bonds and other fixed-income securities:

EUR thousand

	31.12.2012	31.12.2011
Issued by public authorities	**0**	**8,850**
Issued by others	**216,550**	**283,244**
of which:		
Own issues	38,389	45,689
Domestic bonds (credit institutions)	15,225	36,143
Foreign bonds (credit institutions)	147,856	151,181
Mortgage bonds and municipal bonds	15,080	32,680
Convertible bonds	0	0
Other bonds	0	17,551
TOTAL	**216,550**	**292,094**

The bonds issued by public authorities (excluding accrued interest) break down by country as follows:

EUR thousand

Country	Nominal value	Carrying 31.12.2012	Write-downs 2012	Write-ups 2012
Germany	5,000	5,026	0	13
Netherlands	0	0	115	0
Austria	111,000	111,174	296	0
Sweden	5,000	5,041	65	0
European Union	69,000	68,888	0	0

Other disclosures relating to securities:

The difference between the value of securities recognised at their higher market value (section 56 (5) BWG) classified as current assets and their acquisition cost comes to EUR 464 thousand (2011: EUR 3,801 thousand).

In 2013, fixed-income securities from the bank's own holdings shall fall due as follows: an amount of EUR 65,579 thousand (2012: EUR 78,844 thousand) from euro-denominated securities and EUR 0 thousand (2012: EUR 3,878 thousand) from securities denominated in foreign currencies.

Fixed-income securities from private issuers, which were eligible for refinancing by the Oesterreichische Nationalbank on the balance sheet date, amounted to EUR 175,723 thousand (2011: EUR 216,230 thousand), of which EUR 154,612 thousand (2011: EUR 166,743 thousand) were pledged as at the balance sheet date.

Subordinated securities within the meaning of section 45 (3) BWG with a value of EUR 0 thousand (2011: EUR 9,603 thousand) were held as at 31.12.2012.

The trading book (section 64 (1) (15), section 22 n BWG) showed the following volume split as at 31 December 2012:

EUR thousand

	31.12.2012	31.12.2011
Securities (at the market values shown in the balance sheet)	81	81
Currency options (nominal value)	0	0
Currency forward transactions (nominal value)	27,153	41,617
Interest swaps (nominal value) and interest rate contracts	238,359	231,452

The option afforded by section 22 (B) BWG was not exercised and there were no money market instruments allocated to the securities trading book as at 31 December 2012.

Financial instruments held as fixed assets and recognised at fair value (section 237a (1) (2) UGB) are broken down as follows:

EUR thousand

	Carrying amount 31.12.2012	Losses not yet recognised 31.12.2012	Carrying amount 31.12.2011	Losses not yet recognised 31.12.2011
Treasury bills	169,779	0	103,891	−1,505
Loans and advances to customers (fixed-income securities)	114,177	0	359,716	−1,275
Bonds and other fixed-income securities	159,418	−33	134,651	−2,813
Investments in associated companies	4,143	0	4,145	0
Shares in affiliated companies	393	0	537	0
	447,910	**−33**	**602,940**	**−5,593**

No write-ups of securities classified as fixed assets were undertaken in the financial year. The bank checks as appropriate – and at least once a year – whether a permanent impairment has arisen in the financial assets. A permanent deterioration in the creditworthiness of the issuers was not identified.

As defined in section 64 (1) (7) BWG, issued bonds with a value of EUR 272,474 thousand (2012: EUR 175,811 thousand) will become due in 2013 in Hypo Alpe-Adria-Bank AG.

4. Shares in associated companies as defined in section 238 (2) UGB:

Name of company	Reg. office	Capital share		Equity [1] in EUR thousand	Result [2] in EUR thousand	Closing date
Alpe Adria Beteiligungs- GmbH	Klagenfurt am Wörthersee	100 %	direct	435	31	31.12.2012
Biogaspark Alpe Adria GmbH in Liqu. [3]	Sankt Veit an der Glan	98 %	direct	−12,510	−1,894	31.12.2011

[1] Equity = as defined in section 229 UGB, plus untaxed reserves
[2] Result = profit/loss for the year before reserve movements and non-controlling interests
[3] The company has been in liquidation since 22.03.2012

5. Tangible and intangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (schedule 2 to the notes).

The value of land included in land and buildings as at 31.12.2012 comes to EUR 1,112 thousand.

