

HYPO ALPE-ADRIA (JERSEY) LIMITED
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30TH JUNE 2012

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the unaudited interim financial statements for the period 1st January 2012 to 30th June 2012.

INCORPORATION

The Company was incorporated in Jersey, Channel Islands on 26th June 2001, as a public company, under the Companies (Jersey) Law 1991.

ACTIVITIES

The principal activity of the Company is the issue of Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"), the proceeds from which were used to grant Hypo Alpe-Adria-Bank International AG ("HAA", or the "Bank") a loan facility of €75,000,000 (the "Subordinated Loan", or "Loan"). The Company's rights under the Loan Agreement were guaranteed by HAA under the terms of a Support Agreement (the Loan Agreement and the Support Agreement together comprising the "Issuer Assets"). The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself.

As set out in the Offering Circular dated 10th July 2001, the Preferred Securities are only intended for highly sophisticated and knowledgeable investors who are capable of understanding and evaluating the risks involved in investing in them. The Preferred Securities are listed on the Frankfurt Stock Exchange.

DERECOGNITION

As disclosed in note 3 to the financial statements, the Company is required to derecognise the Preferred Securities in its financial statements under the terms of IAS 39, as it has transferred the rights to the cash flows generated from the Loan to the holders of the Preferred Securities under a 'pass-through arrangement'.

PURCHASE AND CANCELLATION OF PREFERRED SECURITIES (in respect of items derecognised in the financial statements)

On 29th February 2012, HAA issued an Invitation Memorandum under the terms of which it invited holders of Preferred Securities to offer to sell their holdings for cash to HAA at a proposed price of €33.50 per €100 liquidation preference. The original deadline for receipt of such offers was 22nd March 2012. As at that date, an aggregate liquidation preference of €35,445,900 of the Preferred Securities had been tendered. Subsequently, HAA received further tenders after the original deadline for Preferred Securities with an aggregate liquidation preference of €3,013,200, bringing the aggregate liquidation preference of Preferred Securities tendered to €38,459,100. HAA accepted for purchase all such Preferred Securities tendered. The Settlement Date was 27th April 2012.

HAA has provisionally indicated that it might be willing to consider purchasing further Preferred Securities that may be tendered for sale in future, subject to all relevant regulatory approvals being granted for such purchases. However, HAA would not be compelled to offer to purchase such Preferred Securities. In addition, any such offers for sale would be considered on a case by case basis and HAA would not be bound by the terms of any previous purchases.

On 27th April 2012, the Loan Agreement was terminated for nil consideration by mutual consent between the Company and HAA, with the Company's liabilities under the remaining Preferred Securities subsequently being covered only by the Support Agreement, as amended by the Supplemental Support Agreement dated 26th April 2012, which was amended with the consent of each of the Company, HAA and the holders of the Preferred Securities. On 27th April 2012, Preferred Securities with an aggregate liquidation preference of €38,459,100 were purchased from HAA by the Company and then immediately cancelled, such purchase being funded by a concurrent pro-rata reduction in the notional amount covered by the Support Agreement. Immediately after these transactions had taken place, the aggregate liquidation preference of Preferred Securities remaining was €36,540,900.

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS - (CONTINUED)

PURCHASE AND CANCELLATION OF PREFERRED SECURITIES (in respect of items derecognised in the financial statements) - (continued)

In the event that any further Preferred Securities might be purchased by HAA in future, such Preferred Securities would be purchased from HAA by the Company and then immediately cancelled. Concurrently, the notional amount covered by the Support Agreement would be reduced by an equal and opposite amount.

BACKGROUND TO HAA (in respect of items derecognised in the financial statements)

As a result of the worsening economic crisis in 2009, the Republic of Austria acquired 100% of the equity shares in HAA on 30th December 2009. With the acquisition of all shares in HAA, as demanded by the Commission of European Union (the "Commission"), the Republic of Austria presented a restructuring plan in April 2010, which was based on a time horizon up to 2014.

