HYPO GROUP
ALPE ADRIA

Group Annual Report 2010

Hypo Alpe Adria

Key Data based on the consolidated financial statements as per IFRS

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

	2010	2009	2008
Income statement	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**
Net interest income	881.9	869.0	702.2
Net fee and commission income	107.9	121.2	117.6
Risk provisions on loans and advances	-1,213.5	-1,672.3	-533.3
Operating expenses (administrative expenses)	-594.8	- 541.5	-585.6
Operating income – prior to risk provisions on loans and advances	227.4	292.0	59.8
Operating income – after risk provisions on loans and advances	-986.0	-1,380.3	-473.5
Result before tax	-983.9	-1,394.6	-472.4
Result after tax	-1,054.5	-1,550.6	-518.3
thereof attributable to equity holders of parent	-1,060.7	-1,581.0	-519.7
Statement of financial position	**31.12.**	**31.12.**	**31.12.**
Loans and advances to customers	28,217.5	30,116.6	30,566.7
Liabilities to customers	8,120.4	7,649.8	8,716.9
Debt securities in issue and subordinated capital	21,329.6	21,968.1	23,005.8
Equity (including non-controlling interest)	1,450.4	1,990.1	2,529.8
Total assets	38,753.2	41,078.7	43,336.1
Risk-weighted assets (banking book)	24,611.1	27,907.9	32,831.6
Key figures	**1.1.–31.12.**	**1.1.–31.12.**	**1.1.–31.12.**
Cost/income ratio	72.3%	65.0%	90.7%
Net interest income/Ø risk-weighted assets (banking book)	3.2%	2.8%	2.4%
Risk/earnings ratio	137.6%	192.4%	75.9%
Credit risk/Ø risk-weighted assets (banking book)	4.4%	5.3%	1.8%
Banking figures	**31.12.**	**31.12.**	**31.12.**
Own capital funds as per BWG	2,777.5	2,999.8	4,173.2
Capital adequacy as per BWG	2,167.4	2,425.8	2,796.8
Surplus	610.1	574.0	1,376.4
Tier-1 capital	1,794.7	2,018.4	2,746.5
Tier-1 ratio – banking book	7.3%	7.2%	8.3%
Tier-1 ratio – including market and operational risk	6.6%	6.6%	7.8%
Own funds ratio – total (solvency ratio)	10.3%	9.9%	11.9%
Moody's Rating	**31.12.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	Baa3	Baa2	A2
Long-term (liabilities covered by statutory guarantee)	Aa3	Aa2	Aa2
Short-term	P-3	P-2	P-1
Bank Financial Strength Rating (BFSR)	E	E	D-
Employees & locations	**31.12.**	**31.12.**	**31.12.**
Employees at closing date	8,220	7,733	8,114
in finance and finance-related areas	6,978	7,195	7,552
in other areas	1,242	538	562
Employees average	7,927	7,969	7,867
in financial and finance-related areas	7,069	7,409	7,274
in other areas	858	560	592
Number of locations	328	354	384

Group Annual Report 2010

Letter from the Chairman of the Executive Board

Gottwald Kranebitter
Chief Executive Officer
of Hypo Alpe-Adria-Bank
International AG

Dear readers,
Dear customers and business partners,
Dear employees,

The 2010 business year was a year of major challenges and changes for Hypo Alpe Adria.

Bank realignment

Following the takeover of the Bank by the Republic of Austria as the "temporary sole owner", a restructuring plan was produced which fundamentally changes the corporate strategy and is set to take the Bank in a new direction.

This strategic realignment involves preparations for the medium-term reprivatisation of the healthy parts of the Bank, while problematic business units and portfolios, along with companies which fall outside the banking and leasing business, will be wound down or sold off. Sales and wind-down activities will be carried out in such a way that losses are kept to a minimum given the backdrop of market developments.

Implementing the realignment measures required massive changes in the organisation, processes, methods and management in 2010. Adjustments had to be ruthlessly implemented within a very short time frame during ongoing operations, in order to set the stage for a fresh start towards a successful and sustainable future.

Stabilisation and review

Upon taking up their responsibilities in April 2010, the primary challenge for the Executive Board was to stabilise the Bank using the capital provided by the owner, the Republic of Austria.

At the same time it was necessary to initiate a comprehensive review. The Executive Board has meticulously analysed the findings of this review and implemented them through fundamental structural adjustments.

The review's focus was on credit-related risks and the way these risks are organised. We had to conclude that in the past the Bank did not have adequate structures, processes and methods available to enable the careful identification and measurement of credit-related risks. In order to rectify this massive deficiency, the Group initiated structures and processes which had been fundamentally overhauled. These should guarantee risk-appropriate loan issue, regular credit monitoring, control and management of credit risks, which is appropriate to the size and complexity of the Bank, and ongoing quality monitoring of the risk-related processes.

In order to get the best possible in-depth view of the credit and leasing portfolio, the Executive Board subjected the portfolio to a systematic, detailed, case-by-case analysis for the first time.

The results of this comprehensive review and attempts to overcome the deficits are reflected in the 2010 consolidated financial statements in the risk provisions on loans and advances. These are far beyond any normal level and therefore give the clear impression that 2010 was a year of comprehensive correction of the portfolio, which was in the past built up too quickly and without sufficient risk controls.

In terms of sales and customer service we have massively strengthened the central controls for market cultivation, following an in-depth analysis of the status quo. Comprehensive service concepts, which include tailor-made solutions designed to meet individual customer needs, should increase the potential for cross-selling in the future. The departure from large-volume asset-based financing and the Bank's new alignment towards "normal", service-oriented banking transactions requires an increased focus on customers in the private and SME segments. To this end, the Bank needs to create a sustainable funding structure by strengthening the primary funds base, which had been neglected in the past.

All of this was and remains an incomparable tour de force by the Bank and every member of staff.

Dealing with the past

It was and is clear to the Executive Board that the Bank has to address its past cleanly and in the best possible way, thereby achieving a solid foundation for the future of the Bank.

This is why the Executive Board, together with the Bank's owner, launched a comprehensive investigation into the past. The Bank implemented the "CSI Team Hypo" project together with the Finanzprokuratur. The wide-ranging investigation is being carried out in collaboration with legal and forensic experts. We are striving towards the completion of the internal Bank investigation in 2011, although the legal processing may take several years to complete.

Developments in our markets

Market developments in our core countries in 2010 were not at all favourable for the array of measures for restructuring the Bank. On the one hand, our domestic market of Austria benefited from growth in Germany, a driving force for Europe's economy and Austria most important trade partner. However, there was high variation in developments on the SEE markets. The countries of South Eastern Europe were badly affected by the global economic crisis and some of them saw significant drops in economic growth. A slight recovery has already been observed in some countries, while for others there has been a turnaround forecast for 2011/2012. Despite positive signals for 2011, we are closely watching inflation developments in the "non-euro countries", as well as unemployment rates, which could hinder sustainable growth.

2010 consolidated financial statements

Please allow me at this point to address the 2010 consolidated financial statements. In 2010 we managed to increase our net interest income to EUR 882 million, operating costs amounted to EUR –595 million, risk provisions on loans and advances were EUR –1,214 million, and operating income amounted to EUR 822 million. Therefore Hypo Alpe Adria has closed the financial year 2010 with a consolidated loss of EUR –1,061 million. One positive and reassuring signal is the fact that we managed to increase customer deposits by EUR 471 million against the previous year. The change in total assets, which were cut by EUR 2.3 billion to EUR 38.8 billion, reflects the consistent implementation of the restructuring plan.

With own funds of EUR 2,778 million (core capital ratio/Tier 1: 6.6 percent; own capital funds ratio: 10.3 percent), the Bank is stable and well-prepared for continuing with the restructuring plan which has already been initiated.

Our core goals

The Executive Board's strategy for Hypo Alpe Adria is straightforward, transparent and easy to understand. The Bank has conclusively put an end to the phase of uncontrollable, spiralling growth and created the conditions needed to make the Bank as fit as possible in the medium term, i.e. the foundations for ongoing profitability. Every measure which we have already implemented, along with those we will continue to implement, serves to make the Bank more simple in its structure, more streamlined in its number of markets and more customer-oriented as a service provider.

More simple: we are reducing the complexity of our structures and products, thereby improving transparency standards both internally and externally, and cutting structural costs. Each of the leasing units which will be part of the Group in the future will be governed by the banks in the individual countries.

More streamlined: Hypo Alpe Adria will focus its market activities in the SEE region on the countries of Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, and will focus on "normal" banking and leasing business in Italy and Austria. Every other business sector in the banking and leasing business, along with those which fall outside the financial services sector, will be wound down or sold off.

More customer-oriented: Hypo Alpe Adria will only enjoy sustainable success if it offers first-class service. After the two years in which the Bank was not sufficiently active on the market, we will build up a much stronger market presence through products and very high service standards for our customers. The customer-service drive will be accompanied by a brand relaunch. Our customers can expect "best in class" services and products from us in the future.

I want to thank our employees, of whom there are over 8,000, for exceptional motivation and services which you have contributed in 2010. Without your efforts, which far exceed normal levels, we would not have been able to stabilise the Group in such a short time period. For this I would like to extend my special thanks on behalf of the entire Board. We continue to rely on your support and are well aware of the important role you play in the future of the Bank, our Bank. Very special thanks must also go to our customers for their unswerving loyalty to the Bank in such a difficult year. The new customers who joined the Bank in 2010 are a testament to the fact that we are on the right path. I extend my warmest thanks to you all.

An intense year is now behind us and we look to the future with cautious optimism. We have set ourselves ambitious targets and are striving in 2011 to increase the great trust you have placed in us. My fellow Board members and I are confident that we can repay this trust in the future through corporate success and excellent service. Every day we are working towards our goal to return the Bank to profitability in 2012 and to prepare a strong Banking Group in the Alps-to-Adriatic region for reprivatisation.

Yours faithfully,

Gottwald Kranebitter
Chief Executive Officer of
Hypo Alpe-Adria-Bank International AG

Executive Board Members

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

Responsible for:
Audit
Legal & Compliance
Marketing & Public Relations
Human Resources
Strategic Group Development
Merger & Acquisitions/Group Restructuring

Wolfgang Edelmüller
Deputy Chairman since 19 April 2010
Chief Risk Officer (CRO)

Responsible for:
Risk Control
Credit Management
Credit Rehabilitation
Credit Processing

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

Responsible for:
Accounting & Reporting
Financial Controlling
Treasury & Securitization
Investor Relations

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

Responsible for:
Retail
Corporate & Public Finance
Leasing
Organization/IT
Real Estate Management
Procurement
Collection

Overview of 2010

Development of results

In terms of operating activities (in particular business related to interest, fees and commissions), there was a slight decrease in income in the year 2010. The reason for this was a fall in lending volumes and a further increase in the non performing loan (NPL) portfolio, which had the knock-on effect of lower interest income. As in the previous year, the level of risk provisions on loans and advances had a significant impact on earnings in 2010. There was therefore a negative result before tax in 2010 of EUR –984m (2009: EUR –1,395m) and a negative Group result attributable to the parent of EUR –1,061m (2009: EUR –1,581m).

Detailed portfolio analysis leads to high provisions on loans and advances

A Group-wide assessment of the financing portfolio was carried out in 2010 with the support of external risk specialists. The particular exposure of the Group's financing portfolio in terms of markets, the respective industry sectors and the high concentration of risks meant that another significant amount of impairment losses had to be recognised in 2010. Key factors for this were the sharp increase in non performing loans included in the credit portfolio as well as impairment on collateral caused by market conditions, which had a particularly strong effect on the real estate financing portfolio. After consideration of the impact of the guarantee agreement, risk provisions on loans and advances in the year under review amounted to EUR –1,214m (2009: EUR –1,672m).

Consolidated statement of financial position

Despite the increase in liquidity reserves at the central bank of around EUR 1.0bn, total assets in 2010 underwent a further significant decrease from EUR 41.1bn by EUR 2.3bn to EUR 38.8bn. In terms of assets this was mainly triggered by a sharp fall in loans and advances to customers of EUR 1.9bn to EUR 28.2bn, as well as the further increase in risk provisions on loans and advances; in terms of equity and liabilities, the decrease was caused by the repayment of liabilities to credit institutions and debt securities.

Own capital funds

The Group's own capital funds stood at EUR 2,778m on 31 December 2010, while the statutory capital requirement was EUR 2,167m. This resulted in surplus capital of EUR 610m and a coverage rate of 128.1%. The Tier-1 ratio (including market and operational risk) was 6.6% at the end of the reporting period (2009: 6.6%), while the own capital funds ratio for the whole Group was 10.3% (2009: 9.9%).

The ultimate holding company, Hypo Alpe-Adria-Bank International AG, had own capital funds of EUR 1,797m available as of 31 December 2010, with unencumbered equity amounting to EUR 360m. The own funds ratio (including market and operational risk) stood at 10.0% on the reporting date (31 December 2009: 8.1%), the corresponding core capital ratio was 5.9% (31 December 2009: 4.7%).

Dealing with the past

The "CSI Team Hypo" project, which has been ongoing since spring 2010 and is being headed by the Finanzprokuratur (equivalent to the Attorney General's office) together with the Bank and with the support of legal and forensic experts, is conducting a comprehensive investigation into past business transactions and examining suspicious cases for possible illegalities. The internal investigation is set for completion in 2011.

EU proceedings/restructuring plan

The state-aid investigation which has been conducted by the European Commission since May 2009 led to the development of a far-reaching restructuring plan which was submitted to the European Commission in April 2010. The EU investigation is still ongoing at the present time. In the past business year the Bank has been consistently following through with restructuring measures.

In the ruling on 4 August 2010, the EU approved the acquisition of Hypo Alpe Adria by the Republic of Austria. At the time of writing, it cannot be estimated with any degree of certainty when the state-aid proceedings will be concluded and whether the European Commission will give their approval to the proposed restructuring plan.

Rating

In 2010 the rating agency Moody's confirmed Hypo Alpe-Adria-Bank International AG's investment-grade ratings, whereby the long-term ratings for debt backed by the Austrian federal state of Carinthia (guaranteed) was downgraded from Aa2 to Aa3, the long-term debt and deposit rating (non guaranteed) from Baa2 to Baa3, and the short-term rating from P-2 to P-3. The "negative outlook" is set to remain until further notice and Moody's justifies this with the steady decline in systemic importance over time and the reduction in financing with a sovereign or statutory guarantee until 2017.

Fresh start with new Executive and Supervisory Boards

In the 2nd quarter 2010 Hypo Alpe Adria completed the replacement of top-level staff announced by its owner, the Republic of Austria. The Executive Board was previously made up of five members, this was now reduced to four. The Supervisory Board announced that as of 1 April 2010 the new Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG would be Gottwald Kranebitter. On 19 April 2010 Wolfgang Edelmüller, Deputy Chairman of the Executive Board, assumed the function of Chief Risk Officer (CRO), while Johannes Proksch took over as Chief Financial Officer (CFO). On 7 June 2010 Rainer Sichert became Chief Operations and Market Officer (COMO), thereby completing the Executive Board.

There was a complete change of shareholder representatives on the Supervisory Board as well, which was finalised on 21 January 2010. Johannes Ditz was voted in as Chairman of the Supervisory Board, with Rudolf Scholten as his Deputy. The other members are Alois Steinbichler and Helmut Draxler.

Outlook for 2011

From a macroeconomic perspective there has been economic growth forecast for SEE regions in 2011, although this growth is set to be quite modest. As unemployment is likely to remain extremely high and the property markets which are important for Hypo Alpe Adria are unlikely to see a rapid reversal of the negative trend, the Group is once again confronted with a very challenging environment in 2011.

After three very difficult years, the challenge for 2011 is to return the Bank to its full competitive ability and to break even, thereby laying the groundwork for future profitability. Here in addition to the reorganisation of the entire Group Risk Offices, the focus will be on the realignment of the sales sector in line with the newly formulated strategy. Intensifying relations with new and existing customers, especially in the retail and SME sectors, will require major effort and a targeted approach in light of the prevailing problematic backdrop. At the same time, the planned wind-down of non-core activities, which is part of the restructuring plan of Hypo Alpe Adria, will be consistently followed through.

The high level of risk exposure in the portfolios and the sluggish economic recovery mean that the Executive Board expects high risk provisions on loans and advances to continue in the business year 2011. Despite this, the Group is aiming to break even, although a general economic recovery in the SEE region remains a precondition for this.

Group Management Report

1. General economic environment

The variation in backdrops between the economies of the EU and SEE posed major challenges for Hypo Alpe Adria. While the eurozone generally performed better than had been forecast, there was a mixed picture in SEE.

The economy underwent a recovery that was much stronger than expected in 2010 despite the European debt crisis. In its Spring 2010 report, the European Commission forecast real GDP growth for the EU-27 at 1.0%, in fact by year-end there was a GDP forecast of 1.8%. Similar developments were seen in the eurozone, where the predicted growth rate of 0.9% actually amounted to 1.7%. In 2011, the EU and the eurozone are expected to see their growth slow to 1.7% and 1.5%, respectively.

At the same time, prime rates remained near their historic lows. The first rises were expected to emerge in 2010, however, the central banks judged the upsurge to be too fragile for this type of measure. Even though economists are currently warning of the dangers of growing inflation, it remains to be seen whether interest rates will rise (meaningfully) in 2011. One problem that will continue to pose a challenge is the high levels of national debt which arose from the stimulus measures initiated after the outbreak of the financial crisis. While it was possible to pull Greece back from the brink of national bankruptcy through a euro rescue package in the summer of 2010, just before the end of the year Ireland also needed support. Further uncertainty arose amid discussions that large countries such as Spain, Portugal or even Italy may also need help. European countries have set ambitious budget consolidation targets for the coming years in order to reduce deficits to below 3.0% of GDP by 2014, in line with the European stability pact.

The picture across the EU is also reflected in certain markets where Hypo Alpe Adria operates. Austria is a good example of this. When our previous Annual Report was published, the International Monetary Fund (IMF) had forecast a fairly modest 0.3% growth rate, when the Half Year Report came out in mid 2010, the Institute for Advanced Studies was already predicting a rise of 1.5% and at year-end the final growth rate reached 2.0%. The impending austerity measures to consolidate the budget combined with slowing foreign trade impulses have led to a forecast that growth will slow to 1.6% in 2011. As a country with a strong export focus, Austria has benefited from growth in Germany – an economic driving force – and from the government's stimulus packages. The labour market saw a more gradual recovery, with unemployment at 4.8% at the end of 2009 falling to 4.4% by the end of 2010. A further improvement to 4.2% is forecast for 2011. Following inflation of 1.8% in 2010 it is set to remain within the targets of the European Central Bank forecast at 2.0% in 2011.

The Italian economy exceeded expectations with GDP growth of 1.1% instead of the IMF's forecast of 0.2%. It is expected that 2011 will see 1.1% growth again. Unemployment reached 8.4% at the end of 2010 and is likely to remain around this level well into 2012. Above-average debt continues to put pressure on the Italian economy. The deficit of 5.0% of GDP demands serious austerity measures which may in turn dampen growth. In Italy inflation is also expected to see a modest increase from 1.6% in 2010 to 1.8% in 2011.

There was high variation in growth across SEE countries. While they were particularly badly hit by the onset of the economic crisis and suffered significant losses, some countries have already experienced an upsurge, while others continued to decline and expect to see the first turnaround in 2011.

Slovenia profited from the strong eurozone recovery, with GDP growth of 1.1%, which is expected to rise to about 2.0% in 2011 as soon as domestic demand bounces back. Following on from 7.3% unemployment in 2010, a slight improvement to 7.2% is expected this year. Inflation stood at 1.2% in 2010, but will probably rise to 2.3% in 2011.

There was a different picture in Croatia which continued to battle further economic decline and saw GDP fall by 1.5%. This also affected the labour market where unemployment reached 12.0%. Even though GDP is expected to grow by 1.8% in 2011, unemployment is likely to remain high at 12.5%. There are grounds for optimism from the planned finalisation of EU accession negotiations in 2011, which should put the country on course to become a member of the European Union in 2013.

After reaching its economic trough in the first half of 2010, Bosnia and Herzegovina managed a turnaround and ended the year with a slight increase in growth of 0.5% thanks to external demand. A more solid rise in GDP of 2.5% is expected for 2011, which will be primarily driven by recovery in domestic demand as well as continued support from exports. Unemployment rates have reached damaging levels, anticipated at 27.5% at the end of 2010 and are even expected to climb to 28.5% in 2011 before a slight fall in 2012.

The Serbian economy underwent a slight recovery with a plus of 1.5% and this is expected to almost double in 2011 to 2.9%, buoyed by both public and private investment as well as accelerating industrial output. Consumer spending, however, is likely to remain weak due to high unemployment and inflation. Unemployment stood at 20.0% in 2010 and is only expected to decrease slightly to 19.2% in 2011, while inflation, which averaged 6.1% in 2010, will increase further through 2011 and average a record high of 9.4%.

Montenegro, which officially became an EU accession candidate in December, saw its GDP rise by 0.3% for the full 2010. Solid growth of 2.5% has been forecast for 2011, triggered by the global boom in commodities prices – aluminium in particular – exports of which account for 50.0% of Montenegrin goods exports, coupled with improved tourism concepts. As a consequence, however, inflation is set to increase significantly. While it amounted to just 0.6% in 2010, economic forecasts predict that it will accelerate to 2.3% in 2011, driven by rising global commodity prices. A slight fall in unemployment from 12.2% in 2010 to 11.5% in 2011 has been forecast.

To sum up, it looks like 2011 will be another challenging year, although there are some signs of slight economic growth. Long-term forecasts suggest a much more promising picture, corroborating the potential which Hypo Alpe Adria sees in the SEE economies.

(Source: Hypo Research Department)

2. Overview of Hypo Alpe Adria

2.1. Company description

Hypo Alpe Adria, founded in Klagenfurt am Wörthersee (Austria) in 1896, concentrated primarily on financing public institutions, the housing construction business and issuing Pfandbrief debentures until the 1980s. During this time the Bank's network of branches was limited to the province of Carinthia. The following decade saw the Bank's rapid and aggressive expansion into the Alps-to-Adriatic region.

At 31 December 2010 Hypo Alpe Adria was present in twelve countries – Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Bulgaria, Macedonia, Germany, Hungary and the Ukraine.

The new management of Hypo Alpe Adria is committed to a clear forward-looking strategy for the Group which includes a comprehensive realignment in line with the restructuring plan. In 2010 the key components for this streamlining process were put in place and the restructuring process was launched: the future SEE network consists of banks in Slovenia, Croatia, Serbia, Bosnia and Herzegovina, and Montenegro. The leasing business in these markets will in future be under the governance of the banks. The SEE network with the holding in Klagenfurt am Wörthersee (Austria) is characterised by its relevance on domestic markets, its importance for the functioning of the financial markets and ongoing, sustainable profitability; it is being prepared for reprivatisation. The Italian banking unit and the Austrian subsidiary bank are also held by the controlling holding. Both units are currently undergoing a comprehensive programme to increase efficiency. All other units are being wound down or sold off step by step.

The Republic of Austria became the sole owner of Hypo Alpe Adria in December 2009 and the ownership structure remained unchanged in 2010.

2.2. Corporate Governance

Published on 1 October 2002 for the first time, the Austrian Code of Corporate Governance (ACCG) provides a set of rules for the responsible management of enterprises in Austria. As stated in the preamble, the aim of the Code is to establish a system of management and control that is accountable and is geared to creating sustainable, long-term value. The transparency which arises from adhering to the Code is beneficial to the interests of every stakeholder and promotes trust. Although the ACCG is mainly aligned towards Austrian listed companies, Hypo Alpe Adria is also clearly committed to the rules of the Code. Hypo Alpe Adria considers the ACCG to be an important outline and its rules have a significant impact on the ongoing restructuring programme. Complying with internationally accepted standards for good corporate management, ethical behaviour and thereby promoting trust are key components of the Group's realignment process.

2.3. Rating

Hypo Alpe-Adria-Bank International AG is rated by the international rating agency, Moody's, whose ratings apply across the Group. In 2010 the rating agency downgraded the guaranteed long-term rating from Aa2 to Aa3 on 15 April 2010. This rating relates primarily to debt guaranteed by the State of Carinthia.

As both the unguaranteed long-term rating and the short-term rating were under review, on 3 August 2010 Moody's conducted a new rating assessment. While both ratings were downgraded by one level, the "investment grade" rating level, which is important to investors, was confirmed.

The following provides an overview of the most important rating categories for Hypo Alpe-Adria-Bank International AG as of 31 December 2010:

- Long-Term (guaranteed) Aa3
- Long-Term (non guaranteed) Baa3
- Short-Term P-3
- Financial Strength E

Information on the ratings and all related statements published by Moody's are available on the Group's homepage (www.hypo-alpe-adria.com) under Investor Relations.

3. Significant events in 2010

Following on from the expansive growth strategy of the last decade, Hypo Alpe Adria is now wholly committed to restructuring and has taken on a completely new direction.

The Bank is focusing on consolidating the existing banking network, with a particular focus on sustainable improvements to processes in the fields of credit granting, collection and workout, as well as improving earnings by streamlining the cost structure and reducing problematic portfolios.

With the appointment of the new Executive Board the goals were once again laid out with a deliberate focus on the transformation process and the initiation of the operational realisation. As a consequence of the nationalisation and the appointment of the new Executive Board, the strategy for restructuring the Group was precisely formulated and its implementation was begun.

In order to achieve this, the Bank's strategic focus is aligned towards solidifying existing market positions on its core markets, which is a clear departure from the expansion policies of the past. The medium-term goal is to reprivatise the Bank and to repay as much of the money invested by the taxpayer as possible, whereby the most preferable option would be the sale of the entire company in order to retain the SEE network with the holding in Klagenfurt am Wörthersee.

3.1. EU proceedings/restructuring

On 12 May 2009 the European Commission opened a joint investigation into BayernLB and Hypo Alpe-Adria-Bank International AG. This investigation is currently conducting an in-depth examination of the state aid received in the years 2008 to 2010.

As part of the new strategic alignment of Hypo Alpe Adria, a detailed evaluation was carried out of all the markets in which the Group is active. The result of this was the restructuring plan with a time horizon up to 2014, which was submitted to the Commission of the European Union in April 2010. This plan provides for Hypo Alpe Adria's complete withdrawal from certain geographic regions and business sectors.

The measures proposed by the Republic of Austria were given preliminary approval for a period of up to six months by the European Commission on 23 December 2009. On

22 June 2010 an unlimited extension of the preliminary approval for state aid was granted and will be valid until the conclusion of the examination of the restructuring plan. The Bank has consistently driven through the restructuring measures in 2010 and, together with its owner, is involved in intensive, constructive dialogue with the European Commission.

In the ruling on 4 August 2010, the European Commission approved the acquisition of Hypo Alpe Adria by the Republic of Austria in terms of the antitrust investigation and concluded that the transaction does not breach merger control laws.

3.2. EUR 600m injection of capital

At the end of June 2010 the Bank received a total of EUR 600m in participation capital as planned in the course of the nationalisation in December 2009 where the recapitalisation of the Bank was agreed.

EUR 150m of this total came from the payment of a former shareholder in the form of subscribed participation capital in December 2009. EUR 450m was attributed to the current sole owner, the Republic of Austria, which issued 9,000 bearer participation shares with a total face value of EUR 450m on 28 June 2010.

3.3. Changes to the Executive and Supervisory Boards

As part of the restructuring of Hypo Alpe Adria, the entire Executive Board of Hypo Alpe-Adria-Bank International AG was replaced in the first half of 2010, and at the same time the number of members was reduced from five to four. The Supervisory Board announced that as of 1 April 2010 the new Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG would be Gottwald Kranebitter. On 19 April 2010 Wolfgang Edelmüller, Deputy Chairman of the Executive Board, assumed the function of Chief Risk Officer (CRO), while Johannes Proksch took over as Chief Financial Officer (CFO). On 7 June 2010 Rainer Sichert became Chief Operations and Market Officer (COMO), thereby completing the Executive Board. This Executive Board team can draw on many years of broad experience and has set the course for Hypo Alpe Adria's targeted realignment.

There was a resolution at the Annual General Meeting on 21 January 2010 by the Republic of Austria as the Bank's sole owner to appoint Johannes Ditz, Rudolf Scholten, Helmut Draxler and Alois Steinbichler to the Supervisory Board. The first meeting of the Supervisory Board took place shortly afterwards, and the Board voted in Johannes Ditz as Chairman and Rudolf Scholten as Deputy Chairman.

3.4. Addressing the past ("CSI Team Hypo" project)

A project was implemented in 2010 on the order of the Republic of Austria, which is being realised by the Finanzprokuratur together with the Bank. One aim of the project is to carry out a post due diligence, while another is to identify the reasons for the financial collapse of the Bank. The project team is composed of Bank employees, employees of the Finanzprokuratur, lawyers and auditors. The successful work of the "CSI Team Hypo" project and the rigorous examination of past events is essential for the positive future of the Group. Numerous business transactions are being subjected to a systematic, in-depth examination in eight specific subcategories. These examinations have already uncovered numerous suspected cases of illegality; more than 50 offences have been reported to the public prosecutor.

In a series of cases one of the Hypo Alpe Adria institutes has been considered eligible as a "private party concerned" (Privatbeteiligte) in criminal proceedings, numerous civil cases are also being prepared. There has been a particular focus on events surrounding the issue in 2004 and 2006 and on the resale of preferred shares in Hypo Alpe-Adria-Leasing Holding AG (now Hypo Alpe-Adria-Leasing Holding GmbH) with a nominal value of EUR 200m, which were recognised as non-controlling interest capital (core capital) in the consolidated financial statements for the years 2004 to 2007. Reasonable provisions have already been put in place in the 2010 consolidated financial statements to cover the possible consequences which may arise from the retrospective appraisal of these funds out of core capital. Furthermore, the estimated costs which the Group is likely to be liable for in the future for the investigation and proceedings have been appropriately accrued. The Bank is confident that it will manage to conclude the internal investigation process in the 2011 financial year. Further details are given in the risk report, note (86) in the notes to the consolidated financial statements.

3.5. Reorganisation of the restructuring and asset realisation units/"Review Rush"

In 2010 the top priority of Hypo Alpe Adria's new management lay in the comprehensive examination of the credit portfolio in order to identify inherent risks in the financing portfolio.

This was carried out in the first half of 2010 with the support of an external audit company and was intensified in the second half of the year with a risk-mitigating monitoring project ("Review Rush"), allowing a more detailed screening of the portfolios in all subsidiaries along with greater transparency of their risk structures.

The steady increase of the non-performing portfolios and related impairment requirements of Hypo Alpe Adria called for a realignment and new focus within the areas of sales, back office and restructuring. Because of the increased demands on the Group Risk Office, the comprehensive internal reorganisation of the restructuring and recovery units was initiated in 2010 and will continue throughout 2011. Further details are given in the risk report, note (86) in the notes to the consolidated financial statements.

3.6. Guarantee agreement with the Republic of Austria

The guarantee agreement of EUR 100m concluded at the end of 2009 was cancelled with the agreement of both parties and without the Hypo Alpe Adria having used it.

On 28 December 2010 a new guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG with liability capped at EUR 200m. In return for concluding the guarantee agreement, the Bank committed itself to reduce the liability of the Republic of Austria by buying back government guaranteed bonds. The Bank fulfilled this obligation in February 2011.

The agreement concluded at the end of 2010 and valid until 30 June 2013 is for the purpose of hedging the value of the financing portfolio in line with specific criteria which have been laid out.

On 31 December 2010 the Bank exercised this option and thereby avoided impairment of EUR 163.7m which would have otherwise been necessary.

4. Economic development of the Group

The financial year 2010 was characterised by the aftershocks of the economic crisis, whereby all of the countries in which Hypo Alpe Adria is represented with Group units were particularly badly hit. From a macroeconomic viewpoint most countries in the EU and CEE region have already started to undergo a slight recovery, although this has not yet had a sustainable effect on the Group's financing portfolio. Especially in Croatia – one of the most crucial core markets for Hypo Alpe Adria, precisely because of the real estate and tourism portfolio – the negative trend of recent years is still continuing.

With the backdrop of this difficult macroeconomic environment, a further increase in customers in arrears was observed for the heavily risk-exposed financing portfolio of the Group. Another cause of this is the fact that the secondary markets in the SEE region, which are needed for fast sale at acceptable prices, are not yet fully functional. This led to very high risk provisions on loans and advances in the income statement, which are the main reason for the clear negative earnings in 2010 of over one billion.

4.1. Development of results

The results of the financial year 2010 reflect the regressive earnings situation in the operational business and also the risk provisions on loans and advances of over EUR 1 billion, which together with other problematic factors led to negative consolidated earnings of EUR 1.061bn. Risk provisions on loans and advances and depreciation on real estate and movables were far higher than normal in 2010 which was the result of a comprehensive and detailed case-by-case analysis of a large part of the high-risk portfolios. This analysis brought to light the fact that the systems used in the past for identifying and measuring risks were incapable of yielding an adequate depiction of the Bank's risk exposure.

In terms of income, limited new business and the high number of non performing loans (NPL) had a negative effect on net interest income and net fee and commission income. However, even in the crisis year 2010 it was possible to realise a respectable level of interest income. Net interest income increased slightly against the previous period (1 January to 31 December 2009), rising from EUR 869m to EUR 882m, although interest income from the previous period was hampered by a one-off effect of EUR –43m.

This was the result of variable interest rate adjustment periods for underlying transactions and derivative components whose positive effect was recognised in result from hedge accounting. Taking into consideration this result of EUR 43m, there was therefore an extended entry for interest income in 2009 of EUR 912m, in contrast to the comparable figure of EUR 884m in 2010.

The partial discontinuation of interest income on the financing portfolio which was subject to impairment had a negative impact on earnings; interest income received as per IFRS is the annual difference in the present value of net obligations (gross obligations less loan loss allowances), namely the unwinding effect.

Net interest income
in EUR m

Net fee and commission income, which stood at EUR 121m in 2009 and contributed to the earnings for the period, slipped back by around 11% and amounted to EUR 108m. There were slight falls in fee and commission income from loans, securities and deposit transactions due to the reduction in the Group's business volume. In total, fee and commission income fell from EUR 147m (2009) to EUR 140m, whereby subsidiary banks from Croatia, Austria and Italy contributed the greatest share. Fee and commission expenses rose from EUR –26m (2009) to EUR –32m. The main reason for this was the costs for a EUR 500m credit line which was granted in mid 2009 and serves to provide additional liquidity reserves.

Result from trading primarily relates to customer transactions and in 2010 it plummeted by over a half from EUR 28m to EUR 11m. The reasons for this drop were the low income contribution of the Croatian subsidiary bank from currency exchange transactions as well as significant pressure on operating lease assets which are refinanced in foreign currencies.

Income from hedge accounting amounted to EUR 2m, falling significantly from the previous year's levels (EUR 43m). The effects in the comparable period for the previous year mainly resulted from massive falls in prime rates (EURIBOR and LIBOR) at the end of 2008, which negatively affected interest income in 2009 and correspondingly led to positive hedge accounting inefficiencies from the variable components of interest-rate derivatives in 2009.

Net income from financial investments, which are designated at fair value through profit or loss, was included in the income statement with a total of EUR –29m, while in the previous period it stood at EUR –37m. Included in this figure is a EUR –19m valuation result from the portfolio of investment company HBInt. Credit Management Limited (2009: EUR 20m), in which Hypo Alpe-Adria-Bank International AG holds 49% and operates with a third-party investor. The negative valuation effects from the financial year 2009 result mainly from the fair value measurement of liabilities of own issues which are guaranteed by third parties. These were required because of a reduction in the spread on the market for state-guaranteed liabilities (EUR –35m) and from the fair value measurement of hybrid capital issued (subordinated capital) of EUR –15m. In the financial year 2010 the situation was such that the negative measurement effects from financial assets (EUR –31m) could be partially compensated for by the positive measurement effects from financial liabilities (EUR 3m).

In the area of available-for-sale financial investments it was first and foremost impairment of the debt instruments, shares and fund units in this measurement category which led to the negative result of EUR –43m (2009: EUR –40m), whereby here it was mainly impairment on two major share packages acquired in the course of realising collateral (EUR –29m), and impairment expense from a corporate bond owned by the Group (EUR –10m) which had an impact. Negative effects on income from the ABS portfolio amounted to EUR –16m.

Net income from other financial instruments at around EUR –10m remained unchanged against the previous year. While the necessary impairment on operating leases assets rose from EUR –4m to EUR –5m, income from investment properties contained within this total improved dramatically from EUR –14m to EUR –1m. The effects of the own issues repurchased in 2010 at a lower rate (EUR 11m) also had a positive impact.

Other operating income, which had a clearly negative result of EUR –142m in the previous year, amounted to EUR –99m in 2010. This was mainly due to depreciation on leasing assets which had not yet been leased and repossessed assets, which together accounted for EUR –76m, as well as EUR –31m from impairment on goodwill from the first-time consolidation of a tourism investment and another participation recognised in the income statement for the first time in 2010. In the previous year this item also included restructuring costs amounting to EUR –24m related to the strategic realignment and cost optimisation in the Group.

Risk provisions on loans and advances from credit and financing lease transactions amounted to EUR –1,214m, which was EUR 458m less than the comparable figure for the previous year (EUR –1,672m). Based on the credit volumes from customer business which were outstanding as of 31 December 2010 and totalled EUR 28.2bn, these risk-related costs are equivalent to 416 basis points for the whole year (2009: 539 basis points). The main reason for this is the fact that risks were inadequately and insufficiently identified and measured in the past. This situation was also exacerbated by partially highly volatile exchange rate fluctuations, which meant that in many locations loan obligations in foreign currencies could not be serviced. Combined with the current low valuations of collateral, caused by difficult sale conditions, this continued to trigger an increase in necessary risk provisions on loans and advances.

In the leasing business, the countries Croatia, Hungary and Slovenia contributed significantly to this result. In the banking sector, it was the cross-border financing portfolio, operated from Austria, and local impairment provisions of the banking units in Austria, Croatia, Slovenia and Bosnia which were affected by these developments.

Following on from the fall in operating costs in the previous year, they rose in the business year 2010 by 10% from EUR 542m to EUR 595m. Higher Group staffing levels led personnel expenses to increase by EUR 3m to EUR 266m. While it was necessary to increase staffing levels in order to extend and adapt the central control function, as well as to manage the exceptional challenges involved in analysing and processing credit-related risks, the majority of these staff have been employed on a temporary basis. The comprehensive restructuring of the Group can only be achieved through the combined efforts of permanent and additional temporary employees as well as external experts. Despite this, administrative expense remained relatively steady at EUR 225m in comparison with the previous year (EUR 216m).

A significant amount of the increase in depreciation and amortisation of tangible and intangible assets from EUR 63m to EUR 104m is due to the impairment of individual Group software projects, which will not be realised at all or not to the scale that was originally planned. Furthermore, impairment on plant and equipment from an industrial company also affected this figure.

Overall, operating income amounting to EUR 822m (2009: EUR 834m) stood against risk provisions on loans and advances of EUR –1,214m (2009: EUR –1,672m) and operating expense of EUR –595m (2009: EUR –542m). This resulted in negative operating result of EUR –986m (2009: EUR –1,380m).

After taking into account results from investments accounted for at equity of EUR 2m (2009: EUR –14m), which – as in the previous year – mainly included the effects from the liquidation of Alpe Adria Privatbank AG (Liechtenstein), result before tax amounted to EUR –984m (2009: EUR –1,395m).

Income tax expense amounted to EUR –71m (2009: EUR –156m) in 2010. For deferred taxes, the complete write-off of the loss carry-forward for the Austrian tax group was recognised, leading to expense of EUR –43m in the period under review. After allocating the share in results attributable to non-controlling interest in the Group amounting to EUR –6m (2009: EUR –30m), there is a consolidated loss for the period of EUR –1,061m (2009: EUR –1,581m).

4.2. Structured Credit Portfolio/ABS

Hypo Alpe Adria's structured credit portfolio, which, measured at the carrying amount, consists of more than 50% of credit linked notes referenced to public or corporate names, was significantly affected by negative market developments in recent years. As a result of the negative share price developments, actual defaults occurring early on and the sale of securities involved, the structured credit portfolio has reduced drastically over the last four years. Whereas the carrying amount for the total held by the Group was still EUR 840m at the end of 2006, it had reduced to EUR 299m by 31 December 2009. In 2010 the structured credit portfolio fell further still, partly because of adjustments in value, but also because of (partial) redemptions.

Available for sale reserves attributable to the ABS portfolio remained similar to the previous year at EUR –5m. Nevertheless, additional impairment of EUR –16m had to be made on asset categories designated as particularly at risk, as well as securities classified as available for sale which had been identified as impaired securities as of 31 December 2009.

The current carrying amount of the ABS portfolio of EUR 276m is set to be rapidly reduced through selling off or redeeming further parts, in order to meet the medium-term goals laid out in the EU restructuring project.

4.3. Consolidated statement of financial position

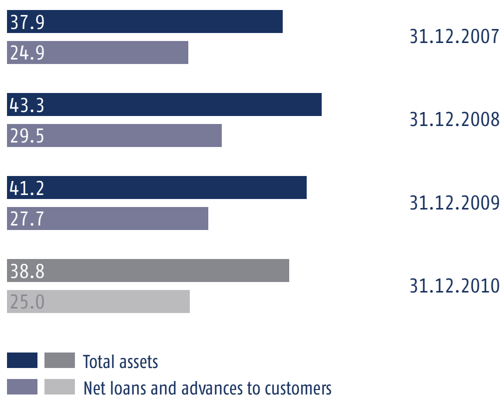
Since achieving total assets of EUR 43.3bn at the end of 2008, which represented the high point after more than a decade of strong growth, total assets have been falling steadily ever since. This development can be explained by a stop to new business in the markets and sectors which are no longer part of the core business, a very restrained level of new business in the core markets, and high impairment of the financing portfolio. In direct contrast, there has been a continuous build up of liquidity reserves, which are necessary in order to cover liabilities due in the medium term.

On balance, Hypo Alpe Adria's total assets fell against the total figure as of 31 December 2009 from EUR 41.1bn to EUR 38.8bn, representing a decrease of EUR 2.3bn or 5.6%. In terms of assets, this reduction was due to the positive net return from the lending business and a restrained level of new transactions. In terms of equity and liabilities, the decrease was caused by the repayment of liabilities to credit institutions (a decrease of EUR –1.2bn) and debt securities (a decrease of EUR –0.6bn).

Net loans and advances to customers (gross receivables less risk provisions on loans and advances) shrunk from EUR 27.7bn to EUR 25.0bn (EUR –2.7bn or –9.6%), while loans and advances to customers fell from EUR 30.1bn to EUR 28.2bn (-6.3%).

Total ABS portfolio/structured credit portfolio by carrying amount
in EUR m

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

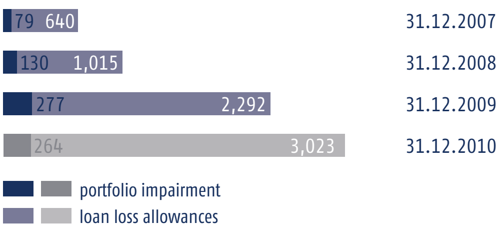


In contrast, loans and advances to credit institutions increased by EUR 1.1bn or 26.7%. This was related to the increase in liquidity reserves which will serve to make sufficient funds available for the liabilities due in the next few years. The surplus liquid funds were partly generated by net return from the lending business, the increase in customer deposits against 2009 and the capital injection in 2010.

In 2010 – following the "Asset Screening" carried out by an audit company the previous year – the efforts to conduct a comprehensive, in-depth analysis of Hypo Alpe Adria's financing portfolio were intensified. This probing analysis was first realised with the help of external consultants (1st half 2010). As part of the risk-mitigating monitoring initiative ("Review Rush", carried out in 2nd half 2010), it was possible to get the first detailed insight into the portfolios of all subsidiaries, thereby establishing transparency with regard to the risk structure.

As a result of this, the level of risk provisions on loans and advances, which stood at EUR 2.6bn at 31 December 2009, underwent a further increase of EUR 0.7bn to EUR 3.3bn as of 31 December 2010. This increase was related to impairment of the credit and leasing portfolios, caused by the increase in customers in arrears and necessary impairment of collateral. The largest share of total risk provisions on loans and advances related to Group units in Austria, followed by those in Croatia, Bosnia and Herzegovina, and Slovenia.

Development of risk provisions on loans and advances
in EUR m



The Group's trading activities, which were already very limited in the past, were reduced still further in 2010. As a consequence, total trading assets fell from EUR 73m to EUR 67m. Positive fair value from trading derivatives, which is included in this item, increased from EUR 21m to EUR 33m in the year under review.

Financial investments designated at fair value through profit or loss (FVO) decreased in the year under review by EUR 44m to EUR 996m. This reduction was caused both by falls in the fair value of derivatives, as well as the equity and debt instruments included in this category. The total value of financial investments – available for sale slipped back in 2010 by EUR 0.2bn to EUR 2.5bn, which was mostly caused by disposals and impairment recognised in profit or loss.

Mainly because of the extremely limited new issue of operating lease agreements, there was a decrease in other financial investments from EUR 1.1bn in 2009 to EUR 1.0bn in the year under review, equivalent to a 5.0% fall.

The decrease of EUR 8m in intangible assets to EUR 56m was caused by amortisation and necessary impairment on Group software projects which were partially stopped. Tangible assets used for the Group's own business activities decreased in the year under review from EUR 485m to EUR 457m, representing a slight reduction of 5.8%.

In the item financial investments – available for sale the main assets include those of the Liechtenstein bank, whose liquidation was agreed in the 1st half 2009, as well as each of the real estate and tourism projects which are set to be sold in the course of Hypo Alpe Adria's realignment. In addition, the assets of a Group leasing company whose sale is expected in the business year 2011 were also included in this item.

The item tax assets fell from EUR 635m as of 31 December 2009 by EUR 549m to EUR 86m. This is mainly due to the first-time netting of tax assets and liabilities in 2010 as well as the reduction in value on deferred tax assets from tax loss carry-forwards amounting to EUR –43m.

