Annual Financial Report 2012

In accordance with section 82(4)
Stock Exchange Act (BörseG)
of Hypo Alpe-Adria-Bank International AG

Table of Contents

Group Management Report

1. General economic conditions

European countries, and particularly Hypo Alpe Adria's SEE countries, have been exposed to the effects of the global financial crisis ever since it started in 2007. While many economic experts were forecasting a significant recovery of the global economy from 2011, it can be said now that these forecasts were too optimistic and macro-economic key indicators had to be massively adjusted downwards. As a result, 2012 continued to be plagued by the ongoing financial crisis, European sovereign debt crisis and general crisis of confidence among consumers, which had a corresponding effect on the development of the bank's core markets.

The Austrian economy started off well in 2012. However, domestic demand was unable to compensate for the downward export trend, meaning that growth slowed down over the second half of the year and economic growth was forecast at a mere 0.4%. The unemployment rate rose to 4.5% as a consequence. That being said, momentum continued to be provided by exports, and the downturn was slower than in all other European countries. For 2013, slight economic growth of 0.5% is anticipated, and the macroeconomic situation is expected to stabilise further.

In Italy, GDP fell by around 2.5% in the previous year. Unemployment hit 11% in the same period. The decline in GDP and the rise in unemployment were caused by the austerity measures forced upon the country by other EU member states, the slowly spreading sovereign debt crisis and the associated collapse of domestic demand. At 3%, inflation in Italy is above the eurozone average. The main factor behind this is an increase in taxes for the purposes of fiscal consolidation. The economic climate is expected to remain sluggish in 2013, resulting in a further decline in economic output of around 1.2%.

Bank deleveraging, stagnating demand in the eurozone and government austerity measures led to real GDP in Slovenia falling by around 1.8% in the previous year. Domestic political insecurity is threatening to delay important reforms. Against this backdrop, and given the climate of recession in the eurozone, it is expected that Slovenian GDP will fall further by approximately 1.8% in 2013.

Over the last few years, Croatia has benefited strongly from tourism (accounting for 20% of its GDP) and an expanding service sector, making it less export-dependent than other economies in the region. Another important feature of 2012 in Croatia was the strict policy of fiscal consolidation made necessary by the conditions of EU accession, among other things, which resulted in restrictive fiscal policy. At the same time, the external framework conditions of the Croatian economy were also problematic in 2012. This led to a decline in economic output and a further increase in unemployment following two years of stagnation in 2010 and 2011. Real GDP fell by around 2% in 2012. In 2013, the will likely record a decrease of an additional 1.5%. Adverse outside influences coupled with the slow response of the Croatian government to a lack of competitiveness and continued deleveraging will be contributing factors in the continuation of this recession.

Weak eurozone demand, the devaluation of the Serbian dinar and a decline in consumer spending were not the only problems to hit Serbia in 2012. The country also had to contend with political standstill. Real GDP fell by around 1.5% in 2012. In addition, it is expected that the unemployment rate will rise to 26%. The outlook for 2013 is somewhat better thanks to new export capacity, increased government spending and a more stable currency.

The collapse of exports and poor domestic demand are the primary factors behind the current recession in Bosnia and Herzegovina. One positive aspect is that the conclusion of negotiations with the IMF and the subsequent budgetary consolidation of the country's two entities paved the way for an IMF stand-by arrangement worth USD 500 million. Real GDP fell by around 2.0% over the previous year. In view of further adjustments to domestic demand, GDP is expected to fall by 1.5% in 2013.

The small, strongly tourism-dependent economy of Montenegro is currently in the process of becoming a developed economy and continues to be afflicted by structural deficiencies. Montenegro increased its focus on the energy sector in 2012, which had a positive effect on economic output and limited the decline in GDP in 2012. GDP in Montenegro fell by around 0.4% in 2012.

In conclusion, 2013 is expected to be a tough year for Hypo Alpe Adria in its core markets.

(Economic data for 2012 is projected data)
(Source: Hypo Research Department)

2. Overview of Hypo Alpe Adria

2.1. Hypo Alpe Adria and its strategic focus

Hypo Alpe Adria was founded in 1896 in Klagenfurt and remained a typical regional bank right up to the 1980s. The strategic focus of Hypo Alpe Adria's business was centred on public-sector financing activities in Carinthia. Only in the 1990s did Hypo Alpe Adria begin its gradual expansion into the Alps-to-Adriatic region and develop from a Carinthian regional bank into an international finance group.

As a result of sustained periods of aggressive growth with no risk limitation, over-optimistic assessments and serious operative deficiencies in all of the bank's major segments – the extent of which was not sufficiently demonstrated or evident from an external point of view at the time of the emergency nationalisation and only became apparent over the course of the ongoing restructuring and rationalisation – Hypo Alpe Adria experienced increasing turbulence over the course of the financial crisis and had to be bailed out through nationalisation at the end of 2009. The Republic of Austria has been the sole owner of the bank since December 2009.

As a consequence of the emergency nationalisation, the owner put in place a new senior management team in 2010, which is implementing a clear restructuring plan. The restructuring plan is based on a four-pillar strategy that flows into the complete financial transformation of Hypo Alpe Adria. The strategic pillars of Austria (HBA), Italy (HBI), South-East Europe (SEE) and Wind-Down (HETA Asset Resolution) were formed to enable the targeted implementation of the strategy. While the Austrian, Italian and SEE pillars were subject to fundamental restructuring in order to restore profitability, the Wind-Down pillar houses all non-strategic assets that are scheduled to be wound down in a value-preserving manner.

After the active reprivatisation process was started in 2011 for the Austrian and Italian pillars, the reprivatisation process for the SEE network – which consists of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and a management holding company in Austria – also began in 2012, and the active search for a buyer was able to commence.

As at 31 December 2012, Hypo Alpe Adria had some 320 locations; primarily operated in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; and served more than 1.3 million customers within this extensive Alps-to-Adriatic network. The number of employees at the end of the year amounted to 6,400 full-time equivalents (FTEs).

2.2. Code of corporate governance

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

2.3. Ratings

In November 2011, Hypo Alpe Adria retained its institutional rating. Prior to this, Moody's once again confirmed an unchanged rating of investment grade Baa3 (negative outlook).

In the 2012 financial year, Moody's reclassified the rating of the State of Carinthia on 21 February 2012, which resulted in the rating of state-guaranteed bonds being downgraded from Aa3 to A1.

The rating of the state-guaranteed subordinate bond issued in December 2012 was extremely satisfactory. The state guarantee underpinning this bond was structured in such a manner that it was awarded ratings of Aaa (Moody's), AA+ (S&P) and AAA (Fitch), in spite of the fact that it is a subordinate bond.

All information on the ratings of state-guaranteed bonds and the "Pfandbrief" rating are available on the Group website (www.hypo-alpe-adria.com) under Investor Relations.

3. Significant events in 2012

In the 2012 financial year, Hypo Alpe Adria continued to pursue the strategy of restructuring and focusing the Group on core markets and activities in SEE countries that was launched in 2010. Many significant measures were taken and preparations made for the value-preserving wind-down of business units, so as to achieve the target structure for non-core business in the medium term. As a result, efforts to reduce the balance sheet, minimise risk and thus achieve the specified own capital funds ratio continued in 2012.

3.1. Positive group result

After Hypo Alpe Adria had succeeded in turning the group around in 2011, resulting in a return to a positive group result after tax for the first time in years, 2012 also saw a positive near break-even result of EUR 3.0 million. The result was predominantly characterised by declining operating income, a drop in operating expenses and a year-on-year increase in risk provisions on loans and advances. Major positive one-time effects resulted from the measures introduced by capital management in the 2012 financial year, which, thanks to the realisation of one-time measurement effects, led to a sustainable increase in equity and a reduction in future measurement fluctuations.

3.2. EU proceedings

Hypo Alpe Adria Bank continued to strive for completion of the EU investigation into state aid in 2012.

The negotiations with the European Commission on the investigations into state aid are now in their final phase. The authorities in Brussels are, in principle, satisfied with the strategy being pursued by the bank following its restructuring. The – in part – massive turbulence in the financial markets in general, and in the region of South Eastern Europe in particular, and the unexpected scale of this turbulence might result in potential changes in timing of the reprivatisation of the three tendered banking operations (Austria, Italy and the SEE network) and the expected value. Potential scenarios and their implications were presented to the European Commission at the end of the first half of the year and are being discussed on an ongoing basis with representatives of the owner. An update to the restructuring plan was discussed in a meeting held in Brussels in November 2012. In addition, compliance with "Behavioural Measures", which are monitored by an independent monitoring trustee as stipulated in the aid investigation, was imposed on Hypo Alpe Adria. As part of the final decision it is also expected that the Behavioural Measures will be adjusted, reflecting the actual market environment.

As agreed with the European Commission, another updated restructuring plan was presented to the shareholders beginning of February 2013 and further on submitted to the European Commission. The European Commission expects to conclude its investigation in 2013.

3.3. Forensics investigations on the past

In the 2012 financial year, the bank embedded in its articles of association its commitment to forensics investigations on the past. Since June 2012, an authorised coordinator has been coordinating activities and supporting the company. What was previously known as CSI Hypo was transformed into the company's Forensics department with the support of the coordinator and in conjunction with the Supervisory Board and the Executive Board. The Forensics department, which reports directly to the Executive Board and works closely with the coordinator, manages the work of dealing with the past. It focuses on protecting, preparing and presenting the results of forensic investigations.

By 31 December 2012, a total of 74 cases in Austria and abroad had been reported to the relevant public prosecutors with total damages amounting to approximately EUR 670 million. In addition, there are currently five civil law suits against former senior executives and third parties before the civil courts in Austria, in which claims for EUR 107.0 million are being asserted.

In 2012, the Forensics department concentrated on the following major groups of themes: "BayernLB equity", "Consultants", "Liechtenstein" and "HLH preference shares". In addition, the subjects of network analysis and the relevance of forensic expertise within the bank were also addressed. The Forensics department manages each individual case (numbering around 1,100), from internal protection and clarification of legal and financial appraisals to the submission of lawsuits and cases to the relevant authorities and the accompaniment of ongoing legal disputes. In addition, the Forensics department also streamlines the case portfolio by closing cases in which no breaches of civil or criminal law are apparent in order to pool resources to concentrate on specific cases.

Findings made in forensic investigation on the past and the cases launched, as a result have led thus far to seven sentences of multiple years of imprisonment (not yet legally binding). The authorities ordered around 350 accounts to be disclosed and issued 300 directives. Direct outflows have amounted to approximately EUR 25.0 million thus far. The data and information secured and organised by the Forensics department covers approximately EUR 4.7 million worth of documents and is prepared and made available to the various stakeholders – public prosecutors, federal criminal police office, finance ministry, auditors, the Finanzprokuratur and other recipients – in accordance with valid laws and provisions using specialist computer software. The forensic structures established in bank subsidiaries also make a major contribution to this.

3.4. BayernLB equity substituting loans

After the major need for risk provisions had been identified, Hypo Alpe-Adria-Bank International AG addressed the issue of whether the financing lines granted to Hypo Alpe Adria by its former shareholder BayernLB since 2008 have been equity substituting shareholder's loans by assigning external experts for the purposes of a comprehensive analysis. According to the results of this analysis, the requirements for qualifying the majority of these financing lines as equity substituting capital under the Austrian Equity Substituting Capital Act (Eigenkapitalersatz-Gesetz [EKEG]) are met. Following Sec. 14 EKEG, a mandatory suspension of repayments applies regarding the majority of the financing lines granted by BayernLB. Accordingly, repayment of the loans affected must be suspended until Hypo Alpe Adria has been sustainably restructured and BayernLB must not call in the loans. Repayments already made regarding the respective financing lines must be claimed back from BayernLB. At present, the volume of the outstanding financing lines granted by BayernLB to Hypo Alpe Adria is approximately EUR 2.3 billion. In addition, Hypo Alpe-Adria-Bank International AG has already made repayments and interest rate payments totalling approximately EUR 2.3 billion on the financing lines granted by BayernLB since 2008. Hypo Alpe-Adria-Bank International AG has submitted a statement of defence against a lawsuit for declaratory judgement filed by BayernLB. With regard to this proceeding pending at court, the claims for repayments according to Sec. 14 EKEG are recorded in the consolidated statement with EUR 1,--.

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

Starting in the second half of 2011, selected credit portfolios (loans and finance leases) belonging to the SEE network subsidiaries in Bosnia and Herzegovina, Montenegro and Slovenia were transferred to local wind-down units within the group or were made ready for transfer and subsequently transferred in 2012 (Croatia). The total volume of transfers amounted to approximately EUR 1.0 billion and EUR 0.5 billion in 2011 and 2012 respectively. Aside from Montenegro, the portfolio transfers were done on a synthetic basis. In Montenegro a "true sale" under commercial law was executed.

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

A portfolio transfer was also prepared for the Serbian bank subsidiary as a "true sale" under commercial law. Implementation is planned for 2013. In addition, a further portfolio transfer is also planned in Slovenia for the leasing unit in order to ensure the focus on core leasing business and thus increase the sales attractiveness.

Banks in Italy and Austria were also subject to a portfolio transfer, which was implemented in 2012 by means of demergers and led to the transfer of assets totalling approximately EUR 0.8 billion and EUR 2.0 billion respectively.

The objective of the undertaken measures is to intensify the management focus on core as well as on wind down activities. By that the sales attractiveness will be maximised in order to ensure a sucessful reprivatisation process.

3.6. Hybrid/supplementary capital

In April 2012, a volume of around EUR 165.0 million out of the total of EUR 225.0 million of hybrid capital issued through two Jersey issuance vehicles was removed from the market. The acceptance rate achieved of over 70% demonstrated the very high level of acceptance by the holders of both issues and has resulted in a strengthening of own capital funds by EUR 154.6 million (positive effect of EUR 12.2 million on the consolidated result under IFRS accounting).

Moreover, Hypo Alpe-Adria-Bank AG (Austria) terminated two supplementary capital bonds each totalling EUR 20.0 million within the scope of the 2012 demerger. This termination resulted in non-recurring earnings of EUR 24.3 million, which increased the group's Tier 1 capital (positive effect of EUR 24.3 million on the consolidated result under IFRS accounting).

In December 2012, Hypo Alpe-Adria-Bank International AG also made a public offer to its supplementary capital creditors to buy back four additional supplementary capital bonds worth a total of EUR 55.0 million. This buy-back programme resulted in the generation of non-recurring earnings attributable to own capital funds totalling approximately EUR 10.7 million (positive effect of EUR 1.5 million on the consolidated result under IFRS accounting).

Effects resulting from the measurement of outstanding hybrid and supplementary capital issued by Hypo Alpe Adria, recognised at amortised cost under the application of the effective interest rate, led to a Tier 1 effect of EUR 68.6 million in 2012 (positive effect of EUR 99.9 million on the consolidated result under IFRS accounting).

These active capital management measures allowed Tier 2 supplementary capital and hybrid capital previously allocated to Tier 1 capital in accordance with supervisory regulations amounting to approximately EUR 275 million to be converted, with an effect of around EUR 258 million, into top-quality Tier 1 capital that is now available to the company to strengthen its capital base over the long term. Furthermore, these measures also resulted in future (negative) fair value effects for supplementary and hybrid capital issues being reduced (known as the "pull to par" effect).

3.7. Joint Risk Assessment Decision (JRAD)

Following an examination of Hypo Alpe Adria's economic capital over the course of 2011, the Austrian Financial Market Authority (FMA) has obliged Hypo Alpe Adria to increase its total equity ratio to 12.04% and ensure that the shortfall, as the difference between the expected losses in the area of credit risk and total risk provisions, is covered from 31 December 2012 onwards. The bank reached an agreement approved by the European Commission with its shareholders regarding a EUR 1.5 billion recapitalisation of the bank, consisting of a capital increase by the Republic of Austria (EUR 500.0 million) and the issue of a state-guaranteed subordinated bond (EUR 1.0 billion). In the recent JRAD examination for 2012, the FMA concluded – based on figures as at April 2012 – that the bank had an additional shortfall of EUR 621.9 million and determined that the bank's minimum capital ratio must be 12,4% from 31 December 2013 onwards. The real shortfall will only be established on the date the notification is settled.

3.8. Privatisation activities

With the successful sale of the Aluflexpack Group of companies in 2012, Hypo Alpe Adria was able to privatise its last remaining participations in industrial companies, namely the Croatian flexible packaging manufacturer Aluflexpack Novi and the Croatian aluminium rolling mill TLM-TVP, based in Šibenik, together with further adjacent participations. Hypo Alpe Adria therefore successfully pursued its strategy of divesting non-strategic participations, reducing the group in size and focusing more strongly on its core business.

Within the context of the planned reprivatisation of marketable units and wind-down of non-strategic units within Hypo Alpe Adria, the aim is to prepare everything for a swift divestiture, in order to be ready for the reprivatisation of marketable banking participations and disposal of non-strategic units as soon as the M&A market picks up.

In September 2012, the demerger of non-strategic business portfolios of Austrian subsidiary bank HBA into parent company Hypo Alpe-Adria-Bank International AG was completed. Following the update of sale documentation and data room, the privatisation process of HBA was relaunched in autumn 2012. Hypo Alpe Adria is aiming to take further sustainable and value-preserving steps within the framework of this process during 2013.

The reprivatisation process for Italian subsidiary HBI was discontinued due to unstable economic climate in Italy and ongoing restructuring measures.

In 2012, the bank launched the reprivatisation process of its SEE network in accordance with the strategy of Hypo Alpe Adria. Sales documentation and data room are currently being prepared for review by potential interested parties.

4. Economic development of the group

4.1. Development of results

In the 2012 financial year, the primary focus of Hypo Alpe Adria was on systematically pursuing the strategy defined to reduce the size of the group, stabilising key financial and risk parameters after gains achieved the previous year, and implementing measures relating to the disposal of non-core parts of the business in order to fulfil basic prerequisites involved in meeting capital requirements determined as part of the JRAD process.

The overall economic environment in Hypo Alpe Adria's core markets continues to be problematic. There is no let-up in sight in 2013 either. These circumstances are partially reflected in the group's result for the period. Net interest income is declining as a result of the fact that the maturing portfolio in the wind-down segment is not being compensated for by new business, the long-term low interest rate level, targeted balance sheet management to reinforce the independent refinancing capacity of core units and the continued high level of NPLs (non-performing loans). Newly required risk provisions on loans and advances have fallen by over 30% following the drastic year-on-year reduction.

Cost savings of over 12% – predominantly achieved in personnel expenses, advertising costs and expenses related to restructuring, which reflect the group's efforts to increase cost efficiency – more than compensated for declining operating income.

Effects of EUR 80.6 million from the measurement of liabilities, for which the fair value option was used and that had already been recognised in profit and loss in previous years caused by changes to the credit and liquidity spreads, were realised by means of the capital management measures implemented in 2012 (buy-back of hybrid and supplementary capital). In future, this will lead to less severe measurement fluctuations from these financial instruments. Measurement effects from remaining hybrid and supplementary capital, recognised at amortised cost under the application of the effective interest rate, resulted in a one-time effect of EUR 99.9 million in profit and loss in the 2012 financial year.

Overall, a positive result after taxes of EUR 3.0 million (2011: 69.3 million) was generated after the positive result in the 2011 financial year. Divided by segments and excluding one-time measurement effects, it is evident that the SEE network and Austrian bank subsidiary were the main driving forces. Positive results generated in these segments (partially) compensated for the negative effects from wind-down segments.

The group's net interest income fell year on year from EUR 753.3 million to EUR 678.4 million, equating to a reduction of EUR -74.9 million or 9.9%. This is primarily down to a fall in interest income as a result of the decline in loans and advances to customers, as the maturing portfolio in the wind-down segment is not being compensated for by new business and the long-term low interest rate level cannot be reflected straight away or to the same extent in interest expenses for customer deposits without counteracting the positive development seen in the core units' independent refinancing capacity. The high level of non-performing loans (NPL) – for which, in accordance with IFRS, interest may only be recognised based on the net present value of the net receivables (gross commitments less specific risk provisions, also known as unwinding) – also impacted on the result for net interest income. As the contractual guarantee commission agreement relating to the public guarantee obligation of the State of Carinthia ended in 2011 (commission for 2011: EUR -18.4 million), no commission had to be accounted for in 2012 which led to an improvement in net interest income. Expenses from the guarantee commission from the state-guaranteed subordinated bond issued in December 2012 amounting to EUR 1.0 bn, which are recognised in net interest income, are yet to have a major effect as of 2012. The effect will become apparent in subsequent years.