The Commission provisionally approved the measures taken by the Republic of Austria in December 2009 for a period of up to six months. The provisional approval for the state aid given was extended indefinitely on 22nd June 2010. The current restructuring plan was presented at a presentation to the European Commission in Brussels on 24th January 2011. The discussions and subsequent list of questions from the Commission suggest that the Commission is in basic agreement with the Bank's new strategy. The results of these direct discussions and the answers to the questions subsequently submitted to obtain more in-depth information on aspects of the plan were incorporated into the revised version of the EU restructuring plan, which was submitted in April 2011.

In response to the sovereign debt crisis in the eurozone and its effects on the European financial sector, the worsening of economic conditions in Europe and in particular in the regions of South-Eastern Europe and the conclusion reached by the supervisory authorities in the Joint Risk Assessment Decision process that there is a requirement for additional capital for the Bank's own capital funds as defined by the Austrian Banking Act, HAA has sharpened its strategy. This has included adjusting planning to take account of the worsened economic forecasts and, amongst other measures, resolving to switch its subsidiaries to self-financing through local deposits from 2012 onwards.

The tightening of strategy was also reflected in the continuing dialogue with the EU Commission. In addition to submitting data to show the medium and long-term viability of HAA and its subsidiaries in South-Eastern Europe, the Bank also produced a modified restructuring plan based on the forecast for the 2011 financial year. The document focuses the Bank's strategy on reprivatise all saleable units and was submitted to the authorities in Brussels at the beginning of 2012.

The negotiations with the European Commission on the investigations into state aid are now in the end phase: the authorities in Brussels are, in principle, satisfied with the strategy being pursued by the Bank following its restructuring. The - in part - massive turbulence in the financial markets in general and in the region of South Eastern Europe in particular, the scale of which was unexpected, is leading all concerned to focus on the possible modification of the timescales and deadlines involved, as well as the income to be raised from the reprivatisation of the three tendered banking operations (Austria, Italy and the SEE network). Potential scenarios and their ramifications were presented to the European Commission in a paper towards the end of the first half of the year and are being discussed on an ongoing basis in close cooperation with representatives of the owner. All parties have stated their intention to bring the proceedings to a conclusion and to implement the actions agreed in 2012.

In accordance with the notices issued to the holders of the Preferred Securities in March 2010, March 2011 and March 2012, HAA had an accumulated loss as at the financial year ends 2009, 2010 and 2011 respectively. Consequently, due to insufficient distributable funds, the dividend payments on the Preferred Securities scheduled for: 13th July 2010, 2011 and 2012 respectively; 13th October 2010, 2011 and 2012 respectively; 13th January 2011, 2012 and 2013 respectively; and 13th April 2011, 2012 and 2013 respectively, were not made, or will not be made.

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS - (CONTINUED)

GOING CONCERN

It is currently the expectation of the Directors that it is likely that a small number of holders of Preferred Securities may continue to decline to offer their Preferred Securities for sale to HAA and may therefore continue to hold such Preferred Securities for the foreseeable future. In such event, the Directors currently expect HAA to continue to maintain the Company as one of its subsidiaries and therefore to continue to cover the Company's operational expenses. Given the limited recourse non-petition provisions of the Preferred Securities, the Directors currently have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

CORPORATE GOVERNANCE

The Company is not legally subject to any corporate governance code. However, the Directors have internal controls and reviews in place. Due to the nature of the principal activity for which the Company has been established and the limited risk within the Company these internal controls are limited, but are deemed to be appropriate for the Company. Due to the nature of the principal activity, there are no management or supervisory bodies other than the Board of Directors, as listed below.

RESULTS AND DIVIDENDS

The result for the period amounted to £nil (year ended 31st December 2011: £nil).

The Directors are unable to recommend the payment of a dividend for the period (year ended 31st December 2011: £nil).