There was a rise of 3.7% in other assets in 2010 to EUR 1.1bn, even though this included opposing effects. The significant reduction in new business volumes against the previous year led to a decrease in leases to go, which in turn led to impairment on these leasing assets of EUR 0.2bn in order to allow for adjustments to the expected (lower) sales value. The increase of this item was mainly due to investment properties (EUR 0.1bn) as well as other non-banking receivables (EUR 0.2bn).

In terms of liabilities, the sharpest reduction in 2010 was seen in liabilities to credit institutions. A significant proportion of this was due to the maturity of inter-bank financing and to the refinancing lines of subsidiaries to third-party banks which were guaranteed by the parent company. Total liabilities to credit institutions thereby fell from EUR 7.6bn in the previous year by EUR 1.3bn to EUR 6.4bn.

There was a significant decrease in liabilities to customers in the previous year. This was mainly due to the uncertainty surrounding the future development of the Banking Group at the end of 2009, as well as the effects of the economic crisis and the deliberate reduction of problematic business areas. In 2010 customer deposits rose sharply again by EUR 0.5bn to EUR 8.1bn, representing an increase of 6.2%; this was due to the rapid stabilisation of the Group under its new ownership. These increases were mainly achieved in the public and retail segments, which were also the areas hardest hit in the previous year.

Debt securities in issue fell in 2010 from EUR 20.8bn by EUR 0.7bn (-3.0%) to EUR 20.1bn. This decrease was attributable to planned repayments and to premature repurchases of Group issues.

Subordinated capital decreased moderately in the year under review by around –1.6% to EUR 1.2bn. This change is due on the one hand to repayments in the year under review, and on the other hand to the fair value of hybrid capital issues measured on the reporting date, which are included in this item. The significant increase in subordinated capital over the course of the year, which came from foreign currencies (e.g. CHF or USD) appreciating against the euro with a corresponding increase in the fair value of hedges recognised under assets as of 30 June 2010, was mostly cancelled out in the 2nd half of the year.

Equity capital in the 2010 business year fell against 31 December 2009 by a total of EUR 0.5bn to EUR 1.5bn. Increases in equity (EUR +0.6bn) came from the subscription and payment of participation capital from a former shareholder as well as the existing sole shareholder; decreases in equity came from negative result after tax of EUR –1.1bn.

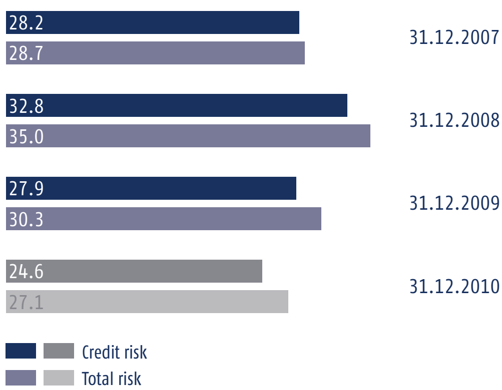
4.4. Own capital funds

The losses, which were predominantly caused by very high risk provisions on loans and advances in the credit and leasing business, also had a significant effect on the ratios required by supervisory law in the business year 2010. However, these were broadly compensated for by the influx of participation capital in the 1st half year 2010 amounting to EUR 600m (EUR 150m from a former owner, EUR 450m from the Republic of Austria) as well as the assumption of liability by the Republic of Austria with a guarantee agreement capped at EUR 200m. This therefore led to a slight increase in the own funds ratio as per supervisory law in the year under review.

Significant progress was made in 2010 with the previously introduced efforts to reduce risk-weighted assets (RWA). Important factors here included the promised stop to new business for certain companies, as well as attempts to improve the appraisal of collateral and to increase the quality of data, which led to a further significant fall in the RWA basis in the past business year.

In relation to the credit risk, risk-weighted assets fell from EUR 27.9bn to EUR 24.6bn, a fall of EUR 3.3bn or 11.8%. When including market risks and operational risk, overall risk-weighted assets decreased from EUR 30.3bn (31 December 2009) to EUR 27.1bn (31 December 2010).

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

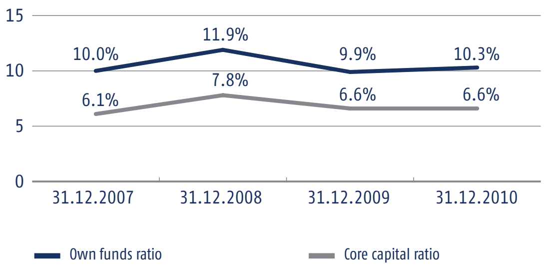


Overall, total eligible own funds as per the Austrian Banking Act (BWG) came to EUR 2,778m as of 31 December 2010 (31 December 2009: EUR 3,000m), with the legal minimum requirement standing at EUR 2,167m (31 December 2009: EUR 2,426m). This corresponds to a surplus of EUR 610m (31 December 2009: EUR 574m), equivalent to coverage of around 128% (31 December 2009: 124%).

The own funds ratio in relation to the banking book (credit risk) reached 11.3% at 31 December 2010 (31 December 2009: 10.7%). The corresponding core capital ratio (Tier-1 ratio in relation to the banking book), following appropriate 50% deductions, was 7.3% at year-end 2010 (31 December 2009: 7.2%).

In relation to the total capital base (including market and operational risk), the resulting own funds ratio stood at 10.3% as of 31 December 2010 (31 December 2009: 9.9%), which was well above Austria's statutory minimum ratio of 8.0%. The corresponding Tier-1 ratio (including market and operational risk) stood at 6.6% (31 December 2009: 6.6%).

Change in own funds and core capital ratio
in percent



In terms of the ultimate parent, Hypo Alpe-Adria-Bank International AG, available equity amounted to EUR 1,797m, with unencumbered own funds of EUR 360m. The own funds ratio (including market and operational risk) stood at 10.0% on the reporting date (31 December 2009: 8.1%), the corresponding core capital ratio was 5.9% (31 December 2009: 4.7%).

4.5. Key profit indicators

The cost/income ratio stood at around 72.3% at 31 December 2010, which was the result of lower income and higher expenses including the one-off effects contained within these items. For this reason the significance of the cost/income ratio is not representative.

The credit risk, related to net interest income (risk/earnings ratio), decreased from 192.4% to 137.6%, following on from the exorbitant rise in the previous year.

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

The negative result for the period, which was caused in particular by the high expense for risk provisions on loans and advances, means that the return on equity and return on assets indicators are not meaningful in this business year or the comparable period; these figures are therefore not given.

5. Analysis of non-financial key indicators

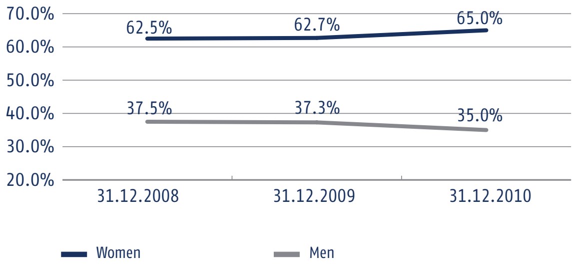
5.1. Staff

Owing to its many years of doing business in the Alps-to-Adriatic region, Hypo Alpe Adria continues to not only be one of the region's most important finance institutes, but also one of the most important and attractive employers, even despite the difficult backdrop. As of 31 December 2010 there were 6,978 employees working in financial and finance-related areas. Against the previous year staffing levels have decreased by 217 employees. This reduction arose mainly from not replacing staff who left in the normal course of events, but also as part of the ongoing restructuring measures.

Staff in financial and finance-related divisions
Figures from 2007 to 2010

A male/female analysis shows that women make up nearly two thirds of staff or 65.0% and are clearly in the majority.

Staff by gender
Figures from 2008 to 2010



The age profile shows that the 31-40 age group dominates in the Group, accounting for 44.7% of staff. 26.0% of employees are 20-30 years old. Only 8.5% of staff are between 51 and 60 years old.

In 2010 the average employee age across the Group was 35.0 years.

Staff by age group
as of 31 December 2010

The average length of employment per member of staff was 5.6 years. One factor which had an impact on this figure was employees who are employed in many new companies, predominantly leasing companies, and therefore have only been working for the Group for a relatively short time. On the other hand, in Hypo Alpe Adria's traditional markets there are many employees who have been with the Group for a relatively long time period. For example, the average length of employment at the Bosnian Hypo Alpe-Adria-Bank d.d. based in Mostar or also in the Austrian banking subsidiary Hypo Alpe-Adria-Bank AG was 12.0 years.

Employees' professional and personal skills provide the basis for expert customer service. This is why Hypo Alpe Adria significantly increased training in 2010. The average number of training days per employee rose from 1.9 to 2.5 days a year, an increase of 31.6%. There was particular intensification of training initiatives at Hypo Alpe-Adria-Bank International AG, which is the Group holding, and therefore also acts as the control unit for the entire Group. Here the average number of training days per employee rose from 3.4 to 4.8 days, representing an increase of 41.2%.

Average annual training days per staff member

In addition to the internal basic training, which is compulsory for all staff, in 2010 attention was once again paid to a specific training focus in the areas of granting and analysing all types of credit. For example, in the section "integrated company analysis" 1,200 employees from across the Group had been supported by international and local trainers by the end of 2010.

At the end of 2010 a strategic Human Resources (HR) programme was launched which focuses on the necessary further development of managers and employees, as well as building up a state-of-the-art HR management system in the Group. The requisite support measures for the changes were also put in place and the first operational projects were introduced.

As a further step towards implementing a modern reward system, in 2010 a Group-wide bonus policy was introduced. When designing this policy, EU guidelines were taken into consideration both as regards criteria related to corporate as well as individual performance for measuring bonuses. The foundations for performance management have therefore been laid and these measures will be developed further in 2011.

The financial year 2010 was not only particularly challenging in economic terms, but also for every staff member in the Group. The Executive Board would therefore like to thank all employees for their hard work. Qualifications, motivation and above all successful team work are absolutely crucial, particularly in times of turbulence.

5.2. Customers

Offering customers personal and individual service is one of Hypo Alpe Adria's fundamental corporate principles. In line with the philosophy "banking business is people's business", the Bank has always seen the banking business as a partnership with customers which goes far beyond normal banking transactions. Our values – Fair, Local, Integer, Responsible & Transparent ("FLIRT" for short) – are the pillars of our customer service.

The good relationship built up with customers over many years is also the reason why in the difficult year 2010 Hypo Alpe Adria still managed to keep customer numbers at almost the same level. As before, over 1.2m customers place their trust in the expertise and partnership of Hypo Alpe Adria. This means that in terms of customer numbers the company is one of the most important financial-service providers in the Alps-to-Adriatic region.

5.3. Corporate Social Responsibility

Hypo Alpe Adria sees its markets not only as a place to do business, but rather as an integral component of the social and economic system. This is why taking on social responsibility is firmly anchored in Hypo Alpe Adria's corporate philosophy. Under the new management CSR activities have been given a focus and adapted to the conditions of the Group, which is currently facing major challenges. 2010 was a special year with regard to corporate social responsibility, as this was the year that the "Pro Futuro" charity programme was launched. The overriding goal of this programme is to provide children with better prospects for the future. It aims to offer help in a fast and non-bureaucratic way, in order to alleviate the suffering of societies in certain regions. A few examples to illustrate the many projects are given below.

In Italy the charity organisation A.B.C. Burlo received support from Hypo Alpe Adria. This organisation enables parents who have children in hospital to live in a building near the hospital for the duration of their child's stay.

Hypo Alpe Adria supports children with special needs in Croatia and made a donation to the Josip-Matos primary school in Vukovar. Children with serious learning difficulties are taught at this school.

Among numerous projects in Bosnia and Herzegovina, two children's homes were given support, namely Blejave in Sarajevo and the Majčino Selo children's home in Međugorje. These homes are mostly attended by orphans, who are given an education along with preparation for their future working lives. Children with special educational needs are taught vocational skills at the Zaštiti me centre in Banja Luka, where there is also a dedicated carpentry workshop for learning woodworking skills. Hypo Alpe Adria made a contribution to modernising and upgrading this facility.

In Slovenia the charitable volunteer-led organisation SAFY aims to give children from broken homes the chance to participate in sport and leisure activities. A donation from Hypo Alpe Adria made it possible for sixty children from disadvantaged families to take part in the project "Get movin – winter camp for kids".

The "Hypo Pro Futuro" charity programme enables Hypo Alpe Adria to take responsibility for societies in the regions in which it does business. Supporting individual projects is a contribution to establishing better social networks. The first impressive signs were seen in 2010 and many more are to come.

In 2011 the "Hypo Pro Futuro" projects will be focused around "Education". Every human being has the right to an education, but adequate learning materials and school facilities are not available everywhere. Many places cannot afford the urgent funds needed for improvements, and this is exactly where Hypo Alpe Adria intends to get involved.

Hypo Alpe Adria realises its social responsibility in a wide range of different ways. All of these initiatives, projects and aid programmes have one thing in common – they are a sign of the respect and gratitude for the trust placed in the entire Banking Group.

Another aspect of corporate social responsibility for Hypo Alpe Adria is preserving the environment. In addition to using environmentally friendly construction materials and guidelines to optimise energy consumption, in 2010 a range of organisational measures towards environmental protection were introduced. Examples include using video and web conference tools in place of business trips, along with newly defined standards for managing the vehicle fleet which specify that only highly efficient company vehicles with low CO_2 emissions are purchased.

6. Internal control system for accounting procedures

Hypo Alpe Adria has an internal control system (ICS) for Group accounting procedures, in which suitable structures and procedures are defined and implemented. As part of the ongoing restructuring measures there have been organisational changes in the credit administration process, reference is made to the final part of this section.

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

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

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

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

To summarise, these are ensured through:

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

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

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

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

- The chart of accounts and structure of financial reporting conforms to national and international standards and to the requirements of Hypo Alpe-Adria-Bank International AG
- The business activities of Hypo Alpe-Adria-Bank International AG are correctly and appropriately documented and reported
- All relevant records are systematically submitted in a traceable manner
- All data required for financial reporting is documented in a traceable manner
- The accounting processes prevent the assets of Hypo Alpe-Adria-Bank International AG from being used, sold or acquired without the appropriate approval

- All subsidiaries and Group units involved in producing financial reports are capable of fulfilling this function in terms of both education and staff capacity
- Responsibilities related to the Group accounting process are clearly and unambiguously regulated
- Access to the IT systems which are crucial to the accounting process is restricted, in order to avoid misuse
- All relevant stipulations, particularly those of the Austrian Banking Act, are adhered to.

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

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

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

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

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

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

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

The basis for applying the internal control system does however rely on the integrity and ethical behaviour of the employees first and foremost. The need for the Executive Board and management staff to act as role models in this respect is well known and is taken seriously.

It is important to note that, regardless of its form, an internal control system does not deliver absolute certainty that material accounting mistakes will be avoided or uncovered.

6.1. ICS-related activities in 2010

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

The department justified a follow-up project to implement the ICS in the Group, which led to its approval. The methods used in the "OP&K" project serve as the basis for this and are being refined.

Using the significant accounts, the processes relevant to the ICS were identified and prioritised, and then this list of priorities was steadily processed.

Group accounting procedures were updated and subjected to a detailed risk assessment.

6.2. ICS outlook

Based on the ICS-related processes, 'the risk owners' and 'control owners' will be identified and trained. Test scenarios will be developed and periodically reviewed.

In every Group subsidiary there will be one employee responsible for the ICS who will be appointed at local level and given training. The significant accounts and processes provide a further basis for the Group-wide implementation of a uniform ICS. The methods applied are valid for the entire Group and have been included in corporate policy.

7. Other disclosures

Information in accordance with section 267 of the Austrian Enterprise Code (UGB) on Events after the balance sheet date, as well as information on the use of financial instruments is presented in the notes to the consolidated financial statements, since it is obligatory to provide this information in the notes as per IFRS.

Hypo Alpe Adria does not conduct any research and development activities.

8. Outlook

The new management of Hypo Alpe Adria is pursuing a clear, forward-looking strategy for the restructured Group, which will in future concentrate on the SEE network, composed of banks in Slovenia, Croatia, Serbia, Bosnia and Herzegovina, and Montenegro. In future the leasing companies on these markets will be under the governance of the banks. The SEE network is managed by the holding in Klagenfurt am Wörthersee (Austria) and is characterised by its relevance to each of the domestic markets, significant importance for these markets to function as financial centres, as well as sustainable profitability.

The Italian unit HBI, which has been a steadily profitable Group unit until now, recently revealed weaknesses in the area of funding, which are currently being addressed through targeted measures and should therefore be overcome. The Austrian bank HBA has started a comprehensive restructuring programme which will be rolled out in the 2nd quarter 2011; the restructuring involves streamlining the bank and concentrating on its well-developed strengths (upmarket private customer segment, public). Both units are being prepared for reprivatisation.

For the foreseeable future there is no realistic alternative to the holding domiciled in Klagenfurt am Wörthersee, because of the extent to which the subsidiary banks depend on central funding and central control requirements in the essential areas of risk, market and organisation. The situation is generally comparable to that of the Bank's competitors – 90% of the large banks in the region are operated as part of a banking network.

All other units are being wound down or sold off step by step. These are mostly bundled both in terms of corporate law and organisation, the structures necessary for the wind-down have been established. The wind-down process will be carried out in line with the current market environment and should – if liquidity on the market improves – also be achieved in portfolios.

The Executive Board is convinced that by clearly focusing on the Group's geographic core competencies, namely the SEE region, along with the preparation and execution of wind-down and sales measures for certain business areas, it will be possible to achieve the best-possible situation for reprivatisation at the appropriate time.

The SEE countries which are the core countries for the soon-to-be-resized Hypo Alpe Adria managed to emerge from the trough last year after the economic crash caused by the crisis in 2009. The GDP growth forecast for these countries is a positive sign that the economic crisis is over for them. Croatia is the only one of these markets which saw a decline in economic output in 2010. Now that the German economy has bounced back, the export industry in our core countries facilitated a speedier recovery which is set to continue in 2011. Economic analysts have forecast growth in SEE countries in the coming years.

In the tourism industry, which is a major factor for the company because of the Group's regional spread, it was possible to reverse the trend last year, particularly in Croatia. An ongoing upsurge in Adriatic tourism will help with the planned wind-down of the portfolio.

In our most important foreign market, Croatia, a stable exchange rate between the Croatian kuna and the euro is expected. In contrast, the Serbian dinar is likely to continue to fall against the euro, particularly given the inflation forecasts. Following on from constant rises in the Swiss franc over the past few years, it also looks set to remain very strong against the euro in 2011.

The property markets in the SEE region stabilised in the second half of 2010. New construction activities, the number of large-volume sales transactions and property prices remained at a low level. A slight recovery in the area of tourism real estate has been forecast for 2011, while a significant increase in real estate transactions is forecast for 2012, bringing with it a sustainable market recovery. Until that time Hypo Alpe Adria will concentrate on property management which stabilises or adds value.

After some very difficult years the challenge for the coming years lies in making the Bank fully fit for the markets once again, an ongoing return to profitability as well as rebuilding the Bank's image. One crucial precondition for this is the rapid and systematic processing of suspected cases of illegality and the reasons for previous losses. This is being realised in the course of the "CSI Team Hypo" project, commissioned by the Republic of Austria as part of the nationalisation and being carried out together with the Finanzprokuratur. With this the Bank aims to ensure that every business activity strictly adheres to governance and compliance guidelines. Transactions which breach these guidelines will not be tolerated. Provisions were made in full for the predicted expense for the comprehensive examination of the past in the 2010 annual financial statements.

Another important step towards the comprehensive restructuring of the SEE banking group will be seen in 2011 with the conclusion of the reorganisation of the entire Group Risk Office which was started in the previous year. The focus for 2011 will be on the risk-related integration of the leasing units into their respective operative banking organisations, in addition to the Group-wide rollout of significant strategic risk projects planned for the middle of the year.

The extensive losses reported in recent years have led to a sharp overall decline in the Group's available own funds. In mid 2010 EUR 600m of participation capital was issued for the recapitalisation. The guarantee agreement concluded at the end of 2010 with the Republic of Austria in order to hedge the credit portfolio also served as further security for the capital base. Taking into account the sharp reduction in risk-weighted assets (RWA) in 2010 of around EUR 3.2bn to EUR 27.1bn, there was an own funds ratio of 10.3% at year-end. Given the wind-down of companies and portfolios which has been planned, Hypo Alpe Adria expects a significant reduction in disclosable risk-weighted assets over the planning period. The new capital regulations (Basel III), which will begin to come into force in 2013, will be followed for capital resource planning.

In the past year the Group completely withdrew from new business from cross-border financing and asset-based lending. This approach will continue in 2011 and existing business in particularly high-risk areas will be consistently wound down through sales activities, in order to push ahead with the restructuring of the financing portfolio. In this process every financing portfolio which displays an overly high concentration risk, either from a local viewpoint or a Group viewpoint, will be designated as wind-down. The target portfolio structure of the future is oriented towards the predefined sustainable target portfolio and will be fixed through the new credit policy in 2011.

Rigorous soft collection management and comprehensive corporate monitoring, i.e. an early-warning system and consistent watch-loan management, should serve to curb the shift from performing to non-performing loans in 2011. Because of the specific structure of the financing and leasing portfolio, which has a high concentration of real estate in terms of the collateral pledged, and because of the high proportion of non performing loans (NPLs) in the portfolios, there remains a degree of uncertainty with regard to forecasting for the 2011 business planning. Among other factors in order for the Group to break even in 2011, a general economic recovery in SEE must take place, and above all this must involve a reduction of the NPL portfolio by transferral back into the active sector and higher liquidity on the property market to facilitate the realisation of real estate collateral from our NPL portfolio.

The relationship to new and existing customers, above all in the retail and SME sector, will be intensified in 2011 through products designed specifically for the target groups and an improved range of services. The future focus will be on markets with well-established expertise and value-add potential, in order to guarantee a healthy business mix for the future. This will involve the Group taking on a stronger alignment towards sales and exploiting cost synergies and cross-selling potential, in particular by integrating leasing activities into the banking organisations. In terms of business customers the focus will be on the small-volume lending business combined with creating complete customer service for bank deposits and, for example, with our service range in cash management. In addition we want to utilise our expertise in the area of public finance, in order to increase this business sector. One goal of the reorganised Group is an enhanced concentration on the retail sector and business customers in the SME category, as this will generate customer deposits and should contribute to the sustainable funding structure of the Group. This will be supported by the targeted extension of the branch network, in Croatia and Serbia in particular, as well as a soft relaunch of the Hypo Alpe Adria brand, which should showcase the Bank's close relationship to customers and its unique focus on the Alps-to-Adriatic region.

In 2011 all new business transactions will only be conducted within the specially defined risk-mitigating framework of the Credit Policy. This provides for individual rating tools and loan-issue tools for the customer groups private individuals, SME, corporate and public and these should ensure more secure transactions with prices that take into account the respective level of risk. It is only by realising the new corporate aims and simultaneously adhering to the risk-cost budget – as well as maximising customer potential – that it will be possible to ensure the long-term profitability of the Group.

To summarise: In 2011 Hypo Alpe Adria will expedite its activities, which involve comprehensive reorganisation and an adjusted market strategy.

A significant reduction in assets and liabilities is planned for Hypo Alpe Adria for the following years, on the basis of the restructuring plan. This reduction is also tied to restructuring and wind-down costs, which – depending on the time of exiting the market and the market environment at that moment – can have a negative effect on the results of future periods.

These are drastic measures for Hypo Alpe Adria which will significantly alter the picture of the Group; they are also an integral part of the restructuring plan submitted to the European Commission. The Bank and its owners are involved in intense, constructive dialogue with the European Commission. They will eventually decide whether the long-term profitability of the Group can be reinstated through the planned measures, in which form an appropriate own contribution can be made, and which measures are necessary to compensate for the distortion of competition arising from the aid given to the Bank. Hypo Alpe Adria's planned realignment will be decisively influenced by the implementation and realisation of the restructuring plan's goals.

The high losses of recent years arose from an aggressive expansion strategy without adequate instruments for controlling and managing risk, as well as the lack of focus on the retail and SME business, which led to an unbalanced, high-risk business model and substantial funding weaknesses. Following intensive collaborative efforts, the Executive Board, newly appointed in 2010, is cautiously optimistic about developments in the current year 2011, a year in which the Executive Board aims to break even.

The current year represents a period of transition to 2012, a year in which Hypo Alpe Adria is set to return to full profitability.

23 March 2011, Klagenfurt am Wörthersee
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Consolidated Financial Statements (IFRS)

as of 31 December 2010

Table of Contents

I. Statement of Comprehensive Income

Income statement

in EUR m

	Note	1.1.–31.12.2010	1.1.–31.12.2009
Interest and similar income	(40)	1,853.3	2,080.8
Interest and similar expenses	(41)	-971.4	-1,211.8
Net interest income		**881.9**	**869.0**
Fee and commission income	(42)	139.9	147.4
Fee and commission expenses	(43)	-32.0	-26.2
Net fee and commission income		**107.9**	**121.2**
Result from trading	(44)	10.7	28.3
Result from hedge accounting	(45)	2.0	43.1
Result from financial investments – designated at fair value through profit or loss	(46)	-28.6	-36.7
Result from financial investments – available for sale	(47)	-42.8	-40.0
Result from other financial investments	(48)	-10.3	-9.8
Other operating result	(49)	-98.5	-141.7
Operating income		**822.2**	**833.5**
Risk provisions on loans and advances	(50)	-1,213.5	-1,672.3
Operating income after risk provisions on loans and advances		**-391.3**	**-838.8**
Personnel expenses	(51)	-266.1	-262.6
Other administrative expenses	(52)	-224.7	-215.8
Depreciation/amortisation on tangible and intangible assets	(53)	-104.0	-63.0
Operating expenses		**-594.8**	**-541.5**
Operating result		**-986.0**	**-1,380.3**
Result from companies accounted for at equity	(54)	2.1	-14.3
Result before tax		**-983.9**	**-1,394.6**
Taxes on income	(55)	-70.6	-155.9
Result after tax		**-1,054.5**	**-1,550.6**
attributable to non-controlling interest	(56)	6.2	30.5
attributable to equity holders of parent		-1,060.7	-1,581.0

Other comprehensive income

in EUR m

	1.1.– 31.12.2010	1.1.– 31.12.2009
Result after tax	**-1,054.5**	**-1,550.6**
Gains/losses on available-for-sale reserves	-13.9	105.6
Foreign exchange differences (change in foreign currency reserve)	-40.4	-15.9
Tax effects from valuation of available-for-sale assets	-4.2	2.1
Total other comprehensive income	**-58.5**	**91.8**
Total comprehensive income	**-1,113.0**	**-1,458.8**
attributable to non-controlling interest	7.0	35.6
attributable to equity holders of parent	-1,120.1	-1,494.4

II. Statement of Financial Position

in EUR m

	Note	31.12.2010	31.12.2009
ASSETS			
Cash and balances at central banks	(57)	843.6	1,019.9
Loans and advances to credit institutions	(58) (60)	5,178.7	4,086.6
Risk provisions on loans and advances to credit institutions	(60)	-13.1	-23.8
Loans and advances to customers	(59) (60)	28,217.5	30,116.6
Risk provisions on loans and advances to customers	(60)	-3,189.6	-2,423.9
Trading assets	(61)	66.9	72.9
Positive fair value from hedge accounting derivatives	(62)	1,048.1	933.3
Financial investments – designated at fair value through profit or loss	(63)	996.0	1,039.6
Financial investments – available for sale	(64)	2,527.3	2,714.2
Financial investments – held to maturity	(65)	42.3	42.1
Investments in companies accounted for at equity	(66)	5.1	1.7
Other financial investments	(67)	1,034.3	1,088.5
thereof investment properties		795.7	725.8
thereof operate leases		238.6	362.8
Intangible assets	(69)	55.7	63.6
Tangible assets	(70)	456.5	484.8
Tax assets	(72)	86.1	635.4
thereof current tax assets		24.1	49.4
thereof deferred tax assets		62.0	586.0
Assets classified as held for sale	(73)	274.7	138.3
Other assets	(74) (60)	1,131.1	1.091.2
Risk provisions on loans and advances on other assets	(60)	-8.1	-2.3
Total assets		**38,753.2**	**41,078.7**
EQUITY AND LIABILITIES			
Liabilities to credit institutions	(75)	6,350.0	7,556.6
Liabilities to customers	(76)	8,120.4	7,649.8
Debt securities in issue	(77)	20,141.8	20,761.0
Trading liabilities	(78)	6.2	4.8
Negative fair value from hedge accounting derivatives	(79)	167.8	126.7
Provisions	(80)	191.8	215.9
Tax liabilities	(81)	35.5	543.2
thereof current tax liabilities		23.5	29.4
thereof deferred tax liabilities		12.0	513.7
Liabilities included in disposal groups classified as held for sale	(82)	39.8	44.9
Other liabilities	(83)	1,061.7	978.6
Subordinated capital	(84)	1,187.8	1,207.1
Equity	(85)	1,450.4	1,990.1
attributable to equity holders of parent		945.4	1,465.6
attributable to non-controlling interest		504.9	524.5
Total equity and liabilities		**38,753.2**	**41,078.7**

III. Statement of changes in Equity

in EUR m

	Issued capital	Additional paid in capital	Available-for-sale reserves	Foreign currency translation	Cumulative result	Owners of the parent	Non-controlling interest	Total
Equity as of 1.1.2010	**1,023.2**	**0.0**	**-59.0**	**-16.7**	**518.2**	**1,465.6**	**524.5**	**1,990.1**
Capital increases	600.0	0.0	0.0	0.0	0.0	600.0	0.1	600.1
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-21.4	-21.4
Total comprehensive income	0.0	0.0	-19.2	-40.4	-1,060.7	-1,120.2	7.0	-1,113.2
Result after tax	0.0	0.0	0.0	0.0	-1,060.7	-1,060.7	6.2	-1,054.5
Other comprehensive income	0.0	0.0	-19.2	-40.4	0.0	-59.5	0.9	-58.7
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	-5.2	-5.3
Equity as of 31.12.2010	**1,623.2**	**0.0**	**-78.2**	**-57.2**	**-542.4**	**945.4**	**504.9**	**1,450.3**
Equity as of 1.1.2009	**962.5**	**881.1**	**-161.5**	**-0.6**	**339.3**	**2,020.7**	**509.1**	**2,529.8**
Capital increases	60.8	880.3	0.0	0.0	0.0	941.1	0.0	941.1
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-16.8	-16.8
Total comprehensive income	0.0	0.0	102.5	-15.8	-1,581.1	-1,494.4	35.6	-1,458.8
Result after tax	0.0	0.0	0.0	0.7	-1,581.0	-1,580.4	30.5	-1,549.9
Other comprehensive income	0.0	0.0	102.5	-16.5	0.0	86.0	5.1	91.1
Other changes	0.0	-1,761.3	0.0	-0.3	1,759.8	-1.8	-3.5	-5.3
Equity as of 31.12.2009	**1,023.2**	**0.0**	**-59.0**	**-16.7**	**518.0**	**1.465.6**	**524.5**	**1,990.1**

For further details on equity see note (85).

IV. Statement of Cash Flows

in EUR m

	2010	2009
Result after tax	**-1,054.5**	**-1,550.6**
Non-cash items included in profit/loss and reconciliation to cash flows from operating activities:		
Depreciation/amortisation, impairment and write-ups of tangible assets and financial investments	263.5	220.0
of financial investments	129.1	153.1
of intangible and tangible assets	134.4	66.9
Change in risk provision	1,053.2	1,597.1
Change in provision	51.0	117.2
Gains/losses from sale of tangible assets and financial investments	-4.0	-1.4
Financial investments	1.1	3.9
Intangible and tangible assets	-5.1	-5.3
Subtotal	**309.1**	**382.4**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	400.8	577.8
Financial assets	181.8	6.0
Trading assets	6.3	106.3
Other assets	-188.2	-6.4
Liabilities to credit institutions and customers	-749.1	-765.1
Debt securities in issue	-620.1	-653.4
Trading liabilities	1.3	-23.1
Provisions	-75.0	-8.9
Other liabilities from operating activities	173.6	-76.4
Cash flows from operating activities	**-559.5**	**-460.9**
Proceeds from the sale of:	258.5	244.6
Financial investments and participations	224.7	249.6
Tangible and intangible assets	33.8	-5.1
Payments for the purchase of:	-423.7	359.6
Financial investments and participations	-298.3	-296.8
Tangible and intangible assets	-125.4	-62.7
Proceeds from sale of subsidiaries	0.3	0.3
Payments for purchase of subsidiaries	-14.1	-0.4
Other changes	39.2	70.5
Cash flows from investing activities	**-139.7**	**-44.6**
Capital increases	600.1	941.1
Subordinated capital and other financing activities	-24.5	-388.0
Dividends paid	-21.4	-16.8
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non-controlling interest	-21.4	-17.0
Cash flows from financing activities	**554.0**	**535.9**

in EUR m

		31.12.2010	31.12.2009
Cash and cash equivalents at end of previous period	**(1.1.)**	**1,019.9**	**999.2**
Cash flows from operating activities		–559.5	–460.9
Cash flows from investing activities		–139.7	–44.6
Cash flows from financing activities		554.1	535.9
Effect of exchange rate changes		–31.3	–9.7
Cash and cash equivalents at end of period	**(31.12.)**	**843.5**	**1,019.9**

The cash flow statement in accordance with IAS 7 shows the changes to the cash and cash equivalents of Hypo Alpe Adria through payment flows from operating, investing and financing activities.

The cash flow from Hypo Alpe Adria's operating activities includes in and out flows from loans and advance to credit institutions and customers, from liabilities to credit institutions and customers, and from debt securities in issue. It also contains changes to trading assets and liabilities.

The cash flow from investing activities includes incoming and outgoing cash flows for securities and participations, intangible and tangible assets as well as proceeds from the sale of subsidiaries and payments for the acquisition of subsidiaries.

The cash flow from financing activities shows incoming and outgoing cash flows for equity and subordinated capital. Here, capital increases, dividend payments, and changes in subordinated capital are the main factors.

The item cash and cash equivalents is equivalent to the item cash and balances at central banks shown in the statement of financial position; this item includes cash and balances due on demand at central banks.

The significance of the cash flow statement is considered to be marginal for banks. Therefore Hypo Alpe Adria does not use it as a controlling instrument.

Notes to the Consolidated Financial Statements

Company

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

Hypo Alpe Adria is one of the leading banking groups in the Alps-to-Adriatic region and is represented by nine banks and twelve leasing companies across the region. On these markets Hypo Alpe Adria operates retail, SME, corporate and public segments, offering customers classic banking products such as financing, payment transaction and documentation services, investment products, saving and deposits, as well as leasing finance.

At 31 December 2010 Hypo Alpe Adria was present in twelve countries – Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Bulgaria, Macedonia, Germany, Hungary and Ukraine. The financial Group employs around 8,000 staff who serve more than 1.2m customers at around 330 branches across the Alps-to-Adriatic region.

On 12 May 2009 the European Commission opened a joint investigation into BayernLB and Hypo Alpe-Adria-Bank International AG. This investigation is currently conducting an in-depth examination of the state aid received in the years 2008 to 2010. For further details of this aid investigation please refer to the section "EU investigation/restructuring measures" in the Management Report. The European Commission's investigation is still ongoing at the present time. No assumptions can be made as to the date at which the aid investigation will be completed or what its conclusions will be. Significant effects on the business activities of the entire Banking Group cannot be ruled out as they are dependent on whether permanent approval is granted, along with any constraints related to the decision. With regard to assessing Hypo Alpe Adria's continuance as a going concern, the Executive Board makes all assumptions based on the Group's restructuring plan, whereby the future economic performance continues to be riddled with uncertainty owing to the impact of the economic crisis.

In the course of drawing up the restructuring plan, a detailed evaluation was carried out of the markets in which the Group is active. On the basis of these evaluations Hypo Alpe Adria will in future focus its activities on those markets in which there is already considerable experience and which show the potential for value enhancement in order to ensure a sustainable and healthy portfolio mix for the future and to re-establish long-term profitability.

Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria since 30 December 2009. The medium-term goal is to reprivatise the Bank and to repay as much of the money invested by the taxpayer as possible, whereby the most preferable option would be the sale of the entire company in order to retain the SEE network with the holding in Klagenfurt am Wörthersee.

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

Accounting policies and scope of consolidation

(1) Significant accounting policies

The consolidated financial statements of Hypo Alpe Adria as of 31 December 2010 were drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU and include comparative figures for 2009 which were drawn up in accordance with the same accounting principles. Please refer to note (2) with regard to estimates and assumptions in accordance with IAS 8. Information on deferred taxes is given in notes (72) and (81).

The consolidated financial statements of Hypo Alpe Adria as of 31 December 2010 were prepared in conformity with section 245a of the Austrian Enterprise Code (UGB) and section 59a of the Austrian Banking Act (BWG) according to Regulation (EC) No. 1606/2002 (the IAS Directive) of the European Parliament and the Council of 19 July 2002, on the basis of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes, which also include segment reporting. The consolidated financial statements are based on the reporting packages of all fully consolidated subsidiaries prepared in accordance with Group standards and IFRS. All fully consolidated subsidiaries have drawn up their financial statements for the period ended 31 December. As required by IAS 27, Hypo Alpe Adria applies uniform accounting principles throughout the Group. The consolidated financial statements are prepared on a going concern basis. With regard to possible effects arising from the EU proceedings and any uncertainties which may result from these, please refer to the “company” section and note (110).

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

In accordance with IFRS 7, mandatory information relating to the nature and extent of risks arising in connection with financial instruments is provided in the risk report which is part of the notes.

Revenue is recognised in accordance with IAS 18, when it is probable that the economic benefit will flow to the company and that the revenue amount can be reliably measured, irrespective of when the payment will be made. Dividend revenue is recognised when the shareholder’s right to receive payment is established. Interest income and interest expense is recognised at the effective interest rate for all financial instruments measured at amortised cost and interest-bearing financial assets classified as held for sale; this refers to the rate for calculating interest which exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter time period, to the net carrying amount of the financial asset or liability. All figures in the consolidated financial statements are expressed in millions of euro (EUR m), which is the functional currency. The tables may contain rounding differences.

On 23 March 2011 the Executive Board of Hypo Alpe Adria approved the consolidated financial statements as of 31 December 2010 for publication and submitted them to the Supervisory Board. The Supervisory Board is responsible for evaluating the consolidated financial statements and announcing whether it approves the consolidated financial statements as of 31 December 2010.

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were applied by Hypo Alpe Adria for the first time in 2010:

Standard	Description		Compulsory for annual periods beginning on or after
IFRS 3	Business Combinations	revised 2008	1.7.2009
IAS 27	Consolidated and Separate Financial Statements	revised 2008	1.7.2009
IAS 39	Financial Instruments: Recognition and Measurement – eligible hedged items	amendments	1.7.2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	improvements 2008	1.7.2009
IFRS 2009	Annual Improvements to IFRS 2009	improvements 2009	31.12.2009

As of 1 January 2010 the following IFRS/IAS standards were to be applied by Hypo Alpe Adria for the first time: IFRS 3 "Business Combinations", IAS 27 "Consolidated and Separate Financial Statements" and IAS 39 "Financial Instruments: Recognition and Measurement".

The revised IFRS 3 "Business Combinations" contains significant amendments. The standard specifies that all assets and liabilities acquired as part of a business combination must be recognised. When applying the so-called "full goodwill method", 100% of the goodwill of the acquiree rather than just the proportionate share of goodwill acquired is recognised. The consequence of this is that the higher goodwill amount also leads to a higher non-consolidated interest in the net assets of the acquiree. Another important new amendment involves transaction costs associated with the acquisition, which must now be recorded as an expense. The new standard will be applied in Hypo Alpe Adria to all business combinations with an acquisition date after 1 January 2010. For details on the effects of the revised IFRS 3 see note (4).

Amendments to the revised IAS 27 relate to all transactions with non-controlling interests, which must be presented within equity, should there be no change in ownership and should these transactions not generate goodwill, gains or losses.

The revised IAS 39 offers clarification on certain situations as they relate to hedge accounting.

Standards which were revised as part of the Annual Improvements process in 2008 and 2009 which were applied for the first time in 2010 are: IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39.

The following new IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were not applied in Hypo Alpe Adria as it does not meet the criteria for application:

Standard	Description		Compulsory for annual periods beginning on or after
IFRS 1	First-time Adoption of International Financial Reporting Standards	revised 2008	1.7.2009
IFRS 1	First-time Adoption of International Financial Reporting Standards – additional exemptions for first-time adopters	amendments	1.1.2010
IFRS 2	Share-based Payment – amended for group cash-settled share-based payment transactions	amendments	1.1.2010
IFRS 2	Share-based Payment	improvements to IFRS 2009	1.1.2010
IAS 7	Statement of Cash Flows	improvements to IFRS 2009	1.1.2010
IFRIC 12	Service Concession Arrangements		29.3.2009
IFRIC 15	Agreements for the Construction of Real Estate		31.12.2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation		30.6.2009
IFRIC 17	Distributions of Non-cash Assets to Owners		31.10.2009
IFRIC 18	Transfers of Assets from Customers		31.10.2009

The application of the following new IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, was not yet compulsory:

Standard	Description		Compulsory for annual periods beginning on or after
IAS 24	Related Party Disclosures	revised 2009	1.1.2011
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	amendments	1.7.2010
IAS 32	Financial Instruments: Presentation – classification of rights	amendments	1.2.2010
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	amendments	1.1.2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments		1.7.2010

The revised standard IAS 24 simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. IAS 24 will be applied prematurely in Hypo Alpe Adria in the financial year 2010.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" involve two new exemptions for first-time adopters; one relates to oil and gas assets and the other relates to determining whether an arrangement contains a lease. Application of this amendment has no effect on the consolidated financial statements of Hypo Alpe Adria, as Hypo Alpe Adria is not a first-time adopter.

In October 2009 an amendment to IAS 32 was published on the classification of rights issues. This addressed the classification of certain rights denominated in a currency other than that of the entity. The revised standard is compulsory for annual periods beginning on or after 1 February 2010.

IFRIC 14 presents an interpretation of IAS 19 – Employee Benefits. The amendment is valid under certain limited conditions, i.e. when a company is liable for minimum funding requirements and makes a prepayment which covers these requirements. The amendment allows prepayments of this kind to be recognised as an asset. The amendment 'Prepayment of a Minimum Funding Requirement' is compulsory as of 1 January 2011.

IFRIC 19 regulates how to account for financial liabilities extinguished by issuing equity instruments. The Group plans to apply the standards when they come into effect.

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

Standard	Description		Compulsory for annual periods beginning on or after
IFRS 9	Financial Instruments: Classification and Measurement		1.1.2013
IFRS 1	First-time adoption of IFRS – Removal of Fixed Dates for First-time Adopters	amendments	1.1.2011
IFRS 1	First-time Adoption of IFRS – severe hyperinflation	amendments	1.2.2010
IFRS 7	Financial Instruments: Disclosures about transfers of financial assets	amendments	1.7.2011
IAS 12	Income taxes – recovery of underlying assets	amendments	1.1.2010
IFRS 2010	Annual Improvements to IFRS 2010	improvements 2010	1.7.2010/ 1.1.2011

The new standard IFRS 9 "Financial Instruments: Classification and Measurement" is expected to lead to serious adjustments for Hypo Alpe Adria in relation to the classification of financial instruments. In the future instead of the previous four measurement categories of IAS 39 (see note (8)), there will only be two measurement categories under IFRS 9, for which classification will be determined based either on the business model or the characteristics of the financial asset. The measurement of these assets is primarily carried out at amortised cost if the objective of the business model is to hold the financial asset to collect the contractual cash flows or if the contractual terms of the financial asset stipulate interest payments or principal payments on specified dates. Should it not be possible to define these two factors, the financial instruments must in general be measured at fair value through profit or loss. All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss. The only possible exception is for those equity investments measured at fair value for which the entity has elected to report value changes in 'other comprehensive income' (at fair value through other comprehensive income, FVTOCI). If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss. Furthermore it will no longer be compulsory to account separately for embedded derivatives, instead these will be measured as an entire financial instrument at fair value through profit or loss.

The amendments to IFRS 7 "Disclosures – Transfers of Financial Assets" extend the disclosure requirements on transfers of financial assets. These amendments aim to increase transparency related to the transfer of assets for which the transferring entity retains risks associated with the financial asset. Additional disclosures are also required by this amendment if the transfers are unevenly distributed throughout the reporting period.

In December 2010 the IASB issued an amendment to IAS 12 "Income Taxes". The amendment addresses the problem of whether the carrying amount of an asset is realised through use or through sale. As a consequence of this amendment, SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" will no longer apply to investment properties carried at fair value. This amendment is compulsory for annual periods beginning after 1 January 2012.

In May 2010 the IASB published a collection of amendments (annual improvements) to various IFRS standards. None of the amendments is relevant for the 2010 financial year. The collection of amendments has not yet been endorsed by the EU.

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

Important uncertainties primarily relate to establishing risk provisions on loans and advances, assessing fair values, measurement of equity investments and the recognition of deferred taxes on tax loss carry-forwards.

Hypo Alpe Adria continuously assesses the recoverability of its problem loans and leasing receivables and allows for impairment by accruing risk provisions on loans and advances should there be indications to suggest impairment. To assess the recoverability, the amount, the time period, and probability of payment is measured. This measurement is based on a detailed analysis of carefully ascertained assumptions which are subject to uncertainties. When making estimates it was assumed that economic growth will remain subdued on the relevant markets, and this is reflected in the measurement of available collateral for the credit and leasing portfolios. A different assessment of these assumptions results in significantly different valuations of risk provisions on loans and advances. The actual loan defaults can therefore differ significantly from the risk provisions on loans and advances reported in these consolidated financial statements.

A detailed assessment of large-volume non-performing-loans was carried out in 2010 in the area of risk provisions on loans and advances and other credit risks on the basis of an asset review in cooperation with a renowned audit company. In addition to this, between September 2010 and January 2011, a Group-wide “review rush” and “due diligence” procedure was introduced for the first time, in which all cases of corporate exposure greater than EUR 5.0m at Group level were tested for impairment. For exposure between EUR 1.0m and EUR 5.0m, testing was carried out at local level under the management of the holding. In addition the revaluation of individual impairment amounts, collateral was revalued and attention was paid to any gaps in the documentation of collateral. Furthermore customer ratings were updated and measures to mitigate risk were introduced.