Net interest income
in EUR m

Net fee and commission income fell from EUR 73.1 million to EUR 62.7 million in the 2012 financial year. Given the relatively constant net fee and commission expenses, this decline is primarily the result of decreased fee and commission income from the smaller volume of new business caused by the aforementioned reduction in loans and advances to customers, the delayed introduction of the factoring product in Italy as a result of restructuring measures, and macroeconomic conditions. Net fee and commission expenses include commission payable to the Republic of Austria for the assumption of guarantee in the amount of EUR 19.6 million (2011: EUR 20.0 million) as well as expenses relating to commission for the provision of credit lines on the part of a former shareholder amounting to EUR 8.9 million. In terms of country markets, the Croatian and Austrian subsidiary banks made the greatest contributions to net fee and commission income.

The declining results from trading over the past few years, which also includes results from foreign currency translation, increased in the 2012 financial year from EUR 20.2 million to EUR 25.8 million. This increase is primarily due to the effects of hedging on the Serbian dinar (RSD) caused by the decrease in value of this currency against the euro (EUR). The devaluation of the Croatian kuna (HRK) resulted in negative compensatory effects in this item.

The result from hedge accounting, which derives from hedge inefficiencies, was practically unchanged at EUR -2.3 million compared to the previous-year figure (EUR 0.2 million).

The result from financial investments designated at fair value through profit or loss (fair value option) was recognised with an overall effect of EUR -7.0 million in profit and loss; the corresponding figure for the previous year had been EUR 106.3 million. The extremely positive result from the previous year was mainly down to one-time effects from fair value measurements of issues accounted for as liabilities (EUR 126.3 million). The majority of this result was generated through the buy-back of hybrid capital in April 2012, which also included a bond attributable to the fair value category, meaning that in the future fair value fluctuations will be significantly reduced. The result from the measurement of liabilities for which the fair value option was used was EUR -36.1 million in 2012, primarily as a result of the so-called "pull to par" effect (the movement of a financial instrument's price toward its face value as it approaches the maturity date). The income statement also includes EUR 25.1 million from the measurement of the portfolio of investment company HBInt. Credit Management Limited, in which Hypo Alpe-Adria Bank International AG owns a 49% stake and which Hypo Alpe-Adria Bank International AG manages together with a third-party investor.

The impairment write-downs totalling EUR -23.9 million, which were necessary on the Greek government-guaranteed bonds in prior year period, also had a negative effect on the result from financial investments available for sale; this item posted a negative result of EUR -54.8 million. The impairment write-downs on Slovenian securities (EUR -6.7 million) and a participation (EUR -9.0 million) also had a negative impact, but did not repeat themselves in the 2012 financial year. In the 2012 financial year, the result from the afs category (EUR -8.2 million) was mainly influenced by the necessary injection of capital into a non-consolidated subsidiary (EUR -16.3 million) as well as by gains from the sale of a bloc of securities (EUR 14.5 million).

The result from other financial investments, which was just above break-even at EUR 1.9 million in the previous-year period, came to EUR 122.9 million in the period under review. This increase compared to previous year is predominantly due to effects from the measurement of hybrid and supplementary capital recognised at cost. An income of EUR 99.9 million is mainly the result of substantial changes in circumstances that required future cash flows from the instruments to be re-assessed. An additional EUR 24.3 million was generated by the extraordinary termination of supplementary capital in the context of the Austrian subsidiary bank's demerger as well as further EUR 13.8 million by the buy-back of hybrid and supplementary capital in April and December. Impairment write-downs on Slovenian income properties (EUR -21.1 million) had a negative effect in this category.

Other operating income, which came to EUR -2.2 million during the same period the previous year, fell to EUR -22.8 million in the 2012 financial year. This is mainly due to the increase in the Austrian banking levy, which negatively impacted the result to the tune of EUR -22.1 million (2011: EUR -17.7 million, adjusted). Overall, other tax expenses here amounted to EUR -30.5 million (2011: EUR -24.7 million). The sale of packaging manufacturer Aluflexpack resulted in a loss of EUR -26.4 million. However, this loss was tempered by the gain of EUR 7.2 million from the sale of Croatian industrial participation TLM-TVP. Other charges resulted from the necessary impairment write-downs on emergency acquisitions (EUR -31.7 million).

Newly required risk provisions on loans and advances rose compared to prior year by approximately 34.9% from EUR -229.8 million to EUR -309.9 million. This is chiefly due to the ongoing problematic macroeconomic climate in Hypo Alpe Adria's core markets and the fact that problem portfolios were therefore not able to be reduced to the extent originally planned. Risk provisions in the SEE network and Austrian subsidiaries were able to be reduced substantially – partly due to the portfolio rationalisation measures implemented in 2011 and 2012 – whereas risk provisions in wind-down portfolios continued to rise.

Compared to the same period of the previous year, costs fell substantially by -12.2% or EUR -70.0 million. This decline was seen in all cost items. Personnel expenses fell by EUR 19.0 million from EUR -278.3 million to EUR -259.3 million, which was mainly due to the decline in the group's average workforce. The decrease in the workforce represents the initial effect of the employee efficiency measures in the SEE network and also reflects the sale of Croatian industrial participations. In addition, the reversal of provisions for bonus payments carried out as a result of a group-wide suspension of performance-related payments positively impacted personnel expenses.
Administrative expenses, which increased over the course of the previous year, decreased in the 2012 financial year from EUR -237.7 million to EUR -189.8 million, mainly due to successful cuts to advertising costs and expenses related to reorganisation and restructuring.

Depreciation on tangible and intangible assets remained at a relatively similar level to the previous year at EUR -55.2 million (2011: EUR -58.3 million). Necessary impairments on an Italian hotel (EUR -6.8 million) and on own-used corporate assets (EUR -7.6 million) also resulted in one-time effects in this area.
Overall, risk provisions on loans and advances of EUR -309.9 million (2011: EUR -229.8 million) and operating expenses of EUR -504.2 million (2011: EUR -574.2 million, adjusted) were recorded against operating income of EUR 849.4 million (2011: EUR 898.0 million). This resulted in an operating result of EUR 35.3 million, which amounted to approximately half of the previous-year figure (EUR 93.9 million).

After taking into account the result from investments accounted for at equity of EUR 0.0 million (2011: EUR 0.9 million), the result before tax for the period came to EUR 35.2 million (2011: EUR 94.8 million).

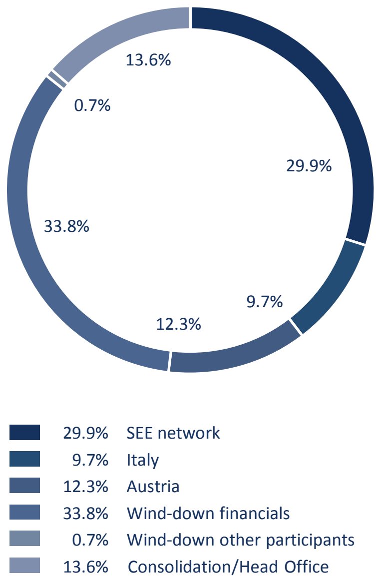
Taxes on income amounted to EUR -32.2 million in the 2012 financial year (2011: EUR -25.5 million). Aside from positive tax results from Austrian banks, the necessary impairment write-downs of deferred tax assets on tax loss carry-forwards in the Slovenian leasing unit impacted the result to the tune of EUR -12.6 million. These impairment write-downs were necessary on account of the reduction of corporation tax rate in Slovenia from 20% to 17% and the changes to assumptions concerning the capacity of tax loss carry-forwards to meet the requirements for recognition in the future.

Overall, this results in a consolidated result after tax of EUR 3.0 million (2011: EUR 69.3 million), whereby Hypo Alpe Adria achieved a balance result for the second financial year in succession.

4.2. Statement of financial position

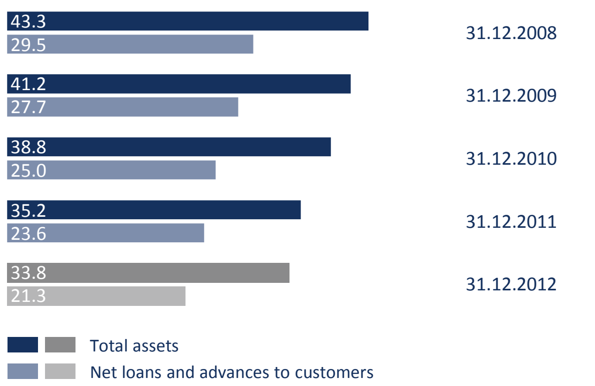
Hypo Alpe Adria's total assets fell by EUR -1.3 billion in the 2012 financial year from EUR 35.1 billion to EUR 33.8 billion, although this decline was not as severe as preceding years.
The main cause of the decline in total assets was the scheduled repayment of liabilities evidenced by certificates, which also resulted in a corresponding outflow of liquid funds on the assets side. The cautious and therefore lower volume of new business, coupled with the general ban on new business for wind-down segments, which led to a decline in volumes of financing for both the credit and leasing areas, also negatively impacted total assets. The capital increase issued by the Republic of Austria in December and the issuing of a state-guaranteed subordinate bond had a positive effect on total assets.

Total assets per segment
In percent



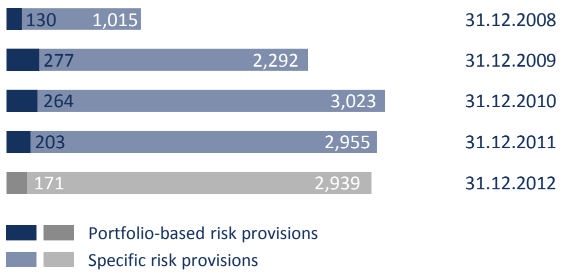
In total, net loans and advances to customers (loans and advances to customers less risk provisions on loans and advances) decreased from EUR 23.6 billion to EUR 21.3 billion (a decrease of EUR 2.3 billion or some 9.7%). The ongoing absence of economic recovery in the group's core markets meant that, as in the previous year, Hypo Alpe Adria had to exercise great care in the granting of new credit, so as to avoid any additional risk. Overall, loans and advances to customers decreased from EUR 26.7 billion to EUR 24.4 billion, a reduction of some 8.7%.

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



Loans and advances to credit institutions, which include the liquidity reserves, also declined substantially, by EUR 1.1 billion (or 36.4%) from the level as at 31 December 2011, to EUR 2.0 billion. The substantial rise in cash and balances at central banks from EUR 0.8 billion to EUR 2.9 billion is mainly due to funds invested short-term by the group holding company Hypo Alpe-Adria-Bank International AG in the Oesterreichische Nationalbank. The majority of this surplus liquidity originates from the funds generated as a result of the capital increase and the issuing of a subordinate bond in 2012.

Development of risk provisions on loans and advances
in EUR m



The level of risk provisions on loans and advances, which had reached a record level of EUR 3.3 billion as at 31 December 2010, fell slightly from EUR 3.2 billion to EUR 3.1 billion as at 31 December 2012. Overall, non-performing loans (NPLs) remained at the same level in the 2012 financial year as the previous year. The effects from the wind-down of problem portfolios were tempered by the migration of customers to the NPL portfolio. The fact that the volume of risk provisions on loans and advances fell in spite of the increased income statement item is mainly due to the unwinding effect. The largest proportion of risk provisions overall was accounted for by the Austrian group holding company and additionally by subsidiary banks in Croatia and Serbia and the Slovenian leasing unit.

Trading assets, which were already low as a result of the limited trading activities of the group, declined further in the 2012 financial year, from EUR 12.0 million to EUR 1.5 million.

Derivative financial instruments – which, on the assets side, include positive fair value from derivatives and have been reported collectively as a single balance sheet item since 2011 – remained at a similar level to the previous year at EUR 1,426.1 million (2011: EUR 1,434.0 million).

Financial investments designated at fair value through profit or loss (FVO) also only fell slightly by EUR 22.8 million in the period under review to EUR 783.4 million. The total value of financial investments – available for sale (afs) increased in the period by EUR 36.7 million to EUR 2,688.3 million, mainly as a result of the increase in debt instruments and fixed-interest securities.

Other financial investments rose by EUR 406.7 million in the 2012 financial year from EUR 985.4 million to EUR 1,392.0 million, mainly on account of the increase in investment properties reported under this item. This change must be observed in the context of the decline in other assets from EUR 1,084.7 million to

EUR 716.9 million, as assets from emergency acquisitions that are to be disposed of over the medium term and fulfil the criteria for classification in accordance with IAS 40 have been reclassified. In the 2012 financial year, this reclassification mainly affected assets in the Slovenian and Italian leasing unit.

The increase in the value of tangible assets from EUR 359.8 million to EUR 392.0 million is chiefly the result of a reversed reclassification of assets classified as held for sale.

In 2012, no assets classified as held for sale were disclosed separately (2011: EUR 138.8 million), as the formal criteria of IFRS 5 were not met. The assets of the leasing unit in Ukraine reported in this item as at 31 December 2011 had to be reclassified to their respective positions in the balance sheet due to having to abandon the intention to sell in the short term.

The assets of the Aluflexpack and TLM-TVP group as well of a tourism participation in Carinthia, which were shown under this item in 2011, are no longer included due to the sale of the companies during 2012.

On the liabilities side, the liabilities to credit institutions decreased from EUR 5.7 billion to EUR 5.3 billion in the period under review. This reduction was due mainly to the scheduled repayment of loans.

Liabilities to customers increased again compared to 31 December 2011 by a greater margin than in the previous year, rising by 2.5% to EUR 8.4 billion. The increase in deposits was achieved mainly in the retail segment and in the SEE network. This more than compensated for declines in other areas.

Liabilities evidenced by certificates fell significantly during the 2012 financial year by EUR 2.3 billion (or -13.5%) from EUR 17.1 billion to EUR 14.8 billion. This reduction was caused by scheduled repayments of liabilities.

The value of subordinated capital doubled during the 2012 financial year, from EUR 1.0 billion to EUR 2.0 billion. This was mainly due to the issuing of a 1.0 billion state-guaranteed subordinate bond in December 2012. Hybrid capital fell from EUR 119.6 million to EUR 6.0 million, predominantly as a result of the buy-back in April 2012 of parts of the hybrid capital issued through two Jersey issuance vehicles.

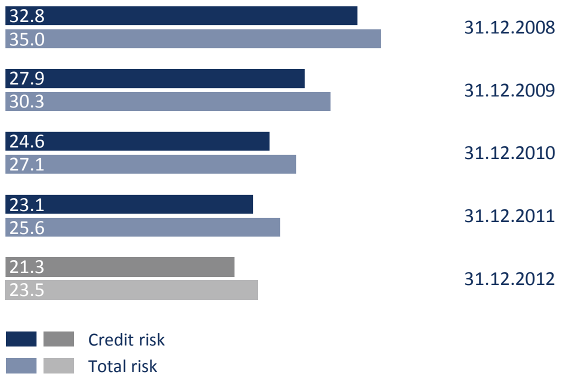
Compared to 31 December 2011, equity increased from EUR 1.4 billion to EUR 2.0 billion due to a capital increase issued by the Republic of Austria in December 2012.

4.3. Own capital funds

The own capital funds ratios have increased by 2 percentage points since 31 December 2011, primarily on account of the aforementioned capital increase of EUR 0.5 billion issued by the sole owner and the issuing of a state-guaranteed subordinate bond amounting to EUR 1.0 billion, which increased the group's own capital funds. The latter of these capital measures did not fully impact own capital funds due to the limited eligibility of 50% of Tier 1 capital in accordance with Basel II regulations. The increase of own capital funds ratios also reflects the group's attempts to reduce its risk-weighted assets and increase quality of data in order to improve the eligibility of collateral, as RWAs were substantially reduced despite contrary effects such as the downgrading of country ratings.

In relation to credit risk, the risk-weighted assets fell by EUR 1.8 billion to EUR 21.3 billion. Taking market and operational risk into account, total risk-weighted assets declined from EUR 25.6 billion (31 December 2011) to EUR 23.5 billion (31 December 2012).

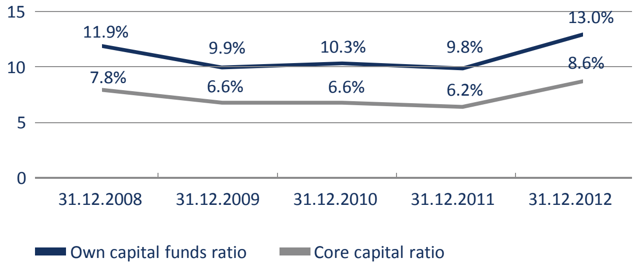
Risk-weighted assets (RWA) related to total risk/credit risk
in EUR bn



The total eligible own capital funds as defined in the Austrian Banking Act (BWG) amounted to EUR 3,057.1 million as at 31 December 2012 (31 December 2011: EUR 2,498.7 million), while the minimum legal requirement stood at EUR 1,883.2 million (31 December 2011: EUR 2,048.9 million). This represents surplus coverage of EUR 1,173.9 million (31 December 2011: EUR 449.8 million) or a coverage ratio of some 162.3% (31 December 2011: 122.0%).

The own capital funds ratio (solvency ratio) in relation to the total capital assessment basis (including market and operational risk) came to 13.0% as at 31 December 2012 (9.8% as at 31 December 2011), which is well over the legally required minimum level of 8.0% in Austria.

Development in own capital funds and core capital ratio
in percent



With regard to the holding company, Hypo Alpe-Adria-Bank International AG, own capital funds amounted to EUR 2,011.8 million, and free funds to EUR 694.6 million.

4.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 59.4% as at 31 December 2012 (2011: 63.9%). This reduction is due to decreased operating expenses, which more than matched decreased operating income (including one-time effects from the measurement of hybrid and supplementary capital).

Credit risk in relation to net interest income (the risk/earnings ratio) increased from 30.5% in the previous year to 45.7% in the 2012 financial year. The primary reasons for the decrease in this key profit indicator are decreased net interest income and increased risk provisions.

Credit risk/net interest income (risk/earnings ratio)
in percent

5. Analysis of non-financial key performance indicators

5.1. Market and operations development

Customer focus and increase in deposits

In 2012, Hypo Alpe Adria reinforced its position as a reliable and important business partner in its SEE core markets and focussed its activities primarily on increasing deposits and ensuring good credit quality. In spite of the ongoing financial crisis, Hypo Alpe Adria was able to increase its customer base by over 6% and now serves over 1.3 million customers.

In its core SEE countries, around 100,000 new customers were acquired, increasing the customer base by 11%, through the systematic implementation of the new customer strategy, the expansion of the branch network and a stronger focus on services. In addition, structural changes – particularly the separation of front and back office, the establishment of central settlement centres and successful product campaigns – helped increase private customer deposits in SEE by some 7% or EUR 200 million. Increases in customer deposits in Slovenia, Croatia and Serbia outweighed overall market growth by a significant margin.

The most substantial increases in deposits of over 20% and over 10% were seen in Montenegro and Serbia respectively, while Croatia also performed well in this respect with growth of just under 10%. Despite a decline in deposits in the market as a whole, Hypo Alpe Adria was able to able to boost its market share in terms of deposits in the corporate client segment by a small margin in Croatia and by over 13% in Serbia, taking overall market share in these countries to 6.4% and 6.0% respectively.

Good credit quality despite difficult climate

In total, a substantial improvement was seen in credit quality in new business while margins remained stable or even increased. For corporate clients and public sector clients, new business efforts were focused on customers with higher creditworthiness. More than 60% of new business was concluded as investment grade or upper non-investment grade business. At the same time, margins were increased and risk costs reduced. The substantial increase in the quality of new business and the strategy of consistent risk diversification resulted in a scheduled fall in total corporate lending volume in SEE. Targeted cross-selling and the adjustment of the product portfolio allowed the group to increase its proportion of commission income by some 20% within a single year.

The group's loan/deposit ratio improved again by just under 30 percentage points as a result of the systematic focus on the defined strategy.

Process optimisation, good purchasing management and the consistent orientation of resources toward the market situation were the driving forces behind an almost 14% reduction in total costs in SEE, despite the expansion of the branch network. Costs were cut by a similar margin in Italy and to an even greater extent in Austria.

In Italy, the group's orientation toward retail business bought substantial success; deposits rose by around 15% in spite of ongoing restructuring measures. In Austria, significant improvements could also be made to the result.

Further milestones reached

Since nationalisation, the group has addressed many important issues in the Operations and Market division, resulting in state-of-the-art business models and modern operations platforms being established for Hypo Alpe Adria's individual bank subsidiaries. Most relevant projects were successfully wrapped up in the 2012 financial year. These significant improvements to fundamental structures also form the basis for market potential to be seized, even beyond the successful reprivatisation process.