6. Other assets

The breakdown of other assets is as follows:

EUR thousand

	31.12.2012	31.12.2011
Other assets	**42,030**	**85,754**
Interest income	10,545	7,689
– of which falling due after the closing date	10,545	7,689
Offset claims	1,779	9,256
Receivables arising from the foreign exchange measurement of banking book derivatives	3,324	2,827
Receivables from trading book derivatives	9,057	19,343
Trade receivables	17,325	46,639

7. Miscellaneous liabilities

The breakdown of other liabilities is as follows:

EUR thousand

	31.12.2012	31.12.2011
Miscellaneous liabilities	**24,290**	**41,907**
Interest expenses	195	133
– of which falling due after the closing date	195	133
Clearing account balances	4,674	5,208
Fees and levies	7,295	2,983
Liabilities arising from the foreign exchange measurement of banking book derivatives	0	5,249
Liabilities from trading book derivatives	8,433	18,971
Trade payables	1,482	1,744
Statutory guarantee liabilities	1,350	1,279
Miscellaneous liabilities	861	6,340

8. Provisions

The main items included under other provisions are as follows:

EUR thousand

	31.12.2012	31.12.2011
Guarantees	5,089	12,946
Holidays not taken	1,292	1,485
Long-service bonuses	1,193	956
Employee performance bonuses	0	1,620
Association of mortgage banks – section 1406 ABGB	494	510
Legal and consultancy fees	130	542
Costs for legal risks	2,278	4,000
General data processing centre	0	272
Restructuring provisions	3,430	5,905
Negative market values of derivatives in the banking book	2,520	2,962
Miscellaneous provisions	2,921	2,857
Total	**19,347**	**34,055**

The provisions for risks arising from the lending business include both provisions for specific cases amounting to EUR 1,468 thousand (2011: EUR 9,198 thousand) as well as provisions at portfolio level amounting to EUR 3,620 thousand (2011: EUR 3,748 thousand).

The 2012 financial year also saw a continuation of the restructuring programme, which took place within the context of a socially acceptable reduction of the workforce. In this connection, an amount of EUR 1,085 thousand of the restructuring provision was utilised for the purpose intended, and an amount of EUR 1,750 thousand was reversed. Furthermore, a provision of EUR 1,160 thousand exists for the property relating to the University branch, which has already been closed down and is currently being liquidated. In the year under review, an additional amount of EUR 360 thousand had to be transferred to this provision.

A provision totalling EUR 4,000 thousand was formed in the 2011 financial year for costs arising from legal risks. This sum is intended for use in the event of liability on the grounds of faulty or incorrect advice given to customers, to pay for the resulting legal costs and any compensation payments where these are necessary. In the 2012 financial year, an additional amount of EUR 2,447 thousand was transferred to this provision, and an amount of EUR 4,169 thousand was used as planned.

Through the creation of provisions for pending losses, a loss sustained in pending transactions which are not shown in the balance sheet, as defined in section 198 (8) UGB, is recorded in the period in which such loss becomes probable and recognisable as a result of the developments of prevailing market conditions. The amount of the provision is dependent on the size of the expected loss. Hypo Alpe-Adria-Bank AG uses the market values of derivatives in the regulatory banking book in its analysis.

The provision for pending losses from banking book derivatives was calculated in compliance with the position of the Austrian Financial Reporting and Auditing Committee (AFRAC) as outlined in its publication "Accounting for derivatives and hedging instruments under commercial law" of September 2010. This means that provisions for pending losses are only made for derivative transactions for which, in hedging terms, there was no underlying transaction.

According to the AFRAC position paper, a provision for pending losses should be formed for the ineffective parts of a derivative with a negative market value, from 1 January 2011 onwards. In the case of a micro hedge, if all the parameters of the underlying transaction and the hedging transaction, which determine the extent of the secured impairment, are identical but offset each other, this is an indicator of a fully effective hedging relationship. All micro hedges are subjected to a check at Hypo

Alpe-Adria-Bank AG and the effectiveness of the hedging relationship is documented. On the assets side, own securities and loans treated form the underlying transactions for hedging. On the liabilities side, underlying transactions from own issues and promissory notes form the hedging relationship. The hedging period is largely identical with the term of the underlying transaction. Hedge efficiency for fair value hedges is calculated on the basis of the cumulated theoretical change in price of the underlying transaction as well as the hedge transaction from the start of the hedge using a regression model (advanced dollar offset method) for the hedged risk factors on a monthly basis.

Hypo Alpe-Adria-Bank AG differentiates between the following types of hedge accounting:

- **Hedge accounting of derivatives at fair value:**
  For transactions designated as fair value hedges in accordance with the international financial reporting standards (IFRS), the same assumption of a micro hedge is made under UGB/BWG. The base parameters of all fair value hedges are identical, although opposites, and their effectiveness is measured on a monthly basis. At Hypo Alpe-Adria-Bank AG, only fair value hedges which serve to secure the market value of assets and obligations (underlying transactions) are used within the framework of hedge accounting. The risks to be hedged are interest rate risks and currency risks. In the period under review, a provision in the amount of EUR 1,024 thousand (2011: EUR 1,206 thousand) was necessary to cover the ineffective part of one hedge.