The fundamental realignment of the organisation, processing and methods used in the management of credit-related risks began in 2010 and will be completed in 2011. For this reason and given the existing weak economy it is impossible to rule out the possibility that additional risk provisions on loans and advances may be needed for the existing credit portfolio in 2011. For the valuation of certain real-estate securities, which are of sufficiently high quality and location, a moderate market recovery in the coming years was assumed for the calculation of the present value of risk provisions on loans and advances. It was also assumed that a reversal of impairment losses can be achieved through active restructuring and targeted wind-down management. The Bank has already begun to initiate numerous measures to achieve this aim and – wherever necessary – is also using external specialists. Any development on the property markets which deviates from these assumptions will influence the potential for a recovery in value which will have a knock-on effect on the actual (future) real-estate results.

For further information on the methodology related to risk provisions on loans and advances see note (18). The fair value of financial instruments not traded on active markets is established by means of various valuation models. The parameters used are based – whenever available – on observable market data. In Hypo Alpe Adria the following methods for measuring fair value are applied:

1. Comparison with the fair value of another financial instrument that is essentially identical to the instrument in question
2. Analysis of discounted cash flows
3. Option pricing models

Further details on measuring financial instruments are given in note (8).

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

Deferred tax assets from tax loss carry-forwards are recorded when it is probable that future taxable profits will be made which will enable these tax losses to be offset. The basis for these estimates is the respective business plans which have a time horizon of five years. Given the history of losses and uncertainties arising from the restructuring of the Group, we refrained from recognising deferred tax assets in 2010 for members of the domestic tax group of Hypo Alpe-Adria-Bank International AG; the amounts activated last year were reversed in profit and loss.

(3) Scope of consolidation

All entities that are directly or indirectly controlled by Hypo Alpe Adria and that are material for the presentation of the financial performance, financial position and cash flows of the Group are included in the consolidated financial statements. The full list of included subsidiaries is found in note (119).

These consolidated financial statements comprise 32 Austrian companies (2009: 33) – including Hypo Alpe-Adria-Bank International AG – and 81 (2009: 89) foreign subsidiaries:

	31.12.2010		31.12.2009	
	Fully consolidated	Equity method	Fully consolidated	Equity method
at 1.1.	**117**	**5**	**113**	**5**
Newly included in period under review	6	1	12	–
Merged in period under review	-9	–	-3	–
Excluded in period under review	-7	–	-5	–
Reclassified	1	-1	–	–
at end of period	**108**	**5**	**117**	**5**
thereof Austrian companies	30	2	31	2
thereof foreign companies	78	3	86	3

In accordance with the Austrian Banking Act, the fully consolidated entities comprise nine banks, 39 financial services providers, 22 providers of banking-related services, two securities investment firms, one financial holding and 34 other enterprises.

In the 2010 financial year, the following fully consolidated subsidiaries were included for the first time:

Company	Registered office	Ownership (indirect) in %	Method of consolidation	Reason
REZIDENCIJA SKIPER d.o.o.	Umag	100.00	Fully consolidated	Materiality
Skiper Hoteli d.o.o.	Umag	100.00	Fully consolidated	Materiality
X Turist d.o.o.	Umag	100.00	Fully consolidated	Materiality
Y Turist d.o.o.	Umag	100.00	Fully consolidated	Materiality
TLM-TVP d.o.o.	Sibenik	83.97	Fully consolidated	Materiality
Ananke Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.00	Fully consolidated	Materiality
URBANA PRENOVA IZOLA d.o.o.	Ljubljana	40.00	At equity	Materiality
HTC ENA d.o.o.	Ljubljana	100.00	Fully consolidated	Materiality

The enterprises REZIDENCIJA SKIPER d.o.o., Skiper Hoteli d.o.o., X Turist d.o.o. and Y Turist d.o.o. were newly included in the IFRS scope of consolidation. Inclusion in the scope of consolidation results from the additional acquisition of 75% of shares in REZIDENCIJA SKIPER d.o.o.. Previously this 25% shareholding was consolidated using the equity method. Because of the close ties of REZIDENCIJA SKIPER d.o.o. with its direct subsidiary, Skiper Hoteli d.o.o., as well as the two Group companies, X Turist d.o.o. and Y Turist d.o.o., and the uniform consideration resulting from these relationships, these were also fully consolidated into Hypo Alpe Adria's consolidated financial statements at the acquisition date of REZIDENCIJA SKIPER d.o.o. (30 April 2010). Ananke Handels- und Beteiligungs GmbH, Klagenfurt am Wörthersee was founded in 2010. The purpose of this subsidiary is to hold shares in a Slovenian company acquired in the course of realising collateral. URBANA PRENOVA IZOLA d.o.o., a 40% project company of HYPO LEASING d.o.o., Ljubljana, is included by HYPO LEASING d.o.o., Ljubljana under the equity method and is also included in the IFRS sub-group package of HYPO LEASING d.o.o., Ljubljana.

Outside the scope of consolidation, Hypo Alpe Adria does not maintain any special purpose vehicles considered to be structured investment vehicles (SIVs for short; special purpose vehicles engaging in off-balance sheet credit arbitrage).

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

As a general rule, non-consolidated subsidiaries and other shareholdings are shown in the item financial investments – available for sale. Such interests are generally assessed at fair value unless a reliable determination is not possible, in which case they are assessed at the cost of acquisition, less the impairment amount in the case of devaluation.

During the financial year 2010 the following 16 fully consolidated subsidiaries were eliminated from the consolidated Group:

Company	Registered Office	Ownership (indirect) in %	Method of consolidation	Reason
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	100.00	Fully consolidated	Merger
Alpe-Adria Investments d.o.o.	Zagreb	100.00	Fully consolidated	Merger
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d.	Beograd	100.00	Fully consolidated	Merger
MM SIGMA d.o.o.	Ljubljana	100.00	Fully consolidated	Merger
NAGELE NEPREMICNINE d.o.o.	Ljubljana	100.00	Fully consolidated	Merger
HYPO DVA d.o.o.	Ljubljana	100.00	Fully consolidated	Merger
NIVA GRADNJA d.o.o.	Zagreb	100.00	Fully consolidated	Merger
HYPO INGATLAN Kft.	Budapest	100.00	Fully consolidated	Liquidation
SPC ERCS Kft.	Budapest	100.00	Fully consolidated	Liquidation
HYPO Projektentwicklungs GmbH	Klagenfurt am Wörthersee	100.00	Fully consolidated	Sale
ALPE ADRIA CENTAR d.o.o.	Zagreb	100.00	Fully consolidated	Merger
TCK d.o.o.	Ljubljana	100.00	Fully consolidated	Materiality
HYPO FM Holding GmbH	Klagenfurt am Wörthersee	100.00	Fully consolidated	Liquidation
HYPO Facility Service d.o.o. Beograd	Beograd	100.00	Fully consolidated	Liquidation
HYPO INVESTMENTS a.d. Beograd	Beograd	100.00	Fully consolidated	Liquidation
CASTELLUM d.o.o.	Zagreb	100.00	Fully consolidated	Merger

Companies excluded from the consolidated Group in 2010 include HYPO ALPE-ADRIA-ULAGANJE d.o.o., Zagreb, which merged with Hypo Alpe Adria NEKRETNINE d.o.o. in April 2010. Alpe-Adria Investments d.o.o., Zagreb merged with AA CENTAR d.o.o. in April 2010. Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd, which was previously wholly owned by the Group, was merged with a non-Group pension fund and renamed HYPO-GARANT a.d., in which HYPO ALPE-ADRIA-BANK AD BEOGRAD, Beograd still holds 37%. At the beginning of May 2010 MM SIGMA d.o.o., NAGELE NEPREMICNINE d.o.o. and HYPO DVA d.o.o. were merged into their local parent company, HYPO LEASING d.o.o., Ljubljana. The Croatian subsidiary NIVA GRADNJA d.o.o. was merged with its sister company into Alpe-Adria Poslovodstvo d.o.o.. HYPO INGATLAN Kft. and SPC ERCS Kft. do not have any assets and will therefore be liquidated. ALPE ADRIA CENTAR d.o.o., headquartered in Zagreb, merged with its sister company HYPO ALPE-ADRIA NEKRETNINE d.o.o. in the 3rd quarter 2010. TCK d.o.o, which previously held shares in a Slovenian company, transferred all of the assets which it had previously held and was therefore eliminated from the consolidated Group. HYPO FM Holding GmbH, the holding company of Serbian HYPO Facility Services d.o.o., in liquidation, was eliminated from the consolidation along with this company in the 3rd quarter 2010 on the grounds of insignificance. HYPO INVESTMENTS a.d. Beograd, was liquidated in December 2010. Castellum d.o.o. was merged with Alpe-Adria Nekretnine d.o.o. at the end of the 4th quarter 2010.

There were no other changes to the consolidated Group. Overall the changes to the consolidated Group do not have any significant effect on the Group's financial performance, financial position or cash flows.

(4) Business combinations

On 30 April 2010 Hypo Alpe Adria exercised the option to acquire the 75% of shares in REZIDENCIJA SKIPER d.o.o. which were held by a third party. Effective as of this date, the Group owns 100% of shares in the company and thereby also 100% of shares in its subsidiary, Skiper Hoteli d.o.o. In addition, X Turist d.o.o. and Y Turist d.o.o. were consolidated for the first time, having not previously been included in the consolidated financial statements due to their insignificance. As they are part of the "Skiper" real estate project, these subsidiaries have been fully consolidated since 30 April 2010.

The effects on the consolidated Group of Hypo Alpe Adria resulting from the first-time consolidations mentioned above are shown below:

in EUR m

	Rezidencija Skiper d.o.o.	Skiper Hoteli d.o.o.	X Turist d.o.o.	Y Turist d.o.o.	Total
Date of acquisition	30.4.2010	30.4.2010	30.4.2010	30.4.2010	
Share acquired	75.00%	100.00%	100.00%	100.00%	
Revalued assets	**11.5**	**100.3**	**10.3**	**10.8**	**132.9**
Revalued liabilities	**17.0**	**100.4**	**0.5**	**0.3**	**118.2**
Net assets	**–5.5**	**–0.1**	**9.8**	**10.5**	**14.7**
Acquisition costs	0.0	0.0	7.9	7.9	15.9
Remaining goodwill/badwill	**5.5**	**0.1**	**–1.8**	**–2.6**	**1.1**

The resultant net goodwill for the "Skiper" real estate project was tested for impairment at the time of first consolidation and the depreciated amount was immediately recognised in profit or loss and recorded in the income statement under other operating income and in the segment report in the segment "wind-down other investments".

On 1 September 2010 Hypo Alpe Adria acquired a total of 83.97% of shares in TLM-TVP d.o.o., Sibenik, for EUR 3.7m via the Group company Aluflexpack d.o.o., Zadar. This acquisition was the result of a tender procedure initiated a long time ago, with which the State of Croatia sold the company TLM d.d. to a consortium of which Hypo Alpe Adria was a member. From the direct acquisition of TLM d.d. three successor companies were established, TLM-TVP d.o.o., TLM-TPP d.o.o. and Adrial Plus d.o.o.. In line with the agreements between the consortium partners, Hypo Alpe Adria was assigned a share of 83.97% in the company TLM-TVP d.o.o., which had already received significant funding from the Group. The acquisition of this company is also tied to the takeover of future investment obligations.

The purpose of this acquisition was to establish an integrated aluminium company, which would cover the entire value chain by producing the necessary aluminium pre-products right through to the end products for packaging. While Aluflexpack d.o.o., situated in Umag, is one of the largest aluminium packaging producers with a 450-strong workforce, the acquired TLM-TVP d.o.o., with around 550 workers, is capable of producing all of the necessary pre-products, thereby securing the entire production chain.

Because of the fact that significant contractual relations between TLM-TVP d.o.o. and its suppliers have not yet been newly agreed, and the fact that no final agreement regarding the liabilities taken over from the predecessor company, TLM d.d., and now split between its three successor companies, has been reached, along with the fact that no approval for this acquisition from the competition authorities has been issued, it was not possible to record a conclusive measurement of this acquisition. These circumstances led to this business combination being accounted for the first time on the basis of a preliminary purchase price allocation (PPA) in accordance with IFRS 3.45. This PPA involved distributing the future cash flows estimated to be generated from this company to the assets acquired, which yielded impairment on the tangible assets of around EUR –30.0m, which had to be recognised. Contingent liabilities related to the privatisation process were not recognised as they could not be quantified.

in EUR m

	TLM-TVP d.o.o.
Date of acquisition	1.9.2010
Share acquired	83.97%
Revalued assets	**83.3**
Revalued liabilities	**114.3**
Net assets	**–31.0**
Acquisition costs	–26.0
Remaining goodwill/badwill	3.7
Remaining goodwill/badwill	**29.8**

In accordance with IFRS 3, final adjustments to the PPA must be made within one year of the acquisition date, which may have a material effect on the consolidated financial statements. The total current transaction costs related to this acquisition are considered not to be significant. The resultant goodwill (as per partial goodwill method) from the provisional first-time accounting of this business combination was tested for impairment and, when impairment was determined, the impaired amount was immediately recognised in profit or loss, and recorded in the income statement under other operating income and in the segment report in the segment “wind-down other investments”. The amount at which the shares without controlling interest in TLM-TVP d.o.o were recognised as capital in the course of the provisional first consolidation amounts to around EUR –6.0m.

Previously loans to TLM d.d. were recorded under loans and advances to customers, but because TLM-TVP d.o.o. is included for the first time in the consolidated financial statements, along with its assets and liabilities to non-Group entities, this has an effect on the consolidated financial statements of Hypo Alpe Adria. From its operational business activities, TLM-TVP d.o.o. generated a pre-tax loss for the period of around EUR –6.0m since the date of its inclusion, i.e. in the last four months. This resulted from gross earnings of around EUR +3.0m, administrative expense of around EUR –6.0m and financing and commission expenses of EUR –3.0m.

in EUR m

Assets	TLM-TVP d.o.o.	Preliminary Purchase Price Allocation adjustments	TLM-TVP d.o.o. after provisional PPA adjustments
Loans and advances to credit institutions	0.1	0.0	0.1
Loans and advances to customers	0.9	0.0	0.9
Tangible assets	51.6	-29.9	21.7
Other assets	60.7	0.0	60.7
Total assets	**113.2**	**-29.9**	**83.3**

in EUR m

Liabilities	TLM-TVP d.o.o.	Preliminary Purchase Price Allocation adjustments	TLM-TVP d.o.o. after provisional PPA adjustments
Liabilities to credit institutions	80.3	0.0	80.3
Provisions	0.8	0.0	0.8
Other liabilities	33.2	0.0	33.2
Equity	-1.1	-29.9	-31.0
Total liabilities	**113.2**	**-29.9**	**83.3**

Further details in accordance with IFRS 3 are not given owing to the insignificance of this acquisition on the consolidated financial statements.

In the year 2009 company acquisitions break down as follows:

in EUR m

	HYPO NEPREMICINE d.o.o.
Acquisition date	1.6.2009
Share acquired (dir.)	100%
Assets	16.5
Fair value adjustment	2.4
Revalued assets	**16.5**
Liabilities	16.6
Fair value adjustment	0.5
Revalued liabilities	**17.1**
Net assets	**1.8**
Acquisition costs	1.8
Remaining goodwill/badwill	**0.0**

(5) Consolidation methods

Business combinations are accounted for in accordance with IFRS 3 (Business Combinations) using the acquisition method. All identifiable assets and liabilities of the respective subsidiary are recognised at their acquisition-date fair values. Any difference between the cost of acquisition and the fair value of identifiable assets and liabilities is recognised as goodwill, which is reported in intangible assets. If the difference is negative, the resulting gain is recognised in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once per year.

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

For reporting shares in joint ventures the equity method has been used for consolidation and the carrying amount determined by the equity method is shown separately in the statement of financial position.

There are in total five companies included in the consolidated financial statements which have been accounted for using the equity method.

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

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

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

(6) Foreign currency translation

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

Open forward transactions are translated at forward rates.

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

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

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

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

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

Foreign currency translation Rates in units per EUR	Closing date 31.12.2010	Average	Closing date 31.12.2009	Average
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.38300	7.29530	7.30000	7.34530
Swiss franc (CHF)	1.25040	1.37870	1.48360	1.50590
Serbian dinar (RSD)	105.49820	102.90290	95.88880	93.69530
Hungarian forint (HUF)	277.95000	276.03920	270.42000	280.30380
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	10.57310	10.55410	11.50090	10.89700
Macedonian denar (MKD)	61.50500	61.49890	61.17320	61.28320

(7) Securitisation

The securitisation of debt portfolios is an established instrument used by Hypo Alpe Adria to gain access to additional sources of liquidity through placing asset-backed securities (ABS) with investors or as part of a repurchase agreement in the international or local capital market. Beyond its main use as a method of refinancing, the securitisation method should be deployed as an integrative part of overall management of the Bank.

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

Hypo Alpe Adria acts both as originator as well as investor and co-arranger in the securitisation of its own debt portfolios. Hypo Alpe Adria also conducts additional swap partner and credit enhancement activities for individual transactions.

As of 31 December 2010 there were three issues of securitisation transactions, which were concluded in 2002 (first transaction) and 2009 (second and third transactions). In all three transactions the Italian banking subsidiary Hypo Alpe-Adria-Bank S.p.A. securitised its leasing portfolios, with the SPE Dolomiti Finance S.r.l. handling the securitisation.

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

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

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

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

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

Financial assets are derecognised when the contractual rights to the cash flows expire or when the transfer qualifies for derecognition under IAS 39. Financial liabilities are derecognised when the obligation has been paid or has expired.

In general, the fair value of a financial asset is determined by reference to quoted prices. If no quoted prices exist, the future cash flows of a financial instrument are discounted to present value using the respective interest-rate curve. When measuring options, option price models that take into account actual market parameters are used. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost.

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

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

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

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

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

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

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

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

Designation in accordance with conditions 2 and 3 gives a better reflection of the financial situation and financial performance, see note (46).

Financial investments held to maturity
This category may only include financial assets with fixed or determinable payments and fixed maturity which the Group intends and is able to hold to maturity. They are measured at amortised cost, with premiums and discounts being spread in the accounts over the respective term by means of the effective interest method. Impairment losses are recognised in profit or loss and are shown in the item interest and similar income as well as interest and similar expenses.

Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost. Impairments (risk provisions) are recorded as a separate item in the statement of financial position under risk provisions on loans and advances, see notes (18) and (60).

Financial investments available for sale
This category includes all financial assets that are not assigned to any of the aforementioned categories. Subsequent measurement is at fair value, whereby gains and losses – after taking into account deferred taxes – are recognised in other comprehensive income. Upon disposal, the differential amounts to the carrying amount recorded in the available-for-sale reserve are released to profit or loss. Premiums and discounts on debt instruments are spread in the accounts over the respective term by means of the effective interest method. Impairment losses are recognised immediately in profit or loss.

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

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

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

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

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

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

(9) Classes of financial instruments according to IFRS 7

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

The following table shows the classes defined by and for Hypo Alpe Adria:

	Essential valuation standard			Categories as per IAS 39
Type of class	At fair value through profit or loss	At cost	Other	
Asset classes				
Cash and balances at central banks			Nominal value	n/a
Loans and advances to credit institutions		x		LAR/LAC
Loans and advances to customers		x		LAR/LAC
of which: receivables from financing leasing		x		n/a
Trading assets	x			HFT
Positive fair value from hedge accounting derivatives	x			Fair Value Hedge
Financial investments – designated at fair value through profit or loss	x			FVO
Financial investments – available for sale			at fair value through equity	AFS
Financial investments – held to maturity		x		HTM
Investments in companies accounted for at equity				n/a
Other financial investments		x		
Assets classified as held for sale			Net disposal value	n/a
Other assets				
Liability classes				
Liabilities to credit institutions	x	x		LAR/LAC
Liabilities to customers	x	x		LAR/LAC/FVO
Debt securities in issue	x	x		LAR/LAC/FVO
Trading liabilities	x			HFT
Negative fair value from hedge accounting derivatives	x			Fair Value Hedge
Liabilities included in disposal groups classified as held for sale			Net disposal value	

(10) Fair Value

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

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

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

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

(11) Hedge accounting

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

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

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

In the case of 100% effectiveness, the measurement effects of hedged items and the hedging instrument are fully offset and have no impact on the income statement. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognised in hedging profit or loss (hedge accounting).

A similar effect can be achieved for the item to be hedged – without having to fulfil the rigid rules of hedge accounting – if the fair value option (FVO) of IAS 39 is used. The adoption of the fair value option is irrevocable and requires documentation of the offsetting of risks. The prerequisites for a possible designation in the fair value option category are found in note (8). Positive market values of derivatives which are used for hedging are stated in the item financial investments – designated at fair value through profit or loss, while negative market values are stated in the item other liabilities.

(12) Leasing

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

The majority of the lease contracts entered into by Hypo Alpe Adria as lessor are classified as finance leases. In the statement of financial position, these are recorded under receivables from financing leasing at the net investment value (present value). The receipts are split into interest income with impact on profit and loss, as well as debt repayments without impact on profit and loss.

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

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

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

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

(13) Investment Properties

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

Investment properties are carried at cost less accumulated depreciation and any impairment losses, adopting one of the options provided for in IAS 40, namely the cost model, whereby straight-line depreciation is applied over the useful life of the intangible asset. Current rental income and scheduled depreciation on rented buildings is offset and shown in interest and similar income. Capital gains and impairment losses are recognised in result from other financial investments.

Investment properties are reported in other financial investments, see note (25).

(14) Repurchase agreements

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

(15) Fiduciary transactions

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

(16) Cash and balances at central banks

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

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

(17) Loans and advances

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

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

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

(18) Risk provisions on loans and advances

Credit risks are accounted for by forming specific and portfolio-based provisions and by setting aside reserves for off-balance-sheet commitments.

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

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

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

After taking into account the customer segment and volume involved, Hypo Alpe Adria assumes the following LIP (Loss Identification Period) factors when calculating portfolio-based risk provisions on loans and advances: for banks and states: 0.1 (2009: 0.1); for corporate and retail customers where there is an exposure greater than EUR 12.5m: 0.33–0.5 (2009: 0.33–0.5); for the others: 0.83–1.0 (2009: 0.83–1.0); and for customers with a rating of 5A and a significant delay in payment, a LIP factor of 1.0 (2009: 1.0).

Losses identified after the realisation of collateral are charged against an existing provision or directly written off. Recoveries of loans and advances previously written-off are recognised in profit or loss. Allocations and reversals of impairment and provisions for risks related to the lending business are recognised in the income statement under risk provisions on loans and advances.

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

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

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

(19) Trading assets

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

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

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

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

(20) Positive and negative fair values from hedge accounting derivatives (Hedge Accounting)

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

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

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

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

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

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

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

(22) Financial investments – available for sale

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

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

The measurement result for this category is recognised – after consideration of deferred taxes – in other comprehensive income. Material and permanent impairment losses are recorded in profit or loss. Reversals of impairments of debt instruments are recognised in the item result from financial investments – available for sale reversals of impairments of equity instruments are recognised only in the item other net income and not in the income statement. Capital gains and losses are reported in the item result from financial investments – available for sale.

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

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

(23) Financial investments – held to maturity

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

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

(24) Investments in companies accounted for at equity

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

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

(25) Other financial investments

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

With regard to the measurement of investment properties and assets used for leasing purposes (operate lease), further information is given in note (13).

(26) Tangible and intangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are measured at acquisition or manufacturing cost less depreciation. Internally generated software is recognised in accordance with IAS 38, always providing that the conditions for recognition pursuant to the standard are fulfilled.

Acquired goodwill is recognised at cost on the date of acquisition. The straight-line method of depreciation is not applied to goodwill, it is instead subject to annual impairment testing in accordance with IAS 36. More frequent testing is required if events and circumstances indicate that an impairment may have occurred. If and when such tests reveal impairment, impairment is applied on the basis of a discounted cash-flow calculation taking into consideration the interest rate which is applied to the respective asset, whereby the asset's individual useful life in the Group is also considered. A possible change in the amount of the referential interest rate used as a basis can have a significant effect on impairment expense included and therefore also on the carrying amount of the asset.

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

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

Depreciation/amortisation rate and useful life	in percent	in years
for immovable assets	2 – 4%	25 – 50 years
for movable assets	5 – 33%	3 – 20 years
for software	20 – 33%	3 – 5 years

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

(27) Taxes on income

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

Deferred tax assets and liabilities are computed using the liability method, which compares the tax base of the balance sheet items with the carrying amounts pursuant to IFRS. In the case of temporary differences, taxes are deferred. For temporary differences associated with shares in domestic subsidiaries, no deferred tax liabilities are recognised in accordance with IAS 12.39 (b) because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax assets are recognised for temporary differences, which lead to a tax credit when recovered. The tax assets and deferred tax liabilities were netted for the first time in 2010 as required by IAS 12.

Changes to the tax rate are taken into account with respect to the determination of deferred taxes, always providing that they are known at the time of establishing the consolidated financial statements. In accordance with IAS 12 long-term deferred taxes are not discounted. Deferred tax assets are recorded in respect of unused tax loss carry-forwards if it is deemed probable that future taxable profits will be available. This assessment is based on business plans passed by the Executive Board. The recoverability of a deferred tax asset due to a tax loss carry-forward and temporary differences is reviewed at the end of each reporting period.

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

From 1 January 2005 the Group taxation option was exercised, with Hypo Alpe-Adria-Bank International AG acting as the lead company. The Group taxation agreement drawn up to this end contains the rights and duties of the lead company and Group members as well as the compulsory ruling on tax reconciliation as laid down by section 9 (8) of the Austrian Corporation Tax Act (KStG). This includes, in particular, the procedure for making the Group taxation application, the determination of the individual Group members' tax results, rights/duties to receive/provide information, elimination from the Group, dissolution and duration of the Group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to Group members by means of a fixed charge/credit rate.

(28) Assets held for sale

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

1. Direct availability for sale
2. High probability of sale
3. Concrete intention to sell
4. Sale within twelve months

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

If the prerequisites are fulfilled, the disposal group shall be assessed at the end of the reporting period according to the special rules of IFRS 5 and measured at the lower of carrying amount and fair value less costs to sell.

In the statement of financial position, the assets put up for sale and the liabilities associated therewith shall be shown in a separate main item each. In the income statement, it is not compulsory to report the associated expenses and income separately. Detailed information can be found on this in notes (73) and (82).

(29) Other assets

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

Receivables other than those arising from banking activities mainly include loans and advances, receivables from tax authorities relating to taxes other than income taxes. Deferred items and other receivables arising from non-banking activities are recognised at their nominal values.

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

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

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

(30) Liabilities

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

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

(31) Trading liabilities

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

(32) Long-term employee provisions

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

In the former case, a fixed contribution is paid to an external provider. These payments are recognised under staff expense in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

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

Provisions for long-term employee benefits are measured in accordance with IAS 19 – Employee-Benefits using the projected unit credit method. The determination of the value of the future commitment is based on an actuarial expert opinion prepared by independent actuaries. The value shown in the statement of financial position is stated as the present value of the defined benefit obligation. Actuarial gains and losses are recognised immediately in staff expense. The option offered by IAS 19.92 ('corridor' method) is not exercised.

The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate of 4.75% (2009: 5.25%) as of 31 December 2010, as well as the consideration of wage and salary increases – unchanged against the previous year – of the active employees at a rate of 3.0% p.a. and an increase in pay to already retired former employees at a rate of 2.0% p.a. Fluctuation deductions are considered, the maximum deduction being 6.0%. The basic biometric data are taken from the Generations Life Expectancy Tables of the AVÖ (Austrian Actuarial Society) 2008 P for employees.

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

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

(33) Provisions for credit commitments and guarantees

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

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

(34) Provisions for restructuring

Provisions are only recorded for restructuring if the general criteria for accruing provisions in accordance with IAS 37.72 are fulfilled. In particular, the company must have committed itself demonstrably to such action, as evidenced by the existence of a detailed and formal restructuring plan and the announcement of the measures set out in it to those affected.

The cost associated with the restructuring measures is reported as a separate position under other operating result – see note (49).

(35) Other provisions

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

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

(36) Other liabilities

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

(37) Subordinated capital

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

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

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

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

For further information on subordinated capital, see note (112).

(38) Equity (including non-controlling interest)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities and obligations which cannot be terminated by the investor.

Issued capital represents the amounts paid in by shareholders in accordance with the memorandum and articles of association, as well as any amounts of participation capital (equity participation) issued.

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

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

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

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

Notes to the Income Statement

(39) Segment reporting

The basis for segment reporting is provided by IFRS 8 – Operating Segments.

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

The Group's restructuring and new alignment in 2010 led to the need for adjustments in the way that segments are broken down for reporting purposes. As the information needed to produce a retrospective statement of the adjusted segments is not available because of changes to the booking methods, and as the costs of subsequent compilation would be excessively high, the values for the 2009 comparable period have not been adjusted. Comparisons with the previous year's figures and conclusive analysis of the changes is – with the exception of Italy – not possible, because of variations in the way entities are assigned and the fact that in 2010 refinancing costs are no longer allocated to the carrying amounts of investments. Reporting of segment figures as required by IFRS 8.30 is not possible for 2010 on the basis of the way the segments were divided in the previous year due to system-related restrictions.

In line with the restructuring plan produced for the purpose of the EU proceedings, each part of the Group, which will be steadily wound down, is reported separately from the remaining business activities. The "continuance" Group units which will not be wound down consist of the strategic SEE network, i.e. bank and leasing companies in Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and Croatia (only banking units), the business activities in Italy and the core part of the Austrian banking business.

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

All equity investments (participation companies) which operate in the areas of industry, tourism or real-estate fall under "other investments". These are therefore not part of the future business activities and accordingly are set to be steadily wound down in the medium term through appropriate accompanying measures.

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

SEE network

The business units included in this segment generated total net interest income of in EUR +464.6m and net commission income of EUR +70.3m. Regression was seen in trading income, which includes foreign currency translation, and where – Croatia in particular – had lower margins from foreign exchange services. High risk provisions on loans and advances in 2010 were the main reason why this segment ended the year with a significant total loss of EUR –117.2m. The largest share of the total EUR –411.2m in risk provisions on loans and advances was linked to Slovenia, followed by Bosnia, Croatia, Serbia and Montenegro. While in Slovenia the massive impairment of securities was responsible for the high risk provisions on loans and advances, the key factor in Bosnia and Croatia was the increase in the non performing loan (NPL) portfolio.

Italy
The Italy segment, which is almost entirely managed by the banking subsidiary in Udine, is the only segment within the Group which managed to end the 2010 financial year with positive results. Risk provisions amounted to EUR –46.1m, which was lower than the comparative figure for the previous year (EUR –56.3m), and although the macroeconomic environment was highly challenging as a whole risk provisions remained at acceptable levels. Considering net interest income of EUR +118.3m, net commission income of EUR +12.3m, risk provisions on loans and advances of EUR –46.1m, operating expenses of EUR –60.4m and other income items, it was possible to achieve after-tax earnings of EUR +9.4m.

Austria
The part of the Austrian banking unit designated for continuance achieved net interest income of EUR +55.7m and net fee and commission income of EUR +13.1m in 2010. Taking into consideration result from other financial investments, which suffered from the premature termination of a financial transaction of EUR –10.6m, operating expenses of EUR –62.2m, risk provisions on loans and advances of EUR –21.5m and other items on the income statement, there are negative segment earnings after tax of EUR –16.6m. An optimisation programme launched in 2010 should guarantee the ongoing profitability of this segment.

Wind-down financials
The Group leasing and financing companies and the sub-divisions of the two Austrian banks which are not considered to be part of the future continuance group as per the restructuring plan drawn for EU purposes, generated total net interest income of EUR +182m and negative net fee and commission income of EUR –5.7m. The negative result from trading of EUR –13.1m was mainly caused by operate lease agreements financed in foreign currencies, which led to a negative result from foreign currency valuation. Negative impact on income from financial investments in this segment arose from the negative measurement effect of shares acquired in the course of realising collateral, the portfolio of a securities investment company, as well as own liabilities which were accounted for at fair value. Other operating income amounted to EUR –21.8m and was overwhelmingly affected by high impairment on leasing agreements, which had to be transferred to own holdings when the contracts were prematurely terminated. Costs for individual and portfolio impairment adjustments are reported under risk provisions on loans and advances and totalled EUR –735.0m. The majority of these were from Group leasing companies, whereby the Croatian leasing company had a particularly significant effect. Similarly high risk provisions were recorded for the cross-border financing portfolio operated from Austria and the large-volume credit financing of Austrian banking subsidiaries which are being wound down. Taking into account expense from the full write-down of the loss carry-forward recognised as an asset in Austria which was also assigned to this segment, there were negative segment earnings after tax of EUR –808.5m, which thereby represents more than three-quarters of the Group's total loss.

Wind-down other investments
The real-estate, industrial and tourism investments which are also being wound down reported negative net interest income of EUR –20.5m and net fee and commission income of EUR –1.1m because of the characteristics of their business operations. As the refinancing of some of these companies is conducted in a foreign currency, exchange rates – in particular for the Swiss franc – led to negative result from trading of EUR –9.6m. Income from financial investments was negative at EUR –7.0m, which was caused in particular by the impairment of equity investments. Other operating income includes revenues and expense directly related to service provision and was also negative at EUR –21.0m, as it was affected by the first-time consolidation of the Croatian TLM-TVP and the "Skiper" real-estate project (impairment of goodwill amounting to EUR –30.8m) in the consolidated financial statements and impairment on plant and equipment included in current assets. After including operating expenses of EUR –90.9m, which contains impairment on existing plant and equipment in the tourism and industrial sectors, and other items in the income statement, this segment generated earnings after tax of EUR –149.2m.

Consolidation/Head Office

Included in this segment are the core activities of the Austrian Group holding company, namely controlling and allocating resources to the Group companies, as well as consolidation effects between the individual segments. Because of the financing function it fulfils in the Group, this segment recorded clearly positive net interest income of EUR +81.7m and net fee and commission income of EUR +19.0m. Hedging measures related to the Serbian dinar also had a positive impact on result from trading. Significant consolidation effects between the segments were included in other operating income and in administration expense. For this segment net earnings after tax amounted to EUR +27.6m.

2010 business year:

Period 1.1.–31.12.2010	SEE core countries	Italy
Net interest income	464.6	118.3
Net fee and commission income	70.3	12.3
Result from trading	8.2	-2.8
Result from hedge accounting	0.0	0.1
Result from fin. investments – afvtpl	0.0	0.1
Result from fin. investments – afs	-2.6	0.0
Result from fin. investments – htm	0.0	0.0
Result from other financial investments	-1.4	0.2
Other operating result	-11.9	-1.6
Operating income	**527.2**	**126.5**
Risk provisions on loans and advances	-411.2	-46.1
Operating income after risk provisions on loans and advances	**116.0**	**80.5**
Personnel expense	-107.6	-32.3
Other administrative expenses	-96.8	-23.3
Depreciation and amortization on tangible and intangible assets	-28.7	-4.8
Operating expenses	**-233.0**	**-60.4**
Result from companies accounted for at equity	0.0	0.0
Segment result before tax	**-117.6**	**20.1**
Taxes on income	0.4	-10.7
Segment result after tax	**-117.2**	**9.4**
Segment assets	14,390.2	4,498.7
thereof non-current assets	1,118.1	42.4
Loans and advances to customers	11,532.3	4,162.5
Liabilities to customers	4,267.5	794.6

[1] "Austria" segment excluding Austrian bank and leasing subsidiaries designated as wind-down

Key:

afvtpl: at fair value through profit or loss (fair value option)

afs: available for sale

htm: held to maturity

in EUR m

Austria[1]	Wind-Down Financial	Wind-Down Participations	Consolidated Group /Head Office	Total
55.7	182.0	-20.5	81.7	881.9
13.1	-5.7	-1.1	19.0	107.9
1.7	-13.1	-9.6	26.3	10.7
4.6	0.0	0.0	-2.7	2.0
-1.7	-18.7	0.0	-8.3	-28.6
-2.8	-24.1	-7.0	-6.3	-42.8
0.0	0.0	0.0	0.0	0.0
-10.6	-3.0	-1.9	6.2	-10.3
7.3	-21.8	-21.0	-49.6	-98.5
67.5	**95.6**	**-61.0**	**66.4**	**822.2**
-21.5	-735.0	0.4	0.0	-1,213.5
45.9	**-639.4**	**-60.7**	**66.5**	**-391.2**
-35.6	-19.8	-26.1	-44.7	-266.1
-24.1	-78.9	-15.3	13.7	-224.7
-2.9	-10.9	-49.5	-7.3	-104.0
-62.6	**-109.6**	**-90.9**	**-38.3**	**-594.8**
0.0	0.0	2.1	0.0	2.1
-16.7	**-748.8**	**-148.5**	**27.6**	**-983.9**
0.0	-59.6	-0.7	0.0	-70.6
-16.6	**-808.5**	**-149.2**	**27.6**	**-1,054.5**
4,917.9	7,766.1	392.8	6,787.5	38,753.2
11.8	265.6	78.6	30.0	1,546.5
3,758.9	8,753.7	8.4	1.8	28,217.5
1,752.3	85.7	0.7	1,219.5	8,120.4

2009 business year:

Period 1.1.–31.12.2009	Austria	Italy	Slovenia	Croatia
Net interest income	69.9	109.5	97.0	184.7
Net fee and commission income	23.9	10.9	8.1	47.4
Result from trading	0.3	-2.8	2.3	26.5
Result from hedge accounting	4.2	0.2	0.0	0.0
Result from fin. investments – afvtpl	-5.4	0.2	0.0	0.0
Result from fin. investments – afs	-8.3	0.0	0.5	2.4
Result from fin. investments – htm	0.0	0.0	0.0	0.0
Result from other financial investments	-1.3	0.1	0.4	-6.1
Other operating result	42.3	-1.3	5.9	-6.6
Operating income	**125.6**	**116.8**	**114.2**	**248.3**
Risk provisions on loans and advances	-341.6	-56.3	-101.0	-253.6
Operating income after risk provisions on loans and advances	**-216.0**	**60.5**	**13.2**	**-5.4**
Personnel expense	-42.4	-32.7	-23.7	-52.7
Other administrative expenses	-25.0	-24.3	-13.4	-53.8
Depreciation and amortization on tangible and intangible assets	-4.9	-5.3	-4.4	-18.7
Operating expenses	**-72.3**	**-62.3**	**-41.5**	**-125.2**
Segment result (Operating result)	**-288.3**	**-1.8**	**-28.4**	**-130.6**
Income from deconsolidation	0.0	0.0	0.2	0.0
Income from companies accounted for at equity	0.0	0.0	-0.2	0.0
Segment result before tax	**-288.3**	**-1.8**	**-28.4**	**-130.6**
Taxes on income	16.2	1.3	4.3	-6.7
Segment result after tax	**-272.1**	**-0.5**	**-24.2**	**-137.3**
attributable to non-controlling interest	0.0	0.0	0.0	0.0
Segment result (after non-controlling interest)	**-272.1**	**-0.5**	**-24.2**	**-137.3**
Share of result before tax	20.7%	0.1%	2.0%	9.4%
Share of result after tax	17.6%	0.0%	1.6%	8.9%
Risk Weighted Assets (RWA)	3,362.2	4,093.3	4,192.8	5,026.3
Average allocated equity	289.7	322.1	327.0	422.5
Average segment assets	7,522.9	4,859.7	4,890.2	6,798.2
Segment assets	7,240.9	4,623.0	4,963.3	6,777.8
Liabilities	5,023.8	3,443.0	4,612.4	5,593.8
Loans and advances	6,433.0	4,341.3	3,970.8	6,026.0
Risk provisions on loans and advances	-435.2	-87.3	-136.6	-460.1
Cost/income ratio	57.54%	53.36%	36.36%	50.43%
Risk/earnings ratio	489.05%	51.40%	104.17%	137.35%
Average number of employees	619	552	608	2,028

Key:

afvtpl: at fair value through profit or loss (fair value option)

afs: available for sale

htm: held to maturity

in EUR m

B&H	Serbia	Other markets	Other business divisions	Holding	Consolidation	Total
80.3	86.2	51.0	-19.5	218.2	-8.1	869.0
11.5	14.5	0.6	2.5	1.0	0.9	121.2
2.2	6.8	-2.9	-0.2	1.0	-4.9	28.3
0.0	0.0	0.0	0.0	33.6	5.1	43.1
0.0	0.0	0.0	0.0	-26.4	-5.2	-36.7
0.3	-1.2	0.0	-14.3	-17.3	-1.9	-40.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
-2.3	0.1	-1.5	-11.2	13.3	-1.3	-9.8
-1.0	-2.6	-96.4	-3.7	-37.4	-41.1	-141.7
91.0	**103.7**	**-49.3**	**-46.4**	**186.1**	**-56.5**	**833.5**
-50.7	-41.7	-187.1	-5.0	-635.3	0.0	-1,672.3
40.4	**62.0**	**-236.4**	**-51.4**	**-449.2**	**-56.5**	**-838.8**
-21.6	-19.1	-9.5	-23.2	-37.7	0.0	-262.6
-20.3	-22.4	-14.3	-19.9	-64.7	42.2	-215.8
-5.1	-5.2	-2.7	-14.9	-1.8	0.0	-63.0
-47.0	**-46.6**	**-26.5**	**-58.1**	**-104.2**	**42.2**	**-541.5**
-6.6	**15.3**	**-262.8**	**-109.5**	**-553.3**	**-14.3**	**-1,380.3**
0.0	0.0	0.0	0.0	0.0	0.0	0.1
0.0	0.0	0.0	-3.7	-10.4	0.0	-14.3
-6.6	**15.3**	**-262.8**	**-113.1**	**-563.8**	**-14.3**	**-1,394.5**
7.8	-1.7	0.2	-3.2	-176.7	2.7	-155.9
1.2	**13.6**	**-262.6**	**-116.4**	**-740.5**	**-11.7**	**-1,550.4**
0.0	0.0	0.0	0.0	-30.5	0.0	-30.5
1.2	**13.6**	**-262.6**	**-116.3**	**-771.0**	**-11.7**	**-1,580.9**
0.5%	-1.1%	18.8%	8.1%	40.4%		100.0%
-0.1%	-0.9%	16.9%	7.5%	47.8%		100.0%
2,022.7	1,585.4	1,674.8	244.4	3,362.2		29,193.8
169.0	133.0	140.1	25.4	431.3		2,260.0
2,400.1	1,934.2	1,838.2	480.2	11,515.2	-31.6	42,207.4
2,251.7	1,988.8	1,681.4	461.1	11,194.1	-103.4	41,078.7
1,980.4	1,384.2	1,748.4	382.6	5,796.0	-14,758.1	15,206.4
2,113.8	1,388.6	1,699.7	139.6	23,618.7	-15,528.3	34,203.2
-141.8	-91.4	-239.1	-5.7	-852.8		-2,450.1
51.61%	44.98%	-53.68%	-125.08%	55.99%		64.97%
63.13%	48.43%	367.02%	-25.54%	291.13%		192.44%
1,255	1,010	461	857	413		7,803

(40) Interest and similar income

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Interest income	**1,494.5**	**1,637.3**
from loans and advances to credit institutions	27.8	53.5
from loans and advances to customers	1,036.4	1,226.2
from bonds, treasury bills and other fixed interest securities	83.0	104.8
from derivative financial instruments, net	323.7	232.9
other interest income	23.6	19.9
Current income	**358.8**	**443.5**
from shares and other non-fixed interest securities	3.8	2.0
from leasing business	322.6	405.7
from investment properties	32.4	35.8
Total	**1,853.3**	**2,080.8**

Interest income also includes unwinding revenue of EUR 141.6m (2009: EUR 46.2m) as well as fees and commissions with interest characteristics. A significant part of the other interest income is the interest on the minimum reserve. Income from the leasing business includes interest income from finance leases and income from operating leases, consisting of hire payments less scheduled depreciation. Ongoing revenue from investment properties also represents the balance of rental income amounting to EUR 45.6m (2009: EUR 51.5m) and scheduled depreciation on rented properties totalling EUR –13.2m (2009: EUR –15.7m). Interest and similar income breaks down as follows in accordance with IAS 39 categories:

in EUR m

	IAS 39 measurement categories	1.1.–31.12.2010	1.1.–31.12.2009
Interest income		**1,494.5**	**1,637.3**
from loans and advances to credit institutions and customers	LAR	1,055.9	1,259.1
from trading assets	HFT	0.8	1.5
from derivative financial instruments, net	HFT/Fair Value Hedges	323.7	232.9
from financial investments – designated at fair value through profit or loss	FVO	30.5	37.8
from financial investments – available for sale	AFS	74.7	90.6
from financial investments – held to maturity	HTM	1.7	1.6
from balances at central banks		7.1	11.1
Other	–	0.2	2.7
Current income		**358.8**	**443.5**
from shares and other non-fixed interest securities	AFS	3.7	2.0
from shares and other non-fixed interest securities	HFT	0.1	0.0
from leasing business	LAR/–	322.6	405.7
from investment properties	–	32.4	35.8
Total		**1,853.3**	**2,080.8**

(41) Interest and similar expenses

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Interest expenses	**–934.9**	**–1,186.0**
for liabilities to credit institutions	–108.6	–175.0
for liabilities to customers	–238.5	–291.1
for debt securities in issue	–547.6	–633.1
for subordinated capital	–34.1	–72.5
for other liabilities	–6.1	–14.4
Similar expenses	**–36.5**	**–25.8**
commissions for statutory guarantee	–17.8	–18.0
commissions for state-guaranteed bond issue	–18.7	–7.8
Total	**–971.4**	**–1,211.8**

Other interest-like expenses include the commissions paid to the State of Carinthia for the statutory guarantee as well as the commissions due to the Republic of Austria for the 2010 bonds underwritten by the state.