The most significant measures included:

- Needs-oriented sales and product strategy for affluent private customers and corporate customers, include modern sales management.
- A modern branch concept, the fundamental philosophy of which has now also been applied to existing branches.
- The opening of 26 new branches in important strategic locations in 2011 and 2012 while optimising the total number of locations at the same time.
- Systematic focus on customers through the centralisation of non-core sales activities as well as of a service quality programme. Success is verified on a regular basis through market surveys and mystery shoppers.
- The development of new products and sales channels, such as mobile banking in Croatia, the successful "Conto 10" product in Italy and the mobile "Hypo Kiosk" in Slovenia.
- The successful positioning of the group as a partner for public-sector financing and the integrated consulting strategy for corporate customers, such as the EU Desk.
- Focused customer acquisition strategies in close cooperation with target segments defined the bank's Risk divisions.
- Improvement of profitability by implementing a risk-adjusted pricing approach.
- The successful integration of formerly independent leasing operations into the banks, leading to clearly measurable success in cross-selling.

The Operations/IT division was completely restructured and repositioned as the backbone of successful market activities and the permanent driver of productivity and efficiency. The most important measures were as follows:

- The successful roll-out of a modern IT platform in Bosnia and Herzegovina and an intensive focus on improving the quality of data and the intelligent use of data.
- The full restructuring of professional collection centres and a structured, state-of-the-art collection process for private customers. This is making a major contribution to keeping the non-performing portfolio under control. The establishment of highly effective teams for the sale of forfeited collateral (remarketing), which sold 3,575 collaterals worth EUR 56 million, including 78 ships with a total value of EUR 17 million, and reduced the portfolio of forfeited collateral by 37%.
- The establishment of back office service centres, which remove some of the back office workload from the branches, increased the flexibility of resources management and led to more than 25% of costs being saved in the respective area.
- The creation of modern call centres to support sales and ease the workload in branches.
- A brand-new procurement process subject to widespread acclaim from external specialists, saving tens of millions of euros, with potential for more.
- The establishment of a group of highly qualified specialists in property valuation and property monitoring and of a Valuation Academy for ongoing training and quality assurance.
- Systematic reduction of occupancy and building costs, including through the modification of service-level agreements, adjusted rental contracts and the maximisation of spatial capacity.

All of these activities were geared towards Hypo Alpe Adria's strategic goals: Focus on private customer business, increasing deposits, good quality of new business, increasing efficiency and success through quality instead of through price leadership.

The continual improvement process at Hypo Alpe Adria was also subject to widespread acclaim from elsewhere, including awards such as:

- "Investment Management Company of the Year 2012" awarded by Croatian financial magazine "World Finance"
- "Best in Class" for Straight-through Processing from J.P. Morgan
- "Process Award 2012", in the "Supportive Processes" category, awarded by the "Society for Process Management"
- "Recommender" award from the Finanz-Marketing Verband (FMVÖ) in the "Interregional Bank" category
- GFK study confirms above-average customer satisfaction in SEE markets.

Hypo Alpe Adria has repositioned itself as a modern, competitive bank in the areas of Sales and Operations and is on the right track for the next phase of market development. In 2013, the focus will continue to be on intensive cost management and the enhancement of core processes through lean management projects. In Serbia, the roll-out of the new core banking system will be finalised. We will also launch an internet platform for the sale of forfeited securities. In terms of our customers, the service quality programme, the systematic development of our range of products and services for special segments (corporate customers, affluent private customers) and the development of a pragmatic database marketing model will be at the forefront of our activities.

5.2. Developing talent/staff

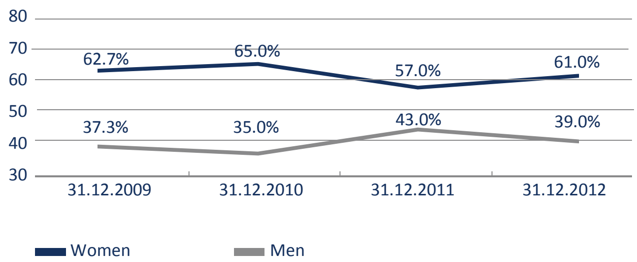
In terms of human resources management, the 2012 financial year was mainly characterised by cost-reducing measures that were implemented throughout Hypo Alpe Adria in October 2011. Aside from the implementation of staff reduction measures, the necessary recruitment and investment in training measures were subject to strict needs analysis and monitoring processes. Among other things, this resulted in employee turnover increasing by 2% from 7.5% as at 31 December 2011 to 9.5% as at 31 December 2012.

The headcount as at the end of the year amounted to around 6,576 active employees (FTE – full-time equivalents). That equates to a 14.5% reduction in the headcount. The most substantial declines were seen in Croatia.

Active employees in finance and finance-related areas
Figures from 2010 to 2012

Once again, there was a slight increase in the number of female employees in the previous year. The percentage of women among the total workforce rose by around 4% year on year.

Employees by age group
Figures from 2009 to 2012
in percent



There were no significant changes in terms of the age distribution of the workforce. In the 2012 financial year, a clear majority of 46.5% of employees were between the ages of 31 and 40.

Employees by age group
as of 31.12.2012

Performance management

The most important change in the 2012 financial year was the introduction of a software tool for top-level management within the group. This software has increased transparency both for group executives as well as for employees. On the basis of CRD III requirements, the goal management process was enhanced by orienting and harmonising the key priorities at company and group levels with individual goals.

Learning & development

Learning and development activities are focused on management development. Standardised training course programmes are offered for top-level management, middle management and the lower management level. Around 600 managers took part in this training course programme. The main aim was to bring across the strategy to training participants and offer managers the chance to learn how to lead effectively and motivate in times of crisis.

The annual manager conference was also held again in Slovenia. The manager conference is an annual event where the current financial year is discussed at length and plans and strategies for the future are debated together with the top levels of management.

Another of Hypo Alpe Adria's focuses this year was shaping the structure of professional development in critical employee segments. Further training programmes are to be concluded with an exam and/or certification. This is to guarantee that the participants acquire in-depth knowledge and therefore contribute to the enhancement of the company.

The third focus of activities lay in increasing awareness for the prevention of fraud and the organisation of various training courses for employees, at group level and at national level.

Talent management

Promoting motivated and skilled employees is of particular significance at Hypo Alpe Adria. For this reason, a comprehensive talent management programme was implemented in 2012 involving the development of competency models for managers and risk management employees as and when required.

At the same time, selected analysis of employee expertise was carried out (e.g. in assessment centres) in order to pinpoint corresponding further training measures. This process will be continued with in 2013 and individual career plans will be taken into consideration.

Employee survey
As in 2011, a comprehensive employee satisfaction survey was also carried out among all bank and leasing units in July 2012. Despite the ongoing restructuring process, more than 2,200 employees once again took part in the survey, which equates to a participation rate of 42%. The results of the survey and the action plans developed as a result were presented to the Supervisory Boards of the relevant institutions. The progress of the implemented measures is regularly monitored by human resources management.

5.3. Corporate social responsibility

Hypo Alpe Adria has been concentrating its corporate social responsibility activities under the name "Hypo Pro Futuro" for several years. These activities are mainly focused on targeted charity commitments in SEE countries, Austria and Italy. Social facilities and social institutions form the main focus. Fulfilling Hypo Alpe Adria's corporate social responsibility has become an integrated part of the corporate management process. As a result, Hypo Alpe Adria will in future support and intensify charity projects particularly in the areas of education, art, health and child welfare in all countries it operates in.

Hypo Alpe Adria is also aware of its responsibility toward the environment. Employees are required to ensure they preserve resources in their day-to-day work. Keeping print-outs, and particularly colour print-outs, to a bare minimum and avoiding unnecessary energy consumption through lighting or air-conditioning units, for instance, are just some of the measures that have been embedded within Hypo Alpe Adria. Moreover, business trips to group countries have also been significantly reduced, with an increasing amount of communication switching to video conference centres.

6. Internal control system for accounting procedures

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

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

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

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

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

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 at the group companies, are subjected to ongoing evaluation and development. As a result of these efforts to intensify existing systems in a practical way, further qualitative improvements were achieved during the year under review.

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

Management at the subsidiaries is responsible for the implementation and monitoring of the local ICS and confirms its compliance on a quarterly basis.

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

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

6.1. ICS-related activities in 2012

Developments seen in 2011 continued in 2012 – particularly with regards to ICS-relevant interfaces with compliance, the credit process and processing of specific risk provisions.

At Hypo Alpe-Adria-Bank International AG level, reporting- and treasury-relevant processes were recorded and subjected to a risk assessment process according to ICS criteria. The necessary measures were then developed as a result.

Test scenarios were developed and carried out jointly with the owners.

The programme necessary for the tests was implemented and the persons responsible for ICS trained on how to use it.

6.2. Outlook

Adhering strictly to the COSO Framework, the prioritisation of the ICS-relevant processes will be checked on the basis of the most recent balance sheet in 2013 (statement of financial positions) and, where necessary, modified. The integration with the Operational Risk department will continue, so as to be able to exploit the possible synergies from both areas of activity (OpRisk and ICS) in the best possible way and to create an optimal structure so as to avoid potential losses.
A group-wide e-learning tool is being established, together with the issue of operational risk, in order to create additional awareness.

7. Other disclosures

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

8. Outlook

In the fourth year following the bank's nationalisation in 2009, Hypo Alpe Adria is at an important crossroads, and any future strategies will be decisively influenced by the European Commission's decision into the aid investigation. It is assumed that there will be some degree of clarity within the first half of the year as to whether and under which conditions state aid is finally approved and what basis, or rather time frame, will apply to the continuation of rationalisation and restructuring measures.

Hypo Alpe Adria is striving to make a sustainable, value-preserving step in the privatisation of its Austrian subsidiary over the course of 2013, which, following subsequent organisational measures within the group, is to be capable of being positioned as an independent institute on its domestic market.

With 1.2 million customers and EUR 4.6 billion of deposits, the SEE network, which has been completely restructured over the past few years and has now recorded a positive result for the second year in succession, also finds itself in a competitive reprivatisation process, the preparations for which are extremely solid in view of strategic investors. The value-maximising completion of this process that is being strived for will depend on the time frame stipulated by the European Commission as well as market demand and the existing market environment.

After the economic recovery forecast in the SEE region failed to materialise in 2012, there are justified prospects for a turnaround, albeit only a slight one. However, even this would not be sufficient to lead growth rates in Hypo Alpe Adria's core countries out of the minus range according to existing forecasts. Despite the fact that the upcoming EU accession of Croatia gives us good reason to hope for positive economic impetus, the management believes that sustainable recovery will not arrive until after 2013.

In terms of the market and in view of the maintenance and expansion of some 1.3 million customer relationships throughout the group, service quality and the dedicated development of the scope of products and services for customer segments are at the forefront of activities within the scope of possible EU requirements. Other focuses of Hypo Alpe Adria's operations in the current financial year will be the further intensification of cost management and the optimisation of core process through lean management.

Alongside the banks that are to be privatised, a robust business area has established itself in the form of "asset resolution", which plays a major role in the activities and orientation of Hypo Alpe Adria solely on account of its volume, accounting for some one-third of the bank's balance sheet. Winding down assets at an even pace, particularly those from the bank's high-risk past, is a serious financial challenge in the current economic climate and, at the same time, represents a pivotal component of risk reduction across the entire group organisation – something which remains one of Hypo Alpe Adria's top priorities.

A two-pronged strategy will be pursued in 2013 when it comes to the task of clearing up the past entrusted to the bank and the resulting legal cases. While investigative work in Austria driven forward by the bank should lead to more cases being brought before the courts, international preliminary prosecution operations will also gain momentum in other countries.

In 2013, Hypo Alpe Adria will continue in its efforts to contribute independently and as thoroughly as possible to the fulfilment of the capital requirements imposed on it by banking regulators as a result of risks seen in the past and look for ways to minimise any potential further investment from the federal budget.

Above all, this means the systematic continuation in efforts to reduce total assets and operating costs. While the contraction of the group will be reflected in operating income, the aim of a more compact Hypo Alpe Adria is to reduce risk within the group at the same time and at least stabilise portfolio quality, depending on overall development of the market that is out of the group's control. Hypo Alpe Adria sees robust development of NPL ratios and risk costs across normal market trends as the primary measurement parameters for this strategy.

Given the multitude of challenges facing Hypo Alpe Adria within the scope of the ongoing rationalisation, reprivatisation and capital-preserving wind-down process – coupled with the significant number of weighted influences from the market, authorities or courts of law that are unable to be actively controlled – the performance of Hypo Alpe Adria in 2013, as shown by the key profit indicators, will continue to be oriented towards the preservation of the funds provided by the Republic of Austria since nationalisation to the greatest extent possible.

Klagenfurt am Wörthersee, 6 March 2013
Hypo Alpe-Adria-Bank International AG

Executive Board

Gottwald Kranebitter mp
(Chairman)

Wolfgang Edelmüller mp (Deputy Chairman)	Johannes Proksch mp	Rainer Sichert mp

Consolidated Financial Statements
as at 31 December 2012

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 31.12.2012	1.1. - 31.12.2011
Interest and similar income	(38)	1,494.8	1,691.0
Interest and similar expenses	(39)	-816.5	-937.8
Net interest income		**678.4**	**753.3**
Fee and commission income	(40)	115.1	121.2
Fee and commission expenses	(41)	-52.4	-48.1
Net fee and commission income		**62.7**	**73.1**
Result from trading	(42)	25.8	20.2
Result from hedge accounting	(43)	-2.3	0.2
Result from fin. investments – designated at fair value through profit or loss	(44)	-7.0	106.3
Result from fin. investments – available for sale	(45)	-8.2	-54.8
Result from fin. investments – held to maturity		-0.1	0.0
Result from other financial investments	(46)	122.9	1.9
Other operating result	(47)	-22.8	-2.2
Operating income		**849.4**	**898.0**
Risk provisions on loans and advances	(48)	-309.9	-229.8
Operating income after risk provisions on loans and advances		**539.5**	**668.2**
Personnel expenses	(49)	-259.3	-278.3
Other administrative expenses	(50)	-189.8	-237.7
Depreciation and amortisation on tangible and intangible assets	(51)	-55.2	-58.3
Operating expenses		**-504.2**	**-574.2**
Operating result		**35.3**	**93.9**
Result from companies accounted for at equity	(52)	0.0	0.9
Result before tax		**35.3**	**94.8**
Taxes on income	(53)	-32.2	-25.5
Result after tax		**3.0**	**69.3**
thereof attributable to non-controlling interests	(54)	31.1	10.2
thereof attributable to equity holders of parent (consolidated result for the period after tax and non-controlling interest)		-28.1	59.1

Other comprehensive income

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Result after tax	**3.0**	**69.3**
Gains/losses on available-for-sale evaluation	106.0	-57.1
Effects of deferred taxes	-3.9	3.3
Gains/losses on available-for-sale disposal	-14.8	5.5
Effects of deferred taxes	0.0	-0.4
Gains/losses on available-for-sale impairment	0.0	1.9
Effects of deferred taxes	0.0	-0.4
Gains/losses on available-for-sale reserves	**87.3**	**-47.2**
Foreign exchange-differences (recycling)	-2.0	-0.2
Foreign exchange-differences (evaluation)	-26.6	-10.9
Foreign exchange-differences	**-28.6**	**-11.1**
Total other comprehensive income	**58.7**	**-58.3**
Total comprehensive income	**61.8**	**10.9**
thereof attributable to non-controlling interests	39.5	6.2
thereof attributable to equity holders of parent	22.3	4.7

II. Group statement of financial position

EUR m

	Note	31.12.2012	31.12.2011
ASSETS			
Cash and balances at central banks	(55)	2,873.2	757.5
Loans and advances to credit institutions	(56)(58)	1,993.1	3,133.4
Risk provisions on loans and advances to credit institutions	(58)	-3.0	-13.3
Loans and advances to customers	(57)(58)	24,401.5	26,722.4
Risk provisions on loans and advances to customers	(58)	-3,070.2	-3,089.8
Trading assets	(59)	1.5	12.0
Derivative financial instruments	(60)	1,426.1	1,434.0
Financial investments – designated at fair value through profit or loss	(61)	783.4	760.6
Financial investments – available for sale	(62)(66)	2,688.3	2,651.7
Financial investments – held to maturity	(63)(66)	90.5	36.5
Investments in companies accounted for at equity	(64)(66)	7.4	1.4
Other financial investments	(65)(69)	1,392.0	985.4
thereof investment properties		1,279.2	837.5
thereof operate leases		112.9	147.9
Intangible assets	(67)(69)	44.6	60.0
Tangible assets	(68)(69)	392.0	359.8
Tax assets	(53)	77.0	104.4
thereof current tax assets		18.4	27.9
thereof deferred tax assets		58.6	76.5
Assets classified as held for sale	(70)	0.0	138.9
Other assets	(71)(58)	716.9	1,084.7
Risk provisions on loans and advances on other assets	(58)	-10.5	-7.0
Total assets		**33,803.7**	**35,132.5**
EQUITY AND LIABILITIES			
Liabilities to credit institutions	(72)	5,252.5	5,678.4
Liabilities to customers	(73)	8,405.9	8,201.1
Liabilities evidenced by certificates	(74)	14,835.8	17,147.4
Derivative financial instruments	(75)	781.9	716.3
Provisions	(76)	128.1	183.9
Tax liabilities	(53)	40.1	34.6
thereof current tax liabilities		18.1	2.8
thereof deferred tax liabilities		22.0	31.8
Liabilities included in disposal groups classified as held for sale	(77)	0.0	77.8
Other liabilities	(78)	427.6	524.0
Subordinated capital	(79)	1,957.3	1,036.0
Hybrid capital	(80)	6.0	119.6
Equity	(81)	1,968.4	1,413.3
thereof attributable to equity holders of parent		1,447.6	925.6
thereof attributable to non-controlling interests		520.9	487.7
Total equity and liabilities		**33,803.7**	**35,132.5**

III. Group statement of changes in equity

EUR m

	Issued capital	Additional paid-in capital	Available-for-sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
Equity as at 1.1.2012	**808.6**	**0.0**	**-121.4**	**-67.4**	**305.8**	**925.6**	**487.7**	**1,413.3**
Capital increases	500.0	0.0	0.0	0.0	0.0	500.0	0.0	500.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-18.2	-18.2
Total comprehensive income	0.0	0.0	79.0	-28.6	-28.1	22.3	39.5	61.8
Result after tax	0.0	0.0	0.0	0.0	-28.1	-28.1	31.1	3.0
Other comprehensive income	0.0	0.0	79.0	-28.6	0.0	50.4	8.4	58.7
Other changes	0.0	0.0	-0.6	0.3	0.0	-0.3	11.8	11.5
Equity as at 31.12.2012	**1,308.6**	**0.0**	**-43.1**	**-95.7**	**277.7**	**1,447.6**	**520.9**	**1,968.4**

EUR m

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

For further information on equity, please refer to notes (81) Equity and (119) Participation capital.

IV. Group statement of cash flows

EUR m

	2012	2011
Result after tax	**3.0**	**69.3**
Non-cash items included in profit and reconciliation to cash flows from operating activities:		
Depreciation and amortisation of tangible fixed assets and financial investments	131.0	147.2
thereof financial investments	3.3	10.6
thereof intangible and tangible assets	127.7	136.6
Change in risk provisions	165.5	111.7
Change in provision	-10.0	-6.3
Gains (losses) from disposals of tangible fixed assets and financial investments	-18.4	9.7
Financial investments	-15.5	11.4
Intangible and tangible assets	-2.8	-1.7
Subtotal	**271.2**	**331.6**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	3,110.5	3,455.2
Financial investments	35.2	-64.3
Trading assets	10.6	22.3
Other assets	162.4	-210.4
Liabilities to credit institutions and customers	-248.0	-585.4
Liabilities evidenced by certificates	-2,311.5	-2,994.5
Provisions	-45.9	-21.1
Other liabilities from operating activities	-76.2	34.1
Cash flows from operating activities	**908.3**	**-32.4**
Proceeds from the sale of:	183.8	200.2
Financial investments and participations	18.8	0.9
Tangible assets, investment properties, operate lease assets and intangible assets	165.0	199.4
Payments for purchases of:	-171.2	-236.0
Financial investments and participations	-53.3	-3.4
Tangible assets, investment properties, operate lease assets and intangible assets	-117.9	-232.5
Payments for sale of subsidiaries	0.0	0.3
Payments for acquisitions of subsidiaries	-2.4	-7.8
Other changes	-66.9	24.3
Cash flows from investing activities	**-56.7**	**-19.0**
Capital contributions / disbursements	500.0	0.0
Subordinated capital and other financing activities	807.6	-32.8
Dividends paid	-18.2	-18.8
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non-controlling interest	-18.2	-18.8
Cash flows from financing activities	**1,289.4**	**-51.5**

Cash flows for taxes and dividends	**2.3**	**-41.7**
Payments for taxes on income	-1.2	-44.8
Dividends received	3.5	3.1

EUR m

	2012	2011
Cash and cash equivalents at end of previous period (1.1.)	**757.5**	**843.6**
Cash flows from operating activities	908.3	-32.4
Cash flows from investing activities	-56.7	-19.0
Cash flows from financing activities	1,289.4	-51.5
Effect of exchange rate changes	-25.3	16.8
Cash and cash equivalents at end of period (31.12.)	**2,873.2**	**757.5**

For further information on the statement of cash flows, please refer to note (82) Statement of cash flows.