- **Hedge accounting of fair value option (FVO) derivatives:**
  Under IFRS it is assumed that FVO transactions will have a compensatory effect between the underlying transaction and the hedge transaction. The connection is documented accordingly. In the period under review, a provision totalling EUR 495 thousand (2011: EUR 748 thousand) was created to cover the negative ineffective part of two FVO hedges.

- **Hedge accounting of stand-alone derivatives:**
  The remaining swap portfolio consists of derivatives used to hedge savings accounts with guaranteed interest rates and "macro caps" which are passed on to retail customers in individual tranches. It is currently being investigated whether it would be possible to define and document these as a measurement unit in accordance with AFRAC. To date, a single provision has been created for all negative market values. For Hypo Alpe-Adria-Bank AG as at 31 December 2012, a provision in the amount of EUR 1,001 thousand (2011: EUR 1,008 thousand) was necessary.

9. 9. Information on risk provisions

The development of risk provisions was as follows:

EUR thousand

Loans and advances to customers	31.12.2012	31.12.2011
Balance at start of year	**288,038**	**382,342**
Additions	10,219	50,058
Releases	−9,567	−25,934
Derecognition due to demerger	−221,859	0
Appropriation	−22,260	−118,886
Foreign currency valuation	202	458
Balance at year-end	**44,774**	**288,038**

For credit default risks existing on the balance sheet date but not yet identified as such, the portfolio risk provision was adjusted from the 2011 level (EUR 10,983 thousand) to EUR 9,467 thousand in the 2012 financial year.

10. Supplementary and subordinated capital

The nominal value of subordinated capital as defined in section 23 (8) BWG comes to EUR 18,000 thousand (2011: EUR 112,000 thousand). The subordinated capital has a maturity of over 5 years.

EUR thousand

ISIN	Designation	Volume	Currency	Interest rate 31.12.12	Issue date	Maturity date
S51953	Loan against a Promissory Note	1,500	EUR	4.560 %	31.08.2006	31.08.2017
S51954	Loan against a Promissory Note	1,500	EUR	4.560 %	31.08.2006	31.08.2017
S51955	Loan against a Promissory Note	5,000	EUR	4.560 %	31.08.2006	31.08.2017
S53185	Loan against a Promissory Note	5,000	EUR	4.575 %	15.02.2007	29.09.2017
S53186	Loan against a Promissory Note	5,000	EUR	4.575 %	15.02.2007	29.09.2017

The loans constitute an unsecured subordinated liability on the part of the borrower, as defined in section 23 (8) in conjunction with section 45 (4) BWG, which are equal in status to each other and to all other subordinated liabilities of the borrower. In the event of the winding up, liquidation or insolvency of the borrower, entitlements resulting from the loan may only be honoured after the entitlements of the other, non-subordinated creditors of the borrower have been honoured, i.e. payments on the loan may not be made until the claims of other, non-subordinated creditors have been settled in full. Subordinated capital may not be repaid ahead of term; nor may it be pledged or assigned to a third party. In the event of liquidation or bankruptcy, claims are subordinate to all other creditors' claims and may not be offset against receivables of Hypo Alpe-Adria-Bank AG.

There were no new subordinated loans raised in 2012.

In relation to the supplementary capital bonds of HBA, the following must be noted:

The demerger and acquisition agreement states that the supplementary capital bonds of HBA identified by the ISINs AT0000355300 and AT0000A053D5 are to remain with the core business but will be terminated in connection with the demerger pursuant to section 15 (5) SpaltG.

The provisions of the SpaltG expressly specify the demerger as grounds for termination of the bond or profit participation relationship. The holders of the supplementary capital instruments will be compensated appropriately for their rights in accordance with section 15 (5) SpaltG.

The Austrian Banking Act (BWG) (section 23 (7) (3)) prescribes that supplementary capital bonds participate in the losses of a company and therefore repayments may only be made after proportional deduction of the net losses incurred during their lifetime.

Even if HBA were to report clearly positive results in the remaining years of the regular terms of the supplementary capital bonds, these profits could no longer make up for the high losses of the previous years. The total loss of the nominal value which would occur in any case – regardless of the demerger – is therefore the result of the legally prescribed loss participation.

In the interests of obtaining a transparent and clear solution for all participants, the bank has therefore decided to put its efforts into clarifying this irreversible situation as soon as possible and to compensate the affected customers for their rights in the form of an appropriate compensation payment. The compensation payment will be calculated on the basis of the net present value of the future interest payments which would still have had to be serviced until the actual maturity of the bonds.