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

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

in EUR m

	IAS 39 measurement categories	1.1.–31.12.2010	1.1.–31.12.2009
Interest expenses		**–934.8**	**–1,186.0**
for financial liabilities – designated at fair value through profit or loss	FVO	–30.3	–59.1
for financial liabilities – at cost	Fin. Liabilities At Cost	–899.7	–1,113.0
for financial liabilities to central banks	Fin. Liabilities At Cost	–5.0	–9.8
Other	–	0.1	–4.1
Similar expenses		**–36.5**	**–25.8**
commissions for statutory guarantee	–	–17.8	–18.0
commissions for state-guaranteed bond issue	–	–18.7	–7.8
Total		**–971.3**	**–1,211.8**

(42) Fee and commission income

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Credit business	58.7	61.6
Securities and custodian business	15.5	18.5
Bank transfers incl. payment transactions	36.0	37.2
Other financial services	29.8	30.1
Total	**139.9**	**147.4**

(43) Fee and commission expenses

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Credit business	-9.1	-3.6
Securities and custodian business	-6.4	-7.1
Bank transfers incl. payment transactions	-9.1	-8.8
Other financial services	-7.3	-6.7
Total	**-32.0**	**-26.2**

(44) Result from trading

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Shares and index-related transactions	-1.4	0.5
Foreign exchange transactions	12.1	27.8
Total	**10.7**	**28.3**

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

(45) Result from hedge accounting

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

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Valuation result from secured underlying transactions	-166.7	-163.1
Valuation result from hedging derivatives	168.6	206.2
Total	**2.0**	**43.1**

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

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Net income/expense from financial assets and related derivatives	**–31.3**	**18.0**
from loans and advances to customers and credit institutions	7.1	–2.4
from equity instruments	–18.7	13.2
from debt instruments	–19.7	7.4
from treasury bills	0.0	–0.3
Result from financial liabilities and related derivatives	**2.6**	**–54.7**
from debt securities in issue	8.1	–30.5
from subordinated capital	–5.1	–19.2
from other liabilities	–0.4	–5.1
Total	**–28.6**	**–36.7**

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

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

Changes in the fair value of financial liabilities which are attributable to a change in the Bank's own credit spreads or to the widening of the liquidity spread amounted cumulatively to EUR 57.0m in the year under review (2009: EUR 74.9m), which led to a negative effect of EUR –17.9m on the income statement (2009: negative effect of EUR 9.8m).

The positive changes in fair value of own, third-party liabilities which are recognised in profit or loss came to EUR 22.7m on a cumulative basis in 2010 (2009: EUR 7.8m), which led to a negative effect of EUR 14.9m on the income statement (2009: negative effect of EUR 39m).

(47) Result from financial investments – available for sale

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Income from financial investments available-for-sale	**9.1**	**28.2**
Capital gains	6.4	21.1
Income from write-up	2.7	7.1
Expense from financial investments available-for-sale	**–51.9**	**–68.2**
Losses from disposal	–7.7	–25.1
Expenses from impairment	–44.2	–43.1
Total	**–42.8**	**–40.0**

(48) Result from other financial investments

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Result from investment properties	**-1.0**	**-14.0**
Other income	3.0	2.9
Other expenses	-4.0	-16.9
Result from operate lease assets	**-5.2**	**-4.3**
Other income	14.2	11.3
Other expenses	-19.4	-15.5
Other income from financial investments	**-4.1**	**8.5**
Total	**-10.3**	**-9.8**

Other revenue from investment properties and operating leases assets primarily relates to profit on disposal, but also in part to income from reversals in impairment.

EUR –3.3m (2009: EUR –15.9m) of other expenses from investment properties in 2010 relates to impairment of assets.

Other expenses from operating leases of EUR –9.5m in 2010 (2009: EUR –6.9m) is the result of impairments on operating leases assets, the majority of which relate to the Croatian leasing unit as was the case in the previous year.

(49) Other operating result

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Other rental income	**5.9**	**4.2**
Net capital gains/losses	**3.8**	**3.5**
from sale of tangible and intangible assets	4.9	1.5
from sale of real-estate projects (assets)	0.2	3.8
from repossessed assets	-1.2	-1.8
Result from reversals and recognition of provisions	**0.1**	**4.5**
Other tax expenses (except income tax)	**-7.7**	**-6.9**
Expenses from complete or partial sale of fully consolidated companies	**0.2**	**0.1**
Impairment of goodwill	**-30.8**	**-3.5**
Impairment loss for vacant assets	**-76.4**	**-92.0**
Restructuring expenses	**-0.1**	**-24.4**
Income from certain assets earmarked for sale and disposal groups	**-3.6**	**-41.0**
Remainder of other result	**10.1**	**13.9**
Remainder of other income	167.5	113.0
Remainder of other expenses	-157.3	-99.1
Total	**-98.5**	**-141.7**

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

The entries in the remainder of other operating result refer to other income and expense from non-banking activities. The income includes the sales revenue of the packaging manufacturer Aluflexpack d.o.o. of EUR 80.0m (2009: EUR 78.2m); expenses include the related cost of manufacture of EUR –57.5m (2009: EUR –61.5m). Furthermore, the sales and the direct other expenses of Schlosshotel Velden are also reported in this item.

The item impairment expenses for unrented leasing items results from earnings of EUR +6.9m (2009: EUR –85.9m) in relation to "leases to go" and from returns in the leasing business (remarketing) with a value of EUR –37.1m (2009: EUR –6.1m), as well as bail out purchases amounting to EUR –46.1m (2009: EUR 0.0m).

Detailed information on restructuring expenses can be found in note (100).

(50) Risk provisions on loans and advances

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

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Additions	**–1,825.7**	**–1,855.4**
for risk provisions on loans and advances	–1,771.9	–1,780.3
for provisions for credit commitments and guarantees	–53.8	–75.1
Reversals	**629.7**	**195.8**
for risk provisions on loans and advances	577.1	183.2
for provisions for credit commitments and guarantees	52.7	12.6
Receipts from loans and advances previously impaired	**11.8**	**7.9**
Directly recognised impairment losses	**–29.3**	**–20.6**
Total	**–1,213.5**	**–1,672.3**

In 2010 Hypo Alpe Adria fundamentally revised the organisation of credit risk and related processes, the limit system, the issuing procedure for new loans and the processing of Non performing loans. Furthermore, a multi-step process saw the majority of the credit and leasing portfolios subjected to a case-by-case analysis, in which the rating, the groups of related customers, how up-to-date the existing documentation is, the type of collateral, the general need for risk provisions and the exposure strategy were all surveyed and newly specified wherever necessary.

This credit-portfolio analysis resulted in extraordinarily high risk provisions on loans and advances. The reasons for this can be traced back not only to the impact of the financial crisis, but also to the aforementioned procedural flaws in the administration of loans and the malversation which was justified in the past. This was in contrast to the timely and proper identification and measurement of credit risks. The first-time comprehensive analysis of the credit and leasing portfolios ("Review Rush" and "Due Diligence") along with the fundamental realignment of processes and organisation in the field of credit-related risks led to the identification and measurement of risk provisions on loans and advances, which could also affect previous periods, but which could not yet be identified due to insufficient methods and instruments for credit risk management.

Detailed information on risk provisions on loans and advances is given in note (60).

(51) Personnel expenses

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Personnel cost from the financial and finance-related sectors	-253.6	-250.8
Personnel cost from other sectors (tourism and industry)	-12.5	-11.8
Total	**-266.1**	**-262.6**

(52) Other administrative expenses

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Expenses for premises	-35.5	-35.4
IT expenses	-29.6	-27.7
Office costs	-7.0	-7.5
Advertising costs	-18.0	-22.6
Communication expenses	-11.5	-12.9
Legal and advisory costs	-27.8	-34.9
thereof legal costs	-11.5	-11.1
thereof other advisory costs	-16.3	-23.9
Expense for audit and audit-related services	-6.2	-5.6
Expenses related to restructuring	-20.2	-20.5
thereof implementing risk systems	-9.2	-6.4
thereof sale of equity investments/M&A	-0.7	-0.7
thereof restructuring measures related to the EU investigation	-10.3	-13.4
CSI/Team Hypo project	-18.4	0.0
Insurance	-3.9	-3.9
Vehicle and fleet cost	-3.8	-3.7
Staff training costs	-4.8	-4.0
Other general administrative expenses	-32.5	-31.4
Administration expenses related to HBInt. Credit Management	-5.5	-5.5
Total	**-224.7**	**-215.8**

The item audit and audit-related services includes costs of EUR 3.3m for the audit firm Ernst & Young (2009: Deloitte/ EUR 2.8m), see note (101).

Costs for restructuring expense and administration expenses related to HBInt. Credit Management were recorded in 2009 under other legal and advisory costs, while in 2010 they are entered separately. The figures for the previous year have been adjusted as necessary.

(53) Depreciation and amortization of tangible and intangible assets

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Land & building	–36.4	–18.8
Plant and equipment	–42.7	–29.6
Intangible assets	–24.9	–14.6
Total	**–104.0**	**–63.0**

In the financial year 2010 tangible and intangible assets amounting to EUR –82.5m (2009: EUR –11.6m) were impaired. Impairment of goodwill amounting to EUR –30.8m (2009: –3.5m) is shown in other operating income, see note (49). Further impairment had to be applied to land and buildings. This mainly arose from the production plants of a consolidated company and from tourism real-estate, which was required because of permanent impairment.

(54) Result from companies accounted for at equity

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Share of profit	2.1	0.0
Share of losses	0.0	–14.3
Total	**2.1**	**–14.3**

(55) Taxes on income

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Current tax	–49.9	–43.8
Deferred tax	–20.7	–112.2
Total	**–70.6**	**–155.9**

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

in EUR m

	31.12.2010	31.12.2009
Result before tax	**-984.3**	**-1,394.6**
Theoretical income tax expense based on the Austrian corporate tax rate of 25.0%	**246.1**	**348.7**
Tax effects from		
divergent foreign tax rates	-40.7	-10.1
previous year	-1.1	-2.6
foreign income and other tax-exempt income	8.3	3.6
investment-related tax relief	23.0	17.1
non-tax deductible expenses	-60.4	-31.4
non-recognition of deferred taxes on loss carry-forwards and temporary differences	-265.7	-305.1
deferred taxes on loss carry-forwards and temporary differences	-102.5	-138.8
other tax effects	122.5	-37.3
Effective tax burden (shown in income statement)	**-70.5**	**-155.9**
Effective tax rate	**-7.2%**	**-11.2%**

(56) Non-controlling interest

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

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
HBInt. Credit Management Limited	**-5.8**	**15.6**
share in interest income	5.6	7.3
share in measurement result	-11.3	8.3
Norica Investments Limited	**13.0**	**14.9**
share in interest expense	13.0	14.4
share in measurement result	0.0	0.5
Non-controlling interests of other co-owners	**-1.0**	**0.0**
Total	**6.2**	**30.5**

At HBInt. Credit Management Limited, the total 2010 result stemming from the measurement of asset-backed securities (ABS) and other investments amounted to EUR –23.3m (2009: EUR 17.2m). In the consolidated financial statements, EUR –11.3m (2009: EUR 8.3m) thereof are assigned to the 49% non-controlling shareholder as a loss covered by the equity contribution.

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

Notes to the Statement of Financial Position

(57) Cash and balances at central banks

in EUR m

	31.12.2010	31.12.2009
Cash on hand	126.2	134.1
Balances with central banks (due on demand)	717.4	885.8
Total	**843.6**	**1,019.9**

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

(58) Loans and advances to credit institutions

(58.1) Loans and advances to credit institutions – by product

in EUR m

	31.12.2010	31.12.2009
Minimum reserve (not due daily)	525.4	532.3
Giro and clearing business	380.8	738.8
Money market placements	3,992.5	2,310.1
Loans	244.7	417.0
Finance lease receivables	12.5	0.5
Other receivables	22.9	87.9
Total	**5,178.7**	**4,086.6**

(58.2) Loans and advances to credit institutions – by region

in EUR m

	31.12.2010	31.12.2009
Austria	3,319.2	1,952.8
Central and Eastern Europe (CEE)	618.2	745.5
Other countries	1,241.3	1,388.3
Total	**5,178.7**	**4,086.6**

(59) Loans and advances to customers

(59.1) Loans and advances to customers – by product

in EUR m

	31.12.2010	31.12.2009
Current account credit	1,018.2	1,288.3
Bank loans	10,920.9	11,691.2
Mortgage loans	5,294.9	5,041.3
Municipal loans	2,491.1	2,406.5
Finance lease receivables	6,233.7	7,085.9
Other loans and advances	2,258.7	2,603.5
Total	**28,217.5**	**30,116.6**

(59.2) Loans and advances to customers – by type of customer

in EUR m

	31.12.2010	31.12.2009
Public sector	4,915.5	5,213.2
Corporate clients	15,972.4	18,224.9
Retail clients	7,329.6	6,678.5
Total	**28,217.5**	**30,116.6**

(59.3) Loans and advances to customers – by region

in EUR m

	31.12.2010	31.12.2009
Austria	4,613.0	4,865.8
Central and Eastern Europe (CEE)	17,335.9	18,504.8
Other countries	6,268.6	6,746.0
Total	**28,217.5**	**30,116.6**

(60) Risk provisions on loans and advances

(60.1) Risk provisions on loans and advances – development during the year

in EUR m

	As of 1.1.2010	Exchange differences	Allocation	Release	Use	Changes to the consolidated Group	As of 31.12.2010
Specific risk provisions	**-2,205.7**	**-30.5**	**-1,634.2**	**573.1**	**175.5**	**146.0**	**-2,975.8**
Loans and advances to credit institutions	-23.6	-0.5	-0.1	2.3	9.2	0.0	-12.8
Loans and advances to customers	-2,180.3	-30.1	1,627.4	570.3	165.8	146.0	-2,955.8
to public sector	-2.4	0.0	-1.0	0.6	0.0	0.0	-2.8
to corporate clients	-2,018.0	-24.3	-1,420.3	491.9	129.6	192.0	-2,649.0
to retail clients	-159.9	-5.8	-206.1	77.8	36.1	-46.0	-303.9
Other financial assets	-1.7	0.1	-6.7	0.5	0.6	0.0	-7.2
Portfolio-based risk provisions	**-244.4**	**0.0**	**-137.7**	**145.6**	**0.0**	**1.4**	**-235.0**
Loans and advances to credit institutions	-0.2	0.0	-0.4	0.3	0.0	0.0	-0.3
Loans and advances to customers	-243.6	0.0	-137.0	145.3	0.0	1.4	-233.8
Other financial assets	-0.6	0.0	-0.3	0.0	0.0	0.0	-0.9
Subtotal	**-2,450.1**	**-30.5**	**-1,771.9**	**718.7**	**175.5**	**147.4**	**-3,210.8**
Provisions for credit commitments and guarantees	**-119.9**	**0.3**	**-53.8**	**52.7**	**44.9**	**0.0**	**-75.8**
Individual provisions	-86.5	0.1	-38.1	32.1	44.9	0.0	-47.5
Portfolio provisions	-33.5	0.2	-15.7	20.5	0.0	0.0	-28.4
Total	**-2,570.0**	**-30.2**	**-1,825.7**	**771.3**	**220.5**	**147.4**	**-3,286.6**

The reversals from impairment include the unwinding effect in the sum of EUR 141.6m (2009: EUR 46.2m) as well as reversals from risk provisions on loans and advances amounting to EUR 163.7m (2009: EUR 0.0m) related to the guarantee agreement concluded with the Republic of Austria in 2010, see note (111).

Risk provisions on loans and advances resulted from the first-time systematic assessment of the credit and leasing portfolios, whereby it was assumed that economic growth on the relevant markets will continue to be subdued. Furthermore a range of measures have been implemented at instrumental, procedural and organisational levels which will be further strengthened as part of a monitoring initiative towards reducing risk (for more detailed information see notes (2), (50) and (86)).

in EUR m

	As of 1.1.2009	Exchange differences	Allocation	Release	Use	Changes to the consolidated Group	As of 31.12.2009
Specific risk provisions	**-964.6**	**-6.3**	**-1,603.2**	**172.3**	**196.1**	**0.0**	**-2,205.7**
Loans and advances to credit institutions	-8.2	0.1	-16.3	0.9	0.0	0.0	-23.6
Loans and advances to customers	-951.0	-6.4	-1,586.2	169.0	194.2	0.0	-2,180.3
to public sector	-2.5	0.0	-2.1	2.2	0.0	0.0	-2.4
to corporate clients	-859.7	-5.5	-1,484.9	144.5	187.5	0.0	-2,018.0
to retail clients	-88.8	-1.0	-99.1	22.3	6.7	0.0	-159.9
Other financial assets	-5.3	0.0	-0.7	2.4	1.9	0.0	-1.7
Portfolio-based risk provisions	**-121.6**	**1.2**	**-181.1**	**57.1**	**0.0**	**0.0**	**-244.4**
Loans and advances to credit institutions	-0.3	0.0	-0.1	0.2	0.0	0.0	-0.2
Loans and advances to customers	-121.3	1.2	-180.4	56.9	0.0	0.0	-243.6
Other financial assets	-0.1	0.0	-0.6	0.1	0.0	0.0	-0.6
Subtotal	**-1,086.2**	**-5.1**	**-1,784.3**	**229.4**	**196.1**	**0.0**	**-2,450.1**
Provisions for credit commitments and guarantees	**-57.3**	**-0.1**	**-75.1**	**12.6**	**0.0**	**0.0**	**-119.9**
Individual provisions	-49.7	-0.1	-47.5	10.9	0.0	0.0	-86.5
Portfolio provisions	-7.6	0.0	-27.6	1.7	0.0	0.0	-33.5
Total	**-1,143.6**	**-5.1**	**-1,859.4**	**242.0**	**196.1**	**0.0**	**-2,570.0**

(60.2) Risk provisions on loans and advances – by region

in EUR m

	31.12.2010	31.12.2009
Austria	-329.0	-339.8
Central and Eastern Europe (CEE)	-2,344.6	-1,747.5
Other countries	-537.2	-362.8
Total	**-3,210.8**	**-2,450.1**

(61) Trading assets

in EUR m

	31.12.2010	31.12.2009
Bonds and other fixed-interest securities	18.3	17.7
Shares and other non-fixed-interest securities	16.0	34.5
Positive fair value from derivative financial instruments (trading)	32.6	20.7
Total	**66.9**	**72.9**

(62) Positive fair value from hedge accounting derivatives

in EUR m

	31.12.2010	31.12.2009
Positive fair value from Fair Value Hedges	1,048.1	933.3
Total	**1,048.1**	**933.3**

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

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

in EUR m

	31.12.2010	31.12.2009
Loans and advances to customers and credit institutions	580.6	597.4
Bonds and other fixed-interest securities	256.7	277.6
Shares and other non-fixed-interest securities	40.8	44.7
Positive fair value from derivative financial instruments at fair value option (FVO)	117.8	119.9
Total	**996.0**	**1,039.6**

(64) Financial investments – available for sale

in EUR m

	31.12.2010	31.12.2009
Bonds and other fixed-interest securities	2,444.2	2,570.1
Shares and other non-fixed-interest securities	52.2	73.3
Participations without intention for sale (< 20%)	8.4	8.6
Other participations (associated companies 20% – 50%)	13.4	34.6
Shares in affiliated, non-consolidated companies (> 50%)	9.2	27.6
Total	**2,527.3**	**2,714.2**

(65) Financial investments – held to maturity

in EUR m

	31.12.2010	31.12.2009
Bonds and other fixed-interest securities	42.3	42.1
Total	**42.3**	**42.1**

(66) Investments in companies accounted for at equity

in EUR m

	31.12.2010	31.12.2009
Shares in other associated companies	5.1	1.7
Total	**5.1**	**1.7**

The list of companies accounted for at equity is shown in note (119).

(67) Other financial investments

in EUR m

	31.12.2010	31.12.2009
Investment properties	795.7	725.8
Assets used for operate lease	238.6	362.8
Total	**1,034.3**	**1,088.5**

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

(68) Development of financial assets and other financial investments

31.12.2010	Acquisition costs 1.1.2010	Foreign exchange differences	Additions
Financial investments – held to maturity	**42.1**	**0.0**	**3.1**
Bonds, treasury bills and other fixed interest securities	42.1	0.0	3.1
Financial investments – available for sale	**94.6**	**-0.7**	**35.8**
Shares in affiliated, non-consolidated companies (>50%)	36.3	-0.2	14.1
Other participations (20% – 50%)	46.5	-0.5	3.7
Participations without intention for sale (under 20%)	11.8	0.0	17.9
Companies accounted for at equity	**12.5**	**0.0**	**0.0**
Investment properties	**823.7**	**0.3**	**208.1**
Operate lease assets (movables)	**529.7**	**-7.2**	**65.3**
Total	**1,502.6**	**-7.7**	**312.4**

31.12.2009	Acquisition costs 1.1.2009	Foreign exchange differences	Additions
Financial investments – held to maturity	**41.9**	**0.0**	**3.1**
Bonds, treasury bills and other fixed interest securities	41.9	0.0	3.1
Financial investments – available for sale	**108.2**	**-0.5**	**3.8**
Shares in affiliated, non-consolidated companies (>50%)	49.5	-0.1	0.4
Other participations (20% – 50%)	47.3	-0.3	2.7
Participations without intention for sale (under 20%)	11.4	0.0	0.7
Companies accounted for at equity	**5.5**	**0.0**	**10.4**
Investment properties	**789.6**	**0.8**	**204.4**
Operate lease assets (movables)	**589.5**	**-0.7**	**75.5**
Total	**1,534.8**	**-0.3**	**297.2**

(69) Intangible assets

in EUR m

	31.12.2010	31.12.2009
Purchased software	20.1	22.7
Internally generated software	2.5	10.1
Other intangible assets	19.8	22.9
Prepayments for intangible assets	13.2	7.9
Total	**55.7**	**63.6**

in EUR m

Disposals	Other changes	Acquisition costs 31.12.2010	Cumulated change 31.12.2010	Carrying amount 31.12.2010	Carrying amount 31.12.2009
-2.9	**0.0**	**42.3**	**0.0**	**42.3**	**42.1**
-2.9	0.0	42.3	0.0	42.3	42.1
-2.6	**-46.3**	**80.8**	**-49.6**	**31.2**	**70.8**
-0.3	-20.3	29.6	-20.2	9.4	27.6
-1.8	-26.2	21.9	-8.5	13.4	34.6
-0.5	0.2	29.3	-20.9	8.4	8.6
0.0	**-0.4**	**12.1**	**-7.0**	**5.1**	**1.7**
-116.0	**-15.0**	**901.0**	**-105.2**	**795.7**	**725.8**
-172.7	**1.3**	**416.4**	**-177.7**	**238.6**	**362.8**
-294.4	**-60.4**	**1,452.6**	**-339.6**	**1,113.0**	**1,203.1**

in EUR m

Disposals	Other changes	Acquisition costs 31.12.2009	Cumulated change 31.12.2009	Carrying amount 31.12.2009	Carrying amount 31.12.2008
-2.9	**0.0**	**42.1**	**0.0**	**42.1**	**41.9**
-2.9	0.0	42.1	0.0	42.1	41.9
-0.6	**-16.3**	**94.6**	**-23.8**	**70.8**	**100.0**
-0.3	-13.2	36.3	-8.7	27.6	45.5
0.0	-3.2	46.5	-11.9	34.6	43.2
-0.3	0.0	11.8	-3.2	8.6	11.3
-0.2	**-3.1**	**12.5**	**-10.9**	**1.7**	**5.4**
-175.1	**3.9**	**823.7**	**-97.9**	**725.8**	**716.5**
-131.9	**-2.7**	**529.7**	**-166.9**	**362.8**	**471.3**
-310.7	**-18.3**	**1,502.6**	**-299.5**	**1,203.1**	**1,335.1**

(70) Tangible assets

in EUR m

	31.12.2010	31.12.2009
Land and buildings	391.4	397.9
Plant and equipment	65.1	86.9
Total	**456.5**	**484.8**

(71) Development of fixed assets

(71.1) Development of acquisition costs and carrying amounts

31.12.2010	Acquisition costs 1.1.2010	Foreign exchange differences	Additions
INTANGIBLE ASSETS	**124.0**	**-4.3**	**58.6**
Goodwill	**0.5**	**-0.4**	**30.8**
Software	**76.2**	**-1.8**	**15.4**
purchased	60.3	-0.8	4.5
internally generated	15.9	-0.9	10.8
Other intangible assets	**38.6**	**-0.3**	**1.2**
Prepayments for intangible assets	**8.6**	**-1.9**	**11.2**
TANGIBLE ASSETS	**705.8**	**-7.2**	**66.8**
Land and buildings	**465.4**	**-3.1**	**50.7**
Land	43.3	-0.2	0.5
Buildings	405.8	-2.9	38.8
Assets under construction	16.3	0.0	11.5
Plant and equipment	**240.3**	**-4.1**	**16.1**
Total	**829.7**	**-11.5**	**125.4**

31.12.2009	Acquisition costs 1.1.2009	Foreign exchange differences	Additions
INTANGIBLE ASSETS	**114.8**	**-0.5**	**21.8**
Goodwill	**7.5**	**0.0**	**0.0**
Software	**65.3**	**-0.6**	**11.3**
purchased	51.3	-0.2	6.0
internally generated	14.0	-0.3	5.3
Other intangible assets	**40.3**	**0.1**	**2.2**
Prepayments for intangible assets	**1.7**	**0.0**	**8.3**
TANGIBLE ASSETS	**810.2**	**-0.9**	**42.7**
Land and buildings	**551.1**	**0.6**	**26.2**
Land	57.0	0.1	2.1
Buildings	453.4	0.8	0.5
Assets under construction	40.7	-0.3	23.6
Plant and equipment	**259.2**	**-1.5**	**16.4**
Total	**925.1**	**-1.4**	**64.5**

in EUR m

Disposals	Other changes	Acquisition costs 31.12.2010	Cumulative depreciation 31.12.2010	Carrying amount 31.12.2010	Carrying amount 31.12.2009
-8.4	**-0.4**	**169.4**	**-113.7**	**55.7**	**63.6**
0.0	**0.0**	**31.0**	**-31.0**	**0.0**	**0.0**
-5.0	**2.3**	**87.1**	**-64.5**	**22.7**	**32.8**
-0.5	2.3	65.7	-45.6	20.1	22.7
-4.4	0.0	21.4	-18.9	2.5	10.1
-2.2	**0.1**	**37.3**	**-17.5**	**19.8**	**22.9**
-1.2	**-2.8**	**13.9**	**-0.7**	**13.2**	**7.9**
-29.3	**5.8**	**741.8**	**-285.4**	**456.4**	**484.7**
-16.3	**-4.2**	**492.6**	**-101.2**	**391.3**	**397.8**
-1.5	-3.2	38.9	-0.6	38.3	42.8
-11.7	2.1	432.1	-98.7	333.4	339.8
-3.1	-3.1	21.6	-1.9	19.6	15.2
-13.1	**10.0**	**249.3**	**-184.2**	**65.1**	**86.8**
-37.7	**5.4**	**911.3**	**-399.1**	**512.1**	**548.3**

in EUR m

Disposals	Other changes	Acquisition costs 31.12.2009	Cumulative depreciation 31.12.2009	Carrying amount 31.12.2009	Carrying amount 31.12.2008
-8.8	**-3.4**	**124.0**	**-60.3**	**63.6**	**66.7**
-7.0	**0.0**	**0.5**	**-0.5**	**0.0**	**3.5**
-0.6	**0.8**	**76.2**	**-43.4**	**32.8**	**33.8**
-0.6	3.9	60.3	-37.6	22.7	23.3
0.0	-3.1	15.9	-5.8	10.1	10.5
-1.2	**-2.8**	**38.6**	**-15.7**	**22.9**	**27.7**
0.0	**-1.3**	**8.6**	**-0.7**	**7.9**	**1.7**
-49.3	**-96.9**	**705.8**	**-221.1**	**484.7**	**583.2**
-33.1	**-79.4**	**465.4**	**-67.6**	**397.8**	**468.4**
-0.5	-15.5	43.3	-0.6	42.8	56.7
-13.0	-35.8	405.8	-66.0	339.8	371.1
-19.6	-28.1	16.3	-1.1	15.2	40.5
-16.2	**-17.6**	**240.3**	**-153.5**	**86.8**	**114.8**
-58.1	**-100.3**	**829.7**	**-281.4**	**548.3**	**649.4**

(71.2) Development of depreciation

31.12.2010	Cumulative depreciation 1.1.2010	Foreign exchange differences
INTANGIBLE ASSETS	**-60.3**	**1.2**
Goodwill	**-0.5**	**0.4**
Software	**-43.4**	**0.7**
purchased	-37.6	0.4
internally generated	-5.8	0.3
Other intangible assets	**-15.7**	**0.2**
Prepayments for intangible assets	**-0.7**	**0.0**
TANGIBLE ASSETS	**-221.1**	**3.3**
Land and buildings	**-67.6**	**0.6**
Land	-0.6	0.0
Buildings	-66.0	0.5
Assets under construction	-1.1	0.0
Plant and equipment	**-153.5**	**2.8**
Total	**-281.4**	**4.6**

31.12.2009	Cumulative depreciation 1.1.2009	Foreign exchange differences
INTANGIBLE ASSETS	**-48.1**	**-0.1**
Goodwill	**-4.0**	**0.0**
Software	**-31.5**	**0.0**
purchased	-28.0	0.0
internally generated	-3.5	0.0
Other intangible assets	**-12.6**	**-0.1**
Prepayments for intangible assets	**0.0**	**0.0**
TANGIBLE ASSETS	**-227.1**	**0.4**
Land and buildings	**-82.7**	**-0.2**
Land	-0.3	0.0
Buildings	-82.2	-0.2
Assets under construction	-0.2	0.0
Plant and equipment	**-144.3**	**0.6**
Total	**-275.2**	**0.3**

in EUR m

Disposals	Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2010
0.9	**-12.6**	**-43.2**	**0.3**	**0.0**	**-113.7**
0.0	**0.0**	**-30.8**	**0.0**	**0.0**	**-31.0**
0.3	**-10.1**	**-12.3**	**0.3**	**0.0**	**-64.5**
0.3	-9.1	-0.0	0.3	0.0	-45.6
0.0	-1.0	-12.3	0.0	0.0	-18.9
0.6	**-2.5**	**0.0**	**0.0**	**0.0**	**-17.5**
0.0	**0.0**	**-0.0**	**0.0**	**0.0**	**-0.7**
10.6	**-39.8**	**-39.3**	**0.3**	**0.4**	**-285.4**
2.0	**-14.1**	**-22.2**	**0.2**	**0.0**	**-101.2**
0.0	0.0	0.0	0.0	0.0	-0.6
1.8	-14.1	-21.1	0.2	0.0	-98.7
0.2	0.0	-1.2	0.0	0.0	-1.9
8.6	**-25.6**	**-17.1**	**0.1**	**0.4**	**-184.2**
11.5	**-52.4**	**-82.5**	**0.6**	**0.4**	**-399.1**

in EUR m

Disposals	Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2009
7.3	**-14.6**	**-4.2**	**-0.6**	**0.0**	**-60.3**
7.0	**0.0**	**-3.5**	**0.0**	**0.0**	**-0.5**
0.2	**-12.0**	**0.0**	**-0.1**	**0.0**	**-43.4**
0.2	-9.8	0.0	0.0	0.0	-37.6
0.0	-2.2	0.0	-0.1	0.0	-5.8
0.1	**-2.6**	**0.0**	**-0.5**	**0.0**	**-15.7**
0.0	**0.0**	**-0.7**	**0.0**	**0.0**	**-0.7**
13.8	**-41.0**	**-7.4**	**39.9**	**0.2**	**-221.1**
1.3	**-12.4**	**-6.4**	**32.7**	**0.0**	**-67.6**
0.0	0.0	-0.9	0.6	0.0	-0.6
2.1	-12.4	-2.1	28.8	0.0	-66.0
-0.8	0.0	-3.4	3.3	0.0	-1.1
12.4	**-28.6**	**-1.0**	**7.2**	**0.2**	**-153.5**
21.1	**-55.6**	**-11.6**	**39.3**	**0.3**	**-281.4**

(72) Tax assets

In 2010 deferred tax assets and liabilities were netted in as far as the specifications of IAS 12 permitted. Retrospective netting was not applied for the 2009 financial year for reasons of immateriality; the potential effect was estimated to be around EUR 500.0m. For details on tax liabilities, see note (81).

in EUR m

	31.12.2010	31.12.2009
Current tax assets	24.1	49.4
Deferred tax assets	62.0	586.0
Total	**86.1**	**635.4**

Legally valid tax assessment notices for Hypo Alpe-Adria-Bank International AG have been issued for the years up to and including 2003. The assessment for corporation tax due in 2004 pursuant to section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature. The tax assessments for 2005, 2006, 2007 and 2008 are retrospectively applicable. The corporate income tax return for 2009 has not yet been submitted to the tax authorities.

All domestic Group members are currently being investigated in the course of a tax authority audit.

Deferred tax assets and liabilities were netted for the first time in the financial year 2010. For the following items deferred tax assets (tax claims) and liabilities (tax obligations) are recognized for differences between the carrying amounts recognized in the financial statements in accordance with IFRS and the tax base:

in EUR m

	31.12.2010	31.12.2009
Loans and advances to credit institutions	17.5	27.5
Loans and advances to customers	8.0	11.6
Risk provisions on loans and advances	58.5	98.4
Trading assets	1.5	0.0
Financial investments	9.2	23.8
Tangible assets	0.6	0.5
Intangible assets	0.3	0.3
Other assets	202.9	117.8
Tax loss carry-forward	8.2	55.1
Liabilities to credit institutions	0.7	0.5
Liabilities to customers	0.9	0.6
Debt securities in issue	158.8	129.7
Provisions	5.6	2.6
Other liabilities	161.8	110.7
Subordinated capital	5.4	6.7
Deferred tax assets	**639.9**	**586.0**
Loans and advances to credit institutions	1.2	0.0
Loans and advances to customers	43.9	28.3
Risk provisions on loans and advances	9.1	10.2
Trading assets	3.4	1.0
Financial investments	302.4	285.0
Tangible assets	0.7	1.1
Intangible assets	3.5	2.3
Other assets	123.8	128.4
Liabilities to credit institutions	0.0	43.8
Liabilities to customers	1.0	0.3
Provisions	0.9	1.5
Other liabilities	100.1	7.7
Subordinated capital	0.0	4.3
Deferred tax liabilities	**590.0**	**513.7**
Balance of deferred taxes	**49.9**	**72.3**

Deferred tax assets – tax amount

From deferred tax assets recognised, EUR 8.2m (2009: EUR 55.1m) were the result of recognising tax assets in respect of usable tax loss carry-forwards. Because they did not meet the requirements for recognition, deferred tax assets from tax loss on carry-forward in the various Group companies amounting to EUR 918.19m (2009: EUR 483.9m) were not recognised. The difference for deferred taxes recognised in other comprehensive income amounted to EUR -4.2m (2009: EUR 2.0m) in

2010. Deferred taxes arising from the first consolidation of the subsidiaries listed in note (3) were also recognised in other comprehensive income in the consolidated financial statements.

(73) Assets classified as held for sale

The item assets classified as held for sale, which must be shown separately in accordance with IFRS 5, contains investments in Austrian tourism projects as well as the assets of Alpe Adria Privatbank AG in liquidation and HYPO ALPE-ADRIA Leasing GmbH, Munich.

in EUR m

	31.12.2010	31.12.2009
Cash and balances at central banks	10.3	11.4
Loans and advances to credit institutions	29.6	18.1
Loans and advances to customers	140.7	23.0
Risk provisions on loans and advances	-26.7	-5.4
Trading assets	0.0	0.3
Financial investments – available for sale	0.0	9.7
Investments in companies accounted for at equity	0.0	1.3
Other financial investments (investment properties)	1.7	0.0
Intangible assets	0.3	0.6
Tangible assets	44.5	46.7
Tax assets	1.2	0.0
Other assets	73.0	32.6
Total	**274.6**	**138.2**

(74) Other assets

in EUR m

	31.12.2010	31.12.2009
Deffered income	**123.5**	**210.1**
Other assets	**943.3**	**842.2**
assets under construction (project development), short-term	35.8	83.0
finished property projects held as current assets	139.5	54.2
leases to go (lease assets not yet leased out)	229.4	416.1
remaining receivables and other assets, not specific to banking	337.9	91.5
other assets	169.2	151.1
Value added Tax and other tax assets	31.6	46.2
Positive fair value of derivative financial instruments from economic hedges (banking book)	**64.3**	**38.9**
Total	**1,131.1**	**1,091.2**

(75) Liabilities to credit institutions

(75.1) Liabilities to credit institutions – by product

in EUR m

	31.12.2010	31.12.2009
To central banks	**75.1**	**885.3**
To other credit institutions	**6,275.0**	**6,671.2**
due on demand	126.0	244.0
time deposits	2,818.5	2,763.6
loans from banks	1,547.8	2,218.4
money market liabilities	1,251.6	889.9
other liabilities	531.1	555.4
Total	**6,350.0**	**7,556.6**

(75.2) Liabilities to credit institutions – by region

in EUR m

	31.12.2010	31.12.2009
Austria	133.0	1,174.0
Central and Eastern Europe (CEE)	1,145.2	1,590.3
Other countries	5,071.9	4,792.3
Total	**6,350.0**	**7,556.6**

(76) Liabilities to customers

(76.1) Liabilities to customers – by customer type

in EUR m

	31.12.2010	31.12.2009
Saving deposits	**1,422.9**	**1,456.8**
Demand and time deposits	**6,697.4**	**6,193.0**
from public sector	679.3	542.1
from corporate clients	3,552.0	3,240.7
from retail clients	2,466.1	2,410.2
Total	**8,120.4**	**7,649.8**

(76.2) Liabilities to customers – by region

in EUR m

	31.12.2010	31.12.2009
Austria	1,573.5	1,395.4
Central and Eastern Europe (CEE)	3,900.6	3,715.4
Other countries	2,646.2	2,539.1
Total	**8,120.4**	**7,649.8**

Liabilities to customers include liabilities designated at fair value through profit or loss of EUR 425.0m (2009: EUR 423.5m) – see note (103).

(77) Debt securities in issue

in EUR m

	31.12.2010	31.12.2009
Issued bonds	**17,694.7**	**18,464.1**
"Pfandbriefe" and municipal bonds	1,203.5	1,325.3
bonds	16,491.2	17,138.8
Liabilities issued by the "Pfandbriefstelle"	**2,445.7**	**2,183.0**
Other debt securities in issue	**1.4**	**114.0**
Total	**20,141.8**	**20,761.0**

Debt securities in issue include liabilities designated at fair value through profit or loss of EUR 914.0m (2009: EUR 928.4m) – see note (103).

(78) Trading liabilities

in EUR m

	31.12.2010	31.12.2009
Negative fair value of derivative financial instruments (trading)	6.2	4.8
Total	**6.2**	**4.8**

(79) Negative fair value from hedge accounting derivatives

in EUR m

	31.12.2010	31.12.2009
Negative fair value of Fair Value Hedges	167.8	126.7
Total	**167.8**	**126.7**

The reported negative fair value from hedge accounting derivatives satisfying the hedge accounting criteria pursuant to IAS 39 are almost exclusively related to interest swaps and, to a lesser extent, cross currency swaps.

(80) Provisions

(80.1) Provisions – detail

in EUR m

	31.12.2010	31.12.2009
Pensions	9.6	9.6
Severance payments	17.3	17.6
Provisions for anniversary payments	2.0	1.7
Provisions for credit commitments and guarantees	75.8	119.9
Restructuring provisions as per IAS 37.72	18.8	25.2
Other provisions	68.2	41.8
Total	**191.8**	**215.9**

Hypo Alpe Adria has created restructuring provisions as a result of the restructuring plan for the Group, which should be implemented by 2014.

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

(80.2) Provisions – development of provisions for retirement benefits and severance pay

Provisions for retirement benefits and severance pay were as follows:

in EUR m

	31.12.2010	31.12.2009
Provisions at end of previous period	27.2	24.9
+ current service costs	2.3	1.4
+ interest expense	1.1	1.2
+/- actuarial gains/losses	-1.0	0.3
- payments in reporting year	-1.6	-1.8
+/- other changes	-1.0	1.2
Provisions at end of period	**27.0**	**27.2**

The present value of liabilities for service provision in the past 5 years amounted to EUR 27.0m (2010), EUR 27.2m (2009), EUR 25.1m (2008), EUR 24.9m (2007) and EUR 24.9m (2006). There were no experiences requiring adjustments to the liabilities or assets of the plan.

(80.3) Provisions – development of other provisions

Other provisions during the year under review developed as follows:

in EUR m

	Carrying amount 1.1.2010	Exchange differences	Allocations	Use	Release	Other changes	Carrying amount 31.12.2010
Provisions for anniversary payments	1.7	0.0	0.3	0.0	-0.2	0.2	2.0
Restructuring provisions as per IAS 37.72	25.2	-0.1	1.1	-2.7	-4.8	0.0	18.8
Other provisions	41.8	-0.1	46.1	-15.1	-5.9	1.2	68.2
Total	**68.7**	**-0.2**	**47.6**	**-17.8**	**-10.8**	**1.4**	**89.0**

The development of provisions for credit commitments and guarantees is shown in the table showing development of risk provisions on loans and advances – see note (60). Other miscellaneous provisions include provisions for punitive interest pursuant to section 97 of the Austrian Banking Act (BWG) of EUR 10.3m (2009: EUR 0.0m).

in EUR m

	Carrying amount 1.1.2009	Exchange differences	Allocations	Use	Release	Other changes	Carrying amount 31.12.2009
Provisions for anniversary payments	1.5	0.0	0.3	-0.1	-0.1	0.0	1.7
Restructuring provisions as per IAS 37.72	7.5	0.0	23.4	-1.2	-4.4	0.0	25.2
Other provisions	16.2	0.0	35.3	-4.0	-4.5	-1.1	41.8
Total	**25.2**	**0.0**	**59.0**	**-5.3**	**-9.1**	**-1.1**	**68.7**

(81) Tax liabilities

In 2010 deferred tax assets and liabilities were netted in as far as the specifications of IAS 12 permitted. Retrospective netting was not applied for the 2009 financial year for reasons of immateriality; the potential effect was estimated to be around EUR 500.0m. For details on tax assets, see note (72).

in EUR m

	31.12.2010	31.12.2009
Current tax liabilities	23.5	29.4
Deferred tax liabilities	12.0	513.7
Total	**35.5**	**543.2**

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

in EUR m

	31.12.2010	31.12.2009
Liabilities to customers	20.2	33.3
Debt securities in issue	0.0	0.9
Income tax liabilities	5.2	0.4
Other liabilities	14.4	10.2
Total	**39.8**	**44.9**

(83) Other liabilities

in EUR m

	31.12.2010	31.12.2009
Deffered income	**240.1**	**462.5**
Accruals and other obligations	**346.1**	**242.8**
Negative fair value of hedging instruments	**475.4**	**273.3**
of economic hedges (banking book)	288.9	90.6
of derivatives designated at fair value option (FVO)	186.5	182.7
Total	**1,061.7**	**978.6**

(84) Subordinated capital

in EUR m

	31.12.2010	31.12.2009
Subordinated liabilities	940.8	948.0
Supplementary capital	105.6	128.9
Hybrid capital	141.4	130.2
Total	**1,187.8**	**1,207.1**

Subordinated liabilities and supplementary capital include liabilities designated at fair value through profit or loss of EUR 108.7m (2009: EUR 133.2m), see also note (103). Use of subordinated capital is described in note (112).

(85) Equity

in EUR m

	31.12.2010	31.12.2009
Equity holder of the parent	**945.4**	**1,465.6**
Issued capital	1,623.3	1,023.2
Additional paid-in capital	0.0	0.0
Available-for-sale reserves	-78.2	-59.0
Foreign currency translation	-57.2	-16.7
Retained earnings (incl. net consolidated income)	-542.4	518.0
Non-controlling interest	**504.9**	**524.5**
Total	**1,450.4**	**1,990.1**

The issued capital is shown in the individual financial statement of Hypo Alpe-Adria-Bank International AG as of 31 December 2010. EUR 62.5m (2009: EUR 62.5m) of this related to share capital in Hypo Alpe-Adria-Bank International AG, which is divided into 7,809,276 (2009: 7,809,276) no-par bearer shares with voting rights. This item also includes participation capital amounting to EUR 1,560.8m (2009: EUR 960.8m), issued in the years 2008 to 2010. Of this amount, EUR 1,350.0m relate to the participation capital issued by Hypo Alpe-Adria-Bank International AG in December 2008 and June 2010 and subscribed by the Republic of Austria, see note (107).

The item foreign currency translation reserve also includes, from 1 January 2009, the effects of foreign currency translation from the capital consolidation of the banking subsidiary in Serbia. This is because the International Monetary Fund (IMF) initiated measures in the 1st quarter of 2009 which are aimed at strengthening the local currency which has led to the RSD becoming more important for the Serbian banking subsidiary. As a result of continuing mixed indicators for the functional currency of this Group company, the Executive Board exercised its right to choose under IAS 21.12 and elected to adopt the RSD as the functional currency for this unit in place of the euro.

As the measures agreed are only directed in the first instance at credit institutions, the euro continues to be the functional currency for the two leasing companies.

(86) Risk Report

86.1. Risk strategy, control and monitoring

Hypo Alpe Adria controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and ensuring the ability to bear risks at any time, thus protecting the Bank's creditors. To this end it influences the business and risk policies of its strategic and other holdings through its involvement in shareholder and supervisory committees. In the case of the Group's strategic and other holdings, compatible risk control processes, strategies and methods are implemented.

The following central principles apply to the overall controlling process in Hypo Alpe Adria:

- Specific processes and organisational structures are in place for all risk types, to which all tasks, competence and responsibilities of participants are aligned
- Sales and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest
- The Group develops and implements appropriate, mutually compatible procedures for the purpose of identifying, measuring, combining, controlling and monitoring the different risk types
- Appropriate limits for material risk types have already been set and are effectively monitored. Work is currently underway to expand the limit system as it relates to loans and advances

86.2. Organisation and internal audit

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

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

The Audit division is a permanent function which audits the business activities of Hypo Alpe Adria and it reports to the Chairman of the Executive Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Alpe Adria. The Internal Audit division carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements. Furthermore the Audit division also acts as Group Auditor in addition to the Internal Audit sections of the subordinate companies of the Hypo Alpe Adria.

86.3. Measures to improve risk control and monitoring

The following improvements in risk areas were developed at Hypo Alpe Adria in 2010.

86.3.1. NEW ORGANISATION OF RISK AREAS WITHIN THE GROUP

The new organisation of risk areas in Hypo Alpe-Adria-Bank International AG came into effect on 4 October 2010.