V. Notes to the consolidated financial statements

Accounting policies and basis of consolidation

(1) Company

1.1. Hypo Alpe Adria

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

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

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

1.2. Important events

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 wind-down the bank and sell the saleable units to repay as much of the money invested by the taxpayer as possible. The preferred option is the sale of the SEE network with a reduction in the management holding company in Klagenfurt am Wörthersee.

On 12 May 2009 the European Commission opened a joint investigation into Bayerische Landesbank (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 2012. For further details on this aid investigation, please refer to note (122) Important proceedings. The European Commission's investigation is still ongoing at the present time but is now in the end phase; the European Commission expects to conclude its investigation in 2013. Significant effects on the business activities of the entire banking group cannot be ruled out as they are dependent on whether permanent approval is granted, along with any constraints related to the decision. With regard to assessing Hypo Alpe Adria's continuance as a going concern, the Executive Board draws on the same assumptions that underpin the group's restructuring plan, although there continues to be uncertainty with regard to the future economic performance, given the current volatility in economic and financial markets.

The bank committed itself, back in June 2010, together with the Federal Republic to forensics investigations on the past in the context of a "Post Acquisition Due Diligence" exercise. This has also been embedded in Hypo Alpe-Adria-Bank International AG's articles of association since 2012. In order to coordinate the work taking place on dealing with the past as well as to support the work being carried out in this respect by the bank, an external consultant ("coordinator") was appointed. The transfer of the so-called "CSI Hypo" function to the bank itself (Forensics department) is being supported by the coordinator and in conjunction with the Executive and Supervisory Boards. The Forensics department, which reports directly to the Executive Board and works closely with the coordinator, manages the work of dealing with the past in Austria and abroad.

In order to re-privatise saleable units, portfolios in Slovenia, Bosnia and Herzegovina and Montenegro started being transferred already in 2011. This continued in Croatia, Austria and Italy in 2012. Please refer to note (126) Portfolio transfer in the SEE network and in the banks in Italy and Austria for further details.

In December 2012, Hypo Alpe-Adria-Bank International AG offered to buy back four supplementary capital bonds from shareholders at a nominal price of EUR 55.0 million. This offer resulted in buying back and withdrawing a total of EUR 8.6 million. Please see note (124) Servicing of subordinated capital for more details.

Within the context of the Joint Risk Assessment & Decision Process ("JRAD 1") initiated for the first time by the regulatory authorities in 2011, Hypo Alpe Adria was required to achieve a minimum total capital ratio of 12.04% and ensure that the deficit between the expected losses in the area of credit risk and total risk provisions (shortfall) is covered from 31 December 2012 onwards. In 2012, the bank reached an agreement approved by the European Commission with its shareholders regarding a EUR 1.5 billion recapitalisation of the bank, consisting of a capital increase by the Republic of Austria (EUR 500.0 million) and the issue of a state-guaranteed subordinated bond (EUR 1.0 billion). This means that Hypo Alpe Adria had a consolidated own capital funds ratio of 13.0% as of 31 December 2012, 1.0% above the minimum requirement as stipulated in the decision issued by the authority. In 2012, the regulatory authorities re-assessed the risks and the capital required ("JRAD 2"). Based on figures as at April 2012 a total capital ratio of at least 12.40% was determined for the total Group. The corresponding “Joint Decision” was issued at the end of January 2013; the bank was given a deadline until 31 December 2013 to implement the changes. Please refer to note (88.2) Joint Risk Assessment Decision (“JRAD”) for further details.

(2) Significant accounting policies

The consolidated financial statements of Hypo Alpe Adria as at 31 December 2012 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and include comparative figures for 2011 which were drawn up according to the same accounting principles. Please refer to note (4) Use of estimates and assumptions/uncertainties in connection with estimates with regard to estimates and assumptions in accordance with IAS 8. The consolidated financial statements of Hypo Alpe Adria as at 31 December 2012 were prepared in conformity with section 245a of the Austrian Commercial Code (UGB) and section 59a of the Austrian Banking Act (BWG) in accordance with Regulation (EC) No. 1606/2002 (the IAS Directive) of the European Parliament and the Council of 19 July 2002, on the basis of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes, which also include segment reporting. The statement of financial position is structured by decreasing liquidity. Amounts due or realisable within twelve or more than twelve months after the balance sheet date are described in note (99) Remaining maturity. 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 the possible consequences of the EU state aid proceedings and the Joint Risk Assessment & Decision process, and any uncertainties relating to the group’s business activities which may result from these, please refer to notes (1) Company, (122) Important proceedings and (88.2) Joint Risk Assessment Decision (“JRAD”).

The consolidated financial statements are generally prepared in line with the cost principle. The exceptions to this are derivative financial instruments and financial investments available 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.

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

The Executive Board of Hypo Alpe Adria approved the consolidated financial statements as at 31 December 2012 for publication on 6 March 2013 by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it ratifies the consolidated financial statements as at 31 December 2012.

(3) Application of new and amended standards

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 2012:

Standard	Description		Compulsory for annual period
IFRS 7	Financial Instruments: Disclosures	Enhancing disclosures about transfers of financial assets (2010)	2012

The additions to **IFRS 7** “Financial Instruments: Disclosures”, which extend disclosure obligations while retaining the derecognition rules of IAS 39, extend the information to be given in the notes on transfers of financial assets. The additions include various disclosure obligations regarding transferred but not fully derecognised assets as well as fully derecognised assets.

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were not yet mandatory and were not applied prematurely by the group. Hypo Alpe Adria will apply them on the obligatory dates.

Standard	Description		Compulsory for annual period
IAS 1	Presentation of Financial Statements	Presenting Comprehensive Income	2013
IAS 12	Taxes on Income	Recovery of Underlying Assets, Amendment (2010)	2013
IAS 19	Employee Benefits	revised 2011	2013
IAS 27 (2011)	Separate Financial Statements	Supersedes IAS 27 Consolidated and Separate Financial Statements	2014
IAS 28 (2011)	Investments in Associates and Joint Ventures	Supersedes IAS 28 (2003) Investments in Associates	2014
IFRS 1	First-time Adoption of IFRSs	Amended by Severe Hyperinflation	2013
IFRS 10	Consolidated Financial Statements	2011	2014
IFRS 11	Joint Arrangements	2011	2014
IFRS 12	Disclosure of Interests in other Entities	2011	2014
IFRS 13	Fair Value Measurement	2011	2013
IAS 32	Financial Instruments: Presentation	Offsetting Financial Assets and Financial Liabilities (December 2011)	2014
IFRS 7	Financial Instruments: Disclosures	Offsetting Financial Assets and Financial Liabilities (2011)	2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	2011	2013

The changes in **IAS 1** require the items in other comprehensive income to be split into items which could be reclassified to the statement of comprehensive income at a later date (so-called recycling) and those which cannot. Apart from this change in presentation, the application of the amended IAS 1 does not have a material influence on the consolidated financial statements.

Following the change to **IAS 12**, the measurement of deferred taxes is now dependent on whether the carrying amount of an asset is realised through its use or its sale. The amendment therefore provides for an assumption that the value of investment properties, measured at fair value will be recovered through its sale. Application of the amended standard is mandatory for financial years commencing on or after 1 January 2013. As measurement of investment properties is carried out according to the historical costs principle at Hypo Alpe Adria, this amendment does not have any effect on the group.

The changes to **IAS 19** primarily concern the discontinuation of deferred accounting of actuarial gains and losses (so-called corridor method) in favour of their immediate recognition under other comprehensive income within equity (OCI), the treatment of unrecognised past service costs in the case of changes to the pension plan as well as the treatment of gains and losses from curtailments, and the recognition of net interest expense or income from the net liabilities or net assets of a pension plan. In addition, there is a requirement for further disclosures in the notes on the characteristics of the pension plans and the attendant risks for the company. As up to now Hypo Alpe Adria had been recognising all actuarial gains and losses directly in profit or loss, the only change to the consolidated financial statements is that actuarial gains and losses are recognised immediately under other comprehensive income (OCI) in equity as soon as they are incurred.

The amendment to **IFRS 1** does not have any effect on the consolidated financial statements as Hypo Alpe Adria is neither a first-time adopter nor subject to severe hyperinflation.

In May 2011, the IASB published a set of five standards (so-called "consolidation package"). It deals with consolidated financial statements (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), separate financial statements (IAS 27 (2011)) and investments in associates and joint ventures (IAS 28 (2011)). The modifications to **IAS 27** contain rules on the presentation in the accounts and disclosures in the notes about subsidiaries, joint ventures and associated companies that are only relevant for separate financial statements drawn up under IFRS; and therefore have no implications for Hypo Alpe Adria. The modified **IAS 28** deals with accounting for shares in associated companies and the requirements for applying the equity method when accounting for shares in associated companies and joint ventures. The group is currently examining the effect the application of this amendment will have on the consolidated financial statements; however, it is be expected that such shares already are of non-material importance to Hypo Alpe Adria. The preparation and presentation of consolidated financial statements is regulated in **IFRS 10**. It requires companies controlled by the reporting entity to be consolidated. An entity has control if it is exposed to risks and has the right to receive variable returns and if it has the option to exercise control over these returns via the recipient of an investment. IFRS 10 also has special rules for investment companies. If a parent company meets the criteria of an investment company, it must not consolidate its subsidiaries but recognise them at fair value through profit or loss instead. IFRS 10 replaces the rules hitherto contained in IAS 27 and SIC 12 on controlling interests and consolidation and introduces a standardised consolidation model. It is expected that the assessment of the control option as well as the decision whether or not to consolidate an entity will not change for Hypo Alpe Adria on account of this new standard. **IFRS 11** replaces the previous IAS 31 "Interest in Joint Ventures" and SIC 13 "Jointly Controlled Entities" and introduces a modified terminology and classification of companies as joint arrangements. It describes accounting for companies that have joint control over an arrangement. Joint control includes the contractually agreed sharing of control. Arrangements subject to joint control are classified either as joint ventures or as joint business activity. The previous option to apply pro rata consolidation for joint ventures was abolished and the application of the equity method is now mandatory. As Hypo Alpe Adria does not use pro rata consolidation, this standard does not have any effect on the consolidated financial statements. **IFRS 12** sets out required disclosures which make it possible for those studying the financial statements to judge the type, risk and financial implications of the company's interests in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities). As the disclosures required by IFRS 12 are far more in-depth than those required by the currently applicable standards, the group expects that the application of this standard will not have any material effects on the consolidated financial statements but that the disclosures in the notes will have to be expanded, particularly for non-controlling interests. The consolidation package (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011)) becomes effective on 1 January 2014. Earlier application is permitted if all five standards are applied at the same time, meaning that European companies may voluntarily adhere to the first-time application date set by the IASB (1 January 2013). Hypo Alpe Adria does not exercise this option of premature application, nor does it expect any effects from the transitional guidelines for IFRS 10, IFRS 11 and IFRS 12.

IFRS 13 provides uniform benchmarks for the recognition of fair value which apply to all standards, by giving a definition of the terms used and showing which method can be used for recognition. The area of application is extensive and comprises both financial and non-financial items. In addition, the disclosure requirements in the notes regarding fair value have been expanded. The group currently expects that the application of the new standard will influence certain values recognised in the consolidated financial statements and result in far-reaching disclosures in the notes.

The amendments to **IAS 32** clarify existing application problems with regard to the netting of financial assets and liabilities. In particular the amendments clarify the meaning of the phrases "currently has a legally enforceable right of set-off" and "the application of simultaneous realisation and settlement". Retrospective application is mandatory. The amendments to **IFRS 7** require the disclosure of information on set-off rights for financial instruments and related arrangements in an enforceable offsetting arrangement and/or a corresponding arrangement. Disclosure must be made retrospectively for all comparable periods. The amendments to IAS 32 and IFRS 7 will result in Hypo Alpe Adria having to provide extensive information regarding the set-off of financial assets and liabilities.

IFRIC 20 pertains to stripping costs incurred during the production phase of a surface mine. This IFRIC interpretation has no effect on the consolidated financial statements as the group does not engage in such activities.

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

Standard	Description		Compulsory for annual period
Collective Standard	IFRS May 2012 (Improvements 2009-2011)	Annual improvements IAS 1, IAS 16, IAS 32, IAS 34, IFRS 1	2013
IAS 27 (2011)	Separate Financial Statements	Amended by Investment Entities (October 2012)	2014
IFRS 1	First-time Adoption	Government loans	2013
IFRS 7 und IFRS 9	Financial Instruments: Disclosures	Mandatory Effective Date and Transition Disclosures (December 2011)	2015
IFRS 9	Financial Instruments	2009	2015
IFRS 9	Financial Instruments	2010	2015
IFRS 10	Consolidated Financial Statements	Transition guidance (June 2012)	2014
IFRS 10	Consolidated Financial Statements	Amended by Investment Entities (October 2012)	2014
IFRS 11	Joint Arrangements	Transition Guidance (June 2012)	2014
IFRS 12	Disclosure of Interests in Other Entities	Transition Guidance (June 2012)	2014
IFRS 12	Disclosure of Interests in Other Entities	Amended by Investment Entities (October 2012)	2014

In May 2012, the IASB published an omnibus standard comprising amendments to various standards (**IFRS May 2012** (Improvements 2009-2011)) applicable for financial years starting on or after 1 January 2013. IAS 1 states that a third balance sheet must be prepared if amendments are applied retrospectively. The amendments clarify that it is only mandatory to prepare a third balance sheet if the retrospective application would have a material effect on the information contained in the third balance sheet. The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment are to be recognised as tangible assets if they meet its definition criteria. In all other cases they are to be classed as inventories. The amendments to IAS 32 clarify that IAS 12 applies to income taxes related to distributions to equity instrument holders as well as the costs of an equity transaction. IAS 34 comprises the clarification of segment disclosures for total assets in interim reporting to improve compliance with the rules of IFRS 8 "Operating Segment". IFRS 1 includes an amendment regarding borrowing costs in connection with qualifying assets that have been capitalised before the initial adoption of IFRS. The group expects that these amendments will not have any material effects on the consolidated financial statements.

The new standard **IFRS 9** "Financial Instruments: Classification and Measurement" is expected to lead to material adjustments for Hypo Alpe Adria in relation to the classification and measurement of financial instruments. In future, instead of the previous four measurement categories of IAS 39 (see note (11) Financial Instruments: Recognition and Measurement (IAS 39)), there will only be two measurement categories under IFRS 9, for which classification will be determined based either on the business model or the characteristics of the financial asset. The measurement of these assets is primarily carried out at amortised cost if the objective of the business model is to hold the financial asset to collect the contractual cash flows or if the contractual terms of the financial asset stipulate interest payments or principal payments on specified dates. Should it not be possible to define these two factors, the financial instruments must in general be measured at fair value through profit or loss. All equity investments within the scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss. The only possible exception is for those equity investments measured at fair value for which the entity has elected to report value changes in "other comprehensive income" (at fair value through other comprehensive income, FVTOCI). If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) and present the changes in other comprehensive income with only dividend income recognised in profit or loss. Furthermore, it will no longer be compulsory to account separately for embedded derivatives; instead these will be measured as an entire financial instrument at fair value through profit or loss. Application of the new standard is mandatory for financial years commencing on or after 1 January 2015; simplified rules for presenting prior-year figures would apply if the standard was voluntarily applied ahead of the deadline. At the time of writing, IFRS 9 has not yet been adopted in European law as part of the Endorsement Process. As IFRS 9 had not yet been fully published, final quantification of the effects is not possible at present. Hypo Alpe Adria has already launched an implementation project.

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

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

Uncertainties related to the estimates and assumptions may lead to results that will make it necessary to adjust the carrying amounts of the affected assets or liabilities in future periods.

With regard to the assessment of the continuance of the Hypo Alpe Adria group as a going concern, please refer to notes (122) Important proceedings and (88.2.) Joint Risk Assessment Decision ("JRAD").

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 the 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 in the relevant markets in 2013, and this is reflected in adequate long lasting assumptions regarding the realization. By implementing active restructuring and targeted wind-down management, Hypo Alpe Adria expects to optimally utilise securities as well as payments from other commercial papers in this respect. Moderate market recovery is anticipated from 2013 onward, particularly for high-quality properties in prime locations. A different assessment of these assumptions may result in significantly different valuations of risk provisions on loans and advances. The actual loan defaults can therefore differ from the risk provisions on loans and advances reported in these consolidated financial statements. Through successful liquidation and restructuring, a reduction in the volume of business and improvements in the monitoring and collections processes, the effect on the income statement for 2012 was stabilised to a large extent. Considering the current weakness in the economy, the possibility cannot be discounted that it will be necessary to make further provisions for the existing loan portfolio in 2013.

For further information on the methodology employed in making risk provisions on loans and advances, please see note (20) Risk provisions on loans and advances. The fair value of financial instruments for which there are no active markets is established by means of various valuation models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is established on the basis of estimates. At Hypo Alpe Adria, fair value is calculated through comparison with the fair value of another financial instrument that is essentially identical and analysis of discounted cash flows and option pricing models. Further details on the measurement of financial instruments are provided in note (11) Financial Instruments: Recognition and Measurement (IAS 39).

The measurement of equity investments in non-consolidated entities relates primarily to real estate companies. The intrinsic value of these companies is verified annually through 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 are the respective business plans which have a time horizon of five years. Given the history of losses and the uncertainties arising from the restructuring of the group, there has been no capitalisation of tax loss carry-forwards since 2010 for the members of the Hypo Alpe-Adria-Bank International AG Austrian tax group.

The recognition of tax risks has been carried out in accordance with the recognition criteria in IAS 37. There is no recognition of deferred tax risks viewed as unlikely to materialise or the extent of which cannot be reliably estimated, neither as a provision nor as a contingent liability.

The costs of the performance-based pension plan are calculated using an actuarial process. The actuarial valuation is based on assumptions relating to discount rates, expected returns and asset values, future salary levels, mortality and future rises in pension rates. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. Assumptions and estimates used for calculating long-term employee obligations are described in note (29) Long-term employee provisions. Quantitative data on long-term employee benefit provisions is given in note (76) Provisions .

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

(5) Scope of consolidation

These consolidated financial statements comprise 21 Austrian companies (2011: 24) – including Hypo Alpe-Adria-Bank International AG – and 85 (2011: 81) foreign subsidiaries:

	31.12.2012 Fully consolidated	31.12.2012 Equity method	31.12.2011 Fully consolidated	31.12.2011 Equity method
Start of period (1.1.)	**101**	**4**	**108**	**5**
Newly included in period under review	9	0	9	0
Merged in period under review	-1	0	-2	0
Excluded in period under review	-7	0	-14	-1
Reclassified	0	0	0	0
End of period (31.12.)	**102**	**4**	**101**	**4**
thereof Austrian companies	19	2	22	2
thereof foreign companies	83	2	79	2

The following nine companies were included in the consolidation for the first time in the 2012 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
DOHEL d.o.o	Sesvete	100.0%	Fully consolidated	Acquisition
ALUFLEXPACK NOVI d.o.o,	Zadar	100.0%	Fully consolidated	Demerger
Hypo-Alpe-Adria-Zastupnik d.o.o. (formerly: Globus)	Sarajevo	100.0%	Fully consolidated	Materiality
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0%	Fully consolidated	Foundation
Alpe-Adria nekretnine d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
LOMA CENTER d.o.o.	Ljubljana	100.0%	Fully consolidated	Materiality
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
GRAND HOTEL LAV d.o.o.	Podstrana	100.0%	Fully consolidated	Acquisition
H-ABDUCO d.o.o.	Zagreb	100.0%	Fully consolidated	Foundation

The Croatian real estate company DOHEL d.o.o. was an emergency acquisition made by Hypo Alpe Adria in the first half of 2012 in conjunction with the drawdown of collateral for a financing deal, which was allocated to the "Wind-down financials" segment. This project company focuses on developing residential and office buildings in Croatia.