The interest expenses for the supplementary and subordinated capital amount to EUR 1,567 thousand.

11. Equity

The issued share capital of Hypo Alpe-Adria-Bank AG as at the balance sheet date amounts to EUR 30,000 thousand (2011: EUR 30,000 thousand) and is divided into 30,000 (2011: 30,000) non-par bearer shares.

12. Reserves

The changes in untaxed reserves were as follows:

EUR thousand

Designation	Opening balance 01.01.2012	Disposals	Releases	Closing balance 31.12.2012
Valuation reserves resulting from special depreciation allowances				
Valuation reserves as def. in sec. 8 EStG on land and buildings,	234	0	–40	194
plant and equipment	0	0	0	0
Valuation reserves as def. in sec. 12 EStG on land and buildings	0	0	0	0
Total untaxed reserves	**234**	**0**	**–40**	**194**

The development of capital and revenue reserves, and of the liability reserves, was as follows:

EUR thousand

Designation	Opening balance 01.01.2012	Additions	Disposals	Allocations	Releases	Closing balance 31.12.2012
Capital reserves	82,332	0	0	0	0	82,332
Revenue reserves	0	282	0	0	0	282
Liability reserves	36,996	0	0	0	0	36,996

The allocation to the revenue reserves was made out of the previous year's net profit, based on a resolution adopted during the general meeting of shareholders held on 4 June 2012.

Off-balance-sheet items

13. Derivative financial instruments

The following transactions were unsettled as at the balance sheet date:

EUR thousand

Futures transactions	Nominal value purchase contracts		Nominal value sales contracts		Fair value positive		Fair value negative	
	2012	2011	2012	2011	2012	2011	2012	2011
a) Interest rate-related business								
OTC products								
Interest swaps/ Interest rate contracts	2,663,695	3,449,142	2,663,695	3,449,142	210,130	190,019	147,326	247,437
b) Currency-related business Geschäfte								
OTC products								
Currency swaps	8,802	29,410	7,153	31,832	2,314	3,598	0	9,261
Cross-currency swaps	120,169	0	118,494	0	2,665	0	1,004	0
Forward exchange contracts	13,583	20,811	13,570	20,806	279	474	266	469
Currency swaptions	0	0	0	0	0	0	0	0

The majority of transactions are used to hedge against fluctuations in interest rates, exchange rates or market prices, as well as customer-oriented derivative items. Micro hedges are used selectively to directly hedge individual transactions on both the assets and liabilities sides of the balance sheet. In the year under review, two hedging relationships were terminated early; the net positive result, including the underlying transactions, came to EUR 594 thousand.

14. Other off-balance-sheet information

EUR thousand

	31.12.2012	31.12.2011
Contingent liabilities	**141,817**	**253,719**
Guarantees and other collateral securities	141,232	252,962
Letters of credit	585	757

Loan exposures comprise unused credit lines totalling EUR 240,021 thousand (2011: EUR 250,854 thousand).

In addition to the contingent liabilities reported off the balance sheet, there is also an obligation with respect to the obligatory membership of "Hypo-Haftungs-Gesellschaft m.b.H" in relation to the safety of deposits under section 93 BWG.

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank AG is, in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other member institutions 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 for 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 of the member institutions (in each case the federal state of the member in question) 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 around EUR 7.6 billion as of the reporting date 31.12.2012 (2011: EUR 9 billion). This equates to almost the entire sum of the Pfandbriefstelle's liabilities as at 31.12.2012. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Hypo Alpe-Adria-Bank AG, in the amount of EUR 0.72 billion (2011: EUR 0.88 billion), the resulting amount which must be reported in accordance with section 237 (8a) UGB comes to EUR 6.9 billion (2011: EUR 8.1 billion).

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank AG amount to EUR 1,151 thousand in the 2012 financial year (2011: EUR 3,007 thousand), EUR 1,051 thousand in 2013 and EUR 5,175 thousand in total for the years 2013 to 2017.