DIRECTORS

The Directors who held office throughout the period and up to the date of approval of the financial statements were:

H.C. Grant	
M.P. Santer	
D.M. Godwin	(resigned 19th July 2012)
F.X.A. Chesnay	(resigned 30th April 2012)
S.M. Vardon	(appointed 26th April 2012)
G.P. Essex-Cater	(appointed 3rd August 2012)
L. Pinnington	(appointed 3rd August 2012)

REGISTERED OFFICE

22 Grenville Street
St. Helier
Jersey, Channel Islands
JE4 8PX

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS - (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial period the Company's financial position, financial performance and cash flows. This requires the fair representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

- * properly select and apply accounting policies;
- * present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- * make judgements and estimates that are reasonable and prudent;
- * provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- * make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 1 confirm to the best of their knowledge that the unaudited interim financial statements for the period ended 30th June 2012 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial period and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in note 8 of these financial statements.

Signed on behalf of the Board of Directors by

Director: 

Date: 30. 8. 2012

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2012

	<u>Notes</u>	<u>30th Jun 12</u>	<u>31st Dec 11</u>
ASSETS			
Current assets			
Receivables	5	10	10
TOTAL ASSETS		€ 10	€ 10
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	10	10
TOTAL SHAREHOLDERS' EQUITY		10	10
TOTAL EQUITY AND LIABILITIES		€ 10	€ 10

The financial statements on pages 5 to 13 were approved and authorised for issue by the Board of Directors on the 30th day of August 2012 and were signed on its behalf by:

Director: 

(The notes on pages 7 to 13 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

	Share capital	Total
Balance at 1st January 2012	10	10
Result for the period	-	-
	<hr/>	<hr/>
Balance at 30th June 2012	€ 10	€ 10
	<hr/> <hr/>	<hr/> <hr/>
Balance at 1st January 2011	10	10
Result for the year	-	-
	<hr/>	<hr/>
Balance at 31st December 2011	€ 10	€ 10
	<hr/> <hr/>	<hr/> <hr/>

(The notes on pages 7 to 13 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

1. GENERAL INFORMATION

Hypo Alpe-Adria (Jersey) Limited was incorporated in Jersey, Channel Islands on 26th June 2001, as a public company, under the Companies (Jersey) Law 1991. The principal activity of the Company is the issue of Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"). The proceeds from the Preferred Securities were used to grant Hypo Alpe-Adria-Bank International AG ("HAA") a loan facility of €75,000,000 (the "Subordinated Loan", or "Loan"). The Preferred Securities are listed on the Frankfurt Stock Exchange.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and have been prepared under the historical cost convention.

Going concern

After payment of the liquidation preference, as adjusted if applicable, the holders of Preferred Securities will have no right or claim to any of the remaining assets of the Company or HAA. Therefore, such holders' recourse to the assets of the Company is limited to the Loan Agreement and Support Agreement (together comprising the "Issuer Assets") and such holders would have no right to petition for insolvency proceedings against the Company in the event that the aggregate proceeds from the realisation of the Issuer Assets might be insufficient to repay the full amount of the liquidation preference.

It is currently the expectation of the Directors that it is likely that a small number of holders of Preferred Securities might continue to decline to offer their Preferred Securities for sale to HAA and may therefore continue to hold such Preferred Securities for the foreseeable future. In such event, the Directors currently expect HAA to continue to maintain the Company as one of its subsidiaries and therefore to continue to cover the Company's operational expenses. Therefore, the Directors currently have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current period

The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, there are no mandatory New Accounting Requirements applicable in the current period that had any material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no mandatory New Accounting Requirements are listed. The Company has not adopted any New Accounting Requirements that are not mandatory.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

2. ACCOUNTING POLICIES - (CONTINUED)

Non-mandatory New Accounting Requirements not yet adopted

The following applicable new Accounting Standards have been issued. However, these New Accounting Requirements are not yet mandatory and have not yet been adopted by the Company. All other non-mandatory New Accounting Requirements are either not yet permitted to be adopted, or would have no material effect on the reported performance, financial position, or disclosures of the Company and consequently have neither been adopted, nor listed.

IFRS 9 (Replacement of IAS 39), "Financial Instruments: Recognition and Measurement"

IFRS 9 was first issued in November 2009, at which time it consisted of provisions relating to the recognition and measurement of financial assets only. In October 2010, IFRS 9 was amended to also include provisions relating to the recognition and measurement of financial liabilities and derecognition of financial instruments. Regardless of whether or not IFRS 9 is early adopted, the provisions of IAS 39 relating to impairments and hedging currently remain effective, as these matters have not yet been addressed within IFRS 9.