The new structure primarily affected the previous divisions Group Credit Risk Management and Group Rehabilitation, from which the following operative credit areas emerged as a result of being newly implemented or reorganised:

- Group Credit Management (GCM)
- Group Credit Rehabilitation (GCR)
- Group Task Force Rehabilitation (GTFR)

The operational sales division of HBInt., Group Corporate International (GCI), was closed down as in the future HBInt. is set to fulfil a pure holding function. The portfolio previously held by GCI was predominantly handed over, depending on the respective risk profile of the assets, to GTFR and GCR, who now assume responsibility.

The division Group Task Force Rehabilitation was entrusted with dismantling the concentration portfolio (tourism, commercial real estates, project finance and special assets) on a Special Desk basis, whereby this covers both performing and non-performing customers.

The division Group Credit Rehabilitation is responsible on a country basis for non-performing loans in the corporate sector which fall outside GTFR.

Responsibility for the remaining performing loans from cross-border business of the dismantled division GCI was handed over to the specialist sales and risk departments of the respective subsidiaries by means of a Service Level Agreement.

The division Group Credit Management (Group Credit Risk Management until 3 October 2010) was divided into industry-oriented desks, with the aim of quickly building up a combined pool of credit and industry expertise supported by Risk Assessment, a newly developed and rolled-out unit in the Group of Hypo Alpe Adria, to serve as a basis for decision making at the various levels of the Group to which it is passed down. At the same time, new adjustment measures for the applicable credit process were defined in order to implement procedural, organisational and operational reorganisation (e.g. reprogramming the Group Credit Committee (GCC)). To reduce response times in adjustments to the risk profile of the active corporate portfolio, intensive work was done on the development and implementation of a Group-wide early warning system as part of a newly established monitoring unit.

In October 2010 the risk controlling responsibilities of the Austrian bank subsidiary (HYPO ALPE-ADRIA-BANK AG) of Hypo Alpe Adria were successfully integrated into the divisions Group Credit Risk Control and Group Market Risk Control. Risk controlling and risk monitoring is now carried out directly via these two units. These measures have facilitated the centralisation of expertise and resources to enhance the targeted processing of projects and topics relevant to the Group.

An additional step was the establishment of a Centre of Competence within the Group Real Estate Management division which is responsible for standardising Group-wide appraisal preparation. In terms of organisation this division is in the responsibility of the Chief Operating and Market Officer, and its independence in drawing up appraisals will be monitored by a special advisory body. The chairman of this advisory committee is the Chief Risk Officer.

The Group Collection division was founded for the targeted Group-wide hedging of assets in the retail segment. This follows the management of hedges from the bank and leasing business, designed to enhance value.

To enhance risk governance and promote better concentration of responsibilities, all risk units of the leasing companies in the core countries Slovenia, Bosnia, Croatia, Serbia and Montenegro were integrated into their respective local bank at year end.

In addition to bundling know-how this also served to guarantee a uniform risk management approach.

The newly formed joint risk units will be divided in line with the 4-point principle in the areas of:

- Credit Management (Underwriting, Reviewing and Monitoring)
- Credit Rehabilitation (incl. Local Task Forces)
- Risk Control
- Credit Processing

Furthermore a separate task force will be temporarily implemented where it is necessary to reduce concentration risks.

Every local unit has to reflect the organisational structure of the holding as mentioned above. This means that the clearly delineated responsibilities and areas of expertise are ensured in the matrix organisation and that the organisational basis for Group Risk Governance is in place.

86.3.2. ASSET SCREENING IN JUNE 2010 AND "REVIEW RUSH" AND "DUE DILIGENCE" IN THE SECOND HALF OF THE YEAR

86.3.2.1. External asset screening – PwC

In view of the interim financial statements as of 30 June 2010 the Group Executive Board decided to conduct an analysis of the credit portfolio in Hypo Alpe Adria's core markets with the support of PricewaterhouseCoopers (PwC); the reasons for this included the problematic economic backdrop and the change in ownership which had taken place at the turn of the year. The basis for this was the "Findings of the external analysis of the credit portfolio as of 30 June 2009 by PwC" (so-called asset screening).

The relevant findings were incorporated as far as possible into the allocation for risk provisioning as of 30 June 2010.

86.3.2.2. Internal asset screening ("Review Rush") of the active corporate portfolio

In September 2010 internal asset screening was launched in the form of a so-called "Review Rush" for the corporate portfolio under the leadership of the Group Credit Management (GCM) division. The primary goal of this risk mitigating monitoring measure was to acquire an in-depth understanding of the risk profile, monitor recoverability of loans and to enhance customer-related know-how in the active corporate portfolio.

The "Review Rush" was carried out in parallel at two 'competence levels' in the Group Credit Management division, depending on the total liabilities (TL) of a group of related customers (GRC):

1. TL > the own competence (authority) of the individual bank and leasing companies in the Hypo Group
2. TL within the local competence of the individual bank and leasing companies starting with total liabilities >EUR 1m and for selected leasing companies >EUR 250 thousand.

The local credit risk and sales units were ordered to prepare their own drafts/working papers for the purpose of the "Review Rush on own competence" and to show them to the individual Industry Desks. A special risk assessment was produced for every group of related customers (GRC) on the basis of these drafts. These risk assessments, along with additional drafts with details of the GRCs and individual borrowers (IB), were then submitted for voting/approval to the responsible committee. The drafts and working papers contain information on areas such as business activities, economic relations, rating assessments, security situations, exposure strategy etc.

For the “Review Rush” at the local competence level the target portfolios of each institute and detailed schedules for the processing and return for each IB in a GRC were determined in collaboration with the respective subsidiary. The information for each GRC had to be reported monthly to the GCM within a set time period in the form of drafts/working papers (e.g. forecasted loan loss provisions, rating assessments, adequacy of the risk and financial performance situation etc.) specifically at the local competence level for the “Review Rush”. The local bank and leasing companies were ordered to produce documentation of the local “Review Rush” in a form appropriate to their authorisation level (“Pouvoirzug”). The “Review Rush” for the cross-border portfolio (performing loan) of Hypo Alpe-Adria-Bank International AG’s operational sales divisions which have been dissolved was carried out by qualified analysts and customer advisors for each of the subsidiaries.

By 15 December 2010 70% of the predefined “Review Rush” cases at the local competence level had been analysed; the “Review Rush” was completed in full by 31 January 2011.

A special tracking tool was developed to allow the findings/results and the RWA effects resulting from the “Review Rush” to be appropriately represented and refined; the defined measures will be monitored in a requirement database to ensure that they are processed appropriately and on time.

86.3.2.3. Internal asset screening (“Review Rush”) of the non-performing portfolio

The “Review Rush” by Group Credit Rehabilitation was subdivided into “above local competence” and “in local competence” in the portfolios.

All non-performing corporate customers with an exposure >EUR 1m were subject to the “Review Rush”.

The portfolio of the non-core countries was initially excluded from the “Review Rush” on grounds of capacity – impairment testing was however conducted on a case-by-case basis.

86.3.2.4. Internal asset screening (“Due Diligence”) of the concentration portfolio

As part of the “Due Diligence” by Group Task Force Rehabilitation, both the performing and non-performing portfolios were examined.

“Due Diligence” was carried out at both the local and Group levels.

The complexity of the cases examined (both in terms of legality and operations) was higher than estimated and some short or very short holding files were agreed, as a lot of data has to be revised – in particular with regard to how up-to-date the documentation is and to the formulation of any exit strategy.

As a consequence of all of the “Review Rush” and “Due Diligence” activities, the value of securities was tested in more depth, and up-to-date appraisals were demanded. In addition, customer group matching in the Group liabilities tool was updated, further training on the SRP calculation was conducted in the various countries, the non-performing ratings were properly updated, the Group took on a closer role in defining the exposure strategy as it relates to exposure in subsidiaries and this led to a stronger focus on a sustainable exposure strategy which incorporates expertise from customers and specialist staff.

86.3.3. "CONTROLLING CREDIT RISK" PROJECT
Based on experience gained from the crisis on the financial markets and to improve controls at Hypo Alpe Adria the Executive Board launched a project for controlling credit risk.

The aim of the "controlling credit risk" project was to implement a stringent portfolio limit system across the Group, which would be sufficient for the current, future and – in particular – medium-term needs and risks.

In order to achieve and implement the aforementioned goals, the credit controlling project was divided into three streams, which are roughly described as follows:

- Stream 1 newly defined the aggregate risk cover and developed an excel prototype for calculating this risk cover
- Stream 2 involved Hypo Alpe Adria conceiving relevant stress scenarios which are applied to current portfolios
- Stream 3 dealt with the issue of limit management, which covers both counterparty and country risk

As efficient, effective control instruments of Hypo Alpe Adria, the limit system and limit process should enable the Bank to manage its credit portfolio in a targeted way in future years and to estimate risks correctly in terms of capacity utilised. By setting maximum limits for losses resulting from transactions entered into, it should be possible to guarantee that these risks are covered by the economic capital which the Bank has earmarked for covering risk. In order to fulfil this aim, the maximum limit for credit risks in Hypo Alpe Adria is directly derived from the economic capital available for covering risk. The maximum credit risk limit is also broken down into sub-limits to facilitate effective, granular control.

Following intensive analysis of the credit portfolio of Hypo Alpe Adria, the segment level was defined as the smallest individual control unit below the legal entities, in line with the clearly defined responsibilities and harmonisation with the existing control strategy. The credit portfolio is mitigated, monitored and managed for the classes rating, sector, size, category and country. The existing structures and the credit rating of the borrower represent the primary risk drivers and are therefore key factors in applying the rating class. The sector class is suitable as a risk driver particularly due to its individual, macroeconomic sensitivities. In terms of concentration, the most important risk driver is the size category, which makes it ideal for use as a limit dimension. Division by country and by region also has to be included in setting limits and this also relates to concentration.

The internal use of capital (IUC), gross and net exposure were identified as limit parameters to be applied in the future. The internal use of capital is risk sensitive, because of the effects of stress scenarios, and is directly derived from the aggregate economic risk cover. The IUC can be applied at every level across the whole Group and at the level of the structure portfolio. In contrast, the Standard Credit Approach (SCA-RWA) is available both centrally and remotely. Thanks to the availability of this data, this figure will be used in Hypo Alpe Adria for the whole portfolio, control portfolio and – to a limited extent – as a measure of risk for setting limits at market level. By considering securities, net exposure gives a more accurate picture than provided by gross exposure of the actual situation. This also allows for comparisons to be made with RWA and EL. However, net exposure does require a high degree of reliability from the measurement of securities.

The limit planning process is closely tied to the existing budget planning process carried out by Group Financial Control for planning balance-sheet totals, earnings, aggregate risk cover and SCA-RWA. A limit allocation proposal is then offered by the Group Credit Risk Control (GCRC) on the basis of the predefined risk strategy and strategic specifications as agreed with the CRO. Following the Executive Board's approval of this proposal, these top-down limits are communicated to the subsidiaries at the same time as the specifications from Group Financial Control. The subsidiaries then produce their plans (bottom-up) and send them back to the GCRC for consolidation and consistency checks. Subsequently the final plans are discussed with the subsidiaries in the "Budget Rounds" and given final approval. In order to ensure that this process is fully integrated across the entire Group, the project results are implemented in every subsidiary in a separate roll-out project.

86.3.4. “RATING METHODS” PROJECT

In May 2010 the new Executive Board of Hypo Alpe-Adria-Bank International AG came to a decision regarding future implementation of internal rating methods. Based on this ruling, every method will be successively transposed to the web-based platform of the data processing centre in the years 2010 and 2011. The following new rating tools were developed and validated in 2010: corporate, small business client, commercial real-estate and retail behaviour scoring.

The full integration of all remaining rating methods on the web-based platform will be carried out in 2011 as part of the annual validation and development process.

Along with significant improvements to risk appraisal, the newly validated methods will also lead to better rating penetration and data quality thanks to centralised data access and consistent reporting.

The probability of default contained within the 25-step master scale was adjusted to accommodate the actual default rates which had been observed in certain sub-segments.

86.3.5. “RISK WEIGHTED ASSETS OPTIMISATION” PROJECT

The Group-wide project “Risk Weighted Assets optimisation” was conducted together with an experienced team of consultants in order to optimise statutory capital requirements.

The project focused in particular on the Group’s bank and leasing companies which were divided up by the amount of their consolidated risk weighted assets (RWA) into “Core 1”, “Core 2” and “Core 3”.

The project teams from the Group companies worked on optimisation and data supply in numerous workshops and weekly telephone conferences. Processing and tracking the topics was achieved by means of standardised tracking sheets. The project results and measures are discussed and agreed with the Executive Board (CEO, CRO, CFO) and the appropriate division heads on a weekly basis.

The significant optimisation points were summarised (out of 20 detailed topics):

- (Re-)classification of securities
- Continuous consideration of the extent to which thresholds can be allowed under supervisory regulations as regards overdue receivables
- Evaluating the classification of credit conversion factors

The target figure for the first project phase (up to 31 December 2010) involved a reduction in risk weighted assets (RWA from credit risks) of 5% against the RWA as of 31 August 2010.

The stated target figure was achieved in full.

In addition to the subsequent review and approval of optimisation measures carried out in the second project phase (January 2011 to March 2011), the important procedural approaches (who, when, how, what...) and the responsibilities of Head Office and the Group companies were also assessed (goal: the completeness and correctness of data in data supply to the central data pool).

86.3.6. LAUNCH OF KOOB RELEASE 3

As part of the quality assurance concept, an upgrade to the Group commitment analysis system was introduced in the middle of the year. The priorities here were standardising the data supplied as well as centralising and assuring the quality of the maintenance process. One important new technological feature is software-supported standardisation of customers which allows users to compare all new customers in the Group with existing customers from every institution on a monthly basis. Should a predetermined statistical match be found in the basic data, a report regarding the customer is generated and then processed.

Furthermore the process has been extended to include all relevant areas of risk (whereas its previous main focus was on types of credit), which are now integrated into the assessment. Additional areas for improvement are being steadily realised.

86.3.7. PROCESSING THE FINDINGS AND RECOMMENDATIONS FOR THE LENDING BUSINESS FROM THE 2009 OENB AUDIT

The project "Processing the findings and recommendations from the OeNB audit" was set up in order to process the findings and recommendations from the audit carried out by the central bank in the summer and autumn of 2009.

The goal of the project is to coordinate the processing of all findings with particular attention paid to the concerns explicitly addressed by OeNB, as well as other points from the OeNB audit, the PwC analysis of the credit portfolio, the ex ante analysis of the new lending process carried out by the Boston Consulting Group, and other related findings from the internal audit department.

A total of 174 findings were identified (the 122 findings from the OeNB audit report were supplemented by twelve findings from the PwC analysis of the credit portfolio, seven findings from the ex ante analysis by BCG, and 33 findings from the internal Group Audit division). The significant findings were split into six thematic areas.

According to the report of the specialist divisions as of 31 December 2010 133 of the total 174 findings had been processed at 100%. This represents a proportion of around 76%.

The prioritisation in terms of the "complexity of processing" parameter and the risk assessment/severity of the finding showed that 32% of the findings which needed to be evaluated were classified as high-risk and were highly complex to process. Of these 56 findings, 34 had been processed by 31 December 2010. This represents a proportion of around 61%.

Of the 41 remaining findings, the majority will be processed by 31 March 2011, upon which the project will be officially concluded. Any findings which have still not been processed at this point will be dealt with separately in dedicated projects.

86.3.8. OENB AUDIT 2010

A credit assessment was carried out by OeNB between 16 September 2010 and 4 February 2011, predominantly concentrating on the lending process and individual cases from the non performing loan portfolio.

OeNB published its report in spring 2011; work is currently underway to implement the findings which coincide with the results of the Bank's analysis.

86.3.9. CREDIT SPREAD PROJECT
Together with the interest rate risk, credit spread risks represent the largest risk factor within market risk. In addition to the massive increase in credit spreads, the volatility in this risk factor has also risen sharply in recent years. These trends have to be taken into consideration in market risk management and controlling through adequate risk measurement.

86.3.10. IMPROVEMENTS TO LIQUIDITY RISK MANAGEMENT
In the field of liquidity risk a Group-wide liquidity data and reporting solution (Liquidity Ratio Tool 2.0) was programmed with the support of an external consulting/IT firm which was then successfully rolled out to the individual subsidiaries by 31 December 2010. This tool automatically processes Group-wide quality-assured liquidity data from every bank and leasing subsidiary, provides targeted modelling for liquidity risk controlling and prepares it for reporting. In the field of stochastic and partially deterministic assumptions for modelling, Group-wide rules for measuring and controlling liquidity risk have been integrated to forecast future cash flows; these can be managed directly using the Liquidity Ratio Tool 2.0.

86.4. 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.

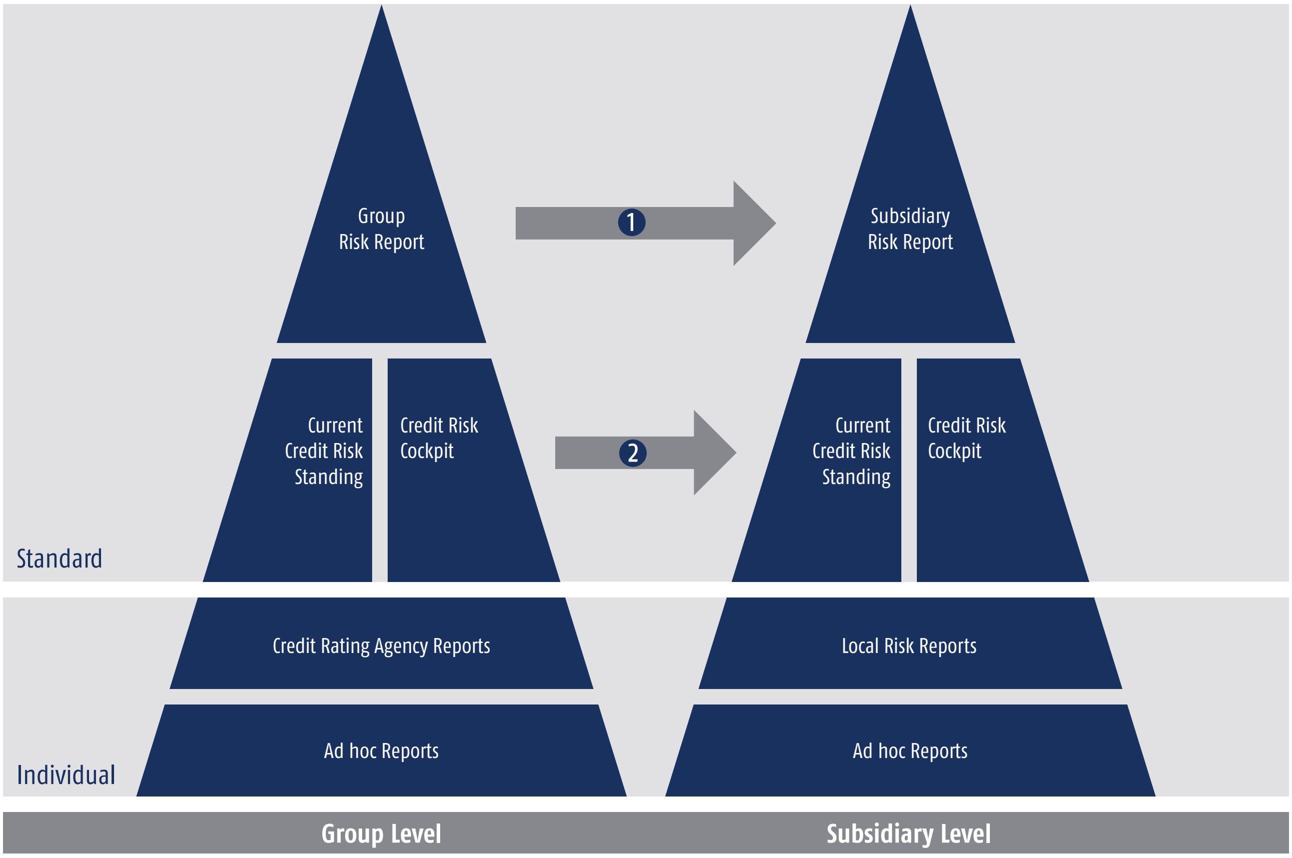
The new Group risk report developed in 2009 was extended throughout the course of 2010 and new key performance indicators (KPIs) for the credit risk were defined. In addition to the existing Management Summary section, the risk-bearing capacity including stress tests, credit and country risk, market risk, liquidity risk, operational risk and equity risk, the report has been extended to include the following: depiction of credit risk by portfolio segment, a report on PIIGS states and the inclusion of a RWA report.

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

Uniform guidelines on liquidity risk reporting were introduced across the Group which include standardised daily, weekly and monthly reporting.

86.4.1. CREDIT RISK REPORTING STRUCTURE

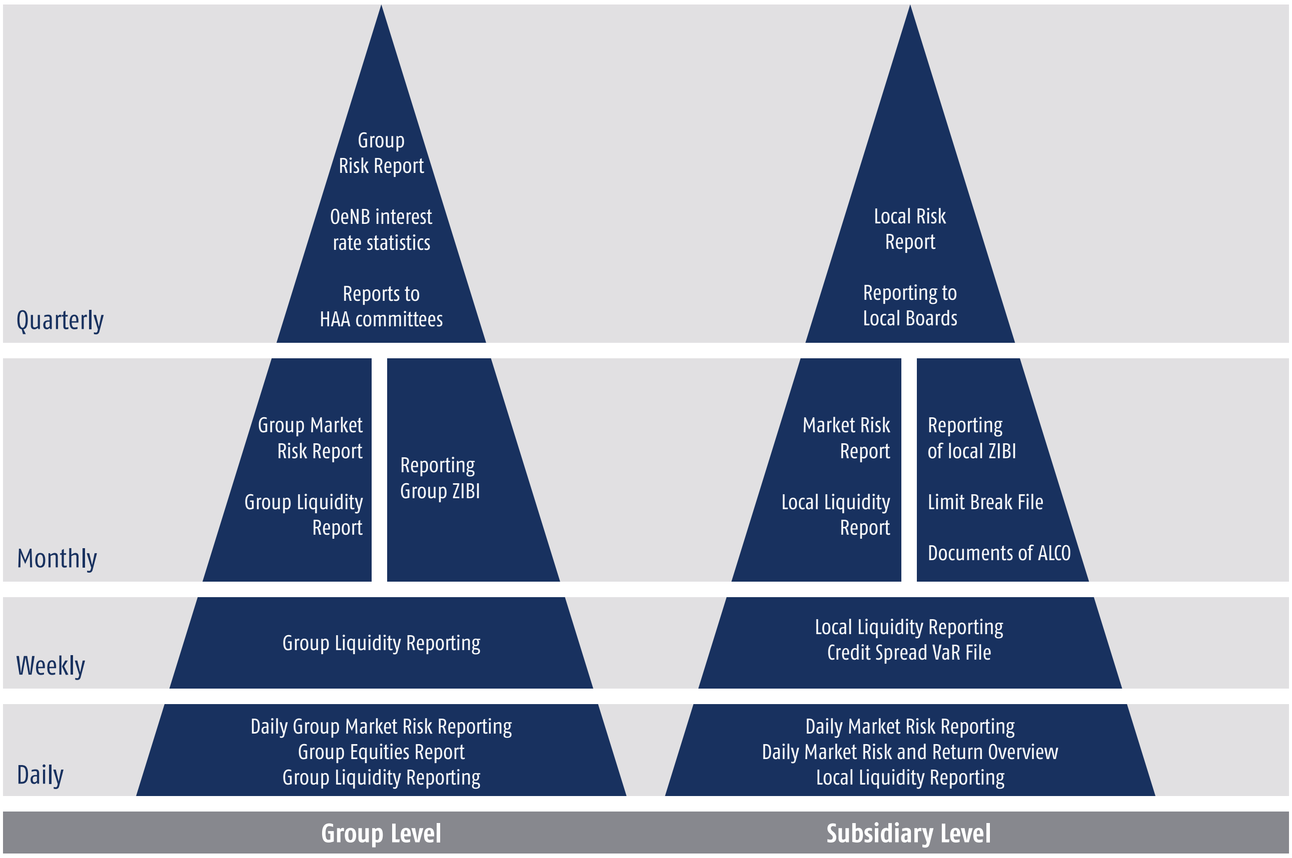
The following ongoing reports exist for credit risk; they are standardised across the Group and conform to relevant guidelines.



1 Produced by the subsidiary, standard template and data supplied by the Group

2 Produced in the Group ➡ for transmitting the report to the subsidiary ➡ Management Summary sent by the subsidiary to the Group

86.4.2. MARKET AND LIQUIDITY RISK REPORTING STRUCTURE
The main risk reports compiled on market and liquidity risk in Hypo Alpe Adria are shown below:



For stress scenarios the reporting frequency can be increased if required. In addition to the Group reports shown above, there are relevant daily market risk reports produced at local level which are sent to the Group on a daily basis.

86.5. Capital management

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

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

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

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

86.5.1. REGULATORY CAPITAL ADEQUACY (SOLVENCY)

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

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

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

As of 2013 the relevant BASEL III specifications will be integrated into the planning process.

Subject to the final ruling, which was not yet confirmed at the time of writing, the amendments and effects from BASEL III which can already be observed are examined in detail in the following points. Equity capital is the main focus of the current wave of BASEL III regulations, whereby the following developments are probable:

- The division of Tier-1 capital into "predominant" and "additional core capital"
- Discontinuation of the differentiation between long and short-term Tier-2 capital as well as the 50% limit for Tier-1 capital
- Elimination of Tier-3 capital
- Deductions will no longer be made 50:50 from Tier 1 and Tier 2 as was previously the case, it will instead be compulsory to deduct 100% from the predominant core capital
- New prerequisites for hybrid capital
- New prerequisites for non-controlling interests

As regards liquidity, quantitative figures are introduced under BASEL III; these ratios measure both the short-term liquidity situation in a severe stress situation (liquidity coverage ratio) as well as the long-term liquidity structure (net stable funding ratio). The aim is to ensure that a sufficient pool of liquid assets is available in a short-term stress situation as well as to bring an adequate balance to the structure of assets and liabilities in both the medium and long term. Hypo Alpe Adria's internal control processes already involve calculating stress reserves on the basis of internal stress tests in addition to limiting structural liquidity. The goal is to integrate both aspects into a consistent control framework on the basis of BASEL III specifications and the first test calculations. According to the BASEL III document, liquidity regulations should come into force in 2015 (liquidity coverage ratio) and 2018 (net stable funding ratio).

86.5.2. ECONOMIC CAPITAL (RISK-BEARING CAPACITY)

In addition to ensuring regulatory capital requirements are met, securing the Group's ability to bear economic risks forms a central part of controlling activities within Hypo Alpe Adria. (Details on the revisions carried out in 2010 to risk-bearing capacity and aggregate risk cover can be found in the section "controlling credit risk" project.)

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

The Bank manages its risks as part of the overall bank management process, which makes risk capital available for the different types of risk in order to realise their strategies, and also partially imposes limits.

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

From now on the economic aggregate risk cover (ARC) will be used for credit risk as well as market risk as a basis for annual limit planning. This will be updated and monitored on a quarterly basis. The ongoing monitoring of limits for central types of risk will therefore be possible in the future.

The risk-bearing capacity report will be drawn up quarterly by Group Credit Risk Control and Group Market Risk Control and presented in the Group Asset Liability Committee (Group ALCO) as well as in the risk report submitted to the Executive Board and Supervisory Board.

The Group Risk Executive Committee (GREC) sets the Group-wide standards (methods, processes, systems, organisation). Specification of the various applicable minimum/target ratings (confidence level) is carried out by the Group Asset Liability Committee (Group ALCO).

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

The types of risk relevant to determining the risk capital requirements include credit, country, liquidity, market, equity, operational and other risks (exchange rate risks from equity investments). The primary method used to determine the amount of the risk capital requirement depending on the type of risk is value-at-risk methodology (VaR methodology). The confidence level ascertained stands at 99.90% (on the basis of a one-year holding period). This corresponds to an internal rating of 2B (A3 on Moody's Scale).

Hypo Alpe Adria has planned a detailed risk inventory for the year 2011 in order to comply with the new conditions (e.g. concentration on core countries, new business model).

An upper limit for loss has been derived from the aggregate risk cover. The risk capital available to cover this maximum loss limit will be finally allocated in line with the Executive Board's strategic and operational targets at the level of risk types.

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

In the course of managing risks associated with economic capital, Hypo Alpe Adria monitors the risk profile and guarantees the risk-bearing capacity by comparing risk capital with the risk capital requirement.

In the course of managing risks associated with economic capital Hypo Alpe Adria monitors the risk capital independently, both at subsidiary and Group level. By comparing risk capital with the risk capital requirement, the risk-bearing capacity is secured. The maximum loss limit – and therefore the risk capital available – is determined by the sum of the capital components.

The strategic equity investments held by Hypo Alpe Adria (subsidiary banks and leasing subsidiaries in the core countries of Hypo Alpe Adria) have their own independent risk management processes. As the highest-ranking institute of the Group, Hypo Alpe Adria exercises a monitoring function on the one hand, and on the other exercises its ability to draw up guidelines particularly as regards processes and methods. To a moderate extent these also take into account the specific needs, frame conditions and business strategies of the subsidiaries.

86.6. Credit risk (counterparty risk)

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

Other risk types which are also included under credit risks, such as country and equity risks, are separately measured, controlled and monitored.

86.6.2. GENERAL REQUIREMENTS
The credit policy provides concrete specifications for the organisational structure of the Bank in the lending business as well as for risk control methods, and is supplemented by further policies such as the monitoring policy or problem loan policy, as well as specific directives.

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

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

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

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

In addition to rating methods developed in-house, Hypo Alpe Adria also uses the rating methods of "RSU Rating Service Unit GmbH & Co. KG", which conform to the requirements of the internal rating based approach and are validated centrally by this company.

The corporate and SME rating methods developed by Hypo Alpe Adria itself were comprehensively validated in 2010 and programmed in the computer centre. The methods were rolled out at the beginning of 2011. The validation process involved both quantitative and qualitative analyses. Here rating factors, the method's selectivity and calibration, quality of data and the design of the model were all tested using quantitative and qualitative analyses and feedback from users.

In 2011 all of the remaining methods – as long as they have not yet been validated – will be transferred to the new rating platform which offers central access. In addition to this, a Group-wide behaviour scoring system for retail customers will be made available from the middle of the year.

The rating systems currently used within Hypo Alpe Adria are available to all subsidiaries where required.

The back office is responsible for ensuring the completeness and quality of ratings for risk-relevant transactions, while the front office is responsible for the same for non-risk-relevant transactions (dual-control principle). Group Credit Risk Control will regularly monitor quality at the portfolio level and report to the Executive Board. To this end a standardised system of reporting ratings will be implemented at both the Group level and at local level.

86.6.4. LIMITING RISK

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

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

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

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

At the level of the individual customer, an upper limit on concentration has been introduced. The regulation states that Hypo Alpe Adria will not enter into gross exposure greater than EUR 50m with any customer. The only exceptions are strategic partners, for whom Hypo Alpe Adria manages day-to-day refinancing affairs, and certain local government authorities. Exceptions must be approved at least once a year by the Executive Board. For all concentrations which fall within the new definition, medium-term strategies to reduce the concentration must be defined by the sales units. These are monitored by the Group Credit Risk Control unit.

Please refer to section 7.3.3 "controlling credit risk" project for a more detailed description of the results. As a result of this, there will be adjustments to the limits in 2011.

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

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

86.6.5. STRATEGIES AND PROCEDURES TO EVALUATE AND MANAGE ELIGIBLE COLLATERAL

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

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

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

The collateral policy contains a description of all collateral generally accepted by banks.

The main types of collateral include mortgages (approx. 60% of the collateral portfolio), pledges, cessions and guarantees.

86.6.6. PORTFOLIO OVERVIEW – CREDIT RISK

In economic risk controlling, the fair value of an asset is used for the calculation of the relevant exposure. For accounting purposes the exposure is calculated on the basis of carrying amounts. Consequently the figures cannot be compared directly against each other, and appropriate conversion is required.

Breakdown of gross exposure in the Group in accordance with IAS 7.36 (accounting view):

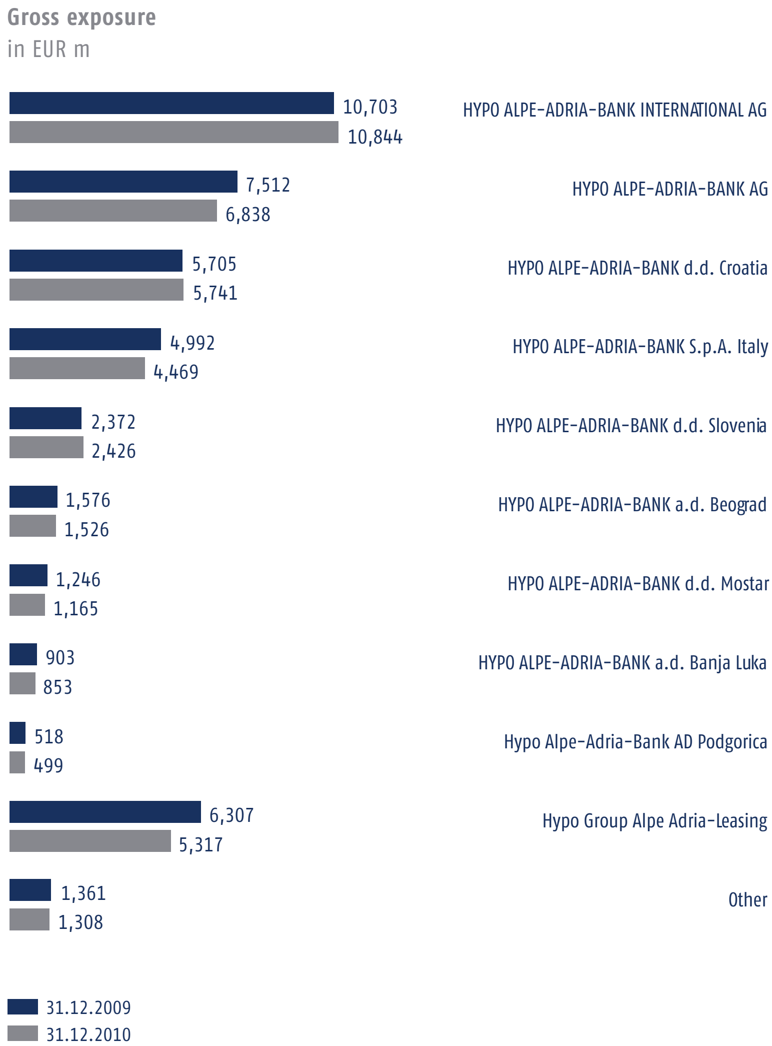
in EUR m

	31.12.2010	31.12.2009
Cash and balances at central banks	844	1,020
Loans and advances to credit institutions	5,179	4,087
Loans and advances to customers	28,218	30,117
Risk provisions on loans and advances	-3,211	-2,450
Trading assets	67	73
Positive fair value from hedge accounting derivatives	1,048	933
Financial investments – designated at fair value through profit or loss	996	1,040
Financial investments – available for sale	2,527	2,714
Financial investments – held to maturity	42	42
Investments in companies accounted for at equity	5	2
Other financial investments		
thereof operate lease	239	363
thereof investment properties	796	726
Contingent liabilities	830	888
Other liabilities – irrevocable loan commitments	1,281	1,553
Total	**38,860**	**41,106**

Distribution of gross exposure in the Group:

In the year under review gross exposure in the Group fell by EUR 2.2bn or 5.1%. This reduction is due to highly limited new business. In total, there are free lines of credit at Hypo Alpe Adria amounting to around EUR 1.3bn.

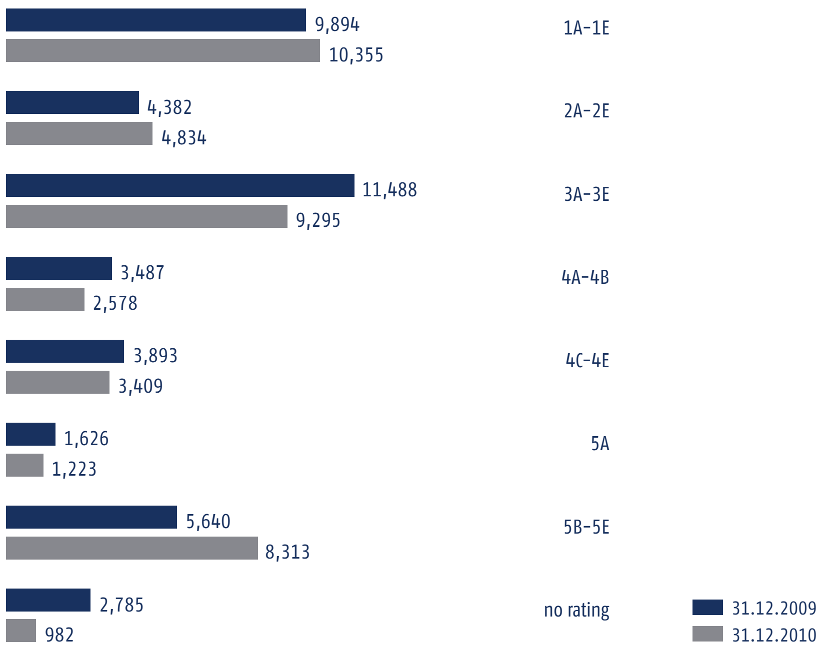
Within the Group gross exposure breaks down as follows:



Gross exposure by rating class in the Group:
Around 37% of the gross exposure is investment grade (rating classes 1A to 2E). This exposure overwhelmingly relates to loans and advances to credit institutions and public institutions.

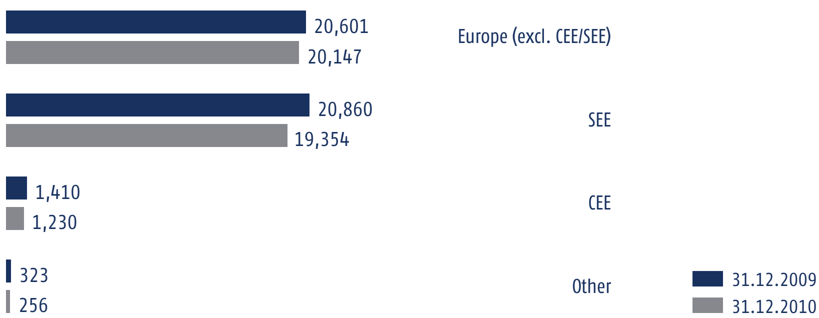
Gross exposure in the classes 5B-5E (impaired exposure until it is written off) and 5A (delay >90 days) rose sharply, which is also reflected in the results of the asset screenings, the “Review Rush” and “Due Diligence” which were carried out.

Gross exposure by rating class
in EUR m



Gross exposure by region in the Group:
The country portfolio of Hypo Alpe Adria focuses on the EU and the SEE region. In general there was a reduction in gross exposure in every country and region. In 2010 the only country in which there was a significant rise in gross exposure was Austria (liquidity reserve).

Gross exposure by region
in EUR m



Gross exposure and nominal value in the PIIGS states:
Hypo Alpe Adria's activities in the PIIGS states (Portugal, Ireland, Italy, Greece and Spain) are kept to a minimum. The only exception is Italy, where the Group supports a strategic subsidiary, Hypo Bank Italien, and refinances as appropriate.

The high nominal value from Ireland comes from the equity vehicle Hypo Credit Management. All country limits on PIIGS states are currently frozen in Hypo Alpe Adria.

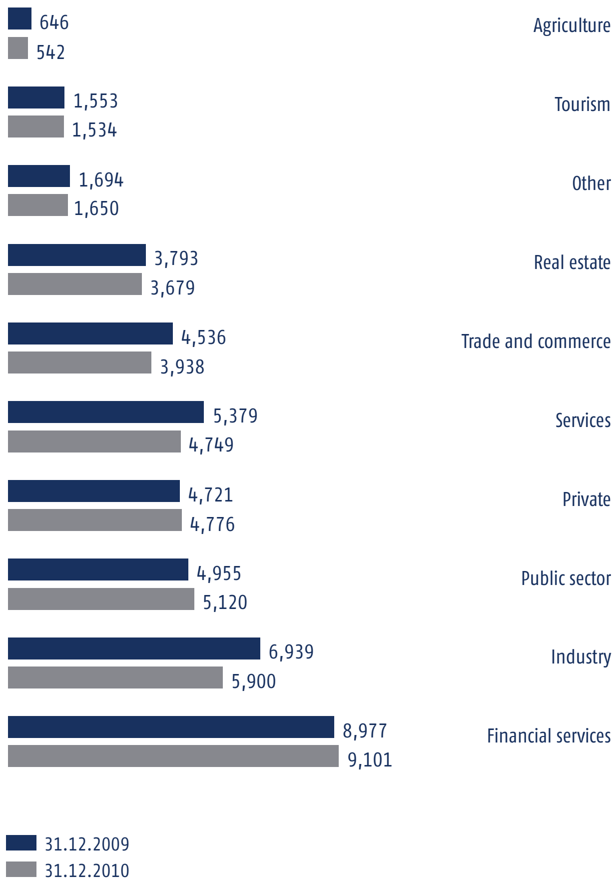
The following table exclusively shows direct gross exposure to central banks, states, regions and credit institutes as of 31 December 2010.

in EUR m

Breakdown by country and risk segment		Total fair value	Worst-case total (Maximum of the nominal and fair value)
Greece	State and central bank	54.2	80.0
	Regions and municipalities	0.0	0.0
	Banks	8.7	10.0
	Total	62.9	90.0
Ireland	State and central bank	0.0	0.0
	Regions and municipalities	0.0	0.0
	Banks	75.2	495.1
	Total	75.2	495.1
Italy	State and central bank	108.2	175.8
	Regions and municipalities	52.5	52.5
	Banks	201.5	303.8
	Total	362.3	532.1
Portugal	State and central bank	0.0	0.0
	Regions and municipalities	0.0	0.0
	Banks	41.1	50.0
	Total	41.1	50.0
Spain	State and central bank	0.0	0.0
	Regions and municipalities	52.0	52.0
	Banks	160.8	188.1
	Total	212.8	240.1
Total		**754.4**	**1,407.3**

Gross exposure by industry group in the Group:
A uniform classification code from NACE-Code 2.0 is used in Hypo Alpe Adria for the economic control and strategic focus of industry exposure. This code is mapped into ten industry groups for reporting purposes. Here, the lower-risk industry groups, credit institutes and the public sector account for a share of 34.7%. The well diversified private sector has a share of 11.7%.

Gross exposure by industry Group
in EUR m



Concentration risks arising from the type of industry have arisen in the real estate and tourism sectors. These risks will be reduced in a targeted manner by the Group Task Force founded in 2010.

There was a slight increase in the portfolio in the areas of financial services and the public sector, which is primarily due to the increase in the liquidity reserve and the purchase of government bonds.

The current industry breakdown will be refined over the course of 2011 and revised where necessary.

Gross exposure by industry and region:
When split by industry and region it becomes clear that the majority of financial services providers come from Europe (excluding CESEE). These are primarily large banks with which Hypo Alpe Adria has built up good business relationships over many years. These are shown by the customer's official home country.

The corporate and retail business is mainly focused on Hypo Alpe Adria's core countries in SEE. The business strategy foresees a further increase in this share, particularly as it relates to the retail business.

in EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Services	1,721	2,739	213	75	4,749
Financial services	7,307	1,587	108	98	9,101
Trade and commerce	870	2,895	156	17	3,938
Industry	2,099	3,617	184	0	5,900
Agriculture	101	413	28	0	542
Public sector	3,657	1,248	202	12	5,120
Private	793	3,924	56	3	4,776
Real estate business	2,425	1,047	206	0	3,679
Other	875	704	21	51	1,650
Tourism	300	1,179	55	0	1,534
Total	**20,147**	**19,354**	**1,230**	**256**	**40,988**

Depiction of gross exposure by size range

Around 61.4% of the gross exposure is found in the size range (<=EUR 10m).

The largest share of the EUR 15.8bn gross exposure in the range >EUR 10m is due to banks or the public sector (55.4%). These transactions are necessary for securing liquidity and for hedge transactions.

in EUR m

Size classes	31.12.2010	31.12.2009
< 10,000	1,708	1,746
10–20,000	1,270	1,530
20–50,000	2,053	2,239
50–100,000	2,219	2,136
100–250,000	3,287	3,276
250–500,000	2,432	2,506
500–1,000,000	1,976	2,223
1,000–3,500,000	4,885	5,509
3,500–10,000,000	5,355	5,647
> 10,000,000	15,804	16,383
Total	**40,988**	**43,194**

86.6.7. DEPICTION OF FINANCIAL ASSETS BY EXTENT OF IMPAIRMENT

Financial assets which are neither overdue nor impaired:

in EUR m

	31.12.2010		31.12.2009	
Rating class	Gross exposure	Collateral	Gross exposure	Collateral
1A–1E	10,343	1,018	9,893	960
2A–2E	4,738	1,815	4,345	1,466
3A–3E	8,563	4,961	10,437	6,093
4A–4B	2,153	1,270	3,086	1,954
4C–4E	2,803	1,801	2,940	1,711
No rating	885	411	2,154	1,248
Total	**29,485**	**11,276**	**32,854**	**13,433**

Financial assets which are overdue but not impaired:

in EUR m

	31.12.2010		31.12.2009	
Classes of loans and advances	Gross exposure	Collateral	Gross exposure	Collateral
Financial assets	23	0	0	0
– 181 to 365 days	23	0	0	0
– over 1 year	0	0	0	0
Loans and advances to credit institutions	0	0	1	0
– overdue to 30 days	0	0	0	0
– overdue 61 to 90 days	0	0	0	0
– overdue 91 to 180 days	0	0	1	0
– overdue 181 to 365 days	0	0	0	0
– overdue over 1 year	0	0	0	0
Loans and advances to customers	4,519	3,241	5,107	3,575
– overdue to 30 days	795	538	879	590
– overdue 31 to 60 days	538	415	746	564
– overdue 61 to 90 days	206	163	224	152
– overdue 91 to 180 days	1,095	931	1,681	1,286
– overdue 181 to 365 days	1,687	1,055	1,282	776
– overdue over 1 year	196	138	296	206
Total	**4,542**	**3,241**	**5,109**	**3,576**

Financial assets which are impaired:

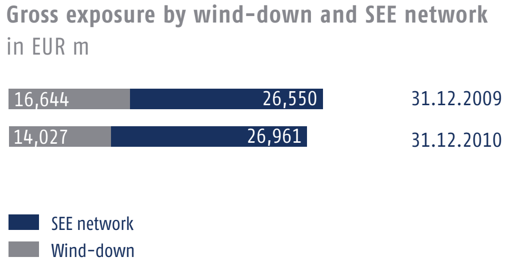
in EUR m

		31.12.2010	31.12.2009
Financial assets	Gross exposure	0	0
	Provisions	0	0
	Collateral	0	0
Loans and advances to credit institutions	Gross exposure	47	59
	Provisions	13	24
	Collateral	11	8
Loans and advances to customers	Gross exposure	6,914	5,172
	Provisions	3,011	2,269
	Collateral	3,323	2,584
Total gross exposure		**6,961**	**5,231**
Total loan loss allowances (incl. provisions for risks from the lending business)		**3,024**	**2,293**
Total collateral		**3,334**	**2,592**

86.6.8. DEPICTION OF GROSS EXPOSURE BY "WIND-DOWN" AND "SEE NETWORK"

In order to meet the demands of the new strategy at Hypo Alpe Adria, gross exposure started to be divided in terms of "wind-down" and "SEE Network" in the course of 2010.