Notes to the income statement

Interest and similar income

EUR thousand

	2012	2011
From loans and advances to credit institutions and customers	**85,731**	**143,786**
of which Austria	75,115	111,040
of which international	10,616	32,746
From fixed-income securities	**16,696**	**29,223**
of which Austria	11,225	21,728
of which international	5,471	7,495
From other assets	**60,763**	**89,293**
of which Austria	60,763	89,293
of which international	0	0

Interest and similar expenses

EUR thousand

	2012	2011
From liabilities to credit institutions and customers	**29,674**	**62,087**
of which Austria	21,085	47,226
of which international	8,589	14,861
From debt securities in issue	**45,915**	**56,090**
of which Austria	45,915	56,090
of which international	0	0
From other liabilities	**48,560**	**93,667**
of which Austria	48,560	93,667
of which international	0	0

Fee and commission income and expenses

EUR thousand

	2012	2011
From the lending business		
Fee and commission income	7,385	9,183
Fee and commission expenses	–474	–1,281
From the securities business		
Fee and commission income	2,693	4,008
Fee and commission expenses	–464	–666
From other transactions		
Fee and commission income	8,047	7,821
Fee and commission expenses	–791	–820

Other administrative expenses (operating expenditure)

EUR thousand

	2012	2011
Legal and consultancy costs	971	2,902
Liability commission for statutory guarantee (federal state of Carinthia)	60	1,600
Advertising and hospitality expenses	1,103	1,842
Rental, leasing and other building costs	4,038	7,530
IT costs	1,077	848
Data centre costs	2,610	2,685
Training expenses	498	571
Issue costs	79	13
Travel expenses	132	228
Fleet costs	235	204
Insurance	138	188
Telephone/postage costs	1,111	989
Costs in connection with company legal structure	22	22
Office/stationery costs	151	216
Other operating expenditure	3,921	7,122
TOTAL	**16,146**	**26,960**

The breakdown of income from associated companies for the purposes of section 238 (4) UGB was as follows:

EUR thousand

	2012	2011
ALPE ADRIA BETEILIGUNGS GMBH	0	750
HYPO ALPE-ADRIA-Insurance Services GmbH	347	1,292
TOTAL	**347**	**2,042**

Other operating income:

EUR thousand

	2012	2011
Rental and leasing agreements	1,180	3,277
Internal transfer pricing subsidiaries	3,280	4,087
Miscellaneous other operating income	2,930	1,333
TOTAL	**7,390**	**8,697**

Other operating expenses:

EUR thousand

	2012	2011
Other operating expenses	1,066	2,174
TOTAL	**1,066**	**2,174**

Extraordinary result

A positive amount of EUR 38,120 thousand is shown under extraordinary result. This amount is made up from a sum of EUR 40,000 thousand resulting from the termination of the supplementary capital bonds due to the demerger at a redemption price of zero, and from the compensation payment of EUR 1,990 thousand along with the termination of an interest hedging transaction on these supplementary capital bonds with a positive market value of EUR 1,355 thousand.

Furthermore, this item also includes a bank refinancing facility which was repaid early, thus leading to an early repayment penalty in the amount of EUR 5,404 thousand and a termination of the associated interest hedging transaction with a positive market value of EUR 4,644 thousand.

The demerger costs of EUR 484 thousand are also shown in this figure.

Taxes on income

Pursuant to section 237 (6) UGB, the taxes on income reduce the extraordinary result by EUR 2,478 thousand and the result from ordinary activities by EUR 869 thousand.

The balance of untaxed reserves (after movements) has had the effect of increasing profits for the purposes of tax assessment by EUR 41 thousand in the year under review (2011: EUR 41 thousand, also positive).

Supplementary information

15. Important long-term agreements

An agency contract was concluded on 14 June 2004 between Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG, which provides for fees to be charged in respect of certain shared back office activities.

Hypo Alpe-Adria-Bank AG (group member) has been a group member of a group as defined by section 9 of the Austrian Corporation Tax Act (KStG) since the 2005 assessment year, with Hypo Alpe-Adria-Bank International AG as the taxable company (lead company) of the group. The group taxation agreement drawn up for this purpose includes, in addition to the compulsory arrangement on tax reconciliation (invoicing and settlement of tax contributions) in accordance with section 9 (8) KStG, the respective rights and duties of the lead company and group members. This covers in particular the procedure for filing the group application, calculation of each of the group members' tax results, rights to receive/duty to provide information, ceasing to be a member of the group, duration and dissolution of the group. The method of intragroup tax allocation is based on the stand-alone principle and any advantage arising out of the group arrangement is passed on to the group members using a fixed allocation rate.

In the year under review, a negative tax charge of EUR 3,098 thousand (2011: positive tax charge of EUR 70 thousand) was assigned.