IFRS 9 is mandatory for accounting periods commencing from 1st January 2015, but early adoption is permitted at any time prior to this date. However, the Directors currently have no intention of early adopting this standard.

The main changes resulting from the replacement of IAS 39 by IFRS 9 are changes to the permitted classifications and subsequent measurement of financial instruments. Adoption of the standard is not expected to have an impact on the measurement basis of the Company's significant financial instruments since all of the Company's financial instruments have been derecognised.

IFRS 13, "Fair Value Measurement"

IFRS 13 was issued in May 2011 and is mandatory for accounting periods commencing from 1st January 2013, but early adoption is permitted at any time prior to this date. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 also requires certain additional disclosures for financial instruments categorised within Level 3 of the fair value hierarchy. Adoption of the standard is not expected to have an impact on the measurement basis of the Company's significant financial instruments since the Company's principal financial instruments have been derecognised.

Segmental reporting

For management purposes, the Company is organised into one main operating segment. Accordingly, all significant operating decisions are based upon analysis of the Company as a single segment. Consequently, in the Directors' opinion there are no reportable operating segments as defined by IFRS 8, "Operating Segments."

Share capital

Ordinary shares are not redeemable and are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

2. ACCOUNTING POLICIES - (CONTINUED)

Embedded derivative - Support Agreement

Due to the fact that the Support Agreement effectively simply re-affirms the Company's rights under the Loan Agreement, the Support Agreement is considered by the Directors to be an embedded derivative that is closely related to its host contract i.e. the Loan Agreement. Consequently, in the Directors' opinion the fair value of the Support Agreement is included within the fair value of the Subordinated Loan.

Derecognition of financial assets and liabilities

All financial instruments are assessed for recognition/derecognition immediately upon acquisition, or issue, of such financial instruments. As an integral part of the derecognition assessment, the accounting classification of financial instruments issued must be assessed in the absence of derecognition, as only financial liabilities (not equity) should be derecognised. In the absence of derecognition, the Preferred Securities would be considered to be a financial liability of the Company.

Derecognition is the point at which the Company removes a financial asset or financial liability from the statement of financial position. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to the cash flows on that financial asset are cancelled, expire or are transferred to another party, or if the Company retains the contractual rights but enters into a contract under which the relevant cash flows must be duly paid under a 'pass-through arrangement'. A financial liability is derecognised when the obligation is discharged, cancelled or expires.

See note 3 for further information on the derecognition of financial assets and financial liabilities.

Statement of comprehensive income

A statement of comprehensive income has not been presented in these financial statements as there are no items of income or expense. All of the Company's operational expenses are met by HAA.

Statement of cash flows

A statement of cash flows has not been presented in these financial statements as there are no items of cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENT - DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

Under the terms of IAS 39, the Company is required to derecognise the Issuer Assets as it has transferred the rights to the cash flows generated from the Issuer Assets under a 'pass-through arrangement'. The Company has retained the contractual right to receive the cash flows from the Issuer Assets, but has assumed a contractual obligation to pay the cash flows, but only if any such cash flows are actually received, to the holders of Preferred Securities without material delay. In addition, without prior approval from the holders of the Preferred Securities, the Company is prohibited under the terms of the transfer from selling or pledging the Issuer Assets other than as security to the holders of the Preferred Securities. Consequently, the Issuer Assets are derecognised in the Company's statement of financial position, any Loan interest received was derecognised in the Company's statement of cash flows and the income receivable from the Loan was derecognised in the Company's statement of comprehensive income.