The following image shows that the majority of the reduction in gross exposure occurred in the companies where the Bank is winding down its interests/exposure.



Renegotiations:
Within the framework of renegotiations, a change in conditions relating to creditworthiness was applied to financial assets with a total carrying amount of EUR 311.6m in 2010.

Realised collateral:
In the financial year 2010 there were realisations of collateral (bail-out purchases) amounting to around EUR 341.7m
Of these, around EUR 61.3m related to bail-out purchases by banks and EUR 280.4m related to assets repossessed by leasing companies.

86.7. Equity risk

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

86.7.2. GENERAL REQUIREMENTS
In previous years, to achieve its business objectives, Hypo Alpe Adria (or a subsidiary) invested in companies which either served to expand its business spectrum, provide services for the Bank or function as purely financial holdings. 2010 was characterised by portfolio rationalisation triggered by the start of restructuring measures in Hypo Alpe Adria which also led to disposals in individual cases.

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

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

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

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

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

Strategic equity investments are integrated into the annual strategy and planning process of Hypo Alpe Adria. Here Hypo Alpe Adria basically strives towards corporate management or secures this by means of appropriate voting trust agreements. Representation on shareholder and supervisory committees allows Hypo Alpe Adria to exert influence over business and risk policies.

Hypo Alpe Adria basically finances equity investments with equity capital and/or outside capital. When it acts as a provider of equity capital or a lender of outside capital it evaluates the additional risks, especially those arising from its status as a lender of outside capital.

Participation management conducts continuous monitoring of possible risks related to equity investments. Here one important aspect of risk is the capital measures necessary for subsidiaries. This requires adequate provisions to be made for any equity injections in Hypo Alpe-Adria-Bank International AG which may be required in the future. To this end the risk related to depreciation on the carrying amount of the equity investment is quantified by means of a business valuation process, whereby possible impairment is determined from good will – based on the planning data of the equity investment – as compared against the reported value of the equity investment.

86.8. Country risk

86.8.1. DEFINITION

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

For example, country risks may arise from a possible deterioration of national economic conditions, a political or social collapse, the nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargos, wars, revolutions, or coups in the respective countries.

86.8.2. GENERAL REQUIREMENTS

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

86.8.3. RISK MEASUREMENT

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

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

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

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

86.8.4. RISK MITIGATION

Mitigating country risk is carried out by way of limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, whereby the respective limit is introduced and approved in the Group Asset Liability Committee (ALCO).

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

86.8.5. RISK CONTROL AND MONITORING

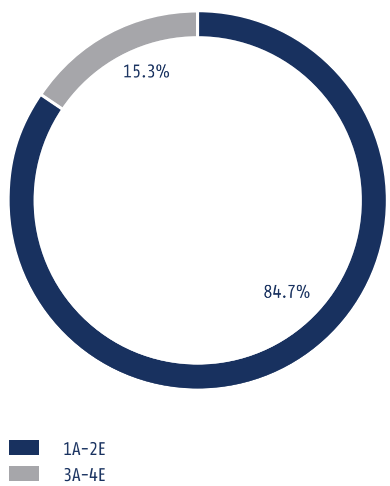
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports are also prepared as required.

86.8.6. PORTFOLIO OVERVIEW – COUNTRY RISK

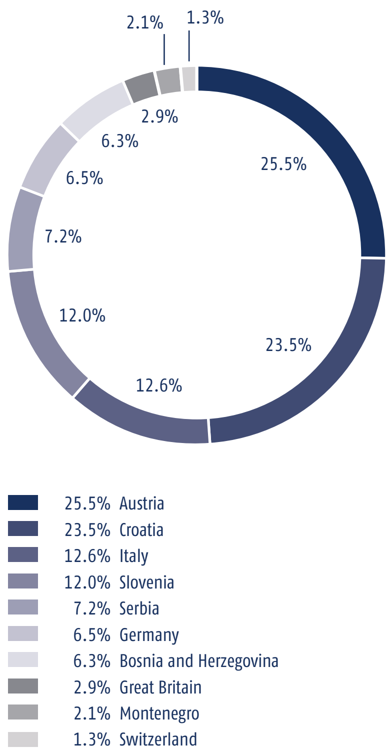
Gross exposure by country rating (country in which customer resides):

The share of gross exposure in countries with investment grade ratings amounts to 84.7%. Consequently at the end of 2010 around EUR 6.3bn of gross exposure was in countries with a non investment grade rating.

Gross exposure – country rating breakdown
in percent



Top 10 countries by gross exposure
in percent



Top 10 countries by gross exposure:
The top 10 countries accounted for 92.2% of total volume, with Austria and Croatia accounting for the largest share.

86.9. Market risk

86.9.1. DEFINITION

Market risks consist of potential losses arising from a change in market prices. Hypo Alpe Adria classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility and share price risks, as well as risks from alternative investments. In Hypo Alpe Adria Bank 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 at Group level.

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

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

The market risk is limited by means of the market risk limits approved by the Executive Board of Hypo Alpe Adria Bank, these consist of VaR limits, profit and loss limits and partly of volume limits.

Under the risk management framework, the Executive Board is informed about the market risk position, the extent to which limits have been utilised, and the economic profit and loss situation. As it relates to Hypo Alpe Adria, this information is provided on a daily basis.

86.9.2. GENERAL REQUIREMENTS

The Bank develops its market risk strategy on the basis of strategic talks with the treasury units responsible. Decisions on the combined business and risk strategy at Group level are exclusively made in the Group Asset Liability Committee (Group ALCO).

86.9.3. RISK MEASUREMENT

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

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

The reliability of market risk measurement methods is regularly examined with regard to the quality of individual risk methods. As part of back testing, the risk prognosis is compared with the result (profit or loss) – here hypothetical profit and loss from two successive trading days and with a portfolio that remains constant is contrasted with the VaR of the first day. In accordance with the Basel ‘traffic light’ approach, the forecast quality of the risk model is deemed adequate.

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

For regulatory purposes Hypo Alpe Adria currently uses the standard methods from the Oesterreichische Nationalbank (OeNB) and does not use any own internal models.

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

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

The method parameters for until further notice (UFN) product modelling were adjusted in December 2010 and replaced with an elasticity concept. Transferring the adjustments into longer maturity bands and the consequent increase in interest rate risk are compensated for by control measures related to the refinancing lines for subsidiaries.

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

86.9.4. RISK MITIGATION

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

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

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

86.9.5. RISK CONTROLLING AND MONITORING

All market risks are centrally monitored by Group Market Risk Control which is independent of all trading activities. In addition to regulatory requirements, this unit also ensures risk transparency and regular reporting to the Executive Board member responsible for this area.

As part of the daily reporting process to the Group Executive Board, the value-at-risk and performance figures for the trading book are reported on a daily basis, while banking book investments and market risk steering figures are submitted on a weekly basis. A daily report is also made to the Executive Board (daily market risk report by individual institutes and an overview of the shares of Hypo Alpe Adria), in which the risk and performance figures of the Group's subsidiary banks are communicated. Here the value at risk at unit level is compared against the defined limits; should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

Hypo Alpe Adria's subsidiaries record risk for their respective portfolios in line with the regulations of Hypo Alpe Adria. The results are presented to the Group Executive Board as part of the ongoing reporting process of Hypo Alpe Adria.

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

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

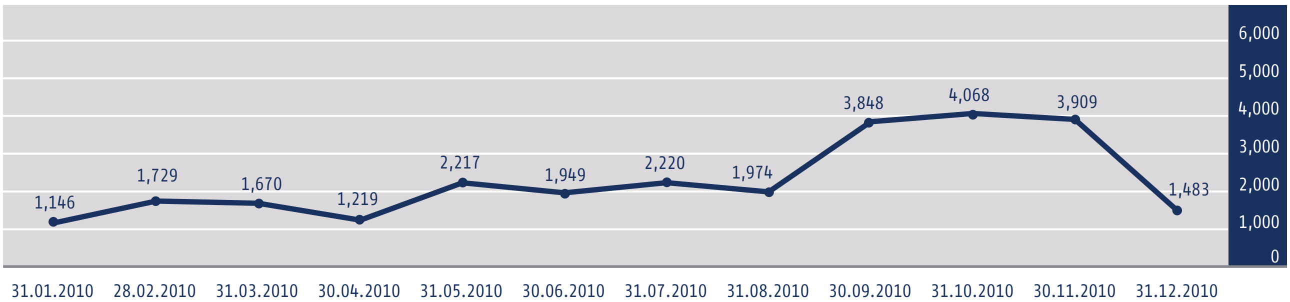
86.9.6. OVERVIEW – MARKET RISK

86.9.6.1. Interest rate risk

The chart below shows the progression of interest rate risk (including the interest rate risk of the trading book) for Hypo Alpe Adria in the years 2009 and 2010. The interest rate gap profile for Hypo Alpe Adria contains all interest-rate-relevant on- and off-balance-sheet items with their next interest rate fixing date. The stochastic cash flows are illustrated with uniform Group standards, with local models for country-specific transactions. All interest rate gap profiles of local banks are consolidated at Group level and combined into the Group interest rate gap profile.

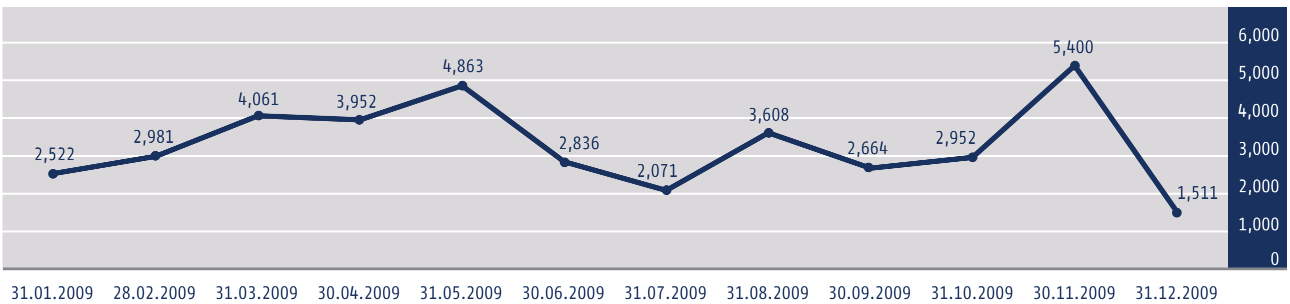
Changes in the interest rate risk of Hypo Alpe Adria in 2010:

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



Changes in the interest rate risk of Hypo Alpe Adria in 2009:

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

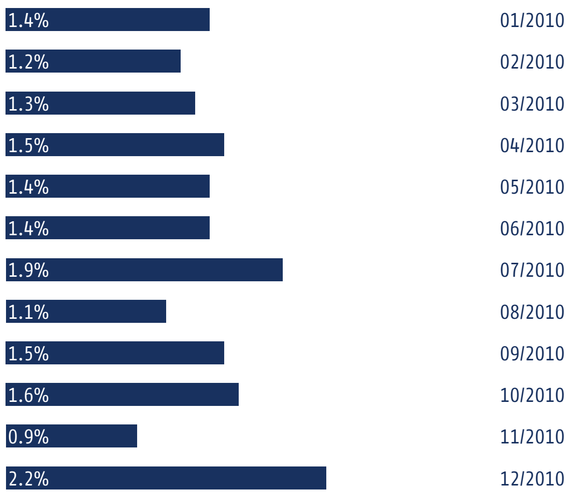


The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group interest rate gap profile; a second step calculates the risk equity ratio as a percentage of equity capital.

The regulatory limit of 20% and the internal limit of 15% were not even close being reached or exceeded at any point in the year.

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

Interest Risk Equity-Ratio ex NIB
in percent in 2010



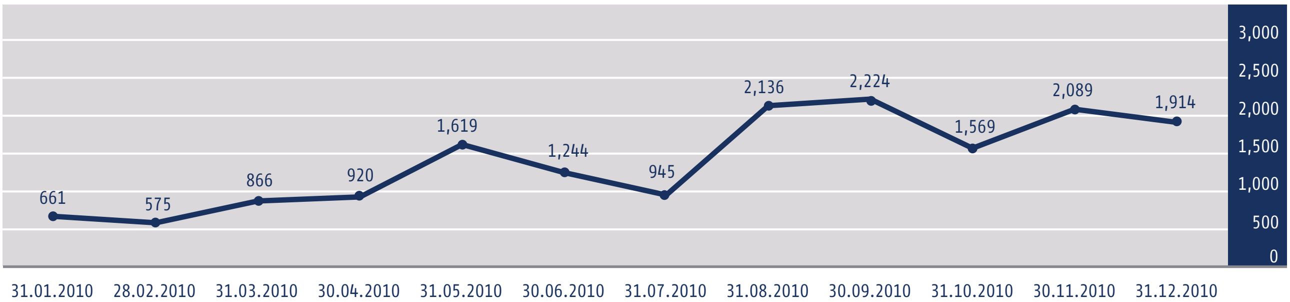
Regulatory requirements state that the proportion of interest rate risk – in the form of the standardised 200-bp rise in directly relevant interest-bearing positions (excluding non-interest-bearing positions, abb.: ex NIB) – in equity may not exceed 20%. An internal limit for the interest risk equity ratio of a maximum of 15% has been set, however this has only been sparingly used because of the positive offsetting effects in the interest rate gap profiles. Non-interest-bearing positions (abb.: NIB) do not therefore affect interest in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German minimum requirements for Risk Management (MaRisk).

86.9.6.2. Open foreign currency positions

The data base for determining the value at risk for open foreign currency positions at the Group level of Hypo Alpe Adria is based on the figures in the OeNB report and contains operational business activities. Open foreign currency positions thereby cover the entire FX risk of Hypo Alpe Adria. The main risk drivers for open foreign currency positions at Hypo Alpe Adria are the CHF, HRK and USD currencies. The value at risk for this FX risk was approximately EUR 1.9m per day as of December 31 2010, at a confidence interval of 99%.

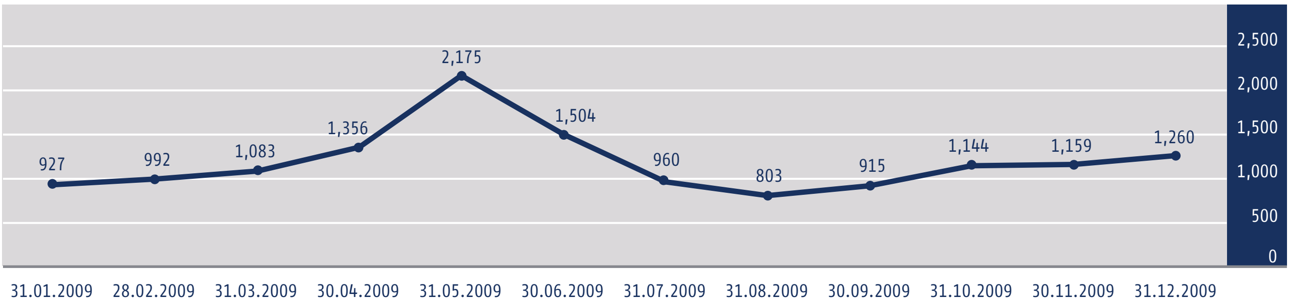
Changes in open foreign currency positions in Hypo Alpe Adria in 2010:

Change in VAR – open foreign currency positions
in TEUR



Changes in open foreign currency positions in Hypo Alpe Adria in 2009:

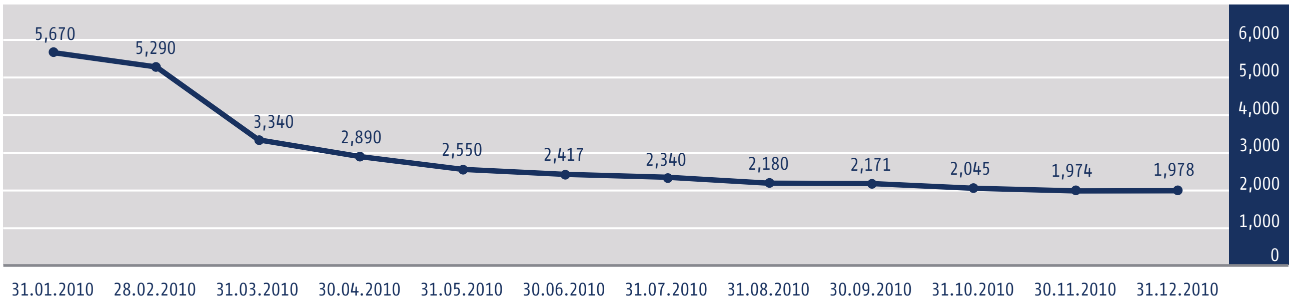
Change in VAR – open foreign currency positions
in TEUR



In addition to the FX risk from operational business activities, there is an additional open foreign currency position in Hypo Alpe Adria from the consolidation of the strategic investments of Hypo Alpe-Adria-Bank International AG in Hypo Alpe Adria Bank a.d. Beograd and Hypo Alpe Adria Bank d.d Zagreb. As of December 31 2010, the value at risk (99%, 1 day) for this strategic FX risk was around EUR 1.98m.

Changes in open foreign currency positions from strategic investments in 2010:

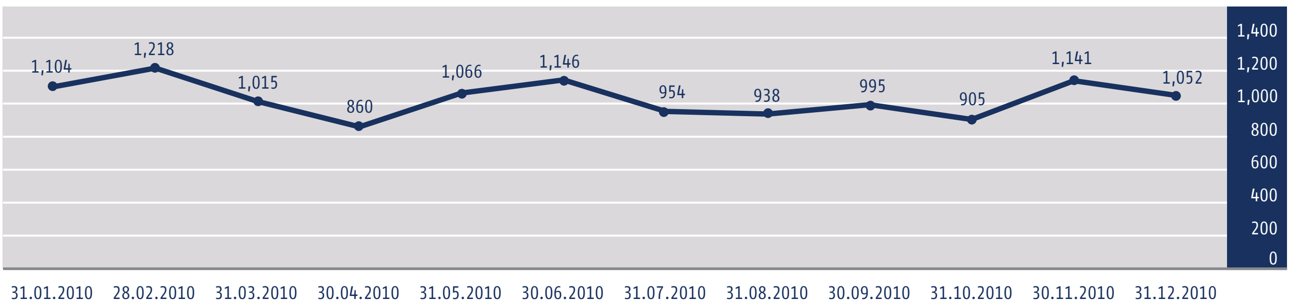
Change in Strategic FX Risk
in TEUR



86.9.6.3. Equity price risk
The share capital held in the Group is susceptible to market (price) risks, which arise from the uncertainty surrounding the future value of these shares. The largest proportion of the risk lies in the share portfolio in the banking book investments of Hypo Alpe Adria Bank Slovenia and Hypo Alpe-Adria-Bank International. The value at risk for the equity price risk in Hypo Alpe Adria amounted to EUR 1.05m at 31 December 2010 with a one-day holding period and a confidence level of 99%. In line with the risk strategy no further increase in share positions from an investment viewpoint is planned in Hypo Alpe Adria.

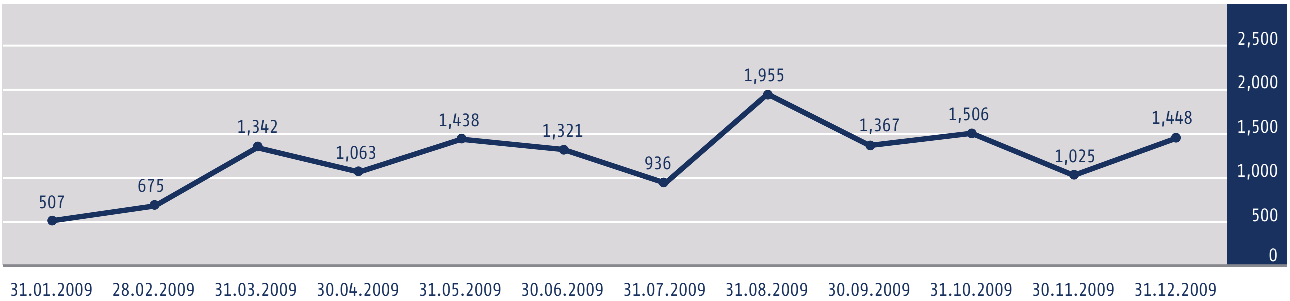
Changes in equity price risk in Hypo Alpe Adria in 2010:

Change in Equity Risk
in TEUR



Changes in equity price risk in Hypo Alpe Adria in 2009:

Change in Equity Risk
in TEUR



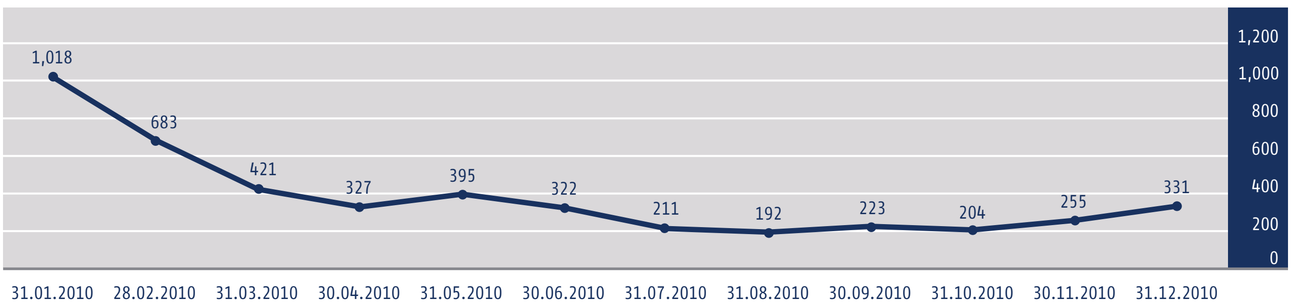
The main risk drivers of equity price risk in Hypo Alpe Adria are positions emanating from the realisation of collateral related to credit risk transactions and whose realisation is not currently possible for reasons of illiquidity or because of regulations or agreements.

86.9.6.4. Alternative investment risk

The alternative investment risk within Hypo Alpe Adria stood at EUR 0.33m at year end 2010 with a 1-day value at risk and 99% confidence level. In line with the current risk strategy, the alternative investments book contains a wind-down portfolio – there are sales orders already in place for all investments in the alternative investments book of Hypo Alpe Adria.

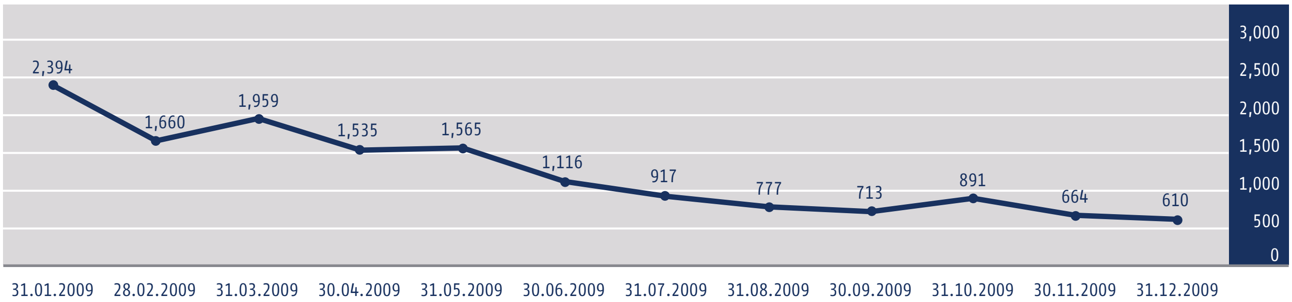
Changes in the alternative investment risk of Hypo Alpe Adria in 2010:

Change in VAR – Alternative Investment
in TEUR



Changes in the alternative investment risk of Hypo Alpe Adria in 2009:

Change in VAR – Alternative Investments
in TEUR

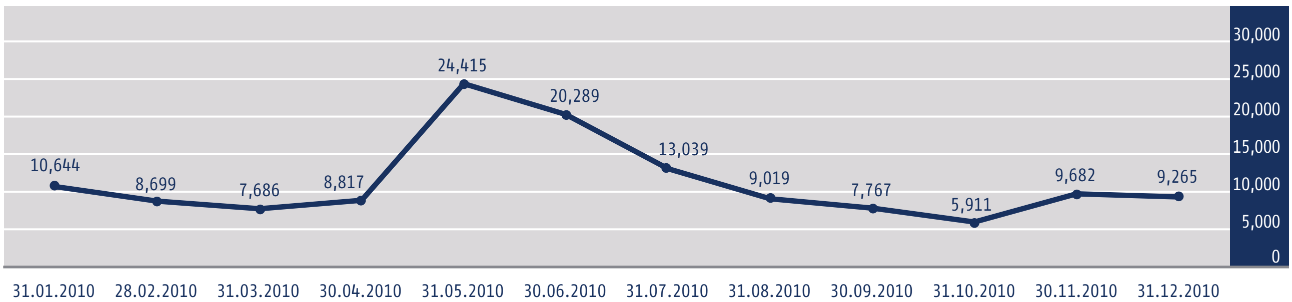


86.9.6.5. Credit spread risk

The credit spread risk within Hypo Alpe Adria stood at EUR 9.27m at year end 2010 with a 1-day value at risk and 99% confidence level. The credit spread risk represents the main risk driver in market risk at Hypo Alpe Adria. Here the most important influences are the liquidity reserves in the form of securities in Hypo Alpe-Adria-Bank International AG and Hypo Alpe Adria. Consequently there is very limited scope for reducing risk from these positions.

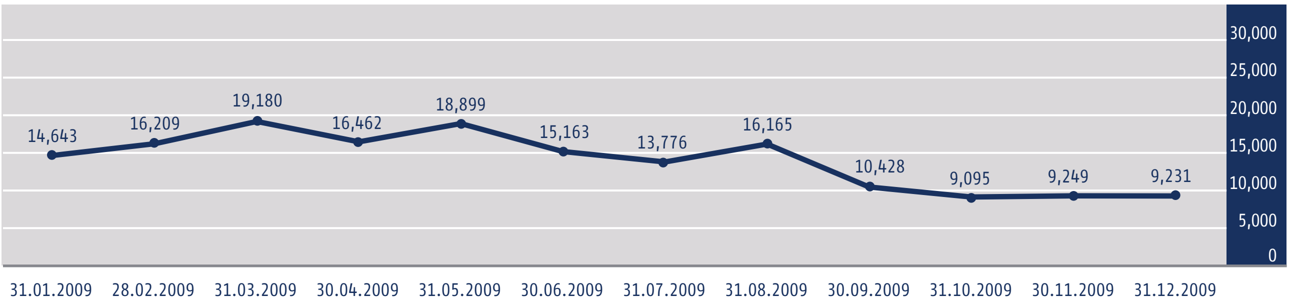
Changes in credit spread risk in Hypo Alpe Adria in 2010:

Change in Credit Spread Risk
in TEUR



Changes in credit spread risk in Hypo Alpe Adria in 2009:

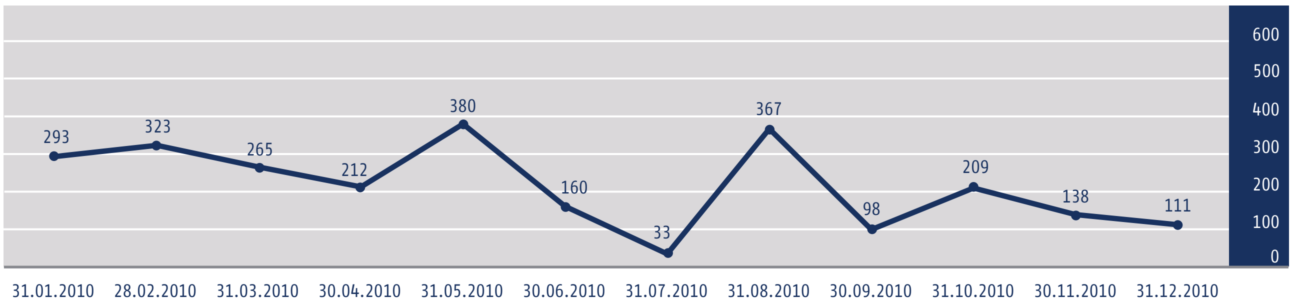
Change in Credit Spread Risk
in TEUR



86.9.6.6. Volatility risk
The volatility risk for Hypo Alpe Adria at year end 2010 stood at EUR 0.11m, with a 1-day value at risk and a confidence level of 99%. Volatility risk is defined within Hypo Alpe Adria as the risk of changes in the present value of open option positions held by the treasury unit caused by a change in implicit volatility.

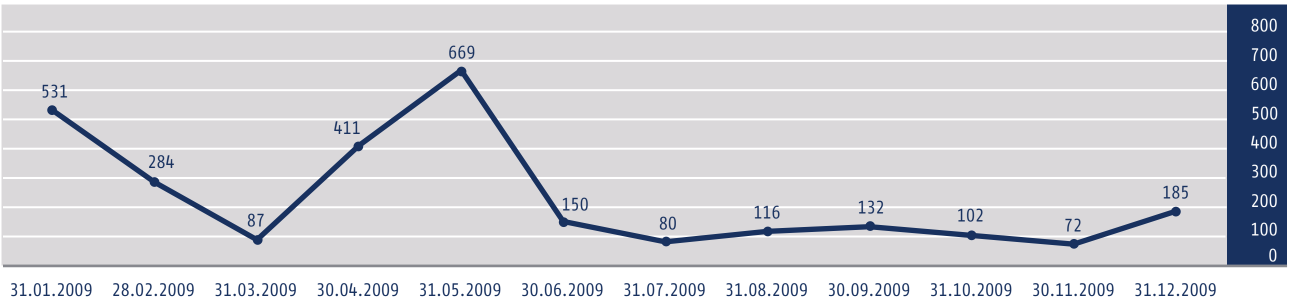
Change in volatility risk in Hypo Alpe Adria in 2010:

Change in Volatility Risk
in TEUR



Change in volatility risk in Hypo Alpe Adria in 2009:

Change in Volatility Risk
in TEUR



86.10. Liquidity risk

86.10.1. DEFINITION

Hypo Alpe Adria defines liquidity risk as the risk of not being able to meet due payment obligations in full or on time, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

86.10.2. GENERAL REQUIREMENTS

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

At the Group level, liquidity steering and management are the responsibility of the Group Treasury division of Hypo Alpe Adria. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at Group level, takes place. The local treasury unit is responsible for operational liquidity steering and liquidity offsets. At Group level, liquidity risk controlling is the responsibility of the Group Market Risk Control division of Hypo Alpe Adria, and of the respective risk control unit at local level. It is here that risk measurement, mitigation as well as timely and consistent reporting are carried out.

Hypo Alpe Adria has in place emergency liquidity planning which has been set out in writing. It sets out the processes, and control or hedging instruments which are required to avert imminent crises or tackle acute crises. In the event of a liquidity crisis, the top priorities of the Bank are to rigorously maintain the ability to pay and to prevent damage to the Bank's reputation.

86.10.3. RISK MEASUREMENT

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe Adria is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity potential quantifies the capacity of the Bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favourable terms and conditions. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of liquidity potential are as follows:

- Free access to central bank and interbank funds
- ECB-eligible securities
- Issue potential in the cover register (Deckungsregister)
- Senior bond issues
- Subsidised loans
- Securitisation potential

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

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation. Figures for liquidity ratios (showing the tightest liquidity position) and "time-to-wall" key figures (showing maximum liquidity time horizon) for up to one year are calculated to evaluate the liquidity situation – although particular importance is attached to the utilisation over the first four weeks.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared in the risk-bearing capacity calculation to the economic equity.

86.10.4. RISK CONTROLLING

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

Moreover, the Bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly liquidated as well as guaranteed interbank lines of credit.

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

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. Short term forecast data is elicited directly from client transactions by the sales units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

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

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

86.10.5. RISK MONITORING

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and "time-to-wall" key indicators under normal and stress conditions and on the other hand through the integration of the structural liquidity risk into the Bank's overall controlling (risk-bearing capacity).

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilisation of the liquidity potential, threshold values are being defined for all scenarios and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the controlling units responsible for liquidity risk.

86.10.6. LIQUIDITY OVERVIEW

The situation on the international money and capital markets stabilised over the course of 2010. In addition to funding activities which fall within covered debt securities (Covered Bonds, Pfandbriefe) there was once again an increase in senior unsecured transactions, whereby it was predominantly issuers with higher credit standing who satisfied the increased interest from investors. On the interbank money market secured repo transactions were preferred over normal deposit trading; overall this meant that individual banks were still highly dependent on the ECB.

For Hypo Alpe Adria the involvement of the Republic of Austria led to a stabilisation of primary funds following on from the flow of funds in the fourth quarter of 2009. In the course of 2010 it was possible to regain the investors' trust, which led to an increase in primary deposits.

Taken as a whole, the liquidity situation of Hypo Alpe Adria has improved significantly over the last year. On the one hand there was an influx of EUR 600m from the second tranche of participation capital agreed as part of the Bank's nationalisation, on the other hand demand for financing dropped off considerably because of the financial crisis in our core countries. This meant that in net terms more loans were paid back than new ones issued.

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

- Current accounts, call money and cash collaterals are due on the next working day
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day
- Cancellable positions are due at the next possible cancellation date
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented.

in EUR m

at 31 December 2010	1 Y (2011)	2 Y (2012)	3 Y (2013)	4 Y (2014)	5 Y (2015)	6 Y (2016)	7 Y (2017)	> 7 Y (>2017)	Total
Financial liabilities									
Liabilities to credit institutions	2,265	100	2,371	320	94	35	228	135	5,547
Liabilities to customers	5,645	384	192	79	67				6,367
Promissory notes	40	0	118	105	285	424	1,301	234	2,506
Debt securities in issue	2,760	3,089	3,044	1,588	2,773	2,002	3,874	1,067	20,198
Total	**10,709**	**3,573**	**5,725**	**2,092**	**3,219**	**2,461**	**5,403**	**1,436**	**34,618**

Due dates for financial liabilities
as of 31 December 2010 in EUR m

As the graph shows, in addition to the conservative modelling of liabilities in the first maturity band, the main due dates for issues and refinancing stretch out to 2017. This is taken account of in the funding planning, with particular care directed at broadening the liquidity resources and defining measures and a framework for ensuring the financing base for Hypo Alpe Adria's business activities.

The cash flow analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book: Hedge transactions on the asset side of the balance sheet (e.g. fixed rate bonds)
- Market Risk Steering ALM: Hedge transactions to steer the interest rate gap profile
- Market Risk Steering B2B: Back-to-Back transactions by Hypo Alpe-Adria-Bank International AG on the basis of the hedge demand of individual subsidiaries
- Market Risk Steering FVO: Hedge transactions under the Fair Value Option
- Market Risk Steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies
- Market Risk Steering HA: Hedge transactions in the course of hedge accounting

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions.

in EUR m

at 31 December 2010	1 Y (2011)	2 Y (2012)	3 Y (2013)	4 Y (2014)	5 Y (2015)	6 Y (2016)	7 Y (2017)	> 7 Y (>2017)	Total
Net cash flow from derivatives									
Banking book	-13	-14	-7	-2	1	3	4	43	14
Market Risk Steering ALM	-2	-1	-1	0	0	0	0	0	-5
Market Risk Steering B2B	0	0	0	0	0	0	0	0	1
Market Risk Steering FVO	-95	1	1	0	0	0	0	1	-91
Market Risk Steering FX	25	-9	6	22	-170	1	-26	-28	-178
Market Risk Steering HA	242	253	191	91	38	8	89	10	921
Total	**158**	**229**	**190**	**112**	**-131**	**12**	**67**	**26**	**663**

86.11. Operational risk

86.11.1. DEFINITION
Hypo Alpe Adria defines operational risk as follows:
Operational risk ("OpRisk") is the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as risks to reputation, but not strategic risks.

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

86.11.3. IMPLEMENTATION
All banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidated Group, are fully considered in the implementation of the operational risk management processes.

Other non-consolidated subsidiaries are required to agree the scope of implementation separately with the Group.

The OpRisk responsibility of sub-organisations of the subsidiaries is the responsibility of the subsidiary concerned.

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

86.11.4. RESPONSIBILITIES

Based on the current structure of Hypo Alpe Adria, the main areas of responsibility for operational risk are defined as follows:

- The Chief Risk Officer (CRO) is responsible for the implementation of fundamental operational risk decisions. On the instruction of the CRO, Group Credit Risk Control implements the methods for OpRisk management.
- Operational risk officers in the Group Credit Risk Control division of Hypo Alpe-Adria-Bank International AG are responsible for directing the Group and supporting its subsidiaries.

The operational risk officers of the subsidiaries are responsible for the local implementation of operational risks and for reporting to the Group.

- With the support of the decentralised operational risk officer, divisional managers are responsible for the implementation in their areas, as well as quality assurance.
- The decentralised operational risk officer is also responsible for the monitoring and implementation of standards and methods within the divisions and departments.

86.11.5. INSTRUMENTS AND METHODS

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

The operational risk management software ("Inform") forms the platform for implementing the appropriate instruments at Hypo Alpe Adria.

The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board.

86.11.6. THRESHOLDS FOR THE DATA CAPTURE OF LOSSES

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

Losses must be recorded as of 1 January 2006.

86.11.7. REVIEW OF OPRISK IN 2010

The priorities of OpRisk in 2010 lay in improving the quality of data in the OpRisk database "INFORM". This was carried out through regular feedback and regular approval with the subsidiary institutes as well as the introduction of a range of automatic quality checks within the database in order to exclude possible future problems with data quality before they even occur.

One other focal point involved the implementation of further steps from risk controlling right through to risk management. To this end, a project was set up to implement Group-wide OpRisk scenarios to highlight weaknesses in the various processes and procedures, and therefore prevent/mitigate possible future losses. In addition to this, larger cases of damage were to be assessed so that timely and appropriate measures identified from the damage could be implemented, thereby highlighting the weaknesses which led to the damage and could help to prevent similar losses in the future.

86.11.8. FRAUD PREVENTION

The programme initiated in 2009 in the field of Fraud Prevention continued in the year under review. The Fraud Prevention Programme (FPP) provides for the effective ongoing reduction of fraud risks, better protection of assets and reputation as well as an increase in fraud awareness and fraud prevention.

In order to achieve these goals, every necessary process, control and measure (preventive, mitigating and investigative) was defined in cooperation with PwC under the management of Group Legal & Compliance and summarised in the Corporate Fraud Policy/Corporate Fraud Policy – FPO.

The Corporate Fraud Policy contains the duties and minimum standards applicable in Hypo Alpe Adria to prevent and combat fraud. The Corporate Fraud Policy – FPO is supplemented by the special responsibilities of the Fraud Prevention Officers. These must be decided in the individual companies as local policies.

Approval by the Executive Board of Hypo Alpe-Adria-Bank International AG was given on 5 October 2010, the local roll-out of the policies and conclusion of the Fraud Prevention Programme (FPP) project in the individual companies to be completed by 31 December 2010 was authorised in a Group meeting in Zagreb on 21/22 October 2010.

Normal operation of the fraud prevention programme will formally commence on 1 January 2011, and the full effects should be achieved by 31 December 2011.

The role of the local Fraud Prevention Officers (FPO), their qualifications, and the regular reporting and management of fraud cases in each of the Hypo Alpe Adria companies has been underway since June 2010.

86.11.9. THE “CSI TEAM HYPO” PROJECT

The Republic of Austria acquired 100% of shares in Hypo Alpe-Adria-Bank International AG (HBInt.) in exchange for a symbolic sum, with purchase agreements from 28 to 30 December 2009 and closing before the end of 2009. As it was not possible to conduct comprehensive Due Diligence during the course of the nationalisation because of time pressure and – in particular – because of the special structure of the sales process, the Bank together with the Republic of Austria committed itself to examining the reasons for the financial collapse of Hypo Alpe Adria and pledged to identify the reasons as to why the state rescue was needed. At the beginning of 2010 Federal Chancellor Werner Faymann and Finance Minister Josef Pröll launched the “CSI Team Hypo” project for this purpose. The project team is led by fiscal procurators and is composed of employees from the Bank and external advisors (legal experts, forensic specialists, auditors etc.).

The goals of the project focus primarily on conducting a qualified examination of predefined business areas for evidence of possible, manifest – also systematic – criminal activities. Since the beginning of the inquiry the CSI Team Hypo has been closely cooperating with the Klagenfurt State Prosecutors and the Special Commission (SOKO Hypo-Alpe-Adria) for the penal processing of the individual cases as part of the Criminal Procedure Code (StPO). The CSI Team Hypo also has the additional goal of processing facts actively and on its own initiative, and drawing up comprehensive reports for cases which fall within its own examination checklist.

The benefits of the project relate both to money and to quality. In monetary terms the goal is to use civil-law procedures to demand the return of any assets illegally seized in the past and to validate compensation demands. The qualitative benefits lie in the creation of a sustainable comprehensive database for current and future data requirements and projects, which in future will offer central access to information, along with an improvement to the Bank’s image and an increase in value. The CSI Team Hypo project also aims to uncover deficient structures and to correct any deficiencies identified, for example by means of restructuring within the Group.

The examination scope of the project has been defined both in terms of time and geography. The selection of companies in different countries (geographical examination scope) covers Austria, Croatia, Liechtenstein, Bulgaria and the Ukraine. The preliminary concentration on these countries does not mean that cases which arise in other regions and are worthy of investigation will not be considered as part of this project. In addition to structuring the project in terms of objectives, it was also necessary to impose time constrictions on the scope of the examination; this is why it was decided to place the main focus on the period between 2003 and 2009. Examining a period of seven years was deemed suitable for reasons of expediency (cost/benefit perspective) and feasibility (access to and availability of data), the chosen time frame also adheres to the retention period specified in Section (132) of the Federal Fiscal Code (BAO).

The general scope of the investigation is divided into four key areas: collecting and understanding details of the company and any data available (physical data, electronic data and people); to ensure that the data will stand up in court and be adequate for any further action; analysis and evaluation of this data, as well as documentation and reporting. The examination structure and the general principles of the investigation, such as precise forensic processing to ensure the best-possible judicial validity of the data collected, must therefore be applied homogenously across every documented area of the examination.

In terms of content, the examination primarily addresses the issue of whether the basic principles correctly comply with the requirements in terms of company and banking laws and if the company management behaved in a justifiable manner. It also examines whether the Executive Bodies of Hypo Alpe Adria, particularly as regards their legal behaviour and the enactment of decisions that were relevant to the company, could be liable for possible civil-law claims or bear responsibility under criminal law.

At the time of writing numerous civil cases are being prepared, summaries of the facts are being submitted, and in a series of cases HBInt. has been considered eligible as a "private party concerned" (Privatbeteiligte) in criminal proceedings.

The goals of the CSI Team Hypo project will have been fulfilled when the company can concentrate on its core business after the completion of the project, and when the necessary preconditions are in place for strategic decision-making so that the future of the Bank and its staff is guaranteed, thereby also guaranteeing the value of the Bank for the Republic of Austria.

86.12. Summary and outlook

In 2010 Hypo Alpe Adria continued to increase and improve instruments used for controlling and managing risk. Compulsory training sessions and seminars for employees in the risk departments combined with targeted hiring of experienced staff meant that know-how in this field also improved.

Despite these measures, in 2011 Hypo Alpe Adria must once again improve its risk management and controlling system in order to align with the internal and external requirements of the future. When building on and developing the methods employed for mitigating and controlling risk, attention is not only paid to statutory supervisory requirements, but also to the Group's strategic orientation.

The way risk is organised in Hypo Alpe Adria was comprehensively restructured in 2010. These new structures will be cemented in 2011 and the requisite resources – both in terms of quantity and quality – will be made available to the subsidiaries.

Strengthening risk governance will be essential here, to be able to meet the risk management requirements promptly.

The credit process will be revised to comply with Hypo Alpe Adria's new strategy. This will involve numerous measures including closer monitoring of risk processes in the retail business and establishing a uniform standard across the Group. A dedicated division, Group Retail Risk Management, will be installed directly subordinate to the CRO in order to incorporate this standard into the organisation.

Supplementary Information

(87) Analysis of remaining maturity

Analysis of remaining maturity as of 31 December 2010	Due on demand or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	664.7	3,870.7
Loans and advances to customers	3,071.4	2,130.3
Trading assets	23.8	2.0
Positive fair value from hedge accounting derivatives		1.0
Financial investments – designated at fair value through profit or loss	46.5	9.1
Financial investments – available for sale	969.6	128.7
Financial investments – held to maturity		6.0
Other assets	330.2	166.7
Liabilities to credit institutions	905.9	1,213.2
Liabilities to customers	1,987.8	1,459.4
Debt securities in issue	8.1	1,204.7
Trading liabilities	0.4	4.2
Negative fair value from hedge accounting derivatives		
Other liabilities	58.0	237.4
Subordinated capital		

Analysis of remaining maturity as of 31 December 2009	Due on demand or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	363.3	2,618.3
Loans and advances to customers	2,338.2	2,144.7
Trading assets	56.8	1.5
Positive fair value from hedge accounting derivatives		2.3
Financial investments – designated at fair value through profit or loss	46.8	1.7
Financial investments – available for sale	907.2	184.8
Financial investments – held to maturity		1.2
Other assets	339.2	192.5
Liabilities to credit institutions	834.4	988.2
Liabilities to customers	1,866.9	1,608.0
Debt securities in issue	19.7	178.5
Trading liabilities	1.4	3.2
Negative fair value from hedge accounting derivatives		
Other liabilities	67.5	148.3
Subordinated capital		

The remaining term to maturity is the period between the end of the reporting period and the time of the contractually defined maturity of the loan or liability. Where loans or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount.