The company ALUFLEXPACK NOVI d.o.o. was formed as a result of a reorganisation at the beginning of the 2012 financial year in preparation for the sale of the Aluflexpack group. During this demerger, the business as well as some investments of the Croatian industrial participation ALUFLEXPACK d.o.o., Zadar, already included in the scope of consolidation, were transferred to ALUFLEXPACK NOVI d.o.o., which is the reason why the latter was included in the scope of consolidation.

Globus d.o.o., which was not included in the previous year's consolidated financial statements on grounds of materiality, was transformed into HYPO ALPE-ADRIA-ZASTUPNIK d.o.o. in the second half of 2012 and started operating as an insurance broker in Bosnia.

MALPENSA GESTIONI Srl was newly founded at the beginning of 2012. In the second half of 2012 it assumed the financed assets (hotel) as part of an emergency acquisition resulting from a non-performing lease agreement and now operates the hotel.

On the grounds of materiality and in view of the restructuring and pooling of investment properties in one central unit planned for 2013, it was decided to include the following three real estate companies in the consolidated financial statements as of 31 December 2012: ALPE-ADRIA NEKRETNINE d.o.o., LOMA CENTER d.o.o. and PRODARICA POSLOVNI CENTAR d.o.o.

The company GRAND HOTEL LAV d.o.o. is the owner and operator of a hotel in Croatia. It was acquired at the end of September 2012 within the scope of an emergency acquisition by exercising a call option.

H-ABDUCO d.o.o. was newly founded in 2012 to take over the credit portfolio of the Croatian banking unit earmarked for wind-down. The "Brush" portfolio transfer was carried out at the beginning of December 2012.

Companies which are of secondary importance to Hypo Alpe Adria, either because of reduced business activities or because of planned liquidation, are excluded from the scope of consolidation. Eight fully-consolidated subsidiaries were excluded from the scope of consolidation in the course of the 2012 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
HYPO Facility Services GmbH in Liqu.	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Liquidation
ORGOVÁNYI IMMO Ingatlanforgalmazó Kft.	Budapest	100.0%	Fully consolidated	Materiality
KÄRNTNER HOLDING BETEILIGUNGS GmbH in Liqu.	Velden am Wörthersee	100.0%	Fully consolidated	Liquidation
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Sale
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	100.0%	Fully consolidated	Merger
ALUFLEXPACK d.o.o.	Zadar	100.0%	Fully consolidated	Sale
TLM-TVP d.o.o.	Sibenik	100.0%	Fully consolidated	Sale
ALUFLEXPACK NOVI d.o.o.	Zadar	100.0%	Fully consolidated	Sale

In the second half of 2012, all shares in the Aluflexpack group (ALUFLEXPACK NOVI d.o.o., ALUFLEXPACK d.o.o. and TLM-TVP d.o.o.) were transferred to an investor in a staggered bidding process. The disposal of this industrial participation generated a loss of EUR 19.2 million that was recognised in the group's income statement.

EUR m

	ALUFLEXPACK d.o.o.	ALUFLEXPACK NOVI d.o.o.	Total
Assets prorated	52.0	56.9	108.9
Liabilities prorated	59.3	20.4	79.7
Receivables VORNICA OPLEMENJENIH FOLIJA d.d. and OMIAL NOVI d.o.o.		23.8	23.8
Disposal net asset prorated	**7.2**	**-60.3**	**-53.1**
Sales revenue prorated	0.0	33.9	33.9
Deconsolidation	**7.2**	**-26.4**	**-19.2**

(6) Business combinations and acquisitions

As the Croatian real estate company DOHEL d.o.o. does not have any operations of its own, IFRS 3 regarding initial consolidation of the company do not apply.

At the end of September 2012, Hypo Alpe Adria exercised its call right with regard to the shares in GRAND HOTEL LAV d.o.o. and acquired 100% of the shares for EUR 1.0. The company is fully consolidated as from the date of this acquisition.

The effects from the first-time consolidation on the Hypo Alpe Adria group are as follows:

EUR m

	GRAND HOTEL LAV d.o.o.
Date of acquisition	30.09.2012
Acquired share (direct in %)	100.0%
Revalued assets	**49.0**
Revalued liabilities	**49.0**
Net assets	**0.0**
Acquisition costs	0.0
Remaining goodwill/badwill	**0.0**

The effects on Hypo Alpe Adria's consolidated financial statements are that the loans to GRAND HOTEL LAV d.o.o. previously recognised in loans and advances to customers are now eliminated in the consolidation and instead the company's assets and liabilities towards third parties are included the consolidated financial statements following its first-time inclusion. GRAND HOTEL LAV d.o.o. generated an operating loss for the period before tax of approximately EUR 2.2 million in 2012 as from the date of first-time consolidation, in other words the last three months of the year. This loss resulted from gross profit of around EUR 0.5 million, administrative expenses of some EUR 1.1 million and financing and commission expenses of EUR 1.5 million.

EUR m

Assets	GRAND HOTEL LAV d.o.o.	Purchase Price Allocation Adjustments	GRAND HOTEL LAV d.o.o. after Purchase Price Allocation Adjustments
Loans and advances to credit institutions	2.4	0.0	2.4
Loans and advances to customers	0.0	0.0	0.0
Tangible assets	62.2	-20.5	41.7
Other assets	6.1	-1.3	4.8
Total assets	**70.7**	**-21.8**	**49.0**

EUR m

Liabilities	GRAND HOTEL LAV d.o.o.	Purchase Price Allocation Adjustments	GRAND HOTEL LAV d.o.o. after Purchase Price Allocation Adjustments
Liabilities to credit institutions	60.8	-22.6	38.2
Provisions	0.7	2.0	2.7
Other liabilities	8.0	0.0	8.0
Equity	1.2	-1.2	0.0
Total equity and liabilities	**70.7**	**-21.8**	**49.0**

No further disclosures pursuant to IFRS 3 are made due to the non-material importance of this acquisition to the consolidated financial statements.

(7) 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. The cost of a company acquisition is calculated from the total consideration transferred measured at fair value at the date of acquisition plus the non-controlling interests in the acquired company. At initial recognition, goodwill is measured at cost, which is the excess of total consideration transferred plus the amount of non-controlling interest in the acquired identifiable assets and transferred liabilities of the group. If the difference is negative, the amount is recognised immediately in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once a year.

The date of first-time consolidation is the date when control is obtained. Subsidiaries acquired during the year are included in the statement of comprehensive income as from the date of acquisition. The results of subsidiaries sold during the year are included in the statement of comprehensive income until the date of disposal.

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 four companies included in the consolidation which have been accounted for using the equity method.

If a further interest is acquired in a company in which there was an interest of less than 100.0% but which is already fully consolidated, any differences in value are recognised as transactions with non-controlling shareholders in equity, without impact on profit or loss.

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

Interests in equity attributable to non-group shareholders and the non-group share in profit or loss of consolidated subsidiaries are recognised separately in equity and in the income statement under the item non-controlling interest. A subsidiary’s comprehensive income is recognised in non-controlling interests even if this results in a loss.

(8) Foreign currency translation

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

Open forward transactions are translated at forward rates at the closing date.

The assets and liabilities of foreign operations are translated into euros at the closing rates. Income and expense is translated at the average rates for the period, as long as these do not differ significantly from the actual exchange rates. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency reserve. The entry for a foreign operation in other comprehensive income (OCI) is to be reclassified in the statement of comprehensive income 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 31.12.2012	Average 2012	Closing date 31.12.2011	Average 2011
Bosnian mark (BAM)	1.95580	1.95580	1.95583	1.95583
Croatian kuna (HRK)	7.55750	7.52690	7.53700	7.44410
Swiss franc (CHF)	1.20720	1.20520	1.21560	1.23330
Serbian dinar (RSD)	113.71830	112.87990	104.64090	102.30590
Hungarian forint (HUF)	292.30000	290.24230	314.58000	280.46000
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	10.53720	10.30680	10.29810	11.09210
Macedonian denar (MKD)	61.50000	61.52140	61.50500	61.53170

(9) Income/expenses

In accordance with IAS 18, income is recognised when it is probable that the group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms and conditions, but without taking into account taxes or other fees. Income from dividends are recognised at the time that a legal right to payment arises. The interest income and interest expense on financial instruments recognised at amortised cost and those financial investments available for sale on which interest is to be paid are recognised using the effective interest method: the effective interest rate is the rate that exactly discounts as estimated future cash payments or receipts through the expected life of the financial instruments or, if appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(10) Securitisation

In the context of the asset-based-funding strategy of Hypo Alpe Adria, the securitisation of loan portfolios is an established instrument used by Hypo Alpe Adria to gain access to additional sources of liquidity through placing asset-backed securities (ABS) with investors or as part of a repurchase agreement in the international capital market and the ECB. In compliance with the stricter criteria imposed by both the rating agencies and the ECB, Hypo Alpe Adria primarily utilises the option of entering into repurchase agreements with the ECB. Hypo Alpe Adria acts both as the originator as well as the investor and co-arranger in the securitisation of its loan portfolios.

According to IAS 39.17, a financial asset may only be derecognised when either the contractual right to receive cash flows from 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.

At the end of 2011, the bank concluded a securitisation transaction where the portfolio includes property receivables of Bank Italy. The original volume amounted to EUR 260.3 million and the securities were issued via the special purpose vehicle “Dolomiti Mortgage S.r.L.” domiciled in Italy. Two rating agencies rated the securitisation exposures as part of the securitisation activities. Hypo Alpe Adria, the originator, retained the notes but deposited the senior tranche at the ECB to tap additional sources of liquidity.

A second transaction was carried out in the second half of 2012; its portfolio comprises lease assets of Bank Italy as well as lease assets of the securitisation transaction from 2009 that was terminated prematurely in 2011. The special purpose vehicle “Salina Leasing S.r.L.” issued the original volume of EUR 568.7 million. The securitisation transaction “Salina Leasing S.r.L.” was also rated by two rating agencies. Hypo Alpe Adria, the originator, also retained the notes but submitted the senior tranche to the ECB to generate liquidity.

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

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

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

In general, the fair value of a financial asset is determined by reference to quoted prices. If no quoted prices exist, the future cash flows of a financial instrument are discounted to present value using the relevant interest rate curve. Measurement is carried out by means of processes and financial calculations which are standard for this sector. When measuring financial instruments showing characteristics of options, option price models that take into account actual market parameters are used. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost.

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

Financial instruments are initially recognised at their fair value (usually the acquisition costs).

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

- Financial assets at fair value through profit or loss
  a. Held for trading
  b. Financial assets designated at fair value through profit or loss
- Held to maturity investments
- Loans and receivables
- Available-for-sale financial assets

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

- Financial liabilities at fair value through profit or loss
  a. Held for trading
  b. Financial liabilities designated at fair value through profit or loss
- Other liabilities

Financial assets at fair value through profit and loss

Financial instruments that are acquired for the purpose of their sale in the short term, or that form part of a portfolio managed for short-term profit taking, i.e. securities and receivables held for trading, are classified and recognised as assets held for trading.

The positive market values of derivatives in a hedging relationship, for application in banking book management, are reported in the item derivative financial instruments and not in trading assets.

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 net present value 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, results from currency valuation and changes in fair value are reported in the result from trading. Interest income, current dividends and interest expenses related to trading assets are reported in net interest income.

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 classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial asset contains one or more embedded derivatives
- The fair value approach eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch)

- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation in accordance with conditions 2 and 3 gives a better presentation of the financial situation and financial performance (see note (44) Result from financial assets – designated at fair value through profit or loss.)

This designation cannot, however, be made for equity instruments that have no quoted market value and whose fair value cannot be determined reliably.

By classifying financial instruments in this category, hedging relationships can be reflected without meeting the rigid rules of hedge accounting.

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

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

Held to maturity investments

This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturity which the group intends and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. 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 reduce directly the carrying amount in the statement of financial position and are recognised in profit or loss, included in the item interest and similar income as well as interest and similar expenses.

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

Loans and receivables

Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not held for trading and are not quoted in an active market. They are measured at amortised cost using the effective interest method. Impairments are disclosed separately as credit risk provisions in the item (see note (58) Risk provisions on loans and advances and provisions for credit risk) or at present value in finance lease receivables.

Originated loans, finance lease receivables, overnight loans and time deposits as well as unquoted bonds are mainly disclosed in this item. The position loans and advance to credit institutions also contains balances with central banks not daily due. Carrying amounts include accrued interest before deductions for risk provisions on loans and advances.

Premiums and discounts are spread in the accounts over the respective term and are also shown in net interest income. Interest income is recognised in the item interest and similar income.

Available-for-sale financial assets

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 (OCI) directly in equity. Upon disposal, the differential amounts to the carrying amount recorded in the available-for-sale reserve are released to profit or loss. Impairment losses and any reversals are immediately offset against the value of the asset shown in the statement of financial position. 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 also recognised in profit or loss.

Hypo Alpe Adria has classified most bonds and other fixed-interest securities, as well as shares and other non-fixed-interest securities, as financial investments – available for sale, if they are traded in an active market.

These investments are initially measured at their fair value, which corresponds to their quoted price (including transaction costs). Alternatively, the fair value is established on the basis of comparable instruments or by applying valuation techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not classed as part of costs. Subsequent measurements are based on the fair value (excluding transaction costs).

Further long-term investments as well as non-consolidated subsidiaries are classified as financial investments – available for sale. Equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairments.

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

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

For investments in equity instruments 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.

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

Other financial liabilities
This category encompasses financial liabilities, including liabilities evidenced by certificates, for which the fair value option was not used. As a general rule, they are recognised at amortised cost. Premiums and discounts are spread in the accounts over the respective term using the effective interest method and are reported under interest expense.

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

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

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- The structured finance product is not measured at fair value with changes in fair value recognised in profit or loss; and
- 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.

(12) Classes of financial instruments according to IFRS 7

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

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

	Essential valuation standard			Category 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: finance lease receivables		x		n/a
Trading assets	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Financial investments – afvtpl	x			FVO
Financial investments – afs			At fair value through other comprehensive income	AFS
Financial investments – htm		x		HTM
Investments in companies accounted for at equity				n/a
Other financial investments		x		
Assets classified as held for sale			Net disposal value	n/a
Liability classes				
Liabilities to credit institutions	x	x		LAR/LAC
Liabilities to customers	x	x		LAR/LAC/FVO
Liabilities evidenced by certificates	x	x		LAR/LAC/FVO
Trading liabilities	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Liabilities included in disposal groups classified as held for sale			Net disposal value	n/a

(13) Fair value

Fair value is defined as the amount which can be achieved in a sale transaction between knowledgeable, willing parties in an arm's length transaction. The following fair value hierarchy is based on the origin of the fair value:

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.

(14) Hedge accounting

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

The prerequisite for the use of hedge accounting is the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period there should be continual monitoring of whether the derivatives are compensating for changes in the value of the underlying transaction effectively (retrospective effectiveness). The proportion of the change in value of the hedged item and the hedging instrument must lie within a range of 80% to 125%. Once the hedge is no longer effective or once the hedged item or the hedging instrument no longer exists, hedge accounting must be discontinued.

Hypo Alpe Adria only uses fair value hedges in hedge accounting.
These serve to hedge changes in the market values of assets and liabilities (hedged items). The risks to be hedged concern the interest risk and the foreign currency risk. In the case of 100% effectiveness, the measurement effects of hedged items and the hedging instrument are fully offset and have no impact on the income statement. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognised in the result from 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 (11) Financial instruments: recognition and measurement (IAS 39). Positive market values of derivatives which are used for hedging are stated in derivative financial instruments on the asset side, while negative market values are stated in derivative financial instruments on the liabilities side.

(15) Leasing

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

The majority of the lease contracts entered into by Hypo Alpe Adria as lessor are classified as finance leases. In the statement of financial position, these are recorded under finance lease receivables at the net investment value (present value) – in this connection, please refer to notes (56) Loans and advances to credit institutions and (57) Loans and advances to customers. The receipts are split into interest income with impact on profit and loss, as well as debt repayments without impact on profit and loss.

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

Except for leased real estate, leased assets are reported in other financial investments (thereof operating leases). Lease income less scheduled depreciation on buildings is presented as interest and similar income. Gains or losses on disposal, along with any impairment, are reported in the 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.

(16) Repurchase agreements

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

(17) Fiduciary transactions

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

(18) Financial guarantees

Financial guarantees are contracts that oblige the company to make compensation payments to the guarantee holder for loss incurred. This loss may arise if a certain debtor did not meet his payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value less transaction costs directly related to the guarantee issued. Liabilities are subsequently measured on the basis of the best possible estimate of the amounts required for covering all current obligations as of the reporting date. If, however, fair value amounts to zero at initial recognition, it is evaluated during subsequent measurements if a provision pursuant to IAS 37 should be recognised.

(19) Cash and balances at central banks

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

Treasury bills, eligible for refinancing with central banks are not shown in this item but, depending on their valuation category, are shown as financial assets.

(20) Risk provisions on loans and advances

Credit default risks are accounted for by creating specific risk provisions and portfolio risk provisions and by setting aside reserves for off-balance-sheet commitments.

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

As specific risk provisions are based on the net present value of future cash flows, the future interest income of an impaired loan is determined through the addition of accrued interest. An increase in present value on the following reporting date is recognised as interest income (unwinding). If a loan restructuring or extension agreement is concluded, the recoverability of the loan commitment is assessed. A specific risk provision must be recognised if the present value of the agreed cash flows differs from the original carrying amount of the receivable.

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

After taking into account the customer segment and volume involved, Hypo Alpe Adria assumes the following LIP (Loss Identification Period) factors when calculating portfolio risk provisions on loans and advances: for banks and states: 0.1 (2011: 0.1) and for corporate and retail customers: 0.5 (2011: 0.5 to 1).

Amounts identified as irrecoverable after the collateral has been liquidated are charged against an existing specific risk provision or directly written off. The specific risk provision is only derecognised directly or utilised if there are no further legal claims regarding the customer at the time of recognition. Recoveries of loans and advances previously written-off are recognised in profit or loss. Allocations and reversals of risk provisions and provisions for credit commitments and guarantees 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.

(21) Derivative financial instruments

Positive and negative fair values of derivative financial hedging instruments for underlying transactions recognised pursuant to the fair value option (FVO) as well as banking book derivates, trading book derivatives and derivatives that meet the hedge accounting requirements of IAS 39 are reported in this item. In the income statement, the results of the measurement of FVO derivatives are recognised in the result from financial investments designated at fair value through profit or loss, the results of the measurements of banking book derivatives and trading book derivatives are reported in the result from trading, and those derivatives that meet the hedge accounting requirements of IAS 39 are stated in the result from hedge accounting.

(22) 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.

(23) Other financial investments

This item includes investment properties and movable lease assets let under operating lease agreements.
Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that material parts of mixed-use property can be let or sold separately, these parts are also treated as investment property. Investment properties are reported in the statement of financial position under other financial investments (see note (65) Other financial investments).

Investment properties are carried at amortized cost, adopting the cost method provided for in IAS 40, with straight-line depreciation applied over the useful life for tangible assets. At each reporting date, it is determined if there are any indications of possible impairment of investment properties held by the bank. Pursuant to IAS 36, the current carrying amount is offset against the recoverable amount for this purpose. The recoverable amount is therefore the higher of the two amounts at fair value less cost to sell and value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The calculation of value in use is based on the future expected cash flow as well as country-specific discounting factors for debt and equity financing, which assumes a debt (78%) and equity (22%) ratio derived from the market. The following country-specific weighted average cost of capital (WAAC) interest rates were used as a basis for this calculation: Croatia 4.89%, Italy 4.91%, Slovenia 4.29%, Bosnia-Herzegovina 6.30%, Serbia 5.34% and Montenegro 4.81%. The determining factors for the calculation of fair value are the market-based estimates that are generally prepared by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach or amortised replacement costs.

Current rental income and scheduled depreciation on rented buildings is offset and shown in interest and similar income. Capital gains/losses from disposal and any impairment losses are recognised in the result from other financial investments. If the reasons for the impairment cease to exist, the previously recognised impairment is written up. Write-ups are limited to the maximum carrying amount that does not exceed the amount that would have resulted from depreciation and amortisation if the asset had not been impaired in previous years. The useful life of building held as financial investments is the same as that of buildings recognised as assets.

(24) Intangible and tangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are measured at acquisition or manufacturing cost less depreciation. Internally generated software is recognised in accordance with IAS 38, 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 the impairment expense and therefore also on the carrying amount of the asset.