Further information on the Issuer Assets are set out in note 4.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENT - DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES - (CONTINUED)

Financial liabilities

The financial liabilities relating to the Series A Preferred Securities issued by the Company are deemed to have been extinguished concurrently with the derecognition of the Issuer Assets. This accounting treatment reflects the fact that the holders of the Preferred Securities are entitled to receive the cash flows generated from the Issuer Assets and so, through the 'pass-through arrangement', the Company has discharged its obligations to the holders of the Preferred Securities. Consequently, in accordance with IAS 39, the Company is required to derecognise the Preferred Securities. Therefore, the Preferred Securities are derecognised in the Company's statement of financial position, any dividends paid on the Preferred Securities are derecognised in the Company's statement of cash flows and the dividends payable on the Preferred Securities are derecognised in the Company's statement of comprehensive income.

Further information on the Preferred Securities is set out in note 6.

4. ISSUER ASSETS

In accordance with note 3, the Issuer Assets have been derecognised from the statement of financial position of the Company. The following information is presented in the financial statements in order to provide information to the reader. This information is based on the scheduled Outstanding Principal Amount receivable at maturity. No consideration has been given to the possibility of future losses arising on the Issuer Assets as any such losses would have no effect on the aggregate financial position of the Company, nor on its aggregate financial performance.

	<u>30th Jun 12</u>	<u>31st Dec 11</u>
Issuer Assets (nominal amount)	€ 36,540,900	€ 75,000,000
Issuer Assets (fair value - estimated to be equal and opposite to the fair value of the Preferred Securities)	€ 11,017,081	€ 12,007,500

The net proceeds from the issue of the Preferred securities of €75,000,000 were invested in a subordinated deposit with Hypo Alpe-Adria-Bank S.p.A. ("HAA Italy"). The deposit was subsequently lent by HAA Italy to Hypo Alpe-Adria-Bank International AG (formerly Hypo Alpe-Adria-Bank AG) ("HAA"), on substantially equivalent terms as the deposit, to strengthen the capital base of HAA and its subsidiaries. On 10th January 2005, the Company entered into a transfer agreement which replaced the deposit agreement and the loan agreement with a direct loan agreement between the Company and HAA (the "Loan", or "Subordinated Loan").

The Loan bore interest quarterly in arrears at the rate of 7.375% per annum, subject to HAA having sufficient distributable profits. The Loan was made for an indefinite term, but the Company may terminate the Loan on any date on or after 13th July 2006 on written notice of 5 years. If a change of taxation occurs which leads to additional payments for HAA, HAA may terminate the Loan and repay the Loan on any date on or after 13th July 2006.

On 27th April 2012, the Loan was terminated for nil consideration, with the Company's liabilities under the remaining Preferred Securities subsequently being covered by the Support Agreement, as amended by the Supplemental Support Agreement dated 26th April 2012, which was amended with the consent of each of the Company, HAA and the holders of the Preferred Securities.

The Loan represented subordinated debt of HAA and in the event of HAA being dissolved or liquidated or insolvent the Company's claims arising under the Loan Agreement may only be satisfied after the claims of non-subordinated creditors. The Company's rights under the Loan Agreement were guaranteed by HAA under the terms of a Support Agreement (the Loan Agreement and the Support Agreement together comprising the "Issuer Assets").

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

4. ISSUER ASSETS - (CONTINUED)

No Loan interest was received during the current period and prior year due to insufficient distributable profits arising at HAA. Consequently, no dividends were paid on the Preferred Securities.

5. RECEIVABLES

	<u>30th Jun 12</u>	<u>31st Dec 11</u>
Other receivables	€ 10	€ 10

6. PREFERRED SECURITIES

In accordance with note 3, the Preferred Securities have been derecognised from the statement of financial position of the Company. The following information is presented in the financial statements in order to provide information to the reader. This information is based on the scheduled principal amount payable at maturity. No consideration has been given to the possibility of future losses arising on the Loan (and thereby on the Preferred Securities) as any such losses would have no effect on the aggregate financial position of the Company, nor on its aggregate financial performance.

	<u>30th Jun 12</u>	<u>31st Dec 11</u>
750,000 7.375% Series A Non-cumulative Non-voting Preferred Securities of €100 each		
Preferred Securities (principal amount)	€ 36,540,900	€ 75,000,000
Preferred Securities (fair value - as reported on the Frankfurt Stock Exchange on 29th June 2012)	€ 11,017,081	€ 12,007,500

The Series A Non-voting Non-cumulative Preferred Securities (the "Preferred Securities"), in the amount of €75,000,000, were issued by the Company on 13th July 2001 under the terms of the Offering Circular dated 10th July 2001.