The maturity analysis is made according to the discounted cash flow.

in EUR m

from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total
263.4	4,798.8	245.7	134.3	**5,178.7**
3,596.3	8,798.0	9,129.2	10,290.3	**28,217.5**
5.3	31.2	19.7	16.0	**66.9**
12.1	13.2	749.0	285.9	**1,048.1**
80.7	136.2	161.7	698.1	**996.0**
358.4	1,456.6	857.8	212.9	**2,527.3**
	6.0		36.3	**42.3**
242.6	739.6	387.3	4.3	**1,131.1**
547.8	2,667.0	2,708.9	974.2	**6,350.0**
1,881.8	5,329.0	1,199.8	1,591.6	**8,120.4**
2,194.3	3,407.1	9,244.6	7,490.0	**20,141.8**
	4.7	0.5	1.0	**6.2**
0.4	0.4	50.4	116.9	**167.8**
236.0	531.4	284.5	245.7	**1,061.7**
11.2	11.2	564.5	612.0	**1,187.8**

in EUR m

from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total
349.5	3,331.2	620.6	134.8	**4,086.6**
4,427.7	8,910.6	10,300.6	10,905.4	**30,116.6**
3.2	61.5	6.5	4.9	**72.9**
7.0	9.3	-559.7	1,483.7	**933.3**
0.6	49.0	128.2	862.3	**1,039.6**
268.4	1,360.4	999.3	354.4	**2,714.2**
5.8	7.0	4.0	31.2	**42.1**
105.0	636.7	450.8	3.7	**1,091.2**
900.6	2,723.2	3,216.2	1,617.2	**7,556.6**
1,251.2	4,726.1	1,140.6	1,783.1	**7,649.8**
999.8	1,198.1	9,793.4	9,769.5	**20,761.0**
0.2	4.8			**4.8**
		84.5	42.1	**126.7**
135.6	351.4	-69.3	696.4	**978.6**
		533.1	674.1	**1,207.2**

(88) Finance leases

Receivables under finance leases are included in loans and advances to credit institutions and to customers; they break down as follows:

in EUR m

	31.12.2010	31.12.2009
Minimum lease payments (agreed instalments + guaranteed residual value)	**7,718.9**	**8,870.8**
non guaranteed residual value (+)	**0.9**	**0.5**
Gross investment value (=)	**7,719.8**	**8,871.3**
up to 1 year	1,437.8	1,620.5
from 1 year to 5 years	3,145.0	3,944.5
over 5 years	3,137.1	3,306.3
unrealised financial income (interest) (–)	**–1,473.7**	**–1,756.1**
up to 1 year	–252.0	–302.2
from 1 year to 5 years	–633.4	–780.5
over 5 years	–588.2	–673.5
Net investment value (=)	**6,246.2**	**7,115.2**

The cumulated risk provision for uncollectable outstanding minimum leasing payments for 2010 is EUR –258.6m (2009: –104.6m).

in EUR m

	31.12.2010	31.12.2009
Present value of non guaranteed residual values	**0.9**	**0.5**
up to 1 year	0.1	0.0
from 1 year to 5 years	0.8	0.5
over 5 years	0.0	0.0
Present value of minimum lease payments	**6,245.3**	**7,114.7**
up to 1 year	1,185.6	1,318.4
from 1 year to 5 years	2,510.8	3,163.5
over 5 years	2,548.8	2,632.8

The net investments from finance leases also include the present value of the non-guaranteed residual value.

Leased assets corresponding to finance leases break down as follows:

in EUR m

	31.12.2010	31.12.2009
Real-estate leases	4,005.7	4,058.0
Vehicle leases	1,050.1	1,377.8
Boat leases	200.9	356.8
Other movables	989.5	1,322.7
Total	**6,246.2**	**7,115.2**

(89) Operating leases

The future minimum lease payments from non-terminable operating leases are as follows for each of the following years:

in EUR m

	31.12.2010	31.12.2009
up to 1 year	113.8	135.8
from 1 to 5 years	255.6	321.5
over 5 years	172.8	175.4
Total	**542.2**	**632.7**

The breakdown by leased assets of minimum lease payments from non-terminable operating leases is as follows:

in EUR m

	31.12.2010	31.12.2009
Real-estate leases	379.4	376.7
Vehicle leases	116.4	199.4
Boat leases	23.2	34.9
Other movables	23.2	21.8
Total	**542.2**	**632.7**

(90) Borrowing costs

Borrowing costs arising in relation to qualified assets as per IAS 23 are activated together with manufacturing costs. Essentially, qualified assets comprise buildings under construction, properties held as investment properties or properties used by third parties that are subsequently let within the scope of an operating lease.

The following overview presents the interest expenses capitalised during the years under review, as well as the financing cost rates applicable across the Group:

		31.12.2010	31.12.2009
Borrowing costs capitalised during the period	in EUR m	2.3	3.8
Financing cost rates	in %	1.6	3.3

(91) Development costs

Hypo Alpe Adria capitalises development costs for internally generated software as defined in IAS 38 – Intangible Assets.

in EUR m

	31.12.2010	31.12.2009
Development costs capitalised during the period	5.7	1.1

(92) Assets/liabilities in foreign currencies

The balance sheet total includes the following amounts in foreign currencies:

in EUR m

	31.12.2010	31.12.2009
Assets	12,512.2	14,016.9
Liabilities	4,073.3	11,782.8

The majority of the difference between currency swaps (FX swaps and cross currency swaps) and foreign exchange forwards is hedged.

(93) Fiduciary transactions

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

in EUR m

	31.12.2010	31.12.2009
Loans and advances to customers	87.4	130.6
Fiduciary assets	**87.4**	**130.6**
Liabilities to credit institutions	87.4	130.6
Fiduciary liabilities	**87.4**	**130.6**

(94) Repurchase agreements

At the end of the year, the following repurchase and reverse repurchase commitments from repurchase operations existed:

in EUR m

	31.12.2010	31.12.2009
Liabilities to credit institutions	368.2	546.5
Liabilities to customers	16.1	80.0
Repurchase agreements	**384.3**	**626.5**

in EUR m

	31.12.2010	31.12.2009
Loans and advances to credit institutions	1.9	29.8
Loans and advances to customers	18.7	7.2
Reverse repurchase agreements	**20.6**	**37.0**

(95) Assets given as collateral

Assets with a value of EUR 999.0m (2009: EUR 1,767.7m) were transferred to third parties as collateral for own debts. These assets continue to be shown in the statement of financial position of Hypo Alpe Adria.

in EUR m

	31.12.2010	31.12.2009
Liabilities to credit institutions	192.5	835.5
Liabilities to customers	1.7	1.6
Debt securities in issue	804.8	930.6
Total	**999.0**	**1,767.7**

(96) Subordinated assets

The following assets are shown in the statement of financial position as subordinated assets:

in EUR m

	31.12.2010	31.12.2009
Loans and advances to customers	31.9	25.6
Financial investments – designated at fair value through profit or loss	0.0	0.0
Financial investments – available for sale	58.8	36.2
Total	**90.7**	**61.8**

(97) Contingent liabilities and other off-balance-sheet liabilities

The following off-balance-sheet liabilities existed at the end of the reporting period:

in EUR m

	31.12.2010	31.12.2009
Contingent liabilities	**829.9**	**890.5**
from bills of exchange transferred for settlement	2.8	2.9
from credit guarantees	527.4	561.7
from letters of credit	16.7	43.2
from other guarantees	271.4	253.5
from other contingent liabilities	11.6	29.2
Other liabilities	**1,375.7**	**1,765.8**
from irrevocable credit commitments	1,281.2	1,552.7
from other liabilities	94.5	213.1
Total	**2,205.6**	**2,656.3**

Other liabilities include liabilities from the acquisition or construction of investment properties and tangible assets totalling EUR 93.3m (2009: EUR 210.4m).

(98) Liability for commitments issued through the "Pfandbriefstelle"

As members of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG are, in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other members for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association of the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003, or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at EUR 10.2bn as of the reporting date 31 December 2010. This equates to almost the entire sum of the Pfandbriefstelle's liabilities as of 31 December 2010. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to the institutions already referred to, in the amount of EUR 2.5bn, the resulting amount which must be reported in accordance with section 237 (8a) of the Austrian Enterprise Code comes to EUR 7.7bn.

(99) Breakdown of securities admitted to stock exchange trading

in EUR m

	31.12.2010	31.12.2009
Trading assets		
Bonds and other fixed -interest securities	**18.2**	**17.6**
thereof listed	18.2	17.6
thereof unlisted	0.0	0.0
Shares and other non-fixed-interest securities	**16.0**	**34.5**
thereof listed	9.3	22.9
thereof unlisted	6.7	11.6
Financial investments – designated at fair value through profit or loss		
Bonds and other fixed -interest securities	**256.7**	**277.6**
thereof listed	256.7	271.3
thereof unlisted	0.0	6.3
Shares and other non-fixed-interest securities	**40.8**	**44.7**
thereof listed	0.1	2.9
thereof unlisted	40.7	41.8
Financial investments – available for sale		
Bonds and other fixed-interest securities	**1,564.7**	**2,570.1**
thereof listed	1,521.6	1,757.7
thereof unlisted	43.0	812.4
Shares and other non-fixed -interest securities	**52.2**	**73.3**
thereof listed	48.0	55.3
thereof unlisted	4.2	18.0
Financial investments – held to maturity		
Bonds and other fixed -interest securities	**42.3**	**42.1**
thereof listed	42.3	42.1
thereof unlisted	0.0	0.0

(100) Restructuring expenses

The restructuring costs comprise the following elements:

in EUR m

	1.1.–31.12.2010	1.1.–31.12.2009
Restructuring provisions	-0.1	-23.4
Other restructuring costs	0.0	-1.0
Total	**-0.1**	**-24.4**

The Group-wide restructuring plan passed in 2009, which contains an ongoing cost-cutting policy as well as measures to streamline internal organisation and increase efficiency, continues to be the medium-term goal. In this context, provisions were made for severance and redundancy costs applicable until 2015.

(101) Audit expenses

The following fees were incurred by the audit company Ernst & Young (2009: Deloitte) in the period under review:

in EUR m

	1.1.-31.12.2010	1.1.-31.12.2009
Audit fees for the annual financial statements	**-2.4**	**-1.8**
expenses for the current year	-2.4	-1.6
expenses relating to the previous year	0.0	-0.2
Fees for other services	**-0.9**	**-1.0**
other assurance services	-0.4	-0.8
tax consultancy	0.0	-0.1
other services	-0.5	-0.1
Total services	**-3.3**	**-2.8**

The audit expenses incurred in the 2010 financial year include the net audit fee (excluding value-added tax) as well as the related cash expenditures. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.(Wien) (2009: Deloitte Audit Wirtschaftsprüfungs GmbH, Wien), services rendered directly by other companies within the Ernst & Young Group to Hypo Alpe-Adria-Bank International AG or to its subsidiaries have been included in the total sum.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (individual) annual financial statements, the Group reporting packages of the subsidiaries audited by Ernst & Young, as well as the costs of the consolidation financial statement itself.

The other assurance services mainly comprise costs incurred for the limited review of the half-year interim financial statement of Hypo Alpe Adria at the level of Hypo Alpe-Adria-Bank International AG and of the Group companies involved.

(102) Measurement categories in accordance with IAS 39

The statement of financial position as of 31 December 2010 is broken down into the following measurement categories in accordance with IAS 39:

in EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	31.12.2010
Cash and balances at central banks	843.6						843.6
Loans and advances to credit institutions	5,178.7						5,178.7
Loans and advances to customers	28,217.5						28,217.5
Risk provisions on loans and advances	-3,210.8						-3,210.8
Trading assets		66.9					66.9
Positive fair value from hedge accounting derivatives						1,048.1	1,048.1
Financial investments – afvtpl			996.0				996.0
Financial investments – afs				2,527.3			2,527.3
Financial investments – htm					42.3		42.3
Investments in companies accounted for at equity	5.1						5.1
Other assets/banking book derivatives		1,034.3					1,034.3
Other financial investments	124.4						124.4
Total financial assets	**31,185.5**	**1,101.2**	**996.0**	**2,527.3**	**42.3**	**1,048.1**	**36,873.4**
Liabilities to credit institutions	6,350.0						6,350.0
Liabilities to customers	7,695.4		425.0				8,120.4
Debt securities in issue	19,227.8		914.0				20,141.8
Trading liabilities		6.2					6.2
Negative fair value from hedge accounting derivatives						167.8	167.8
Subordinated capital	1,079.0		108.7				1,187.8
Other liabilities/banking book derivatives		288.9					288.9
Other liabilities/FVO derivatives			186.5				186.5
Other financial liabilities	586.3						586.3
Total financial liabilities	**34,938.5**	**295.1**	**1,634.2**	**0.0**	**0.0**	**167.8**	**37,035.6**

Key:

LAR: loans and receivables
LAC: liabilities at cost
HFT: held for trading
FVO: designated at fair value through profit or loss
AFVTPL: at fair value through profit or loss (fair value option)
AFS: available for sale
HTM: held to maturity

Measurement categories as of 31 December 2009:

in EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	31.12.2009
Cash and balances at central banks	1,019.9						1,019.9
Loans and advances to credit institutions	4,086.6						4,086.6
Loans and advances to customers	30,116.6						30,116.6
Risk provisions on loans and advances	-2,450.1						-2,450.1
Trading assets		72.9					72.9
Positive fair value from hedge accounting derivatives						933.3	933.3
Financial investments – afvtpl			1,039.6				1,039.6
Financial investments – afs				2,714.2			2,714.2
Financial investments – htm					42.1		42.1
Investments in companies accounted for at equity	1.7						1.7
Other assets/banking book derivatives		1,088.5					1,088.5
Other financial investments	265.3			0.0			265.3
Total financial assets	**33,040.0**	**1,161.4**	**1,039.6**	**2,714.2**	**42.1**	**933.3**	**38,930.6**
Liabilities to credit institutions	7,556.6						7,556.6
Liabilities to customers	7,226.4		423.5				7,649.8
Debt securities in issue	19,832.7		928.4				20,761.0
Trading liabilities		4.8					4.8
Negative fair value from hedge accounting derivatives						126.7	126.7
Subordinated capital	1,073.8		133.2				1,207.1
Other liabilities/banking book derivatives		90.6					90.6
Other liabilities/FVO derivatives			182.7				182.7
Other financial liabilities	705.3						705.3
Total financial liabilities	**36,394.8**	**95.4**	**1,667.8**	**0.0**	**0.0**	**126.7**	**38,284.6**

(103) Loans and advances and financial liabilities designated at fair value

Hypo Alpe Adria uses the fair value option primarily to avoid accounting mismatches for securities and loans which are hedged with interest rate and credit derivatives.

This applies equally for bonds issued with long-term fixed interest rates. Based on the management strategy, the interest sums are switched from fixed to variable-rate using interest rate swaps. Over and above this, the fair value option is used for financial instruments with embedded derivatives.

The following valuations in the individual balance-sheet items have resulted from applying the fair value option:

in EUR m

	31.12.2010	31.12.2009
Loans and advances to customers and credit institutions	580.6	597.4
Bonds and other fixed-interest securities	256.7	277.6
Shares and other non-fixed-interest securities	40.8	44.7
Total assets	**878.2**	**919.7**
Liabilities to customers	425.0	423.5
Debt securities in issue	914.0	928.4
Subordinated capital	108.7	133.2
Total liabilities	**1,447.7**	**1,485.1**

The valuation result from the application of the fair value option comes to a total of EUR –28.6m (2009: EUR –36.7m), see note (45).

As of 31 December 2010, the maximum potential default risk for loans and advances designated at fair value recognised in profit or loss is EUR 534.7m (2009: EUR 597.3m). The change in the fair value that is attributable to changes in the credit rating is EUR 2.1m in the financial year 2010 (2009: EUR 3.3m); since the designation, the cumulated change amounts to EUR –1.6m (2009: EUR –3.6m). The fair value changes attributable to changes in the credit rating were estimated by calculating differences, comparing the fair value based on the credit rating spreads at the end of the reporting period to that at the beginning of the reporting period.

The fair value of a financial liability takes into account the credit risk of this financial liability.

The table below shows the fair value change attributable to credit risk for financial liabilities designated at fair value.

in EUR m

	31.12.2010	31.12.2009
Cumulative changes in fair value	79.7	82.6
Fair value change in 2010/2009	-3.0	-48.8

The fair value of the issued liabilities takes into account the credit risk of the Group. The fair value of these financial liabilities is determined with the help of a valuation method. One such method takes account of the credit risk through discounting the contractually determined payment flows of the liability using a risk-adjusted interest rate curve, which shows the interest rate level at which the Group could issue similar instruments as of the end of the reporting period.

The negative effects in profit or loss of the liabilities designated at fair value in the year under review result from the improvement in the calculation of the credit spreads for Hypo Alpe Adria, which can be attributed to the new ownership structure.

For all financial liabilities designated at fair value, the contractual repayment sum due to be paid by the Group on maturity was EUR 20.8m higher than the amount shown in the statement of financial position as of 31 December 2010 (2009: EUR 187.3m).

The contractual repayment sum due to be paid by the Group on maturity equates to the sum that the Group must repay at the earliest possible due date set down in the contracts. If the amount due to be repaid has not been determined, the amount to be repaid as set down in the contract will be determined with reference to the conditions applicable at the end of the reporting period.

(104) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where available quoted prices or prices for the corresponding financial instruments on other representative markets (Reuters, Bloomberg, etc.) have been used for valuation purposes. The fair value of financial instruments not listed on the stock exchange was determined according to generally accepted valuation models applying market-based assumptions, especially by means of discounted cash flow methods. The fair values of investment properties were determined on the basis of external and internal valuation opinions, and in most cases revised by an internal committee of experts.

For loans and advances, there is generally no active market. Therefore, a valuation of the loans and advances with non-fixed interest rates is required. As the carrying amount of the loans and advances already takes into account market changes in the sense of market interest rate changes, the difference between the carrying amount and the fair value is not substantial, and the fair value was not determined separately.

Within the scope of hedge accounting, Hypo Alpe Adria uses only fair value hedges to hedge the market values of financial instruments.

Loans and advances hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value assignable to the hedged part of the loan. The hedge serves above all to minimize the market value risk caused by interest rate changes.

With regard to hedging risks arising from interest rate changes, no separate calculation of the fair value was carried out.

As the carrying amount of unhedged fixed interest loans and advances according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method.

For this purpose, Hypo Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

(104.1) Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value according to their level in the fair value hierarchy, see note (10).

in EUR m

as of 31.12.2010	Level I – from active market	Level II – based on market assumptions	Level II – based on market assumptions	Total
Assets				
Trading assets	24.3	22.9	19.6	66.9
Positive fair value from hedge accounting derivatives	0.0	1,048.1	0.0	1,048.1
Financial investments – designated at fair value through profit or loss	1.5	994.5	0.0	996.0
Financial investments – available for sale	1,956.4	524.7	46.4	2,527.5
Positive fair value of banking book derivatives	0.1	64.2	0.0	64.3
Total	**1,982.3**	**2,654.5**	**66.0**	**4,702.8**
Liabilities				
Liabilities to customers	370.5	54.5	0.0	425.0
Debt securities in issue	819.4	94.6	0.0	914.0
Trading liabilities	0.0	6.1	0.0	6.2
Negative fair value from hedge accounting derivatives	0.0	167.8	0.0	167.8
Negative fair value from derivative financial instruments	0.0	475.4	0.0	475.4
Subordinated capital	75.0	34.2	0.0	109.2
Total	**1,265.0**	**832.6**	**0.0**	**2,097.6**

as of 31.12.2009	Level I – from active market	Level II – based on market assumptions	Level II – based on market assumptions	Total
Assets				
Trading assets	41.3	9.0	22.7	72.9
Positive fair value from hedge accounting derivatives	0.0	933.3	0.0	933.3
Financial investments – designated at fair value through profit or loss	7.4	1,032.2	0.0	1,039.6
Financial investments – available for sale	2,355.0	323.1	36.0	2,714.2
Positive fair value of banking book derivatives	30.0	9.0	0.0	38.9
Total	**2,433.7**	**2,306.5**	**58.7**	**4,798.9**
Liabilities				
Liabilities to customers	0.0	423.5	0.0	423.5
Debt securities in issue	69.5	858.8	0.0	928.4
Trading liabilities	0.0	4.8	0.0	4.8
Negative fair value from hedge accounting derivatives	0.0	126.7	0.0	126.7
Negative fair value from derivative financial instruments	1.7	275.5	1.0	278.2
Subordinated capital	0.0	133.2	0.0	133.2
Total	**71.3**	**1,822.6**	**1.0**	**1,894.8**

The reconciliation of the category level 3 financial instrument is shown in the following table. The column "total gains/ losses" contains both income and expenses from financial instruments which were held as of 31 December 2010, as well as for financial instruments which are no longer on the books as of 31 December 2010. Expense of EUR –0.7m came from the outgoing financial instruments as of 31 December 2010 (2009: EUR 2.3m). The bonds designated at fair value are still held as of 31 December 2010, however, there is no carrying amount available for them.

in EUR m

as of 31.12.2010	At start of reporting period (+)	Total gains/ losses	Revaluation (only afs)	Purchases (+)	Sales (-)	Other (+/-)	At end of reporting period (-)
Assets							
Trading assets							
Shares and other non-fixed-interest securities	11.0	0.0	0.0	20.2	-24.8	3.5	9.9
Positive fair value from trading derivatives	11.7	0.0	0.0	0.0	0.0	-0.2	9.7
Financial investments – designated at fair value through profit or loss							
Bonds and other fixed-interest securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments – available for sale							
Bonds and other fixed-interest securities	11.3	-2.6	0.4	994.6	-995.0	17.6	26.2
Shares and other non-fixed-interest securities	4.6	-0.1	-0.6	10.0	-9.6	0.5	4.8
Other investments (20% - 50%)	20.2	-3.7	0.0	1.6	-1.0	-1.7	15.4
Total	**58.7**	**-6.4**	**-0.3**	**1,026.4**	**-1,030.4**	**17.9**	**66.0**

as of 31.12.2009	At start of reporting period (+)	Total gains/ losses	Revaluation (only afs)	Purchases (+)	Sales (-)	Other (+/-)	At end of reporting period (-)
Assets							
Trading assets							
Shares and other non-fixed-interest securities	12.8	0.0	0.0	26.7	-28.5	0.0	11.0
Positive fair value from trading derivatives	15.1	-3.0	0.0	0.0	0.0	-0.4	11.7
Financial investments – designated at fair value through profit or loss							
Bonds and other fixed-interest securities	5.4	-5.4	0.0	0.0	0.0	0.0	0.0
Financial investments - available for sale							
Bonds and other fixed-interest securities	17.4	-0.6	0.1	2.9	-8.5	-0.1	11.3
Shares and other non-fixed-interest securities	7.0	-0.1	0.0	0.0	-2.1	-0.2	4.6
Other investments (20% - 50%)	22.7	-3.0	0.0	1.3	-0.4	-0.5	20.2
Total	**80.4**	**-12.1**	**0.1**	**31.0**	**-39.5**	**-1.2**	**58.7**

(104.2) Fair value of financial instruments not measured at fair value in the statement of financial position

In the following table the respective fair values are shown for the carrying amounts of financial instruments not measured at fair value in the statement of financial position:

in EUR m

	31.12.2010 Fair Value	Carrying amount	Difference	31.12.2009 Fair Value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	5,165.6	5,165.6	0.00	4,062.7	4,062.7	0.0
Loans and advances to customers	25,018.9	25,027.6	-8.7	27,718.3	27,692.7	25.6
Financial investments – held to maturity	42.6	42.3	0.3	41.7	42.1	-0.4
Other financial investments (Investment properties)	1,018.0	933.2	84.8	1,044.9	976.5	68.4
Total	**31,245.1**	**31,168.7**	**76.4**	**32,867.7**	**32,774.0**	**93.6**
Liabilities						
Liabilities to credit institutions	6,352.4	6,350.0	2.3	7,562.7	7,556.6	6.1
Liabilities to customers	7,712.7	7,695.4	17.3	7,248.0	7,226.4	21.6
Debt securities in issue	19,185.5	19,227.8	-42.3	19,875.5	19,832.7	42.9
Subordinated capital	1,008.8	1,079.0	-70.2	1,107.6	1,073.8	33.7
Total	**34,259.3**	**34,352.3**	**-92.9**	**35,793.8**	**35,689.4**	**104.3**

(105) Derivative financial instruments

As of the end of the reporting period, the following businesses had not yet been transacted:

in EUR m

	31.12.2010			31.12.2009		
	Nominal amounts	Positive fair value	Negative fair value	Nominal amounts	Positive fair value	Negative fair value
a) Interest-related transactions						
OTC products:	**16,706.0**	**1,077.1**	**243.5**	**18,166.4**	**998.9**	**207.4**
– interest rate swaps	16,603.1	1,075.7	242.1	18,017.6	998.3	206.1
– forward rate agreements	0.0	0.0	0.0	100.0	0.2	0.2
– interest options	0.0	0.0	0.0	0.0	0.0	0.0
– caps, floors	61.5	0.8	0.8	3.4	0.0	0.0
– other interest derivatives	41.3	0.6	0.6	45.4	0.4	1.1
b) Currency-related transactions						
Exchange-traded products:	**0.0**	**0.0**	**0.0**	**3.2**	**1.4**	**0.0**
– foreign exchange futures	0.0	0.0	0.0	3.2	1.4	0.0
OTC products:	**5,080.6**	**179.8**	**396.3**	**5,479.8**	**110.5**	**192.5**
– currency swaps	1,958.9	110.6	390.4	2,007.2	67.4	187.0
– cross currency swaps	2,827.9	58.0	1.2	2,894.9	29.8	1.6
– forward exchange contracts – purchases	128.9	0.5	3.9	223.9	2.4	0.9
– forward exchange contracts – sales	135.5	1.1	0.7	157.2	0.6	2.8
– currency swaptions	29.4	9.6	0.0	196.6	10.3	0.2
c) Transactions linked to share price and other indices						
Exchange-traded products:	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
– share-/indices linked options	0.0	0.0	0.0	0.0	0.0	0.0
d) Credit-linked derivatives						
OTC products:	**30.0**	**0.0**	**9.5**	**30.0**	**0.0**	**4.0**
– credit default swaps	30.0	0.0	9.5	30.0	0.0	4.0
– total return swaps	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positive fair values are contained in trading assets in the amount of EUR 32.6m (2009: EUR 20.7m); financial assets – designated at fair value through profit or loss in the amount of EUR 117.8m (2009: EUR 119.9m); as well as in other assets in the amount of EUR 64.3m (2009: EUR 38.9m) and positive fair values from hedge accounting in the amount of EUR 1,048.0m (2009: EUR 933.3m).

Negative fair values are contained in trading liabilities in the amount of EUR 6.1m (2009: EUR 4.8m); other liabilities in the amount EUR 475.4m (2009: EUR 273.3m); and in the item fair market values from hedge accounting in the amount of EUR 167.8m (2009: EUR 126.6m).

The majority of derivative transactions serve the purpose of hedging fluctuations related to interest rates, foreign currency rates or fair values. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the statement and measurement of the derivatives, see notes (8) and (11).

(106) Related party disclosures

Business relations with related parties at the end of every reporting period are disclosed as follows:

in EUR m

as of 31.12.2010	Parent owners	Affiliated companies	Joint ventures	Key management personnel
Assets	**125.1**	**186.3**	**75.7**	**0.3**
Loans and advances to customers	125.1	192.5	79.9	0.3
Risk provisions on loans and advances	0.0	-41.3	-4.1	0.0
Other loans and advances and assets	0.0	35.1	0.0	0.0
Equity and liabilities	**13.7**	**18.2**	**0.0**	**3.2**
Liabilities to customers	0.0	12.8	0.0	3.2
Provisions	9.0	0.0	0.0	0.0
Other financial liabilities	4.7	0.0	0.0	0.0
Subordinated capital	0.0	5.3	0.0	0.0
Liabilities arising from guarantees	**0.0**	**50.3**	**88.1**	**0.0**
Guarantees from related parties, issued by the Group	0.0	50.3	88.1	0.0
Guarantees from related parties, received by the Group	0.0	0.0	0.0	0.0

in EUR m

as of 31.12.2009	Parent owners	Affiliated companies	Joint ventures	Key management personnel
Assets	**207.5**	**392.3**	**81.1**	**2.5**
Loans and advances to customers	153.4	424.7	85.1	2.5
Risk provisions on loans and advances	0.0	-143.6	-4.0	0.0
Other loans and advances and assets	54.1	111.3	0.0	0.0
Equity and liabilities	**17.1**	**14.0**	**0.0**	**4.4**
Liabilities to customers	0.0	13.7	0.0	4.4
Provisions	10.0	0.0	0.0	0.0
Other financial liabilities	7.1	0.0	0.0	0.0
Subordinated capital	0.0	0.3	0.0	0.0

Key management personnel are defined as Executive Board members of subsidiary banks and of significant leasing companies as well as the division managers of Hypo Alpe-Adria-Bank International AG.

Allocations to risk provisions on loans and advances which impact on profit or loss relate to loans to affiliated, but not consolidated subsidiaries, and in 2010 these amount to EUR –5.5m (2009: EUR –26.2m). In the 2010 financial year, the expenses associated with the risk provisions on loans and advances to affiliated companies amount to EUR –2.2m (2009: EUR –73.0m) and to joint ventures amount to EUR –0.0m (2009: EUR –1.0m).

Loans and advances to companies accounted for at equity are shown in the table under the item affiliated companies. In addition, at the end of the reporting period there are business relations with public-owned credit institutes to an extent common to the banking industry.

The relationships with members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (116).

(107) Participation capital

On 29 December 2008, the Republic of Austria subscribed to EUR 900m (18,000 participation shares each at EUR 50,000) of Tier-1-eligible participation capital in Hypo Alpe-Adria-Bank International AG, which is set up in such a way that there is no obligation to pay dividends in arrears in accordance with section 23 (3) (8) of the Austrian Banking Act (BWG).

In accordance with the subscription agreement, and applying section 102 of the BWG, the Republic of Austria is entitled to convert all participation certificates held into ordinary shares in Hypo Alpe-Adria-Bank International AG at a conversion price to be agreed in accordance with the conditions attached to the investment capital issue.

On 30 December 2009 the Republic of Austria acquired all shares in Hypo Alpe-Adria-Bank International AG from the previous shareholders Bayerische Landesbank (BayernLB), BVG Beteiligungs- und Verwaltungsgesellschaft mbH (a member of the GRAWE Group), Kärntner Landes- und Hypothekenbank-Holding, and Hypo Alpe Adria Mitarbeiter Privatstiftung. The shares in Hypo Alpe-Adria-Bank International AG have therefore been solely owned by the Republic of Austria since 30 December 2009.

In the course of the change in ownership of Hypo Alpe-Adria-Bank International AG, Hypo Alpe-Adria-Bank International AG bought back and redeemed supplementary capital with a nominal value of EUR 50.0m, which had been subscribed to by a previous investor in 2002, who subscribed in place of this to Tier-1-eligible participation capital totalling EUR 30,772,982 (615 participation shares with a face value of EUR 50,000 each, and one participation share with a face value of EUR 22,982) (“conversion”).

On 30 December 2009 two further former shareholders subscribed to Tier-1-eligible, non-convertible participation capital in Hypo Alpe-Adria-Bank International AG with no obligation to pay dividends in arrears, one paying EUR 30.0m in total (600 participation shares each at EUR 50,000) through a Group company, the other paying a total of EUR 150m (3,000 participation shares each at EUR 50,000) at the end of June 2010.

According to the conditions for subscribing to the participation capital, the holders of participation capital will be entitled to a dividend of 6.0% p.a. for the first time in the 2013 financial year, provided that the net income for the year has covered changes in reserves and payment of dividends on the EUR 900.0m of participation capital subscribed to by the Republic of Austria, and that the relevant resolution has been passed by the Boards.

At the end of June 2010 payment was received for the EUR 150.0m participation capital subscribed to by Kärntner Landes- und Hypothekenbank-Holding in December 2009, which came with an obligation to pay by 30 June 2010 at the latest.

Furthermore, in December 2009 the Republic of Austria floated the possibility of up to EUR 450.0m of further participation capital (Tier 1) or other Tier-1 capital to Hypo Alpe-Adria-Bank International AG. The Republic of Austria exercised this option on 28 June 2010 with the subscription of 9,000 bearer participation shares with a total face value of EUR 450.0m.

The participation capital is shown in the consolidated financial statements of Hypo Alpe-Adria-Bank International AG under the item subscribed capital. Dividends paid on the participation capital will be shown as appropriation of net income and not under the item interest expense. The separate financial statements of Hypo Alpe-Adria-Bank International AG prepared in accordance with the UGB/BWG will be taken as the basis for assessment, and the existence of sufficient net income after changes in reserves.

(108) Breaches of financial covenants

In the financial year 2010 there were no breaches of financial covenants which could have led to a reclassification in line with IFRS 7.18 of the liability involved on the grounds of maturity.

(109) Statutory guarantee

The guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and the Hypo Alpe-Adria-Bank AG (Austria) is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB).

The European Commission considered that the original guarantee of the state, which had been unlimited with regard to its term of validity and/or amount, constituted a governmental subsidy in the sense of Article 88 of the ECC. Consequently, the Carinthian State Holding Law (K-LHG) had to be amended. At present, the State of Carinthia continues to act as the guarantor for the commitments of the two domestic issuers entered into prior to 3 April 2003. With regard to these commitments, the statutory guarantee according to section 1356 of the Civil Code is still extended without any restriction.

For commitments entered into by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) from 3 April 2003 until 1 April 2007, the State of Carinthia provides a statutory guarantee to the extent that the term of the commitment does not extend beyond 30 September 2017. The state does not offer any guarantee for liabilities entered into after 1 April 2007.

The State of Carinthia guarantees certain commitments entered into by Hypo Alpe-Adria-Bank International AG and the Hypo Alpe-Adria-Bank AG (Austria) prior to 1 April 2007. For the commitments covered by the guarantee, the State of Carinthia is paid a guarantee commission of 1 per mille p.a. of the outstanding amount. In the years 2004 and 2005, the State of Carinthia was paid guarantee commission advances for the periods 2004 to 2007 and 2005 to 2010 respectively, namely EUR 50.9m in total, the relevant amounts having been estimated on a discounted basis applying the applicable interest-rate curves. As of 31 December 2010, the amount of the capitalised advance payments was EUR 10.6m (2009: EUR 10.7m), and is shown in the statement of financial position under other assets.

The remaining payment from the annual settlement for guarantor's liability to the State of Carinthia, which is liable for payment on 31 January of the year following at the latest, amounts to EUR 4.8m (2009: EUR 14.3m).

At the end of the reporting period, the total volume for which the State of Carinthia acted as a guarantor was as follows:

in EUR m

	31.12.2010	31.12.2009
Hypo Alpe-Adria-Bank International AG	17,431.1	17,804.4
Hypo Alpe-Adria-Bank AG	1,401.9	1,568.1
Total	**18,833.0**	**19,372.5**

The guarantee commissions paid to the State of Carinthia which were recognised in profit or loss in 2010 are shown in the table below:

in EUR m

	31.12.2010	31.12.2009
Hypo Alpe-Adria-Bank International AG	16.7	16.7
Hypo Alpe-Adria-Bank AG	1.1	1.3
minus advance payments	-13.0	-3.7
Total	**4.9**	**14.3**

(110) Important proceedings

At the beginning of December 2008, Hypo Alpe-Adria-Bank International AG received an increase in capital of EUR 700.0m, primarily subscribed to by its majority shareholder, Bayerische Landesbank (BayernLB). In addition, at the end of December 2008, the Republic of Austria made available participation capital with a value of EUR 900.0m as part of the Austrian banking package, see also note (107).

In light of the fact that the majority shareholder in Hypo Alpe-Adria-Bank International AG, BayernLB, also received financial assistance in the form of a EUR 10.0bn capital injection and a guarantee of its ABS portfolio to a maximum sum of EUR 4.8bn, on 12 May 2009 the Commission citing Art. 88 II of the EC Treaty ordered an examination of the restructuring plan of BayernLB, as well as of the profitability plan for Hypo Alpe Adria, to be delivered to the Commission by the German and Austrian governments.

As a result of the substantial losses of the Banking Group in 2009, the complete acquisition of all shares by the Republic of Austria was agreed between the previous owners of Hypo Alpe-Adria-Bank International AG and the Republic of Austria on 14 December 2009, which was completed on 30 December 2009. The previous owner made contributions towards the restructuring as part of its disinvestment. Moreover, the Republic of Austria took on commitments with regard to future capital injections. These injections were realised through the subscription of the EUR 450.0m participation shares issued at the end of June 2010.The European Commission provisionally approved the measures put forward by the Republic of Austria on 23 December 2009 for a period of up to six months, and instructed the Republic of Austria to present an in-depth restructuring plan for Hypo Alpe Adria in the first quarter of 2010, to enable it to judge whether the aid measures are consistent with EU laws on state aid. Hypo Alpe Adria has fulfilled this requirement.

The Commission will check whether the measures planned can return Hypo Alpe Adria to long-term profitability, whether support from the state is kept to the required minimum, whether the own contribution made will be appropriate, and whether sufficient measures have been undertaken to limit the distortions to competition caused by the financial assistance given. The Commission has also announced that it will examine whether the previous owner has contributed sufficiently to the restructuring costs.

Hypo Alpe Adria will be redimensioned on the basis of this restructuring plan, which was drawn up by the Executive Board and is being steadily refined, and this will also lead to a significant number of Group companies being relinquished.

The current business plan for 2011–2015 has calculated in restructuring and exit costs in connection with this, which could have a negative effect on results for future periods, depending on when a given market is exited and the market conditions prevailing at the time. In accordance with IFRS, these expenses can only be accounted for when the specific criteria of IFRS 5 – in particular the probable exit within a period of 12 months – are met.

On 22 June 2010 the Commission extended the provisional approval of the measures to increase capital "until the final decision on the restructuring plan related to Hypo Alpe Adria", although it did reserve its final approval until it could examine the restructuring plan submitted by the Republic of Austria in mid April. In the ruling on 4 August 2010, the EU approved the acquisition of Hypo Alpe Adria by the Republic of Austria and concluded that the transaction does not breach merger control laws. At the time of writing, it cannot be estimated with any degree of certainty when the EU proceedings will be concluded and whether the European Commission will accept the restructuring plan for Hypo Alpe Adria. As the subject of the inspection process, Hypo Alpe-Adria-Bank International AG has declared its willingness to cooperate fully with the Commission.

The guarantee agreement concluded at the end of December 2010 with the Republic of Austria (see note (111)) was recorded by the EU state-aid commission as additional aid in the course of ongoing proceedings. Approval has not yet been given by the EU state-aid commission.

At the end of 2010 a borrower filed a lawsuit against Hypo Alpe-Adria-Bank d.d., Zagreb, whereby a case has also been brought against Hypo Alpe-Adria-Bank International AG, but has not yet been served. The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff's claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0m. Hypo Alpe Adria assumes that there is no basis whatsoever for this lawsuit in view of the borrower's previous violations of the contract and the improper use of funds which led to the termination of the credit lines.

(111) Guarantee agreements

A guarantee agreement was concluded with the Republic of Austria on 30 December 2009; this agreement specified that Hypo Alpe-Adria-Bank International AG or its Austrian subsidiary bank, Hypo Alpe-Adria-Bank AG, was entitled to draw on a liability limit of EUR 100.0m for certain receivables. In June 2010 both parties agreed to cancel this guarantee agreement without having used it.

On 28 December 2010 a new guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG, with the republic taking on liability as a statutory guarantor pursuant to section 1356 of the Austrian Civil Code (ABGB). The liability of the republic relates to a precisely specified portion of receivables in the portfolio of Hypo Alpe-Adria-Bank International AG and is capped at a maximum of EUR 200.0m. Hypo Alpe-Adria-Bank International AG agreed to pay a commission to the Republic of Austria of 10% p.a. for the assumption of liability, which will be distributed as an expense over the period of liability. By hedging parts of the financing portfolio, estimated devaluation of EUR 163.7m, which would otherwise be incurred, is avoided. The liability of the republic expires on 30 June 2013 and is subject to Hypo Alpe-Adria-Bank International AG fulfilling the requirements agreed in the contract (see note (110) for further information).

In return for concluding the guarantee agreement, the Bank committed itself to reduce the liability of the Republic of Austria by buying back government guaranteed bonds. The Bank fulfilled this obligation in February 2011.

(112) Use of subordinated capital

(112.1) Supplementary capital
Both Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) have in the past issued supplementary capital pursuant to section 23 (7) of the Austrian Banking Act (BWG), which has been allocated to own capital funds in accordance with supervisory regulations.

According to the restrictions laid down in section 23 (7) (2) of the BWG, interest can only be paid out "if it is covered by the annual profits (before movements in reserves)". As neither the separate financial statements of Hypo Alpe-Adria-Bank International AG nor of Hypo Alpe-Adria-Bank AG (Austria) as of 31 December 2007 to 2009 and 2010 meet this criterion, and following formal adoption of the financial statements, interest on the supplementary capital issues of both credit institutions cannot be paid out.

According to the specific legal provisions, payment of interest may only be resumed when subsequent financial statements for Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) respectively establish that sufficient annual profits (before movements in reserves) have been shown.

Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) assume that there will be an obligation to make back payments of interest for the preceding periods of non-payment; these sums, therefore, continue to be shown and accrued as interest expense in the consolidated income statement, but not paid out.

In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during the time of the capital. Taking this loss allocation into account, a significant reduction in value as it relates to nominal value had been determined at the time of writing. Depending on the tranche issued, this can lead to a total loss for an investor.

(112.2) Hybrid capital
Hypo Alpe Adria has in the past made a total of two issues of subordinated hybrid capital, with no obligation to remargin interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75.0m and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150.0m). Both issues are essentially for an unlimited term, although the issuer has a unilateral right to terminate.

The primary criterion for interest being paid on these hybrid capital issues is sufficient "distributable funds", as defined in the issue conditions; the secondary criterion is that there is no short-fall on the limits set for the Group's own capital funds.

As the separate financial statements in accordance with UGB/BWG for Hypo Alpe-Adria-Bank International AG as of 31 December 2010 show a significant loss for the year (prior to movements in reserves), the main condition for the ongoing payment of interest on the hybrid capital is essentially not met and may therefore not be undertaken.

Hypo Alpe Adria may therefore not undertake to pay out interest on hybrid capital until such time as the separate financial statements adopted for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG show annual profits, which then require the servicing of the hybrid capital in accordance with the issue conditions with regard to "distributable funds".

As there is no supervisory regulatory obligation to remargin missed interest payments, the payments with regard to this hybrid capital do not apply and are therefore not shown as interest expense in the consolidated income statement.

(112.3) Subordinated liabilities
As subordinated capital (subordinated liabilities), as defined by section 23 (8) BWG, is not contractually tied either to the existence of sufficient net income or "distributable funds", nor to an annual profit (before movements in reserves), there are currently no contractual restrictions on servicing the interest payments for these issues.

(113) Own capital funds as defined by the Austrian Banking Act

The own capital funds of the Group as defined by the Austrian Banking Act (BWG) and by the Solvency Ordinance (SolvaV) are made up as follows:

in EUR m

	31.12.2010	31.12.2009
Core capital (Tier 1)	**1,794.7**	**2,018.4**
Paid-in capital	1,623.2	1,023.2
Reserves (incl. non-controlling interest in equity and hybrid capital)	220.6	1,039.2
Fund for general banking risks	0.7	0.7
Intangible assets	-49.8	-44.8
Supplementary elements (Tier 2)	**986.3**	**995.5**
Supplementary capital	89.0	88.9
Revaluation reserve for real-estate (45% weighted)	0.0	0.0
Subordinated capital	897.4	906.6
Deductions pursuant to section 23 (13) BWG	**-13.5**	**-14.1**
Tier 3 (reclassified Tier 2 capital)	**9.9**	**0.0**
Own capital funds	**2,777.5**	**2,999.8**
Own capital funds requirement according to BWG	**2,167.4**	**2,425.8**
Surplus capital	**610.1**	**574.0**
Coverage	128.1%	123.7%

in EUR m

	31.12.2010	31.12.2009
Risk-weighted basis for assessment in. acc. with section 22 BWG (banking book)	**24,611.1**	**27,907.9**
of which 8% minimum own funds requirements	1,968.9	2,232.6
own funds requirement in. acc. with section 22 BWG (securities trading book)	6.5	1.3
own funds requirement in. acc. with section 26 BWG (open foreign exchange position)	31.1	42.3
own funds requirement – operational risk	160.9	149.6
Total own capital funds requirement	**2,167.4**	**2,425.8**

in EUR m

	31.12.2010	31.12.2009
Assessment basis banking book (risk-weighted)	**24,611.1**	**27,907.9**
Tier 1 ratio	7.3%	7.2%
own capital funds ratio	11.3%	10.7%
Assessment basis incl. market and operational risk	**27,092.4**	**30,322.3**
Tier 1 ratio	6.6%	6.6%
own capital funds ratio	10.3%	9.9%

In the year 2010 Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of Hypo Alpe Adria, was in compliance with the minimum capital requirements according to the Austrian Banking Act.