16. Other information

Eigenmittel

EUR thousand

	31.12.2012	31.12.2011
Core capital (TIER 1)	**149,545**	**149,207**
Paid-in capital	30,000	30,000
Reserves (incl. non-controlling interests and hybrid capital)	119,804	119,562
Fund for general banking risks	0	0
Intangible assets	210	296
Less: net loss and mat. negative results	0	0
Deferred taxes	48	58
Supplementary elements (TIER 2)	**14,400**	**114,594**
Supplementary capital	0	39,991
Subordinated capital	14,400	74,604
Deductions pursuant to section 23 (13) BWG	**638**	**638**
TIER 3 (reclassified TIER 2 capital)	**895**	**1,472**
Own capital funds as defined by BWG	**164,202**	**264,635**
Own capital funds requirement according to BWG	**112,499**	**173,781**
Surplus capital	**51,703**	**90,854**
Coverage	145.95 %	152.28 %

	31.12.2012	31.12.2011
Assessment basis for banking book (risk-weighted):	**1,248,987**	**1,987,876**
TIER 1 ratio	11.95 %	7.49 %
Own capital funds ratio	13.15 %	13.31 %
Assessment basis incl. market and operational risk *	**1,406,238**	**2,172,264**
TIER 1 ratio	10.61 %	6.85 %
Own capital funds ratio	11.68 %	12.18 %

	31.12.2012	31.12.2011
Risk-weighted basis for assessment in accordance with section 22 BWG (banking book)	**1,248,987**	**1,987,876**
thereof 8% minimum own capital funds requirement	99,919	159,030
Own capital funds requirement in accordance with section 22 BWG (securities trading book)	752	1,293
Own capital funds requirement in accordance with section 26 BWG (open foreign exchange position)	143	178
Own capital funds requirement for operational risk	11,685	13,279
Total own capital funds requirement	**112,499**	**173,781**

* Calculation basis: own capital funds as defined by BWG / 8 * 100

The item liabilities to customers includes trustee savings accounts with a value of EUR 2,128 thousand (2011: EUR 2,665 thousand).

The balance sheet contains the following foreign currency amounts (equivalent value in EUR thousand):

EUR thousand

	31.12.2012	31.12.2011
Assets	448,096	1,057,719
Liabilities	527,669	1,036,731

The greater part of the EUR 79,573 thousand difference is hedged with currency swap agreements.

Mortgage bond activities pursuant to the Austrian Mortgage Bond Act (PfandBG) were as follows:

EUR thousand

	Debt securities in issue		Covering loans		Surplus/shortfall in cover	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Mortgage bonds	16,655	18,097	187,994	92,696	171,339	74,599
Public sector mortgage bonds	802,342	781,162	1,126,855	1,415,367	324,513	634,206

In accordance with section 64 (1) (8) BWG, securities with a value of EUR 366,645 thousand classified as current assets and loans with a value of EUR 219,653 thousand were pledged as collateral for liabilities to credit institutions amounting to EUR 150,000 thousand as well as for liabilities to customers of EUR 1,788 thousand.

Securities classified as current assets with a value of EUR 26,229 thousand were deposited with various clearing houses as collateral for trading activities.

In accordance with section 45 (2) BWG, subordinated loans and advances with a value of EUR 5,400 thousand are included in the balance sheet item loans and advances to customers; and with a value of EUR 0 thousand in the item bonds and other fixed-income securities.

The amount for deferred tax assets not shown in the balance sheet is EUR 2,128 thousand (2011: deferred tax liabilities totalling EUR 87 thousand).

Guarantee of the federal state of Carinthia

The statutory guarantee of the federal state of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG is a default guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into prior to 3 April 2003, as well as all commitments created between 3 April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The federal state of Carinthia 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 federal state of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG provided 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 to terminate the guarantee commission agreement as at 31 December 2011, whereby the contractual obligation to pay guarantee commission ceased to apply. Irrespective of the termination of this contractual guarantee commission agreement, the statutory guarantee provided under section 5 of the Carinthian State Holding Law (K-LHG) continues in effect. The supervisory commissioner of the Carinthian State Holding company will continue to be given access to all relevant information at Hypo Alpe-Adria-Bank.

Payment of the guarantee commission for the year 2011 amounting to EUR 18.4 m plus interest – Alpe-Adria-Bank AG's share is EUR 1.4 m plus interest – has not yet been made due to differing legal positions. It is to be assumed that the legal dispute between the federal state of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG regarding the question of the guarantee commission will continue.

On the basis of the timely termination of the guarantee commission agreement on 31 December 2011 by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG, no further guarantee commission has been paid to the federal state of Carinthia for the period from 1 January 2012. The federal state of Carinthia has not yet issued a legally relevant response to the termination of the guarantee commission agreement.

As at 31 December 2012, the federal state of Carinthia must extend guarantees for fixed-term and non-fixed-term commitments from Hypo Alpe-Adria-Bank AG with a total value of EUR 1.0 billion (2011: EUR 1.32 billion).

Information on the parent company and inclusion in consolidated financial statements (section 237 (12) UGB):

The company is, by means of full consolidation, included in the consolidated financial statements for HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt am Wörthersee, which are drawn up in accordance with the international financial reporting standards (IFRS) as adopted by the EU.