The holders of the Series A Preferred Securities are entitled to receive non-cumulative dividend payments at a rate of 7.375% per annum payable quarterly in arrears on 13th January, 13th April, 13th July and 13th October of each year commencing 13th July 2001. The Company is not obliged to make any payment to the holders of the Preferred Securities to the extent that HAA would not be obliged to make a corresponding payment to the Company under the terms of the Support Agreement summarised below.

A Support Agreement was entered into on 13th July 2001 between the Company and HAA as the Support Provider. Under this Agreement HAA undertakes to provide the Company with financial support, but HAA is not obliged to make any payment to the Company to the extent that such a payment would exceed HAA's distributable funds for the prior fiscal year or to the extent that such a payment would exceed HAA's annual surplus pursuant to HAA's own financial statements as at the reporting date immediately preceding the dividend payment date. The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

6. PREFERRED SECURITIES - (CONTINUED)

The Preferred Securities are redeemable at the option of the Company, in whole but not in part, from and including 13th July 2006 and on any interest payment date thereafter, upon giving the holders not less than 30 days notice. The Company may only redeem the Preferred Securities with the prior consent of HAA. In the event of the winding-up of the Company or the dissolution or winding-up of HAA, holders of the Preferred Securities will be entitled to receive for each Preferred Security a liquidation preference of €100 plus any accrued and unpaid dividends. The Preferred Securities are limited in recourse to the Issuer Assets (see notes 3 and 4) and are listed on the Frankfurt Stock Exchange.

The fair value of the Preferred Securities is estimated by the Directors to be approximately equal to the market price quoted on the Frankfurt Stock Exchange as at 29th June 2012. However, as described in the Report of the Directors, subsequent to the reporting date HAA issued an Invitation Memorandum under the terms of which it invited holders of Preferred Securities to offer to sell their holdings for cash to HAA at a proposed price of €33.50 per €100 liquidation preference.

As no interest was received from the Loan during the current year and prior year, no corresponding dividend payments were made to the holders of the Preferred Securities on the relevant dividend payment dates.

7. SHARE CAPITAL

	<u>30th Jun 12</u>	<u>31st Dec 11</u>
AUTHORISED:		
16,500 Ordinary Shares of €1 each	€ 16,500	€ 16,500
ISSUED:		
10 Ordinary shares of €1 each	€ 10	€ 10

The Company has issued 10 ordinary shares of €1 each. These shares entitle holders to voting rights at any general meeting of the Company, to ordinary dividends as may be declared by the Directors from time to time, and to participate in the winding up of the Company.

The Company is not subject to externally imposed capital requirements.

8. FINANCIAL RISK MANAGEMENT

The principal activity of the Company is the issue of Preferred Securities, the proceeds from which have been used to grant a Loan to HAA. The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the Company entered into the transactions. The Company has matched the properties of its financial liabilities to its assets to avoid significant elements of risk generated by credit risk, liquidity risk and market risks such as interest rate risk, currency rate risk and price risk.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2012 TO 30TH JUNE 2012

9. ULTIMATE CONTROLLING PARTY

The Company's immediate and ultimate holding company is HAA, a company incorporated in Austria.

10. RELATED PARTIES

Each of H.C. Grant, S.M. Vardon, G.P. Essex-Cater and L. Pinnington is an employee of a subsidiary of State Street Corporation ("SSC"). Affiliates of SSC provide administrative services to the Company at commercial rates.

M.P. Santer is an employee and officer of Hypo Alpe-Adria Bank International AG and therefore should be regarded as interested in any transaction with Hypo Alpe-Adria Bank International AG and the subsidiaries and affiliates of the same. Details of the Issuer Assets transaction with HAA are disclosed in note 4 to the financial statements.

11. TAXATION

Profits arising in the Company are subject to Jersey Income Tax at the rate of 0%.