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

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

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

In the case of events and circumstances that indicate impairment, the expense is recognised in profit or loss. The impairment of corporate assets used by the group for generating cash flows is tested pursuant to IAS 36. The current carrying amount is therefore offset against the recoverable amount. The recoverable amount is therefore the higher of the two amounts at fair value less cost to sell and value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Scheduled depreciation and impairment losses are recognised separately in the income statement, whereas gains or losses on disposals are reported in the other operating result.

(25) 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. A deferred tax liability shall be recognized, if the reversal of temporary differences will lead to an effective tax burden. For temporary differences associated with shares in domestic subsidiaries, no deferred tax liabilities are recognised in accordance with IAS 12.39 (b) because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax assets are recognised for temporary differences, which lead to a tax credit when recovered. The tax assets and deferred tax liabilities have been offset 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 tax loss carry-forwards if it is deemed probable that future taxable profits will be available. This assessment is based on business plans passed by the Executive Board. The recoverability of a deferred tax asset due to tax loss carry-forwards and temporary differences is reviewed at the end of each reporting period.

The accrual and release of deferred tax assets or liabilities is either recognised in income statement or in other comprehensive income (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.

(26) Assets classified as 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:

- Direct availability for sale
- High probability of sale
- Concrete intention to sell
- 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 asset classified as held for sale 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 classified as held for sale and the liabilities associated therewith shall each be shown in a separate main item. In the income statement, it is not compulsory to report the associated expenses and income separately. Detailed information can be found on this in note (70) Assets classified as held for sale.

(27) Other assets

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

Receivables other than those arising from banking activities mainly include receivables from goods and services, 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. Impairment is applied if the carrying amount on the reporting date exceeds the net realisable 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 at 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 statement of comprehensive income in other operating result.

(28) Liabilities

Liabilities to credit institutions and customers, including liabilities evidenced by certificates, 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 liabilities evidenced by certificates 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.

(29) 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 personell expenses 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 within 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 personell expenses. 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 3.25% (2011: 4.75%) as at 31 December 2012, 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. and a fluctuation deduction of 0.0% (2011: 0.0%). The basic biometric data are taken from the Generations Life Expectancy Tables of the AVO (Austrian Actuarial Society) 2008 P for employees.

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

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

(30) 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.

(31) 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 in note (47) Other operating result.

(32) 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 in the corresponding expense item.

(33) Other liabilities

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

(34) Subordinated capital

Subordinated capital includes subordinated liabilities as well as supplementary capital.

Subordinated liabilities involve liabilities evidenced or not by certificates 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 issued by the bank/credit institution for at least eight years and any right of ordinary or extraordinary termination is waived. Here, the remaining maturity must be at least three years. Interest is only paid by the issuer to the extent it is covered by annual profits as shown in the separate financial statements in line with the Austrian Commercial Code/Banking Act. In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during its term.

It became evident in 2012 that it may not be possible to repay supplementary capital bonds issued by Hypo Alpe Adria at the originally agreed price due to their share in losses. If the fair value option is not applied for these instruments, they are recognised at amortised cost using the effective interest method. Pursuant to IAS 39 AG.8, the repayment amount has to be adjusted regularly in subsequent periods if the instrument shares in loss. The carrying amount of the liability is determined by discounting the future expected cash flows according to the original effective interest rate. To calculate the future expected cash flow, current company planning as well as future estimates are consulted; the effects from this remeasurement are recognised in result from other financial investments.

For further information on subordinated capital, see note (124) Servicing of subordinated capital.

(35) Hybrid capital

As a general rule, hybrid capital (as defined by the Austrian banking supervision regulations) is provided for the entire term of the enterprise. 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 due to the fact that coupons are essentially compulsory. Please refer to note (34) Subordinated capital regarding the measurement of hybrid capital.

(36) Equity (including non-controlling interests)

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

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

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

The item available-for-sale reserve reflects changes in fair values – after deductions for deferred taxes – arising from available-for-sale financial assets. Non-controlling interests in the equity of subsidiaries in accordance with IAS 1 are presented as a separate item within equity.

Notes to the income statement

(37) Segment reporting

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

In line with the restructuring plan produced for the purpose of the EU proceedings, that part of the group which is being systematically wound down is reported separately from the remaining business activities, which, in line with the restructuring plan, will be successively reprivatised. The "continuance" group units consist of the SEE network, i.e. bank and leasing companies in Slovenia, Bosnia and Herzegovina, as well as the banking units in Serbia (which still included leasing units as at 31 December 2011), Montenegro, Croatia, Italy and Austria. The sales process relating to the bank in Austria and the bank in Italy was initiated in 2011, with the objective of disposing of the two subsidiary companies in the medium term. Both companies will be included in segment reporting with their core business under "Austria" and "Italy" until they are no longer part of the Hypo Alpe Adria group. The separation into a "core business portfolio" and "wind-down business portfolio" already implemented in the segments in the previous year was legalised by means of demerger in 2012.

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, Montenegro, Bulgaria, Bosnia, Serbia (still recognised in the SEE network as at 31 December 2011), Ukraine and Italy, as well as non-performing wind-down portfolios that were split off from the SEE network banks in Bosnia and Herzegovina, Montenegro, Slovenia and also Croatia (in 2012) and allocated to the wind-down portfolio and whose business activities focus solely on wind-down. 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 portfolio (primarily cross-border and large-volume corporate lending business) of Hypo Alpe-Adria-Bank International AG and the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which was transferred to Hypo Alpe-Adria-Bank International AG in the financial year.

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

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

37.1. SEE network

The business units included in this segment generated total net interest income of EUR 267.1 million (2011: EUR 401.6 million) and net fee and commission income of EUR 59.7 million (2011: EUR 61.1 million) and thus contributed around 39.4% and as much as 95.2% to the respective total figures for the group. Compared to the previous year, however, this represents a decline of EUR 134.5 million and EUR 1.4 million respectively. The significant decrease in net interest income is primarily due to the transfer of non-performing wind-down portfolios as well as adjustments on the asset side following the reduction of the EURIBOR with interest on deposits remaining almost unchanged on the liabilities side.

The trading result, which includes the result from foreign currency translation, came to EUR +15.1 million (2011: EUR +17.2 million), the other operating result was negative, at EUR 12.5 million (2011: EUR -9.7 million). Nearly 16% (2011: 80%) of total risk costs – namely EUR 47.8 million (2011: EUR 182.9 million) were incurred by this segment, with particularly high risk provisions necessary in Croatia and Slovenia. The operating expenses for the SEE network came to EUR 217.8 million (2011: EUR 254.5 million), which represents a significant decrease of EUR 36.6 million compared to the previous year. These savings pertained to both personnel and administration expenses. The segment achieved a result before tax of EUR +60.4 million (2011: EUR +30.7 million); after accounting for income tax expense of EUR 5.1 million (2011: EUR 12.5 million) the segment result after tax comes to EUR +55.2 million (2011: EUR +18.2 million). The SEE network – if the special effects from the measurement of hybrid and supplementary capital in the Consolidation/Head Office segment are excluded – is thus the most profitable segment for the Hypo Alpe Adria group. The segment's assets reduced considerably compared to the previous year, to EUR 10.1 billion (2011: EUR 12.5 billion). This reduction is primarily due to the division of the portfolios into core business and wind-down business portfolios that were continued in 2012 with a transfer of around EUR 0.5 billion in Croatia following the transfers in 2011 in Slovenia, Montenegro as well as Bosnia and Herzegovina. Another portfolio transfer is planned for Serbia and Slovenia in 2013; this has already been included in segment assets as at 31 December 2012 (see also note (126) Portfolio transfer in the SEE network and in the banks in Italy and Austria).

37.2. Italy

The Italy segment, which is represented by the bank in Udine, is mainly composed of lease transactions in the real estate segment. Market conditions continue to be very difficult, in particular in the area of finance lease with a value of EUR 1.0 – 2.0 million, which resulted in new financing being below expectations in 2012. In total, the segment achieved net interest income of EUR 76.9 million (2011: EUR +100.7 million) and net fee and commission income of EUR 8.5 million (2011: EUR 7.4 million). Risk provisions on loans and advances, at EUR 30.0 million (2011: EUR 38.7 million) were below the prior year figures. After taking into account operating expenses of EUR 52.8 million (2011: EUR 59.7 million) and income tax expense of EUR 0.6 million (2011: EUR 7.3 million) the segment result after tax was slightly negative at EUR 3.7 million (2011: EUR +3.0 million). At the beginning of 2012, a transfer was made of a EUR 0.8 billion receivables portfolio to a wind-down company in preparation for the sale of the Italian business, so as to achieve a more attractive basis for selling to potential investors through offering a redimensioned bank. This portfolio transfer had already been recognised in the segment assets for Italy at year end 2011. Due to the lower volume of new business, the segment assets reduced from EUR 3.5 billion (2011) to EUR 3.3 billion (2012).

37.3. Austria

The part of the Austrian banking operations which was reduced to the “continuing part” through the demerger in the 2012 financial year achieved net interest income of EUR 40.9 million in the 2012 financial year (2011: EUR 47.1 million) and net fee and commission income of EUR 14.9 million (2011: EUR 16.5 million). The result from other financial investments of EUR +40.1 million in the financial year (2011: EUR 0.0 million) includes the result from the termination of two supplementary capital bonds with a nominal value of EUR 40.0 million as part of the demerger. After allowing for operating expenses of EUR 50.2 million (2011: 52.8 million), risk provisions on loans and advances of EUR 1.4 million (2011: EUR 0.2 million), income tax expense of EUR 3.4 million (2011: EUR 0.6 million) and other items contributing to the result and totalling EUR +6.4 million (2011: EUR -4.3 million) there is a positive segment result after tax of EUR 47.3 million (2011: EUR +5.9 million). The improvement in the result is primarily due to the special effect from the demerger recognised in the result from other financial investments. Total assets for the segment amount to EUR 4.1 billion as at 31 December 2012 and are thus some EUR 0.2 billion lower than the comparable figure for the previous year (EUR 4.3 billion).

37.4. Wind-down financials

The group leasing and financing companies and the sub-divisions of the Austrian banks which as per the restructuring plan drawn up for EU purposes are not considered to be part of the future continuance group, generated total net interest income of EUR +219.2 million (2011: EUR +149.3 million) in 2012. This increase is primarily due to the “unwinding” effect from the NPL portfolio recognised in this segment, which is the result of the increase in the net present value of the net receivables (gross commitments less specific risk provisions).

As in the previous year, the net fee and commission income was negative at EUR 26.6 million (2011: EUR 19.6 million), primarily due to the annual guarantee charges of around EUR 20.0 million in connection with the guarantee agreement concluded with the Republic of Austria at the end of 2010. The result from financial investments regarding AFVTPL in this segment resulted primarily from results from the measurement and sale of securities of the HBInt Credit Management investment company. The other operating result amounted to EUR +5.2 million (2011: EUR -10.1 million) and was mainly due to the reversal of provisions and impairment write-downs on current assets. The provisions on loans and advances in this segment rose from EUR 7.1 million to EUR 216.5 million in the 2012 financial year due to the NPL portfolio not being reduced as planned on account of the general economic situation and additional provisions having to be recognised.

At EUR 133.7 million, operating expenses increased significantly compared to previous year (EUR 96.0 million), primarily due to a steep rise in personell expense in the 2012 financial year, which was allocated to the “Wind-down financials” segment. This considered, these segments generated a negative result after tax of EUR 169.5 million (2011: EUR -19.5 million). Tax expenses of EUR 17.7 million (2011: EUR 1.2 million) were mainly created by the necessary amortisation of deferred taxes on loss carry-forwards as their future use is no longer probable.

The assets allocated to this segment have a value of EUR 11.4 billion as at 31 December 2012 (2011: EUR 9.7 billion) and include the non-performing loans (NPL) transferred or still to be transferred as a consequence of the portfolio transfer project for the “going concern” units. This is the main reason why the total assets for the segment have risen by around EUR 1.7 billion in comparison to 31 December 2011.

37.5. Wind-down participations

The real estate and tourism participations, which are also being wound down, posted negative net interest income (due to the nature of their operations) of EUR 8.6 million (2011: EUR -7.5 million) and negative net fee and commission income of EUR 2.1 million (2011: EUR -1.4 million). As the funding of some of these companies is conducted in a foreign currency, there was a trading result of EUR +0.7 million (2011: EUR -8.6 million) due to exchange rate movements. Other operating income includes sales revenues and expenses directly related to service provision and contributed EUR 33.5 million (2011: EUR 36.6 million) to the segment result. Operating expenses, at EUR 32.3 million (2011: EUR 57.6 million) were higher than the income achieved and, taking into account the financing result, led to a negative segment result of EUR 25.1 million after tax (2011: EUR -52.4 million). The total value of assets for the segment has now reduced, following disposal of the tourism participations, from EUR 0.3 billion (2011) to EUR 0.2 billion.

37.6. Consolidation/Head Office

This segment includes the core activities of the Austrian group holding company, namely controlling and managing funds for the group companies, as well as consolidation effects between the individual segments. As a result of the financing function performed for the group, this segment reported positive net interest income of EUR 82.9 million, which was significantly lower than the prior-year figure of EUR +62.0 million. This rise in net interest income is the result of an increase in interest rate marges and a simultaneous decrease in the volume of funding for the subsidiaries in 2012. Net fee and commission income was roughly on par with the figure in the previous year, at EUR 8.4 million (2011: EUR +9.2 million), the trading result came to EUR 8.9 million (2011: EUR +16.4 million). The prime reasons for the positive overall segment result of EUR +106.7 million before income tax expense (2011: EUR +117.9 million) were the positive effects totalling EUR 99.9 million from the measurement of supplementary and hybrid capital that are recognised in the result from other financial investments. The negative result from the AFVTPL measurement category of EUR 28.5 million (2011: EUR +125.3 million) mainly resulted from the fair value measurement of issues related to liabilities side. The negative result in the financial year is primarily caused by the approaching repayment dates for the issues ("pull to par" effect).

The segment showed a positive net result, after income taxes of EUR 7.9 million (2011: EUR 4.3 million), of EUR 98.7 million (2011: EUR +113.6 million). The value of total assets for the segment amounts to EUR 4.6 billion (2011: EUR 4.8 billion) as at the reporting date and is therefore on par with the prior-year value.

37.7. Segment presentation

EUR m

Period 1.1. - 31.12.2012	SEE-network	Italy*	Austria*	Wind-Down Financial	Wind-Down Partici-pations	Consolidati on/Head Office	sum
Net interest income	267.1	76.9	40.9	219.2	-8.6	82.9	678.4
Net fee and commission income	59.7	8.5	14.9	-26.6	-2.1	8.4	62.7
Result from trading	15.1	2.9	2.6	-4.4	0.7	8.9	25.8
Result from hedge accounting	0.0	-0.1	0.1	0.0	0.0	-2.3	-2.3
Result from fin. investments – afvtpl	0.0	-0.2	-0.5	25.1	-3.0	-28.5	-7.0
Result from fin. investments – afs	-4.4	0.0	1.9	-0.6	-0.3	-4.8	-8.2
Result from fin. investments – htm	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1
Result from other financial investments	1.1	0.3	40.1	-19.5	-0.1	101.2	122.9
Other operating result	-12.5	-9.9	2.5	5.2	33.5	-41.6	-22.8
Operating income	**325.9**	**78.5**	**102.4**	**198.4**	**20.1**	**124.1**	**849.4**
Risk provisions on loans and advances	-47.8	-30.0	-1.4	-216.5	-14.3	0.0	-309.9
Operating income after risk provisions	**278.1**	**48.5**	**101.0**	**-18.1**	**5.9**	**124.1**	**539.5**
Personnel expenses	-97.1	-28.2	-32.2	-61.4	-20.4	-20.0	-259.3
Other administrative expenses	-97.7	-20.8	-16.7	-54.8	-9.9	10.1	-189.8
Depreciation and amortisation on tangible and intangible assets	-23.0	-3.9	-1.3	-17.5	-2.0	-7.6	-55.2
Operating expenses	**-217.8**	**-52.8**	**-50.2**	**-133.7**	**-32.3**	**-17.4**	**-504.2**
Segment result (Operating result)	**60.4**	**-4.3**	**50.8**	**-151.8**	**-26.4**	**106.7**	**35.3**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result before tax	**60.4**	**-4.3**	**50.8**	**-151.8**	**-26.4**	**106.7**	**35.3**
Taxes on income	-5.1	0.6	-3.4	-17.7	1.3	-7.9	-32.2
Result after tax	**55.2**	**-3.7**	**47.3**	**-169.5**	**-25.1**	**98.7**	**3.0**
Segment assets	10,114.0	3,282.6	4,145.4	11,418.8	249.9	4,593.0	33,803.7
thereof non-current assets	295.0	39.4	5.9	1,391.5	100.8	-3.9	1,828.7
Loans and advances to customers	7,713.9	3,067.5	2,775.0	10,548.6	0.6	296.0	24,401.5
Liabilities to customers	4,642.8	679.6	1,578.9	57.6	1.0	1,445.9	8,405.9

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

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

EUR m

Period 1.1. - 31.12.2011	SEE-network	Italy*	Austria*	Wind-Down Financial	Wind-Down Partici-pations	Consolidation/Head Office	sum
Net interest income	401.6	100.7	47.1	149.3	-7.5	62.0	753.3
Net fee and commission income	61.1	7.4	16.5	-19.6	-1.4	9.2	73.1
Result from trading	17.2	1.4	2.3	-8.5	-8.6	16.4	20.2
Result from hedge accounting	0.0	0.0	-0.3	0.0	0.0	0.5	0.2
Result from fin. investments – afvtpl	0.0	-0.2	-0.3	-17.1	-1.4	125.3	106.3
Result from fin. investments – afs	-1.2	0.0	-3.8	-4.4	-9.9	-35.5	-54.8
Result from fin. investments – htm	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result from other financial investments	-0.6	0.1	0.0	-4.8	-2.8	9.9	1.9
Other operating result	-9.7	-0.7	-2.2	-10.1	36.6	-16.1	-2.2
Operating income	**468.3**	**108.8**	**59.4**	**84.8**	**5.0**	**171.7**	**898.0**
Risk provisions on loans and advances	-182.9	-38.7	-0.2	-7.1	-1.0	0.0	-229.8
Operating income after risk provisions	**285.4**	**70.1**	**59.3**	**77.7**	**4.1**	**171.7**	**668.2**
Personnel expenses	-113.8	-32.3	-35.1	-16.7	-26.6	-53.7	-278.3
Other administrative expenses	-113.6	-23.2	-16.1	-72.9	-13.3	1.4	-237.7
Depreciation and amortisation of tangible and intangible assets	-27.1	-4.2	-1.6	-6.4	-17.6	-1.4	-58.3
Operating expenses	**-254.5**	**-59.7**	**-52.8**	**-96.0**	**-57.6**	**-53.7**	**-574.2**
Segment result (Operating result)	**30.9**	**10.4**	**6.5**	**-18.3**	**-53.5**	**117.9**	**93.9**
Result from companies accounted for at equity	-0.2	0.0	0.0	0.0	1.1	0.0	0.9
Result before tax	**30.7**	**10.4**	**6.5**	**-18.3**	**-52.4**	**117.9**	**94.8**
Taxes on income	-12.5	-7.3	-0.6	-1.2	0.5	-4.3	-25.5
Result after tax	**18.2**	**3.0**	**5.9**	**-19.5**	**-51.8**	**113.6**	**69.3**
Segment assets	12,517.3	3,492.6	4,286.6	9,707.6	281.9	4,846.5	35,132.5
thereof non-current assets	1,100.0	41.7	11.3	208.8	46.8	-3.5	1,405.2
Loans and advances to customers	9,109.9	3,097.5	2,766.8	11,260.8	5.5	481.9	26,722.4
Liabilities to customers	4,368.0	584.6	1,671.6	86.5	1.1	1,489.3	8,201.1

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

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

(38) Interest and similar income

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Interest income	**1,242.1**	**1,378.5**
from loans and advances to credit institutions	17.3	37.7
from loans and advances to customers	892.1	1,003.0
from bonds, treasury bills		
and other fixed-interest securities	85.6	90.7
from derivative financial instruments, net	238.1	233.3
Other interest income	9.0	13.8
Current income	**252.8**	**312.5**
from shares and other non-fixed interest securities	4.5	4.3
from lease business	214.6	273.2
from investment properties	33.7	35.0
Total	**1,494.8**	**1,691.0**

Interest income also includes the income from unwinding in the amount of EUR 178.2 million (2011: EUR 175.2 million) as well as fees and commissions with similar interest characteristics. A significant part of the item 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 49.4 million (2011: EUR 51.9 million) and scheduled depreciation on rented properties totalling EUR 15.7 million (2011: EUR 17.0 million).