Hypo Alpe-Adria-Bank AG is wholly owned by Hypo Alpe-Adria-Bank International AG, Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, which itself is 100% owned by the Republic of Austria.

The consolidated financial statements for Hypo Alpe-Adria-Bank International AG are published in the Wiener Zeitung (official gazette) and at the following website: www.hypo-alpe-adria.com (⇒ Investor Relations ⇒ Financial Reports). Disclosure is made in the commercial register and at the address of Hypo Alpe-Adria-Bank International AG, at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee.

By virtue of the provisions under section 26a (3) BWG, the disclosure obligations pursuant to section 26 BWG are fulfilled on the basis of the consolidated financial position of the superordinated credit institution Hypo Alpe-Adria-Bank International AG.

17. Cash flow statement

The cash flow statement is presented in schedule 3 to the notes.
The demerger has been taken into account as a change in the respective balance sheet item.

18. Employees

The average number of employees for the purposes of section 239 UGB breaks down as follows:

	31.12.2012	31.12.2011
Salaried employees	386.36	414.38
Hourly-paid	0	1.00

Advances, loans and guarantees in respect of members of the management bodies

As of year-end, the members of the Executive Board had received advances, loans or guarantees totalling EUR 39 thousand from Hypo Alpe-Adria-Bank AG.

As of year-end, the members of the Supervisory Board had received, either for themselves or on behalf of the companies for which they are personally liable, loans or guarantees totalling EUR 177 thousand from Hypo Alpe-Adria-Bank AG.

Expenses for severance payments and pensions

The bank used the following amounts for payments and provisions for severance pay and pension payments in 2012:

EUR thousand

	Severance payments 31.12.2012	Pensions 31.12.2012	Severance payments 31.12.2011	Pensions 31.12.2011
Executive Board members	120	0	57	0
Senior employees	120	0	84	0
Other employees	1,951	2,546	1,079	1,682
Total	**2,191**	**2,546**	**1,220**	**1,682**

EUR 137 thousand of the total expenses for severance payments and pensions (EUR 2,191 thousand) are contributions to employee severance funds.

Breakdown of compensation for members of the Executive and Supervisory Boards

EUR thousands

	2012	2011
Executive Board		
- of which fixed	845	810
- of which variable	0	0
Supervisory Board	3	3
Remuneration of former members of the Executive and Supervisory Boards and their surviving dependents	0	0
of which related to termination	0	0
Gesamt	**848**	**813**

Members of the Executive and Supervisory Boards who served during the year under review are detailed in **schedule 1** to these notes.

Klagenfurt am Wörthersee, 1 March 2013

EXECUTIVE BOARD:

VDir. Gerhard Salzer VDir. Mag. Friedrich Racher VDir. Mag. Peter Lazar

Schedule 1 to the notes

Management Bodies

Chairman of the Supervisory Board:
Gottwald Kranebitter, Klagenfurt am Wörthersee

Deputy Chairman of the Supervisory Board:
Mag. Wolfgang Edelmüller, Klagenfurt am Wörthersee

Members of the Supervisory Board:
Dipl. Kfm. Rainer Sichert, Klagenfurt am Wörthersee
MMag. Dr. Werner Hochfellner, Klagenfurt am Wörthersee

Delegated by the Works Council:
Klaus Jernej, Chairman, Klagenfurt am Wörthersee
Peter Quinesser, Klagenfurt am Wörthersee

State Commissioner:
Mag. Angelika Schlögel, Vienna

Deputy State Commissioner:
Monika Hutter, Wien

Trustee:
Dr. Josef Wogrin, Klagenfurt am Wörthersee

Deputy Trustee:
Mag. Maria Hacker-Ostermann, Graz

Executive Board:
Gerhard Salzer, Maria Saal/Klagenfurt
Mag. Friedrich Racher, Klagenfurt am Wörthersee
Mag. Peter Lazar, Klagenfurt am Wörthersee

Schedule 2 to the notes

Fixed assets movement schedule

Asset	Acquisition cost 01.01.2012	Additions 2012	Disposals 2012
Item 2 **Treasury bills** Fixed-income securities held as fixed assets	104,636,928.66	65,888,280.00	0.00
Item 3 **Loans and advances to credit institutions** Fixed-income securities held as fixed assets	0.00	0.00	0.00
Item 4 **Loans and advances to customers** Fixed-income securities held as fixed assets	359,716,324.08	0.00	4,579,059.06
Item 5 **Bonds and other fixed-income securities** Fixed-income securities held as fixed assets	135,062,084.64	106,277,498.00	47,765,749.00
Item 7 **Investments in associated companies**	7,720,092.15	0.00	1,816.82
Item 8 **Shares in affiliated companies**	12,693,017.80	0.00	144,213.59
Item 9 **Intangible fixed assets**	2,120,296.91	53,926.80	71,728.47
Item 10 **Tangible fixed assets**	30,555,055.93	853,934.93	1,514,974.06
TOTAL	**652,503,800.17**	**173,073,639.73**	**54,077,541.00**