(114) Employee data[1]

	31.12.2010	31.12.2009
Employees at closing date (number of employees)	**8,220**	**7,735**
in Austria	1,116	1,266
abroad	7,104	6,469
Employees average (based on equivalent full-time)	**7,927**	**7,970**
in Austria	1,214	1,306
abroad	6,713	6,664

[1] Not including employees on unpaid leave

(115) Severance pay, pension payments

The outlay of the parent company for severance pay and pension payments is shown in the table below:

in EUR thousand

	31.12.2010	31.12.2009
Senior employees	347.0	374.0
Other employees	992.0	813.0
Members of Executive Board	2,881.0	859.0
Total	**4,220.0**	**2,046.0**

(116) Relationship with members of the Executive bodies

(116.1) Advances, loans and guarantees in respect of members of the Executive bodies
At the end of the reporting period, the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG had received advances, loans and guarantees from the Bank amounting to EUR 5.8 thousand.

The account relationships between the Executive bodies of the Austrian parent company and Hypo Alpe-Adria-Bank AG (Austria) are unexceptional.

The financial relationship of Hypo Alpe Adria to the members of the Executive Board and Supervisory Board is as follows:

in EUR thousand

	31.12.2010	31.12.2009
Loans and advances	**7.0**	**465.2**
Executive Board	0.0	302.0
Supervisory Board	7.0	163.2
Liabilities	**1,036.5**	**1,484.6**
Executive Board	933.6	1,115.1
Supervisory Board	102.9	369.5

The movement in receivables with regard to members of the Executive bodies of the Bank stood as follows at the end of the reporting period:

in EUR thousand

	31.12.2010	31.12.2009
At end of previous period	**465.2**	**916.4**
New loans issued during the period	0.0	27.9
Amount owing to bank recorded on the balance sheet	5.8	302.0
Amount received by the bank	0.0	-778.0
Changes to Executive bodies	-460.2	0.0
Credit repaid during the period	-3.8	-3.2
At end of period	**7.0**	**465.2**
Interest income	0.0	1.4

The movement in liabilities with regard to members of the Executive bodies of the Bank stood as follows at the end of the reporting period:

in EUR thousand

	31.12.2010	31.12.2009
At end of previous period	**1,484.6**	**963.7**
Deposits received during the period	1,003.3	417.4
Other obligations	0.0	438.0
Changes to Executive bodies	-1,449.4	0.0
Deposits paid out during the period	-1.9	-334.6
At end of period	**1,036.5**	**1,484.6**
Interest expense on liabilities	3.8	16.2

(116.2) Breakdown of remuneration of Executive bodies of the parent

Remuneration received by the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG for carrying out their functions, received from this or from another Group company, are as follows:

in EUR thousand

	31.12.2010	31.12.2009
Executive Board	**3,313.1**	**2,142.0**
thereof ongoing payments	3,313.1	2,920.0
thereof repayments of variable remuneration from previous year	0.0	-778.0
Supervisory Board	**26.0**	**158.0**
Remuneration of former members of the Executive and Supervisory Board and their surviving dependents	**4,079.9**	**1,439.8**
thereof related to termination	3,645.0	1,025.0
thereof payments after termination	434.9	414.8
Total	**7,419.0**	**3,739.8**

The members of the Executive Board and Supervisory Board acting in this capacity during the year under review are stated in note (117).

(117) Executive bodies

Supervisory Board

Chairman of the Supervisory Board
Johannes DITZ, Vienna, since 21 January 2010

1st Deputy Chairman of the Supervisory Board
Siegfried GRIGG, Graz, until 21 January 2010
Rudolf SCHOLTEN, Vienna, since 21 January 2010

2nd Deputy Chairman of the Supervisory Board
Hans-Jörg MEGYMOREZ, Klagenfurt Wölfnitz, until 21 January 2010

Members of the Supervisory Board
Ralph SCHMIDT, Munich, until 21 January 2010
Benedikt HAAS, Munich, until 21 January 2010
Wolfgang HALLER, the Hague, until 21 January 2010
Stefan ERMISCH, Munich, until 21 January 2010
Hansjörg CHRISTMANN, Dachau, until 21 January 2010
Helmut DRAXLER, Vienna, since 21 January 2010
Alois STEINBICHLER, Vienna, since 21 January 2010

Appointed to the Supervisory Board by the Works Council
Erich CLIMA, Chairman of the Works Council, Klagenfurt am Wörthersee
Mario ZOLLE, Klagenfurt am Wörthersee
Gudrun SEZEN-UNTERKOFLER, Krumpendorf, until 21 January 2010
Alexandra DOHR, Klagenfurt am Wörthersee, until 21 January 2010

Federal Supervisory Authorities

State Commissioner
Angelika SCHLÖGEL, Vienna

Deputy State Commissioner
Monika HUTTER, Vienna

Province – supervisory function

Harald DOBERNIG, Provincial Minister, Maria Saal
Horst FELSNER, Klagenfurt am Wörthersee

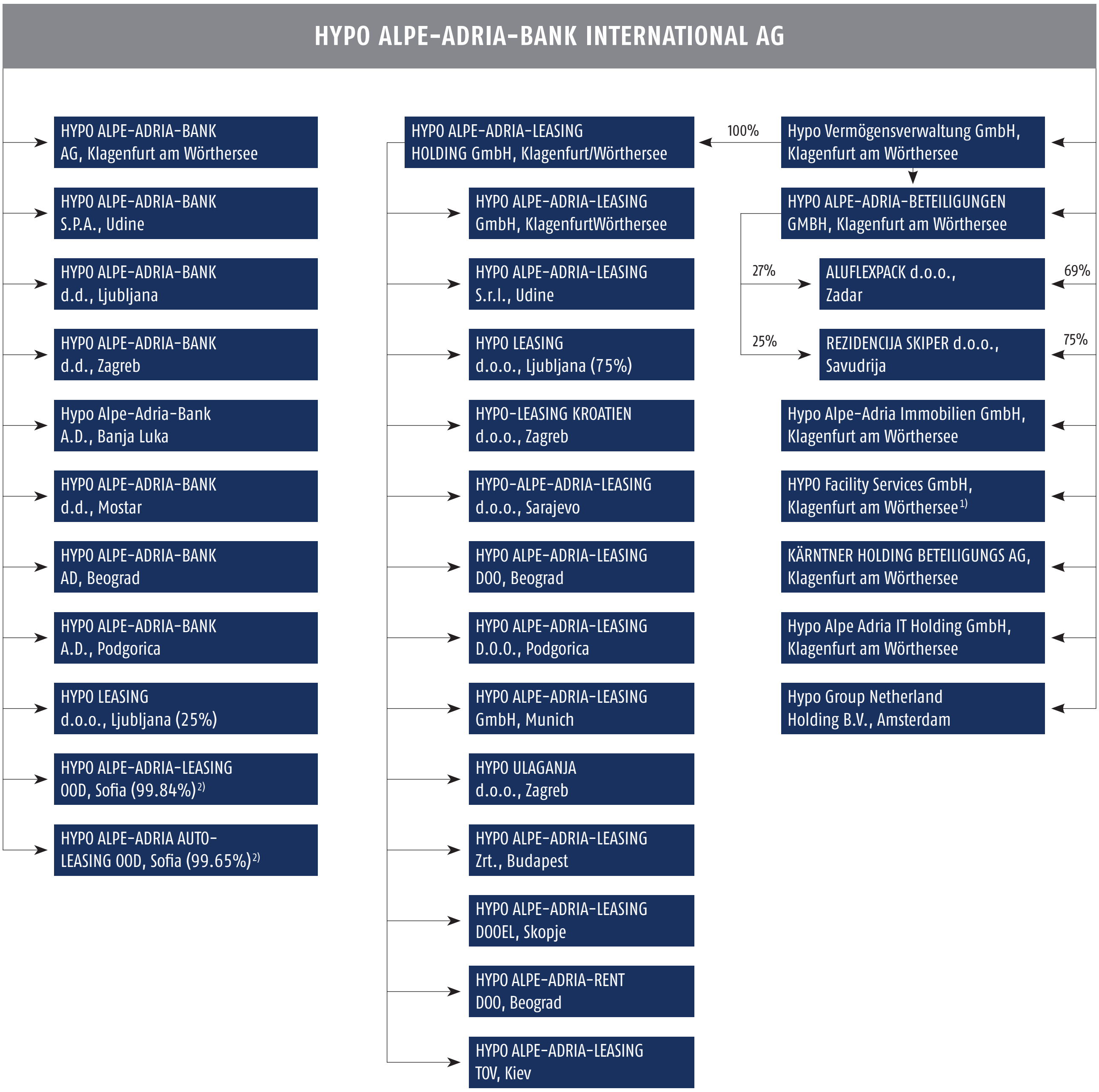
Trustee
Herbert PÖTZ, Judge of the Provincial Court, Klagenfurt, Klagenfurt am Wörthersee until 30 November 2010
Alexander PESCHETZ, Federal Finance Ministry, since 1 January 2011

Deputy Trustee
Jakob Köhler, Federal Finance Ministry

Executive Board

Gottwald KRANEBITTER, Chairman of the Executive Board, since 1 April 2010
Franz PINKL, Chairman of the Executive Board, Ternitz, until 31 March 2010
Andreas DÖRHÖFER, Deputy Chairman of the Executive Board, Erding, until 19 April 2010
Wolfgang PETER, Member of the Executive Board, Breitenbrunn, until 24 March 2010
Božidar ŠPAN, Member of the Executive Board, Ljubljana, until 31 March 2010
Anton KNETT, Member of the Executive Board, Velden am Wörthersee, until 24 March 2010
Wolfgang EDELMÜLLER, Member of the Executive Board, Vienna, since 19 April 2010
Johannes PROKSCH, Member of the Executive Board, Vienna, since 19 April 2010
Rainer SICHERT, Member of the Executive Board, Klagenfurt am Wörthersee, since 7 June 2010

(118) Material subsidiaries as of 31 December 2010



1) at 70%; the two Austrian Group banks each hold 15%

2) the remaining shares are held by HYPO ALPE-ADRIA-LEASING HOLDING GmbH

(119) Scope of consolidation

The consolidated financial statements according to IFRS as of 31 December 2010 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date	Type
ALFA CAR PROJEKT d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
Alpe Adria Privatbank AG in Liquidation	Schaan	49.000	49.000	31.12.10	KI
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	100.000	100.000	31.12.10	FI
Alpe Adria Venture Fund GmbH & Co KG	Vienna	99.306	99.306	31.12.10	HI
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.000	100.000	31.12.10	FI
ALUFLEXPACK, d.o.o. [1)]	Zadar	(68.89/31.11)	100.00	31.12.10	SU
Ananke Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	SU
BETA NEKRETNINE d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
Brokersko dilerska kuća HYPO ALPE-ADRIA-VRIJEDNOSNICE d.o.o., Sarajevo	Sarajevo	100.000	99.998	31.12.10	WP
BROKERSKO-DILERSKO DRUŠTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	(99.41/0.59)	100.000	31.12.10	WP
Carinthia I Limited	St. Helier – Jersey	100.000	51.000	31.12.10	FI
Carinthia II Limited	St. Helier – Jersey	100.000	51.000	31.12.10	FI
D.S. car d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
EPSILON GRAĐENJE d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
ERCS 2008 Kft.	Budapest	100.000	100.000	31.12.10	SU
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6.000	6.000	31.12.10	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	100.000	100.000	31.12.10	FI
HBInt Credit Management Limited	St. Helier – Jersey	51.000	51.000	31.12.10	FI
HILLTOP Holding Anstalt	Vaduz	100.000	100.000	31.12.10	SU
HTC ENA d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
HYPERIUM DOOEL Skopje	Skopje	100.000	100.000	31.12.10	SU
Hypo Alpe Adria IT Holding GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
Hypo Alpe-Adria (Jersey) II Limited	St. Helier – Jersey	100.000	100.000	31.12.10	FI
Hypo Alpe-Adria Jersey Limited	St. Helier – Jersey	100.000	100.000	31.12.10	FI
HYPO Alpe-Adria Leasing Kft.	Budapest	100.000	100.000	31.12.10	FI
HYPO Alpe-Adria Leasing Zrt.	Budapest	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	(99.65/0.35)	100.000	31.12.10	FI
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.713	99.713	31.12.10	KI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.880	100.000	31.12.10	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	99.999	99.999	31.12.10	KI
HYPO ALPE-ADRIA-BANK AG	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.000	100.000	31.12.10	KI
HYPO ALPE-ADRIA-BANK d.d.	Mostar	99.998	99.998	31.12.10	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100.000	100.000	31.12.10	KI
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.000	100.000	31.12.10	KI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date	Type
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH in Liqu.	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100.000	100.000	31.12.10	FI
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING D.O.O. – PODGORICA	Podgorica	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING GmbH	Munich	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING HOLDING GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	FH
HYPO ALPE-ADRIA-LEASING OOD	Sofia	(99.84/0.16)	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100.000	100.000	31.12.10	FI
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	100.000	100.000	31.12.10	HI
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100.000	100.000	31.12.10	HI
HYPO CENTER – 2 d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
Hypo Cityimmobilien-Klagenfurt GesmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO Facility Services GmbH	Klagenfurt am Wörthersee	(70/15/15)	100.000	31.12.10	HI
Hypo Group Netherland Holding B.V.	Amsterdam	100.000	100.000	31.12.10	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100.000	100.000	31.12.10	FI
Hypo Group Netherlands Finance B.V.	Amsterdam	100.000	100.000	31.12.10	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt am Wörthersee	99.900	100.000	31.12.10	FI
HYPO HOUSE D.O.O. – PODGORICA	Podgorica	100.000	100.000	31.12.10	HI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	99.000	100.000	31.12.10	FI
HYPO LEASING d.o.o.	Ljubljana	(75.0/25.0)	100.000	31.12.10	FI
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	99.000	100.000	31.12.10	FI
HYPO NEPREMIČNINE d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
HYPO PC d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
HYPO SERVICE S.R.L.	Tavagnacco	100.000	100.000	31.12.10	HI
HYPO ULAGANJA d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	HI
HYPO Wohnbau GmbH	Klagenfurt am Wörthersee	99.000	100.000	31.12.10	FI
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	100.000	99.998	31.12.10	FI
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	100.000	100.000	31.12.10	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	FI
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100.000	100.000	31.12.10	FI
JADRAN JAHTE d.o.o.	Zagreb	100.000	100.000	31.12.10	FI
KÄRNTNER HOLDING BETEILIGUNGS-AG	Velden am Wörthersee	100.000	100.000	31.12.10	HI

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date	Type
Lamplhof Betriebs GmbH	Velden am Wörthersee	95.000	95.000	31.12.10	SU
MAGUS d.o.o. u likvidaciji	Zagreb	100.000	100.000	31.12.10	SU
MM THETA d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
MM ZETA d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
Norica Investment Limited	St. Helier – Jersey	51.000	51.000	31.12.10	FI
ORGOVÁNYI IMMO Ingatlanforgalmazó Kft.	Budapest	100.000	100.000	31.12.10	SU
PIPER d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
PROJEKT NEKRETNINE d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
QLANDIA MARKETING d.o.o.	Ljubljana	100.000	100.000	31.12.10	SU
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75/25)	100.000	31.12.10	SU
Schloss Velden Appartementerrichtungs GmbH	Velden am Wörthersee	100.000	100.000	31.12.10	SU
Schlosshotel Velden GmbH	Velden am Wörthersee	100.000	100.000	31.12.10	SU
SINGULUS d.o.o.	Zagreb	100.000	100.000	31.12.10	SU
SKIPER HOTELI d.o.o.	Savudrija	100.000	100.000	31.12.10	SU
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	(0/VR 51)	0.000	31.12.10	FI
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztõ Kft.	Budapest	100.000	100.000	31.12.10	SU
TLM-TVP d.o.o.	Sibenik	83.969	83.969	31.12.10	SU
TRP Projektentwicklungs GmbH	Velden am Wörthersee	98.000	100.000	31.12.10	SU
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100.000	100.000	31.12.10	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	100.000	100.000	31.12.10	FI
WS Liegenschaftsverwaltungs GmbH in Liqu.	Klagenfurt am Wörthersee	100.000	100.000	31.12.10	SU
X TURIST d.o.o.	Umag	100.000	100.000	31.12.10	SU
Y TURIST d.o.o.	Umag	100.000	100.000	31.12.10	SU
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.-u likvidaciji	Zagreb	100.000	100.000	31.12.10	HI
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.000	100.000	31.12.10	HI

[1] HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH is obligated under the terms of an option arrangement to acquire the remaining non-controlling interest by the end of 2011. This is why the equity interest in Aluflexpack d.o.o. is recognised at 100% in the consolidation.

Type (as per BWG):

KI	Banking
HI	Services
SU	Other
FI	Financial services
WP	Investment firm
FH	Fund

The following companies are included with their respective financial statements as of 31 December 2010 in the consolidated financial statements using the equity method:

in EUR m

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Carrying amount of investment as of 31.12.2010	Share of profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.5	29.5	3.4	0.2
DOSOR d.o.o.	Radenci	50.0	50.0	0.9	0.0
HYPO-BA Leasing Süd GmbH	Klagenfurt am Wörthersee	50.0	50.0	0.0	0.0
PRAMOLLO S.P.A. – IN LIQUIDAZIONE	Udine	(48.95/34.54)	59.1	0.0	0.0
URBANA PRENOVA IZOLA d.o.o.	Izola	40.0	40.0	0.0	0.0

(120) Events after the reporting period

On the basis of the agreements concluded in January 2011 regarding Hypo Alpe-Adria-Leasing GmbH, Munich, preparations were made which assume the short to medium-term sale of the German leasing company.

On 8 February 2011 Hypo Alpe-Adria-Bank International AG published a demand to the underwriter who had issued the state-guaranteed bond in 2009, which welcomed a proposal for an offer to buy back the bond, to be submitted by 16 February 2011. The bondholder presented the Bank with an offer to buy back the bond for around EUR 750.0m, which would also be assumed by Hypo Alpe-Adria-Bank International AG. Because there are sufficient liquidity reserves available for 2011, which can only be assessed at a below-average interest rate from the central bank, the early redemption will have a positive effect on profit/loss for the current financial year.

As serious accusations related to certain business transactions in Slovenia have come to light, the entire management staff of the bank and leasing companies involved were replaced on 9 February 2011, and a comprehensive investigation into the relevant facts and circumstances was launched. The Slovenian National Bank has granted a licence to the new management of the business unit, so the company once again has a solid basis from which to operate.

On 10 February 2011 the European Commission formally separated the EU state aid investigation (which had previously been a joint investigation) into the Federal Republic of Germany (Bayern LB) and the Republic of Austria (Hypo Alpe Adria).

Klagenfurt am Wörthersee, 23 March 2011
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Statement of all Legal Representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Klagenfurt am Wörthersee, 23 March 2011
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt**, for the financial year from 1 January 2010 to 31 December 2010. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2010, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year ended 31 December 2010, as well as the significant accounting and measurement methods applied, and the notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Bank's management is responsible for the Group accounting system and for the preparation and fair presentation of these consolidated financial statements, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies and measurement methods used, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the findings of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2010, and of its financial performance and its cash flow for the financial year from 1 January 2010 to 31 December 2010, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our opinion we draw attention to:

- the details provided by the Executive Board in the notes in the "Company" section and in note 1 "Significant accounting policies". When producing the consolidated financial statements, the Executive Board assumed a positive ruling by the European Commission in the ongoing state-aid investigation regarding the restructuring plan produced by the Executive Board and submitted to the European Commission in April 2010. The date and content of this European Commission ruling cannot be foreseen, as described in detail by the Executive Board in note 110. For this reason, material uncertainties exist related to the impact which the ruling would have on the Group's business activities;

- the details provided by the Executive Board in the notes (note 2, note 50, note 60 and note 86) on the in-depth evaluation and analysis of the credit and leasing portfolio carried out in 2010, which resulted in extraordinarily high risk provisions on loans and advances in 2010. These risk provisions related, in particular, to procedural failings in credit administration (including credit risk management); both in the past and in the year under review, and improper behaviour resulting from past activities. In the past this led to increased uncertainty in terms of the timely and appropriate identification, and measurement of credit-related risks. For this reason, it is not possible to exclude the possibility that the risk provisions on loans and advances in 2010 also include amounts which relate to previous periods. As reported in the notes, the full implementation of an appropriate system for managing credit-related risks will not be completed until 2011, which means that it is impossible to exclude the possibility that additional impairment provisions may need to be applied to the credit and leasing portfolio as of 31 December 2010, on the basis of the subsequent processes and the ongoing improvements from the findings of the evaluation and measurement processes;

- the details provided by the Executive Board in notes 110 and 111 regarding the guarantee agreement concluded on 28 December 2010 between the Republic of Austria and Hypo Alpe-Adria-Bank International AG. This guarantee agreement led to a reduction from loan loss allowances amounting to EUR 163.7m which was recognized in the consolidated statement of comprehensive income;

- the details provided by the Executive Board in the notes (note 2) on the use of estimates and assumptions and material uncertainties in connection with estimates when producing the consolidated financial statements. The assumptions made by the Executive Board are based on a moderate market recovery in the coming years. As it is not possible to predict the market development the actual future economic conditions could have a significant impact on the stated values of assets and liabilities and therefore on Group equity and the equity of the group of credit institutions contained in the consolidated financial statements.

Comments on the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Bank's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

23 March 2011, Vienna

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner
Certified Auditor

Dr. Elisabeth Glaser
Certified Auditor

The English translation of the Auditor's Report is for convenience purposes. Only the original German version is legally binding.

Report of the Supervisory Board

In the light of the Republic of Austria's full acquisition of Hypo Alpe-Adria-Bank International AG effective 30 December 2009, the Annual General Meeting, held on 21 January 2010, agreed to a reduction in the number of members delegated to the Supervisory Board by investors to four and to a complete re-appointment of these positions. More details can be found in the Members section.

In the course of the year under review, the newly-elected Supervisory Board monitored the work of the Hypo Alpe-Adria-Bank International AG Executive Board – also newly appointed in the first six months of 2010 – and its management team. The Supervisory Board availed itself of all the responsibilities assigned to it by statute and by the articles and by-laws of the Bank.

In written and oral reports, the Executive Board kept the Supervisory Board regularly informed of all key developments in Hypo Alpe-Adria-Bank International AG and its subsidiaries. The Supervisory Board kept up to date on the company's business and risk situations, and discussed current issues with the Executive Board.

The Executive Board presented the Supervisory Board with materials requiring the latter's approval pursuant to statute and the articles and by-laws of the Bank. All documents provided to the Supervisory Board were checked for their plausibility and, where necessary, supplementary information was requested. The Executive Board always complied with such as request without delay, to the Board's satisfaction.

Supervisory Board meetings

The Supervisory Board convened a total of 14 times in 2010.

The meetings considered the current business developments at the Bank and its significant subsidiaries, the reporting on credit and market risks, internal auditing and resolutions dealing with loans and advances falling within the Supervisory Board's competence. The Supervisory Board addressed in detail the Bank's planned restructuring measures. In particular, the Supervisory Board was concerned with identifying the long-term healthy core of the business and the planned exploitation/disposal/processing of non-strategic equity investments.

In 2010, the Executive Board initiated a comprehensive analysis of the credit and leasing portfolios, and a fundamental realignment of the processes, methods and organisation of the credit risk division. The extraordinary high risk provisions on loans and advances recognised as a result are not only attributable to ever-perceptible effects of the recession in the Bank's core markets, but also to the previous absence of sufficient credit risk management methods and instruments.

The individual meetings

In February 2010, the Supervisory Board invited applications to the four positions in the Executive Board of Hypo Alpe-Adria-Bank International AG.

At the 6 March 2010 meeting, bids were considered relating to the selection of the auditors for the 2010 and 2011 financial years. The Supervisory Board ensured that its independence and reliability were not compromised and checked for evidence of other prerequisites. As a result it presented the Annual General Meeting with a proposal for its approval.

After the Audit Committee had deliberated the preliminary financial figures in detail at its meeting of 16 March 2010, the Audit Committee meeting of 24 March 2010, attended by the auditors, considered the figures for the 2009 financial year presented by the Executive Board. The year-end accounts and the management report for 2009 presented by the Executive Board were assessed and finally approved by the Supervisory Board. The Supervisory Board also assessed and recognised the consolidated financial statements and the Group management report for 2009.

The meeting that took place on 6 August 2010 considered the report on developments in the first six months of 2010 presented by the Executive Board. Besides the presentation of Group results, risk-related costs were a key point for discussion. In view of the significant risk provisions on loans and advances recognised in the year-end accounts dated 31 December

2009, the Executive Board decided to undertake an in-depth evaluation of the Bank's risk provisions as of 30 June 2010, drawing on the services of PwC; the Supervisory Board was informed of this evaluation at this meeting. In meetings which took place on 10 and 20 December 2010, the Supervisory Board considered reports on the results of the Phase I credit portfolio analysis project "Review Rush/Due Diligence" and on risk-mitigating measures that resulted from the project; these included updating rating classes, evaluating the methodological accuracy of measurement and updating collateral values.

In addition to the regular reports, the meeting on 10 December 2010 dealt with the option of concluding a guarantee agreement with the federal government. On 28 December 2010, the Supervisory Board granted its approval for the conclusion of such an agreement.

Committees

The Supervisory Board formed six committees in total, which were all composed of members of the Supervisory Board.

The Audit Committee met four times in 2010 with the auditors also taking part when issues such as the Bank's annual and the Group's consolidated and half-yearly financial statements were discussed.

The meeting that took place on 16 March 2010 discussed the findings from the "Asset Review" in the Credit and Investment divisions, carried out in the second half of 2009 by PricewaterhouseCoopers (PwC), that led to higher risk provisions on loans and advances. The Executive Board then explained the effects on the Bank's preliminary annual and the Group's consolidated financial statements for 2009, supplemented by findings from Deloitte Audit Wirtschaftsprüfungs GmbH who had carried out the audit for 2009. The Audit Committee meeting held on 24 March 2010 prepared the Supervisory Board resolution on the Bank's annual and Group's consolidated financial statements. The Audit Committee meeting of 6 August 2010 considered the update of the "Asset Review" carried out by PwC in mid-year, and the effects this would have on the Group's half-yearly financial statements as of 30 June 2010. At the 10 December 2010 Audit Committee meeting, Ernst & Young WirtschaftsprüfungsgesmbH, appointed for the 2010 financial year, reported on the current situation regarding the credit portfolio evaluation.

The Credit Committee met a total of eleven times during 2010 with other resolutions considered by proxy.

In addition to resolutions passed on new and current credit lines, meetings held with the Executive Board discussed in detail issues relating to non performing loans, of particular interest to the Bank because of the nature of their risk, and to reports on parts of the portfolio.

The Articles and By-laws Committee did not meet in 2010.

The Executive Board Committee met twice during the financial year.

The Strategy Committee did not need to convene as a separate unit, as intensive discussions on strategic issues were carried out with the Executive Board in the course of regular Supervisory Board meetings and on other occasions.

The Remuneration Committee, set up in the course of 2010, did not meet during the financial year. The Committee was formed pursuant to the European Union directive on executive bonuses, without having any legal requirement in Austrian legislation.

Members

Supervisory Board

In the light of the Republic of Austria's full acquisition of Hypo Alpe-Adria-Bank International AG effective 30 December 2009, the Annual General Meeting, held on 21 January 2010, agreed to a reduction in the number of members delegated to the Supervisory Board by investors to four and to a complete re-appointment of these positions. Johannes Ditz accepted the chair of the Supervisory Board, with Rudolf Scholten elected as his deputy. The other members of the Supervisory Board appointed by the sole shareholder are Helmuth Draxler and Alois Steinbichler.

The representatives appointed to the Supervisory Board by the Works Council are Erich Clima and Mario Zolle.

Executive Board
In February 2010, the Supervisory Board invited applications to the four positions of the Executive Board of Hypo Alpe-Adria-Bank International AG. These were appointed following consultation with a recruiting specialist.

At the 97th Supervisory Board meeting held on 24 March 2010, Gottwald Kranebitter was elected Chairman of the Executive Board effective 1 April 2010. Wolfgang Edelmüller was elected Deputy Chairman, and Johannes Proksch elected to the Executive Board effective 19 April 2010. Rainer Sichert was also elected to the Executive Board, a post he has held since 17 June 2010.

In line with these new appointments to the Executive Board, changes in the distribution of the Executive Board agenda were made in the course of the financial year.

2010 Bank and Group financial statements

The separate financial statements of Hypo Alpe-Adria-Bank International AG were prepared in accordance with the provisions of the Austrian Banking Act (BWG) and, where applicable, with the provisions of the Austrian Enterprise Code (UGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements and the Group management report of Hypo Alpe Adria, and the annual financial statements and management report of Hypo Alpe-Adria-Bank International AG as of 31 December 2010 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Straße 19, IZD Tower, A-1220 Vienna, FN 267030t. The respective reports were granted an unqualified auditors' opinion supplemented by an additional comment relating to the ongoing state-aid proceedings conducted by the European Commission, the periodic allocation of risk provisions on loans and advances, the guarantee agreement between the Republic of Austria and Hypo Alpe-Adria-Bank International AG and estimates of the Executive Board regarding framework economic conditions.

The Audit Committee established that a sufficiently thorough audit of the separate financial statements of the Bank and of the consolidated statements for the financial year 2010 could be carried out on the basis of the documentation made available. The auditors took part in the Audit Committee meeting which dealt with the consolidated and separate financial statements for 2010, and explained in detail their audit findings and answered the committee's questions

The Audit Committee therefore recommended that the Supervisory Board approve the separate financial statements in accordance with section 96 (4) of the Austrian Stock Corporation Law (AktG), and acknowledge the consolidated financial statements; and endorse, in both cases, the results of the annual audits.

The Supervisory Board has reviewed the separate financial statements and management report submitted by the Executive Board, which was granted an unqualified audit opinion albeit supplemented by additional comments by the auditors, and concurs with the audit results. The separate financial statements have been approved by the Supervisory Board, as set down by section 96(4) of the Austrian Stock Corporation Law (AktG). The Supervisory Board has also examined the 2010 consolidated financial statements and management report for the Group, and has concurred with the recommendation of the Audit Committee.

For the Supervisory Board

Johannes Ditz
Chairman of the Supervisory Board

29 March 2011, Vienna

Glossary

Active market – an active market meets the following three criteria: homogenous products are traded on it; willing purchasers and sellers can be found at any time; and prices are in the public domain.

Asset-backed securities (structured credit products) – Financial assets are not shown in the balance sheet, but are separated out into a Special Purpose Entity (SPE) and refinanced on the international money and capital markets. The refinancing is accomplished through the issue of asset-backed securities.

Banking book – the capital backing of positions on the banking book does not have to be determined in the same way as the calculation method for the trading book.

Basel II – revised version of Basel I on the definition of capital adequacy for banks. Basel II helps to increase stability in the international financial system, for example through risk-dependent capital backing of credit and explicit accounting for operational risk, through increasing the role of the financial markets supervisory body and through greater market transparency. Basis for assessment according to the Austrian Banking Act (BWG) – the basis on which own capital requirement is assessed is the sum of risk-weighted assets and the off-balance-sheet positions of the banking book.

BWG – Bankwesengesetz = Austrian Banking Act.

Capital consolidation – capital consolidation means the netting of the carrying amounts for participations in the parent company's separate financial statements with the share of the consolidated subsidiary's equity.

Cashflow calculation – the cashflow calculation shows the composition and change in the holdings of cash and cash equivalents due to business, investment and financing activity in a financial year.

CEE – Central and Eastern Europe; and SEE – South Eastern Europe. In Hypo Alpe Adria's case, the latter refers to: Slovenia, Croatia, Bosnia & Herzegovina, Serbia and Montenegro.

Core capital (Tier 1) – paid-in capital, reserves and net income less intangible assets.

Corporate Governance – Corporate governance describes the international standards for good management of a corporation. The Corporate Governance Code rules exist to help further transparency and the control of a corporation; and should strengthen trust in that organisation's management and protect shareholders' interests.

Cost/income ratio – The cost/income ratio shows the ratio of administration expense to operating income (net interest income, net fee and commission income, fair value result, result from financial investments and other operating result). The key figure shows the percentage of operating income used up by administrative expense.

Creditworthiness – the assessment of how creditworthy a private individual or a business is. This involves looking at the would-be borrower's past and assumed future conduct with regard to repayment of debt. The lower the credit rating, the higher the likelihood of default and therefore the higher the risk premium paid by the borrower.

Debt consolidation – the receivables and corresponding liabilities of Group companies included in the consolidation are netted out against each other.

Defined benefit obligation (DBO) – DBO is the present value of pension benefits earned as of the end of the reporting period.

Derivatives – The term derivatives normally refers to financial instruments whose value is derived from the market price of one or more instruments (e.g. securities). The value of a derivative varies contingent upon an underlying value (such as interest rates, share prices).

Economic capital – is the amount required to cover unexpected losses. This cannot be compared with the equity shown in the statement of financial position.

Eligible own funds – only eligible own funds may be used in the calculation of own capital funds coverage. This comprises Tier 1 and Tier 2 capital.

Embedded derivative – structured products (loans and advances, liabilities) are linked to one or more derivative financial instruments (e.g. swaps, futures) to make a legally recognised and economic unit.

Equity valuation – a consolidation method for participations in which Hypo Alpe Adria does not have the controlling interest but does exercise significant interest. The equity share is shown as a participation in the statement of financial position sheet and a proportional share of the result is included in the income statement.

Expected loss – the measure for the potential loss in a credit portfolio which, on the basis of historical data, is to be expected in a financial year.

Exposure – is the name for the expected amount which is at risk if there is a default on credit repayment.

Fair value – this means the amount which can be made through a sales transaction at arms' length between two knowledgeable, willing business partners. Stock exchange rates, expert valuations or internal valuation models may be used to reach a valuation.

Fair value hedge – this is when assets or liabilities are hedged against changes in fair value (e.g. through a swap).

Fair value level I – quoted prices in an active market – the fair value is expressed through a market price where there is an active market.

Fair value level II – a valuation method relying on observable parameters – in cases where no quoted prices for individual financial instruments are available, the market value of similar financial instruments, or recognised valuation models using observable prices or parameters, are used to arrive at fair value.

Fair value level III – a valuation method relying on parameters which cannot be observed – if there are no stock exchange rates or prices available, the fair value is calculated using valuation models appropriate to the instrument in question.

Finance leases – a leasing arrangement in which essentially all the opportunities and the risks in connection with ownership of the leased object are transferred to the lessee.

Full consolidation method – with the full consolidation method, materially associated companies (> 50% participation) are included in the scope of consolidation and fully included in the consolidated financial statements, even if – for example – only 70% is held by Hypo Alpe Adria; in which case 30% will be shown as non-controlling interest.

Futures – transactions which are not to be transacted immediately but at a future point in time. At the point of set-up, the quality, quantity, price and settlement date are determined.

Goodwill – goodwill is the amount above the value of the assets themselves and after deduction of debts (i.e. the net asset value) that a purchaser buying a business is prepared to pay after taking into account future earnings expectations (the value of the business, income value).

Gross investment value – the value of all minimum lease payments for finance leases and the non-guaranteed residual value.

Hedge – a hedge is a method for securing a share portfolio against declining share prices using share warrants.

Hedge accounting – the presentation of contrasting changes in value for an underlying and a hedging transaction.

Hedging – the changes in value of an underlying transaction (e.g. changes in interest rates, share prices) are compensated for by agreeing a hedge transaction to cover the reverse movement.

IFRIC, SIC – the International Financial Reporting Interpretation Committee, previously known as the Standing Interpretation Committee. The committee issues official interpretations of the International Financial Reporting Standards.

IFRS, IAS – International Financial Reporting Standards. These describe the international accounting standards issued by the IASB (International Accounting Standards Board) with the objective of creating a transparent and comparable standard for accounting at international level.

Joint venture – a company which is held by two or more partners, each with an equal share.

Micro hedge – a hedge on an individual asset or liability.

Option – The right to buy or sell a financial title or commodity at a price previously determined within an agreed time frame or at a time previously agreed.

OTC transactions – in over-the-counter transactions, financial instruments are not traded on a stock exchange but directly between market participants.

Own capital funds as defined by the BWG – the BWG's provisions (section 22 (1)) on own capital funds set out how much own funds credit institutions must hold in their respective businesses to cover their exposure to risk. According to the BWG, own funds are comprised of core, or Tier 1, capital; supplementary and subordinate capital (Tier 2); and short-term subordinate capital and unsecured Tier 2 capital (Tier 3). Own capital funds requirement – credit institutions are required to hold an amount of eligible own funds equivalent to 8% of the basis for assessment in accordance with the BWG (solvency provision).

Primary funds – primary funds include liabilities to customers, liabilities evidenced by securities and subordinated capital.

Projected unit credit method – method by which future obligations are estimated taking the actuarial present value of the existing benefit entitlement at the end of the reporting period.

Rating – the judgement of a business's creditworthiness on the basis of standardised qualitative and quantitative criteria. The result of the rating process is the basis for determining the likelihood of a credit default. The bank carries out its own internal ratings; external ratings are carried out by a rating agency (e.g. Standard & Poor's or Moody's).

Repo (repurchase agreements) – in a repo transaction, asset values are made over to a business partner (transferee) who is obliged to return the assets, while the transferor is definitely obliged to take them back. At the point of return, the transferor must pay back the amount received for the asset values.

Return on Assets (ROA) – this is the ratio of the annual profit before or after tax and non-controlling interest to average total assets, expressed as a percentage.

Return on Equity (ROE) – describes the earnings position of a company and shows the yield from capital invested in a company. The figure is calculated by setting the annual profits (pre-tax or after tax) in relation to average equity (either including or excluding non-controlling interest).

Revaluation reserve – changes in the market price of securities and participations which have no impact on profit or loss are booked to this reserve.

Risk assets – see: basis for assessment according to the Austrian Banking Act (BWG)

Risk/earnings ratio – calculates the ratio of credit risk to net interest income and shows the percentage of net interest income that is burdened by credit risk.

Solvency – the term solvency describes the ratio of assets to off-balance-sheet transactions and the resulting amount of own funds that the credit institution must hold.

Solvency ratio – eligible own funds less the own capital funds requirement for the position risk for bonds and net asset values; for foreign exchange and commodities risk; and the own capital funds requirement for operational risk as a % of risk-weighted assets, in accordance with section 22 (2) of the BWG.

Spot transaction – sale/purchase transaction which must be executed immediately (delivery and payment).

Spread – the difference between two points of reference, e.g. the range between the purchase and sale price of securities.

Stress test – stress tests are carried out to monitor market movements which are not accounted for in the VaR model.

Swaps – A swap is a financial instrument in which payment streams are exchanged between two business partners. There are interest swaps (in which, for example, fixed interest rates are swapped against variable rates) and foreign currency swaps.

Tier 1 capital ratio – this is the ratio of core capital (Tier 1) to the basis for assessment (at least 4%).

Total capital ratio – the ratio of eligible capital to the basis for assessment according to the BWG (at least 8%).

Trading book – special calculation procedures apply for calculating the own capital funds requirement for trading book positions which are being held with a view to short-term disposal.

UGB – Unternehmensgesetzbuch = Austrian Enterprise Code: stipulates the basic accounting principles to be applied in Austria.

Value-at-Risk – the method for quantifying risk. The VaR figure shows the upper limit of losses which will not be exceeded during the holding period.

Addresses of the Group Companies

Group headquarters

Hypo Alpe-Adria-Bank International AG
9020 Klagenfurt am Wörthersee
Alpen-Adria-Platz 1
Tel. +43 (0) 50202 0
Fax +43 (0) 50202 3000
international@hypo-alpe-adria.com

Austria

Hypo Alpe-Adria-Bank AG
9020 Klagenfurt am Wörthersee
Domgasse 5
Tel. +43 (0) 50202 0
Fax +43 (0) 50202 3000
austria@hypo-alpe-adria.com

Hypo Alpe-Adria-Leasing GmbH
9020 Klagenfurt am Wörthersee
Inglitschstraße 5
Tel. +43 (0) 50202 6000
Fax +43 (0) 50202 3208
leasing.austria@hypo-alpe-adria.com

Bosnia and Herzegovina

Hypo Alpe-Adria-Bank a.d. Banja Luka
78000 Banja Luka
Aleja Svetog Save 13
Tel. +387 (0) 51 336 500
Fax +387 (0) 51 336 518
info@hypo-alpe-adria.rs.ba

Hypo Alpe-Adria-Bank d.d.
88000 Mostar
Kneza Branimira 2b
Tel. +387 (0) 36 444 200
Fax +387 (0) 36 444 235
bank.bih@hypo-alpe-adria.com

Hypo Alpe-Adria-Leasing d.o.o. Sarajevo
71000 Sarajevo, Trg Solidarnosti 12
Tel. +387 (0) 33 702 200
Fax +387 (0) 33 702 220
leasing.bih@hypo-alpe-adria.com

Hypo Alpe-Adria-Invest d.o.o. Mostar
88000 Mostar
Kralja Petra Krešimira IV, lamela 3/II
Tel. +387 (0) 36 328 687
Fax +387 (0) 36 328 677
invest.bih@hypo-alpe-adria.com

Bulgaria

Hypo Alpe-Adria-Leasing OOD
1404 Sofia, Residential area
'Gotze Delchev', block 22
Tel. +359 (0) 2 810 99 99
Fax +359 (0) 2 810 99 91
info@hypo-alpe-adria-leasing.bg

Germany

Hypo Alpe-Adria-Leasing GmbH
80336 München
Herzog-Heinrich-Straße 22
Tel. +49 (0) 89 92 008 400
Fax +49 (0) 89 92 008 500
leasing.germany@hypo-alpe-adria.com

Italy

Hypo Alpe-Adria-Bank S.p.A.
33010 Tavagnacco (Ud)
Via Alpe Adria 6
Tel. +39 0432 537 211
Fax +39 0432 538 551
bank.italy@hypo-alpe-adria.com

Hypo Alpe-Adria-Leasing S.r.l.
33010 Tavagnacco (Ud)
Via Alpe Adria 6
Tel. +39 0432 537 211
Fax +39 0432 538 551

Hypo Alpe-Adria-Finance S.r.l.
33010 Tavagnacco (Ud)
Via Alpe Adria 6
Tel. +39 0432 537 211
Fax +39 0432 538 551

Croatia

Hypo Alpe-Adria-Bank d.d.
10000 Zagreb
Slavonska avenija 6
Tel. +385 (0) 1 603 0000
Fax +385 (0) 1 600 7000
bank@hypo.hr

Hypo-Leasing Kroatien d.o.o.
10000 Zagreb
Slavonska avenija 6a
Tel. +385 (0) 1 603 6000
Fax +385 (0) 1 603 6001, 603 6002
leasing.croatia@hypo-alpe-adria.hr

Hypo Alpe-Adria-Invest d.d.
10000 Zagreb
Slavonska avenija 6
Tel. +385 (0) 1 603 1199, 603 2160
Fax +385 (0) 1 603 6850, 603 6851
invest.croatia@hypo-alpe-adria.hr

Hypo Alpe-Adria-Nekretnine d.o.o.
10000 Zagreb
Slavonska avenija 6
Tel. +385 (0) 1 603 6500,
Fax +385 (0) 1 603 6550
nekretnine.croatia@hypo-alpe-adria.hr
hypocentar.croatia@hypo-alpe-adria.hr

Macedonia

Hypo Alpe-Adria-Leasing DOOEL Skopje
1000 Skopje
bul."Oktomvriska Revolucija"
bb,zgrada
HYPERIUM kat 4
Tel. +389 (0) 2 32488 88
Fax +389 (0) 2 32488 89
info@hypo-alpe-adria.com.mk

Montenegro

Hypo Alpe-Adria-Bank AD Podgorica
81000 Podgorica
Bulevar Svetog Petra Cetinjskog 143
Tel. +382 (0) 20 408 600
Fax +382 (0) 20 408 680
bank@hypo-alpe-adria.co.me

Hypo Alpe-Adria-Leasing d.o.o. Podgorica
81000 Podgorica
Bulevar Svetog Petra Cetinjskog 143
Tel. +382 (0) 20 408 500
Fax +382 (0) 20 408 510
leasing.montenegro@hypo-alpe-adria.co.me

Serbia

Hypo Alpe-Adria-Bank a.d. Beograd
11070 Novi Beograd
Bulevar Mihajla Pupina 6
Tel. +381 (0) 11 222 6000
Fax +381 (0) 11 222 6555
office@hypo-alpe-adria.rs

Hypo Alpe-Adria-Leasing d.o.o. Beograd
Hypo Alpe-Adria-Rent d.o.o. Beograd
11070 Novi Beograd
Bulevar Mihajla Pupina 6
Tel. +381 (0) 11 222 7000
Fax +381 (0) 11 222 7099
leasing.beograd@hypo-alpe-adria.rs

Slovenia

Hypo Alpe-Adria-Bank d.d.
1000 Ljubljana
Dunajska cesta 117
Tel. +386 (0) 1 5804 000
Fax +386 (0) 1 5804 001
hypo-bank@hypo.si

Hypo Leasing d.o.o.
1000 Ljubljana
Dunajska cesta 117
Tel. +386 (0) 1 5804 400
Fax +386 (0) 1 5804 401
hypo-leasing@hypo.si

Ukraine

Hypo Alpe-Adria-Leasing TOV
03056 Kyiv
Polyova 24
Tel. +38 (0) 44 371 45 80
Fax +38 (0) 44 371 45 86
info@hypo-alpe-adria.com.ua

Hungary

Hypo Alpe-Adria Leasing Zrt.
1011 Budapest – Fő utca 14–18
Tel. +36 (1) 887 9500
Fax +36 (1) 887 9599
info@hypo-alpe-adria.hu

Imprint

The publisher of this Annual Report who is also responsible for the content:
Hypo Alpe-Adria-Bank International AG
Alpen-Adria-Platz 1
9020 Klagenfurt am Wörthersee
Tel. +43 (0) 50 202-0
Fax +43 (0) 50 202-3000
international@hypo-alpe-adria.com
www.hypo-alpe-adria.com

Design:
Schoeller Corporate Communications, 1060 Vienna
www.schoeller-corp.com

If you have any questions on the Annual Report or wish to be added to the automatic mailing list, please contact:
Hypo Alpe-Adria-Bank International AG
Valentin Unterkircher
Tel. +43 (0) 502 02-2841
valentin.unterkircher@hypo-alpe-adria.com

HYPO GROUP
ALPE ADRIA

www.hypo-alpe-adria.com