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

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2012	1.1. - 31.12.2011
Interest income		**1,242.1**	**1,378.5**
from loans and advances to credit institutions and customers	LAR	894.4	1,023.5
from trading assets	HFT	0.3	0.8
from derivative financial instruments, net	HFT (Fair Value Hedges)	238.1	233.3
financial investments – designated at fair value through profit or loss	FVO	26.2	31.3
from financial investments – available for sale	AFS	76.6	80.9
from financial investments – held to maturity	HTM	2.8	1.5
from balances at central banks	-	3.3	6.8
Other	-	0.3	0.5
Current income		**252.8**	**312.5**
from shares and other non-fixed interest securities	AFS	4.5	4.3
from lease business	-	214.6	273.2
from investment properties	-	33.7	35.0
Total		**1,494.8**	**1,691.0**

(39) Interest and similar expenses

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Interest expenses	**-805.7**	**-905.8**
for liabilities to credit institutions	-90.0	-115.8
for liabilities to customers	-262.3	-249.4
for liabilities evidenced by certificates	-416.3	-502.4
for subordinated capital	-32.4	-35.7
for other liabilities	-4.7	-2.5
Similar expenses	**-10.8**	**-32.0**
Total	**-816.5**	**-937.8**

Interest-like expenses also include commissions paid for guarantees if they are directly connected with issues.

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

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2012	1.1. - 31.12.2011
Interest expenses		**-805.7**	**-905.8**
for financial liabilities – designated at fair value through profit or loss	FVO	-28.3	-32.9
for financial liabilities – at cost	Fin. Liabilities At Cost	-772.9	-871.3
for financial liabilities to central banks	Fin. Liabilities At Cost	-3.7	-1.6
Other	-	-0.7	0.0
Similar expenses		**-10.8**	**-32.0**
Total		**-816.5**	**-937.8**

(40) Fee and commission income

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Credit business	36.6	42.9
Securities and custodian business	11.9	13.4
Bank transfers including payment transactions	40.5	36.7
Other financial services	26.2	28.2
Total	**115.1**	**121.2**

(41) Fee and commission expenses

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Credit business	-29.8	-24.6
Securities and custodian business	-6.3	-6.1
Bank transfers including payment transactions	-8.2	-8.6
Other financial services	-8.0	-8.7
Total	**-52.4**	**-48.1**

Fee and commission expenses also include commission payable to the Republic of Austria for the assumption of guarantee in the amount of EUR 19.6 million (2011: EUR 20.0 million).

(42) Result from trading

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Foreign exchange transactions	25.6	22.9
Shares and index related transactions	0.3	-2.7
Total	**25.8**	**20.2**

In addition to trading activities, the item result from trading also includes income from banking book derivatives as well as from currency valuation. Foreign exchange transactions include profits and losses from derivative trading of EUR 9.4 million (2011: EUR -14.0 million).

(43) Result from hedge accounting

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

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Valuation result from secured underlying transactions	51.4	-124.7
Valuation result from hedging derivatives	-53.7	124.9
Total	**-2.3**	**0.2**

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

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Result from financial assets and related derivatives	**29.1**	**-21.0**
from loans and advances to customers and credit institutions	4.9	-1.9
from equity instruments	-3.2	-2.1
from debt instruments	26.4	-17.0
from treasury bills	1.0	0.0
Result from long-term financial liabilities and related derivatives	**-36.1**	**127.3**
from liabilities evidenced by certificates	-22.7	44.3
from subordinated capital	-13.2	79.9
from other liabilities	-0.2	3.2
Total	**-7.0**	**106.3**

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.

In the past years, the changes in the bank's own credit spreads or to the widening of the liquidity spread of financial liabilities recognised at fair value resulted in an amount of EUR 214.4 million, which in the previous years was recognised in income. EUR 74.1 million (hybrid capital) and EUR 6.5 million (supplementary capital) were recognised permanently by buying back hybrid capital in April 2012 and supplementary capital in December 2012. Due to the so-called "pull-to-par effect" (appreciation as the due date approaches), a negative effect of EUR 32.2 million was achieved in 2012. The remaining cumulative effect of EUR 103.5 million may lead to measurements being recognised in profit or loss in the IFRS consolidated financial statements in the coming years. Of this amount, EUR 76.1 million pertains to issues underwritten by third parties, EUR 16.7 million to the still outstanding hybrid capital instruments (nominal value: EUR 23.5 million) and EUR 10.7 million to supplementary capital issues.

(45) Result from financial investments – available for sale

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Income from financial investments – available for sale	**28.2**	**15.4**
Capital gains	20.3	8.7
Income from write-up	8.0	6.7
Expenses from financial investments – available for sale	**-36.4**	**-70.2**
Losses from disposal	-9.1	-19.1
Expenses from impairment	-27.3	-51.1
Total	**-8.2**	**-54.8**

(46) Result from other financial investments

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Result from investment properties	**-26.0**	**-14.5**
Other income	1.0	1.0
Other expenses	-27.1	-15.5
Result from operate lease assets	**7.8**	**5.1**
Other income	14.3	14.7
Other expenses	-6.5	-9.6
Other income from financial investments	**141.2**	**11.3**
Total	**122.9**	**1.9**

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

EUR 25.0 million (2011: EUR 14.7 million) of other expenses from investment properties in 2012 relates to impairment of assets, the majority of which pertains to the Slovenian leasing unit.

In April 2012, Hypo Alpe-Adria Bank International AG bought back hybrid capital issued by Hypo Alpe Adria. This buy-back resulted in a gain of EUR 12.2 million, which has been reported under the item other income from financial investments. Supplementary capital bonds were bought back in December 2012. Including the result from the closing of associated derivatives, this resulted in a gain of EUR 1.5 million, which was also recognised in this item. The hybrid and supplementary capital bonds recognised at amortised cost in the statement of financial position have been written down and accounted therefore for the largest part of the amount recognised in this item (EUR 99.9 million). In compliance with IAS 39 and IAS 8, this resulted from remeasurements of future cash flows to be expected from these instruments carried out in the 2012 financial year on account of a material change in circumstances.

(47) Other operating result

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Other income	262.8	303.5
Other expenses	-285.7	-305.7
Total	**-22.8**	**-2.2**
Other rental income	1.8	1.7
Net capital gains/losses from the sale of intangible and tangible assets	2.3	1.5
Result from emergency acquisitions and repossessed asset	-16.1	-29.1
Result from allocation/release of other provisions	14.7	15.4
Other tax expenses (including bank tax exempt income tax)	-30.5	-24.7
Expenses from complete or partial sale of fully consolidated companies	-0.7	0.5
Restructuring expenses	1.8	-0.9
Result from assets classified as held for sale and disposal groups	-12.4	-0.5
Other result	16.2	33.9
Total	**-22.8**	**-2.2**

Other rental revenue is the result of renting buildings used for own activities, which are of minor importance.

EUR 5.2 million of the result from the reversal of other provisions is connected to the reversal of provisions for potential penalty payments as well as EUR 4.3 million from the reversal of provisions for consultancy and support services originating from the settlement of a legal dispute in 2012.

Other tax expenses include the banking levy for the 2012 financial year of EUR 22.1 million (2011: EUR 17.7 million).

The result from emergency acquisitions and repossessed asset includes impairments on these assets, the majority of which originates from the leasing units in Bulgaria and Germany. Gains from repossessed asset of EUR 3.3 million, which in the previous year had been recognised in net capital gains/losses, was reclassified to the results from emergency acquisitions and repossessed asset in the 2012 financial year. Prior-year figures have been adjusted accordingly.

Detailed information on restructuring expenses can be found in note (112) Restructuring expenses.

The majority of the result from assets classified as held for sale and disposal groups was generated by the sale of the Croatian companies Aluflexpack Novi d.o.o., Aluflexpack d.o.o. and TLM-TVP d.o.o.

The remaining other result relates primarily to other, non-bank-related income and expenses. The income included the sales revenues of EUR 80.5 million (2011: EUR 88.6 million) from the packaging manufacturer Aluflexpack Novi d.o.o., which was sold in 2012 and which took over the operations of Aluflexpack d.o.o. as part of a reorganisation, and of EUR 81.4 million (2011: EUR 130.2 million) from TLM-TVP d.o.o. The related manufacturing costs of Aluflexpack Novi d.o.o. of EUR 64.0 million (2011: EUR 56.7 million) and of TLM-TVP d.o.o. of EUR 71.0 million (2011: EUR 125.6 million) are included in expenses.

The positive effects of the reversal of provisions for personnel costs (EUR +2.7 million) have been reclassified from other operating result to personnel expenses in 2012. Prior-year figures have been adjusted accordingly. This reclassification had no effect on either the income statement or statement of financial position.

(48) Risk provisions on loans and advances

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

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Allocations	**-691.6**	**-772.9**
for risk provisions on loans and advances	-684.1	-753.2
for provisions for credit commitments and guarantees	-7.5	-19.7
Releases	**372.2**	**512.7**
for risk provisions on loans and advances	340.6	466.3
for provisions for credit commitments and guarantees	31.7	46.4
Receipts from loans and advances previously impaired	**36.9**	**57.2**
Directly recognised impairment losses	**-27.4**	**-26.8**
Total	**-309.9**	**-229.8**

Detailed information on risk provisions on loans and advances is given in note (58) Risk provision on loans and advances and provisions for credit risks.

(49) Personnel expenses

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Wages and salaries	-184.3	-200.4
Social security	-51.5	-55.1
Long-term employee provisions	-12.4	-10.2
Pensions	-6.0	-4.2
Severance Payments	-6.4	-6.0
Other employee costs	-11.0	-12.7
Total	**-259.3**	**-278.3**

The long-term employee provisions contain contributions to defined contribution plans totalling EUR 0.8 million (2011: EUR 0.2 million). In addition, payments totalling EUR 0.7 million (2011: EUR 0.7 million) were made into the employee severance and retirement fund for the employees in Austria.

The positive effects of the reversal of provisions for personnel costs (EUR 2.7 million) have been reclassified from other operating result to personnel expenses in 2012. Prior-year figures have been adjusted accordingly. This reclassification had no effect on either the income statement or statement of financial position.

(50) Other administrative expenses

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Infrastructure costs	-48.4	-45.6
IT- and telecommunications	-41.9	-42.9
Advertising costs	-10.6	-17.3
Legal and advisory costs	-25.9	-26.0
Expense for audit and audit-related services	-4.2	-6.7
Expenses related to reorganisation and restructuring	-8.8	-30.2
Investigation of the past	-6.0	-16.1
Staff training cost	-4.2	-3.5
Administration expenses related to HBInt. Credit Management	-1.7	-5.6
Other general administrative expenses	-38.1	-43.8
Total	**-189.8**	**-237.7**

The item audit and audit-related services includes costs of EUR 2.7 million (2011: EUR 4.0 million) for the audit firm Ernst & Young, see note (113) Audit expenses.

(51) Depreciation and amortisation of tangible and intangible assets

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Land and buildings	-27.3	-14.3
Plant and equipment	-15.5	-19.5
Intangible assets	-12.4	-24.4
Total	**-55.2**	**-58.3**

Total depreciation and amortisation includes impairments of tangible assets and intangible assets of EUR 20.8 million (2011: EUR 12.4 million), mainly for an Italian hotel (EUR 6.8 million) and own-used corporate assets used by the bank (EUR 7.6 million). The reason for this impairment was that the expected cash flows underlying the assets were down significantly compared to prior year.

(52) Result from companies accounted for at equity

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Share of profits	0.0	1.1
Share of losses	0.0	-0.3
Total	**0.0**	**0.9**

(53) Taxes on income

53.1. Income tax expenses

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Current tax	**-30.5**	**-21.7**
from previous period	0.7	-1.8
Current tax expenses	-33.1	-21.8
Current tax income	2.6	0.1
Deferred tax	**-1.7**	**-3.8**
from previous period	2.6	0.1
Deferred tax expenses	-26.9	-57.1
Deferred tax income	25.2	53.3
Total	**-32.2**	**-25.6**

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

EUR m

	31.12.2012	31.12.2011
Result before tax	**35.3**	**94.8**
Theoretical income tax expense based on Austrian corporate tax rate of 25%	**-8.8**	**-23.7**
Tax effects		
from divergent foreign tax rates	3.5	-5.2
from previous year	1.5	-2.2
from foreign income and other tax-exempt income	1.0	2.0
from investment related tax relief and other reducing the tax burden	6.9	20.3
from non-tax deductible expenses	-17.6	-25.2
from non-recognition of deferred taxes on tax loss carry-forwards and temporary differences	-16.8	-19.8
from the change of deferred taxes on tax loss carry-forwards and temporary differences	-10.1	0.0
from non-recognition of deferred taxes because temporary differences	0.0	26.8
from other tax effects	8.1	1.5
Effective tax burden (shown in income statement)	**-32.3**	**-25.5**
Effective tax rate	**91.6%**	**26.9%**

53.2. Deferred tax assets/liabilities

In 2012, deferred tax assets and liabilities were offset in as far as the specifications of IAS 12 permitted.

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 to 2010 are, by contrast, legally valid. The corporate income tax return for 2011 has not yet been submitted to the tax authorities. An tax audit is currently taking place which affects all Austrian members of the tax group.

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

EUR m

31.12.2012	Deferred tax assets	Deferred tax liabilities	Income Statement	Other comprehensive income (OCI)
Provisions for loans and advances	27.6	-8.2	-1.6	0.0
Accelerated depreciation for tax purposes/Accelerated capital allowances	1.1	-1.9	0.2	-2.8
Revaluations of afs investments to fair value	0.3	-0.3	0.8	0.0
Impairment on afs debt instruments	3.0	-0.6	-10.9	-0.3
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	2.3	-1.5	5.9	0.0
FVO – revaluation of a financial asset/liability and the related swap	1.4	-0.3	18.7	0.0
Revaluation of lease contracts	0.0	-5.2	-4.7	0.0
Post-employment benefits (pensions and other retirements)	0.1	0.0	0.0	0.0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	0.1	0.0	0.1	0.0
Deferred revenue fee income	3.8	0.0	-0.3	0.0
Other	3.3	-4.0	-6.8	-0.7
Utilisable tax loss carry-forwards	15.6	0.0	-3.1	0.0
Total deferred tax	**58.6**	**-22.0**	**-1.7**	**-3.8**

Deferred taxes were recognised in 2011 for the following items:

EUR m

31.12.2011	Deferred tax assets	Deferred tax liabilities	Income Statement	Other comprehensive income (OCI)
Provisions for loans and advances	36.2	-19.2	-1.5	0.0
Accelerated depreciation for tax purposes/Accelerated capital allowances	1.8	-0.3	-0.1	2.5
Revaluations of afs investments to fair value	1.0	0.0	0.0	0.0
Impairment on afs debt instruments	2.4	0.0	-0.2	0.0
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	2.2	0.0	-0.2	0.0
FVO – revaluation of a financial asset/liability and the related swap	2.7	0.0	-0.2	0.0
Revaluation of lease contracts	0.0	-4.0	0.3	0.0
Post-employment benefits (pensions and other retirements)	0.2	0.0	0.0	0.0
Termination benefits and other long term employee benefits (compensation for termination of contracts, long-service leave, jubilee benefits)	0.2	0.0	0.0	0.0
Deferred revenue fee income	4.7	0.0	-0.4	0.0
Other	3.2	-8.2	0.4	0.0
Utilisable tax loss carry-forwards	22.0	0.0	-1.9	0.0
Total deferred tax	**76.5**	**-31.8**	**-3.8**	**2.5**

Deferred tax assets – tax amounts

From deferred tax assets recognised, EUR 15.6 million (2011: EUR 21.9 million) were the result of recognising tax assets in respect of usable tax loss carry-forwards. Due to a lack of possible usability deferred tax assets from tax loss carry-forwards in the various group companies amounting to EUR 717.9 million (2011: EUR 769.9 million) were not recognised. The difference for deferred taxes recognised in other comprehensive income amounted to EUR -4.0 million (2011: EUR 2.3 million) in 2012.

(54) Non-controlling interests

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

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
HBInt. Credit Management Limited	**16.5**	**-2.3**
Share in interest income	4.5	5.8
Share in measurement result	12.0	-8.1
Norica Investments Limited	**15.2**	**13.6**
Share in interest income	15.2	13.6
Non-controlling interests of other co-owners	**-0.5**	**-1.2**
Total	**31.1**	**10.2**

At HBInt Credit Management Limited, the total result stemming from the measurement and sale of securities amounted to EUR +25.1 million (2011: EUR -16.5 million) in 2012. In the consolidated financial statements, EUR +12.3 million (2011: EUR -8.1 million) thereof are assigned to the 49% non-controlling shareholder as a result covered by the equity contribution.

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

Notes to the statement of financial position

(55) Cash and balances at central banks

EUR m

	31.12.2012	31.12.2011
Cash on hand	124.4	122.1
Balances with central banks (due on demand)	2,748.8	635.4
Total	**2,873.2**	**757.5**

Balances with central banks only include those balances which are due on demand. Balances that are not due on demand are shown under loans and advances to credit institutions. The balances at central banks also serve to meet the requirements for minimum reserves. As at the reporting date, the minimum reserve held as due on demand amounted to EUR 288.9 million (2011: EUR 255.2 million).

Balances with central banks increased significantly in the financial year due to the liquid funds from the capital measures in 2012 being assessed as risk-free.

(56) Loans and advances to credit institutions

56.1. Loans and advances to credit institutions – by type of business

EUR m

	31.12.2012	31.12.2011
Minimum reserve (not due daily)	434.3	496.9
Giro- and clearing business	550.3	497.4
Money market placements	834.9	1,821.6
Loans	160.7	236.6
Finance lease receivables	11.1	11.9
Other loans and advances	1.8	68.9
Total	**1,993.1**	**3,133.4**

56.2. Loans and advances to credit institutions – by region

EUR m

	31.12.2012	31.12.2011
Austria	623.8	1,576.1
Central and Eastern Europe (CEE)	579.3	641.9
Other countries	790.0	915.4
Total	**1,993.1**	**3,133.4**

(57) Loans and advances to customers

57.1. Loans and advances to customers – by type of business

EUR m

	31.12.2012	31.12.2011
Current account credit	745.5	835.3
Bank loans	9,529.5	10,218.9
Mortgage loans	4,726.7	4,922.9
Municipal loans	3,152.8	2,559.0
Finance lease receivables	4,730.3	5,620.9
Other loans and advances	1,516.6	2,565.4
Total	**24,401.5**	**26,722.4**

The continuous reduction in loans and advances to customers by 8.7% to EUR 24.4 billion in 2012 originates from the planned further reduction in the customer business in the wind-down business portfolio.

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

EUR m

	31.12.2012	31.12.2011
Public sector	3,390.8	4,997.7
Corporate clients	14,498.8	14,676.4
Retail clients	6,511.9	7,048.3
Total	**24,401.5**	**26,722.4**

57.3. Loans and advances to customers – by region

EUR m

	31.12.2012	31.12.2011
Austria	3,886.8	4,248.7
Central and Eastern Europe (CEE)	15,288.0	16,617.7
Other countries	5,226.7	5,856.0
Total	**24,401.5**	**26,722.4**

(58) Risk provisions on loans and advances and provisions for credit risk

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

An impairment of around EUR 196.2 million was prevented by concluding a guarantee agreement in the amount of EUR 200.0 million with the Republic of Austria at the end of 2010. Please refer to note (123) Guarantee agreements for more information.