Transfers/Demerger 2012	Acquisition cost 31.12.2012	Cumulative depreciation	Carrying amount 31.12.12	Carrying amount 31.12.11	Depreciation 2012
0.00	170,525,208.66	746,346.56	169,778,862.10	103,890,662.10	80.00
0.00	0.00	0.00	0.00	0.00	0.00
-240,960,473.29	114,176,791.73	0.00	114,176,791.73	359,716,324.08	0.00
-32,934,337.72	160,639,495.92	1,221,488.02	159,418,007.90	134,651,425.62	810,829.00
0.00	7,718,275.33	3,574,816.66	4,143,458.67	4,145,275.49	0.00
0.00	12,548,804.21	12,155,531.26	393,272.95	537,486.54	0.00
0.00	2,102,495.24	1,892,500.44	209,994.80	296,199.20	109,878.00
-5,293,367.41	24,600,649.39	18,868,404.27	5,732,245.12	10,965,673.97	1,146,892.41
-279,188,178.42	**492,311,720.48**	**38,459,087.21**	**453,852,633.27**	**614,203,047.00**	**2,067,679.41**

Statement of all legal representatives

“We confirm to the best of our knowledge that the separate financial statements for Hypo Alpe-Adria-Bank AG, which have been prepared according to the applicable accounting standards, present a true and fair view of the net assets, financial position and results of operations of the company, that the management report provides a true and fair view of the development and performance of the business together with a description of the principal risks and uncertainties the company faces.”

Klagenfurt am Wörthersee, 01.03.2013

Executive Board:

VDir. Gerhard Salzer (signed personally)	VDir. Mag. Friedrich Racher (signed personally)	VDir. Mag. Peter Lazar (signed personally)

Auditors' report and opinion

Report on the financial statements

We have audited the enclosed financial statements of HYPO ALPE-ADRIA-BANK AG, Klagenfurt, together with the underlying accounting records, for the financial year starting on 1 January 2012 and ending on 31 December 2012. These financial statements comprise the balance sheet as at 31 December 2012, the income statement for the financial year ending on 31 December 2012, and the notes to the financial statements.

Responsibility of the legal representatives for the financial statements and accounting records

The accounting records, as well as the preparation and contents of these financial statements pursuant to the Austrian legislation on commercial undertakings, are the responsibility of the company's legal representatives, who are also responsible for preparing financial statements that present a true and fair view of the net assets, financial position and results of operations of the company. This responsibility includes: designing, implementing and maintaining an internal control system to ensure the preparation of financial statements that present a true and fair view of the net assets, financial position and results of operations of the company and are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting and valuation 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 financial statements based on our audit. We have performed our audit in accordance with the statutory regulations and professional corporate auditing principles generally accepted in Austria. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control system relevant to the preparation of the financial statements and the presentation of a true and fair view of the company's net assets, financial position and results of operations, in order to define audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control system. An audit also includes evaluating the appropriateness of the accounting and valuation policies used and of the accounting estimates made by the company's legal representatives, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements present fairly, in all material respects, a true and fair view of the company's net assets and financial position as at 31 December 2012, and of its results of operations for the financial year from 1 January 2012 to 31 December 2012 in accordance with the accounting standards generally accepted in Austria.

Without qualifying our opinion we draw attention to the details provided by the Executive Board in the notes to the financial statements in the section "Accounting and measurement policies". When drawing up the financial statements, the company's Executive Board has assumed that the European Commission, in the context of the ongoing state-aid proceedings, will make a positive decision about the restructuring plan presented to the Commission for the Hypo Alpe Adria Group. As explained by the Executive Board in the notes to the financial statements, the date and terms of the European Commission's decision cannot be predicted at this time. For this reason, there is significant uncertainty as to the ramifications of that decision for the bank's operations.

Report on the management report

On the basis of the applicable laws and regulations, audit procedures are to be performed in order to determine whether the management report is consistent with the financial statements and whether the other disclosures made in the management report give rise to any misconceptions about the position of the company. The auditors' report and opinion also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to section 245a (2) of the Austrian Business Enterprise Code (UGB) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to section 245a (2) UGB are appropriate.

Vienna, 1 March 2013

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner	Mag. Gerhard Wenth
Certified Public Accountant	Certified Public Accountant

Publishing information

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BANK

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