EUR m

	as at 1.1.2012	Foreign exchange-differences	Allocations	Releases	Use	Changes to the consolidated Group	Unwinding	as at 31.12.2012
Specific risk provisions	**-2,934.0**	**-1.7**	**-653.3**	**286.3**	**204.6**	**-10.5**	**178.3**	**-2,930.3**
Loans and advances to credit institutions	-13.1	0.0	0.0	0.8	10.0	0.0	0.0	-2.4
Loans and advances to customers	-2,914.3	-1.7	-649.7	285.3	194.6	-10.4	178.3	-2,917.9
to public sector	-4.4	0.0	-0.4	1.3	0.4	0.0	0.2	-3.0
to corporate clients	-2,547.1	-1.7	-516.4	224.5	169.0	10.2	155.0	-2,506.5
to retail clients	-362.8	0.0	-132.8	59.5	25.2	-20.6	23.0	-408.4
Other financial assets	-6.6	0.0	-3.6	0.2	0.1	-0.1	0.0	-10.0
Portfolio-based risk provisions	**-176.0**	**-0.6**	**-30.8**	**54.3**	**0.0**	**-0.3**	**0.0**	**-153.4**
Loans and advances to credit institutions	-0.1	0.0	-0.5	0.1	0.0	0.0	0.0	-0.6
Loans and advances to customers	-175.5	-0.6	-30.1	54.2	0.0	-0.3	0.0	-152.3
Other financial assets	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	-0.5
Subtotal risk provisions on loans and advances	**-3,110.0**	**-2.2**	**-684.1**	**340.6**	**204.6**	**-10.8**	**178.3**	**-3,083.7**
Provisions for credit commitments and guarantees	**-48.2**	**-2.3**	**-7.5**	**31.7**	**0.3**	**0.0**	**0.0**	**-26.0**
Individual provisions	-21.6	-2.3	-4.1	19.0	0.3	0.0	0.0	-8.7
Portfolio provisions	-26.6	0.1	-3.4	12.7	0.0	0.0	0.0	-17.3
Total	**-3,158.2**	**-4.5**	**-691.6**	**372.2**	**204.9**	**-10.8**	**178.3**	**-3,109.7**

Risk provisions on loans and advances and provisions for credit risk were as follows as at 31 December 2011:

EUR m

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

Additionally, please refer to notes (4) Use of estimates and assumptions/uncertainties in connection with estimates, (48) Risk provisions and (83) Risk report et seq.

Provisions for credit risk are stated in note (76) Provisions.

58.2. Risk provisions on loans and advances – by region

EUR m

	31.12.2012	31.12.2011
Austria	-229.9	-266.5
Central and Eastern Europe (CEE)	-2,477.1	-2,475.9
Other countries	-376.8	-367.7
Total	**-3,083.7**	**-3,110.0**

(59) Trading assets

EUR m

	31.12.2012	31.12.2011
Bonds and other fixed-interest securities	1.4	11.6
Shares and other non-fixed-interest securities	0.1	0.5
Total	**1.5**	**12.0**

(60) Derivative financial instruments

EUR m

	31.12.2012	31.12.2011
Positive market value of derivative financial instruments – trading	32.8	28.2
Positive market value of derivative financial instruments – banking book	1,393.3	1,405.8
Total	**1,426.1**	**1,434.0**

Hypo Alpe Adria hedged the fixed interest component of several fixed-interest issues with derivative financial instruments as part of its interest risk management. The market value of the issues developed negatively and the corresponding derivative transaction positively due to the steep drop in interest rates compared with the issue date of the liabilities. By using hedge accounting and the fair value option, the underlying transactions are not recognised at amortised cost but at the so-called hedge adjusted value instead (hedge fair value), while the market value of the derivative transaction is recognised separately as an asset pursuant to IAS 39. Positive market values from derivative transactions are primarily hedged by counterparties supplying cash collateral.

The net change in the market value of the derivative instruments and the hedged underlying transactions are recognised in the result from hedge accounting and in the result from financial assets – designated at fair value through profit or loss on the basis of the corresponding designation.

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

EUR m

	31.12.2012	31.12.2011
Loans and advances to customers and credit institutions	579.1	563.9
Bonds and other fixed-interest securities	185.2	159.2
Shares and other non-fixed-interest securities	19.1	37.5
Total	**783.4**	**760.6**

(62) Financial investments – available for sale

EUR m

	31.12.2012	31.12.2011
Bonds and other fixed-interest securities	2,627.0	2,568.8
Shares and other non-fixed-interest securities	40.8	58.5
Participations without intention for sale (< 20%)	6.6	5.3
Other participations (associated companies 20% - 50%)	2.8	2.9
Shares in affiliated, non-consolidated companies (> 50%)	11.0	16.2
Total	**2,688.3**	**2,651.7**

(63) Financial investments – held to maturity

EUR m

	31.12.2012	31.12.2011
Bonds and other fixed-interest securities	85.5	36.5
Treasury bills, eligible for refinancing with central banks	5.0	0.0
Total	**90.5**	**36.5**

In 2012, financial assets available for sale with a carrying amount of EUR 49.2 million were reclassified to held to maturity due to a change in the intention to hold them. These financial assets had a fair value of EUR 50.3 million as at 31 December 2012, with a related carrying amount of EUR 49.6 million. The original measurement at fair value would have resulted in a positive effect of EUR 1.1 million in the revaluation reserve.

(64) Investments in companies accounted for at equity

EUR m

	31.12.2012	31.12.2011
Shares in other associated companies	7.4	1.4
Total	**7.4**	**1.4**

The list of associated companies accounted for at equity is shown in note (132) Scope of consolidation.

(65) Other financial investments

EUR m

	31.12.2012	31.12.2011
Investment properties	1,279.2	837.5
Assets used for operate lease	112.9	147.9
Total	**1,392.0**	**985.4**

The majority of investment properties include real estates let under operating lease agreements.

The rise in investment properties is mainly due to the recognition of the assets from emergency acquisitions that are only intended for sale in the medium term and that meet the criteria for classification as investment properties pursuant to IAS 40. Previously, they had been recognised in other assets.

(66) Development of financial assets and financial investments

31.12.2012	Acquisition costs 1.1.2012	Foreign exchange-differences	Additions
Financial investments – held to maturity	**36.5**	**0.0**	**52.3**
Bonds, treasury bills and other fixed-interest securities	36.5	0.0	52.3
Financial investments – available for sale	**78.4**	**0.5**	**3.4**
Shares in affiliated, non-consolidated companies (>50%)	34.5	0.5	2.4
Other participations (associated companies 20% - 50%)	15.2	0.0	0.7
Participations without intension for sale (under 20%)	28.7	0.0	0.3
Companies accounted for at equity	**10.8**	**0.0**	**0.0**
Total	**125.7**	**0.5**	**55.7**

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

(67) Intangible assets

EUR m

	31.12.2012	31.12.2011
Purchased software	17.5	18.2
Self generated software	7.5	10.1
Other intangible assets	15.1	18.9
Prepayments for intangible assets	4.5	12.8
Total	**44.6**	**60.0**

EUR m

Disposals	Other changes	Acquisition costs 31.12.2012	Cumulated change 31.12.2012	Carrying amount 31.12.2012	Carrying amount 31.12.2011
-3.2	**0.0**	**85.5**	**0.0**	**85.5**	**36.5**
-3.2	0.0	85.5	0.0	85.5	36.5
-5.6	**-1.6**	**75.1**	**-54.6**	**20.5**	**24.4**
-4.6	-2.3	30.5	-19.4	11.0	16.2
-1.0	0.7	15.7	-12.8	2.8	2.9
0.0	0.0	29.0	-22.3	6.6	5.3
0.0	**-4.2**	**6.6**	**0.8**	**7.4**	**1.4**
-8.8	**-5.8**	**167.2**	**-53.7**	**113.5**	**62.2**

EUR m

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

(68) Tangible assets

EUR m

	31.12.2012	31.12.2011
Land and buildings	342.8	309.9
Plant and equipment	49.3	49.8
Total	**392.0**	**359.8**

(69) Development of fixed assets

69.1. Development of acquisition costs and carrying amounts

31.12.2012	Acquisition costs 1.1.2012	Foreign exchange-differences	Additions
INTANGIBLE ASSETS	**217.2**	**-2.7**	**9.8**
Goodwill	**54.5**	**0.0**	**0.0**
Software	**112.5**	**-2.5**	**6.8**
purchased	70.6	-0.7	6.2
self generated	41.9	-1.8	0.6
Other intangible assets	**36.7**	**-0.1**	**0.4**
Prepayments for intangible assets	**13.5**	**-0.1**	**2.6**
TANGIBLE ASSETS	**582.9**	**-3.7**	**53.2**
Land and buildings	**404.8**	**-1.2**	**39.4**
Land	30.0	0.0	0.2
Buildings	367.6	-1.0	33.9
Assets under construction	7.2	-0.2	5.3
Plant and equipment	**178.1**	**-2.4**	**13.9**
INVESTMENT PROPERTIES	**953.7**	**-0.8**	**480.2**
Investment properties leased out/rented	849.9	-0.6	275.4
Vacant investment properties	52.7	-0.1	193.8
Assets under construction (future investment properties)	51.1	-0.1	11.0
OPERATE LEASE ASSETS (MOBILES)	**292.7**	**-3.1**	**74.2**
Total	**2,046.5**	**-10.1**	**617.4**

Column other changes include an increase in tangible assets of EUR 40.8 million resulting from the acquisition of GRAND HOTEL LAV d.o.o.

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

EUR m

	Disposals	Other changes	Acquisition costs 31.12.2012	Cumulative depreciation 31.12.2012	Carrying amount 31.12.2012	Carrying amount 31.12.2011
	-60.0	**-13.2**	**151.1**	**-106.5**	**44.6**	**60.0**
	-53.4	**0.0**	**1.1**	**-1.1**	**0.0**	**0.0**
	-4.8	**8.7**	**120.7**	**-95.7**	**25.0**	**28.4**
	-0.2	-0.7	75.2	-57.7	17.5	18.2
	-4.6	9.4	45.5	-38.0	7.5	10.1
	-1.1	**-11.9**	**24.0**	**-8.9**	**15.1**	**18.9**
	-0.7	**-9.9**	**5.3**	**-0.8**	**4.5**	**12.8**
	-31.1	**49.7**	**651.2**	**-259.1**	**392.0**	**359.9**
	-17.0	**44.5**	**470.4**	**-127.7**	**342.8**	**310.1**
	-1.1	2.5	31.6	-0.2	31.4	29.8
	-15.8	48.4	433.0	-125.6	307.4	275.0
	-0.2	-6.4	5.8	-1.9	4.0	5.3
	-14.0	**5.2**	**180.7**	**-131.4**	**49.3**	**49.8**
	-38.3	**40.9**	**1,435.6**	**-156.5**	**1,279.2**	**837.5**
	-28.5	41.7	1,137.9	-102.0	1,035.9	776.9
	-6.6	22.4	262.2	-45.4	216.7	15.7
	-3.2	-23.2	35.6	-9.0	26.5	44.9
	-154.7	**0.0**	**209.2**	**-96.3**	**112.9**	**147.9**
	-284.1	**77.4**	**2,447.1**	**-618.4**	**1,828.7**	**1,405.3**

EUR m

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

69.2. Development of depreciation

31.12.2012	Cumulative depreciation 1.1.2012	Foreign exchange-differences
INTANGIBLE ASSETS	**-157.2**	**1.8**
Goodwill	**-54.5**	**0.0**
Software	**-84.2**	**1.8**
purchased	-52.3	0.4
self generated	-31.8	1.4
Other intangible assets	**-17.8**	**0.0**
Prepayments for intangible assets	**-0.7**	**0.0**
TANGIBLE ASSETS	**-223.1**	**2.2**
Land and buildings	**-94.7**	**0.5**
Land	-0.2	0.0
Buildings	-92.6	0.4
Assets under construction	-2.0	0.1
Plant and equipment	**-128.3**	**1.8**
INVESTMENT PROPERTIES	**-116.2**	**0.5**
Investment properties leased out/rented	-73.0	0.4
Vacant investment properties	-37.0	0.1
Assets under construction (future investment properties)	-6.2	0.0
OPERATE LEASE ASSETS (MOBILES)	**-144.8**	**2.4**
Total	**-641.2**	**7.0**

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

EUR m

Disposals	Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2012
51.7	**-8.6**	**-3.8**	**9.5**	**0.0**	**-106.5**
53.4	**0.0**	**0.0**	**0.0**	**0.0**	**-1.1**
-2.5	**-6.9**	**-3.8**	**-0.1**	**0.0**	**-95.7**
0.1	-6.9	0.0	1.0	0.0	-57.7
-2.6	0.0	-3.8	-1.1	0.0	-38.0
1.0	**-1.7**	**0.0**	**9.6**	**0.0**	**-8.9**
-0.1	**0.0**	**0.0**	**0.0**	**0.0**	**-0.8**
16.1	**-25.8**	**-17.1**	**-11.6**	**0.0**	**-259.1**
5.2	**-10.6**	**-16.7**	**-11.3**	**0.0**	**-127.7**
0.0	0.0	0.0	0.0	0.0	-0.2
5.2	-10.6	-16.7	-11.3	0.0	-125.6
0.0	0.0	0.0	0.0	0.0	-1.9
10.9	**-15.2**	**-0.3**	**-0.3**	**0.0**	**-131.4**
7.5	**-16.0**	**-25.0**	**-10.3**	**3.0**	**-156.5**
5.1	-15.7	-7.9	-11.2	0.3	-102.0
2.4	-0.3	-12.0	0.9	0.5	-45.4
0.0	0.0	-5.0	0.0	2.2	-9.0
80.7	**-35.1**	**-0.6**	**0.0**	**1.2**	**-96.3**
155.9	**-85.5**	**-46.4**	**-12.4**	**4.2**	**-618.4**

EUR m

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

(70) Assets classified as held for sale

The assets of the leasing unit in Ukraine reported in this item as at 31 December 2011 had to be reclassified to their respective positions in the statement of financial position due to having to abandon the intention to sell in the short term. This had a positive effect of EUR 5.4 million on the income statement. The assets of this company are reported under “Wind-down financials” in the segment report.

The assets of the Aluflexpack and TLM-TVP groups as well as those of a tourism participation in Carinthia, which were still included in this position in 2011, were derecognised during 2012 as they were sold.

EUR m

	31.12.2012	31.12.2011
Loans and advances to credit institutions	0.0	2.3
Loans and advances to customers	0.0	49.1
Risk provisions on loans and advances	0.0	-33.9
Financial investments – available for sale	0.0	0.4
Investments in companies accounted for at equity	0.0	4.5
Intangible assets	0.0	0.3
Tangible assets	0.0	33.7
Tax assets	0.0	0.0
Other assets	0.0	82.3
Total	**0.0**	**138.8**

(71) Other assets

EUR m

	31.12.2012	31.12.2011
Deferred income	**55.7**	**102.4**
Other assets	**661.2**	**982.2**
Real Estate (under construction, held for sale, emergency acquisition, repossessed assets)	329.3	656.2
Movables (leases to go and repossessed assets)	122.7	136.4
Prepayments	2.3	0.8
Value added taxes and other tax assets	24.2	36.9
Remaining not bank specific receivables	122.2	53.1
Other assets	60.4	98.8
Total	**716.9**	**1,084.7**

For an improved presentation, other assets were divided into real estate and moveable assets in the 2012 financial year. The emergency acquisitions for real estates held for sale were recognised in other assets in 2011. Following a new classification in 2012, they are now reported in real estate. The prior-year figures were accordingly adjusted (EUR 73.3 million).

(72) Liabilities to credit institutions

72.1. Liabilities to credit institutions – by type of business

EUR m

	31.12.2012	31.12.2011
To central banks	**443.7**	**170.2**
To other credit institutions	**4,808.9**	**5,508.2**
Due on demand	75.4	42.9
Time deposits	2,790.6	2,608.2
Loans from banks	770.4	922.7
Money market securities	1,138.2	1,402.7
Other liabilities	34.1	531.7
Total	**5,252.5**	**5,678.4**

There are unused credit lines in the amount of EUR 977.0 million (2011: EUR 1,180.3 million) with a previous owner.

72.2. Liabilities to credit institutions – by region

EUR m

	31.12.2012	31.12.2011
Austria	290.8	154.2
Central and Eastern Europe (CEE)	530.2	678.8
Other countries	4,431.5	4,845.4
Total	**5,252.5**	**5,678.4**

(73) Liabilities to customers

73.1. Liabilities to customers – by type of customer

EUR m

	31.12.2012	31.12.2011
Saving deposits	**1,414.6**	**1,446.7**
Demand and time deposits	**6,991.2**	**6,754.4**
from public sector	555.8	613.4
from corporate clients	3,350.7	3,347.0
from retail clients	3,084.7	2,794.0
Total	**8,405.9**	**8,201.1**

73.2. Liabilities to customers – by region

EUR m

	31.12.2012	31.12.2011
Austria	1,445.2	1,544.6
Central and Eastern Europe (CEE)	4,489.2	4,247.9
Other countries	2,471.5	2,408.6
Total	**8,405.9**	**8,201.1**

The liabilities to customers include liabilities designated at fair value through profit or loss amounting to EUR 434.3 million (2011: EUR 427.6 million) – see note (115) Loans and advances and financial liabilities designated at fair value.

(74) Liabilities evidenced by certificates

EUR m

	31.12.2012	31.12.2011
Issued bonds	**12,875.1**	**14,880.4**
“Pfandbriefe” and municipal bonds	1,460.5	1,350.1
bonds	11,414.5	13,530.3
Liabilities issued by the “Pfandbriefstelle”	**1,960.0**	**2,265.8**
Other liabilities evidenced by certificates	**0.7**	**1.2**
Total	**14,835.8**	**17,147.4**

Liabilities evidenced by certificates include liabilities designated at fair value through profit or loss amounting to EUR 413.4 million (2011: EUR 439.1 million) – see note (115) Loans and advances and financial liabilities designated at fair value.

(75) Derivative financial instruments

EUR m

	31.12.2012	31.12.2011
Negative market value of derivative financial instruments – trading	31.0	1.9
Negative market value of derivative financial instruments – banking book	750.9	714.4
Total	**781.9**	**716.3**

(76) Provisions

76.1. Provisions – detail

EUR m

	31.12.2012	31.12.2011
Pensions	12.0	9.7
Severance payments	18.3	17.1
Provisions for anniversary payments	2.1	2.0
Provisions for credit commitments and guarantees	26.0	48.2
Restructuring provisions as per IAS 37.70	10.3	15.6
Other provisions	59.4	91.3
Total	**128.1**	**183.9**

The development of risk provisions for credit commitments and guarantees is reported under note (58) Risk provisions on loans and advances and provisions for credit risk.

Restructuring provisions at Hypo Alpe Adria were partially reversed as they no longer meet the formal recognition criteria pursuant to IAS 37.

The item other provisions shows provisions related to potential penalty payments, consulting and legal costs, tax proceedings and other miscellaneous provisions.

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

76.2. Provisions – development of provisions for retirement benefit and severance payments

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

EUR m

	31.12.2012	31.12.2011
Provisions at end of previous period	**26.8**	**26.9**
+ Current service costs	1.0	1.6
+ Interest expense	1.9	1.0
+/- Actuarial gains/losses	4.8	0.6
- Payments in reporting year	-2.5	-3.3
+/- Other changes	-1.8	0.0
Provisions as at the end of period	**30.3**	**26.8**

The present value of defined benefit obligation in the past five years amounted to EUR 30.3 million in 2012, EUR 26.8 million in 2011, EUR 27.0 million in 2010, EUR 27.2 million in 2009 and EUR 25.1 million in 2008.

76.3. Provisions – development of other provisions

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

EUR m

	Carrying amount 1.1.2012	Foreign exchange-differences	Allocations	Use	Releases	Other changes	Carrying amount 31.12.2012
Provisions for anniversary payments	2.0	0.0	0.4	0.0	0.0	-0.2	2.1
Restructuring provisions (IAS 37.72)	15.6	-0.1	6.9	-5.7	-10.3	3.9	10.3
Other provisions	91.3	-1.1	37.6	-40.1	-26.5	-1.8	59.4
Total	**108.9**	**-1.1**	**44.9**	**-45.9**	**-36.8**	**1.8**	**71.8**

EUR m

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

Other provisions include in part legal and consultancy expenses, in particular in connection with forensics investigations on the past. Additionally, they include provisions for potential penalty payments of EUR 5.6 million (2011: EUR 10.7 million).

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

EUR m

	31.12.2012	31.12.2011
Liabilities to credit institutions	0.0	26.9
Tax liabilities	0.0	-0.2
Other liabilities	0.0	51.2
Total	**0.0**	**77.8**

(78) Other liabilities

EUR m

	31.12.2012	31.12.2011
Deferred expenses	206.7	245.8
Accruals und other obligations	220.9	278.2
Total	**427.6**	**524.0**

(79) Subordinated capital

EUR m

	31.12.2012	31.12.2011
Subordinated liabilities	1,956.6	952.2
Supplementary capital	0.7	83.9
Total	**1,957.3**	**1,036.0**

Subordinated liabilities and supplementary capital include liabilities designated at fair value through profit or loss of EUR 27.3 million (2011: EUR 19.7 million) – see also note (115) Loans and advances and financial liabilities designated at fair value. The servicing of subordinated capital is described in note (124) Servicing of subordinated capital.

The rise in subordinated liabilities is due to the issuing of a state-guaranteed subordinated bond with a nominal value of EUR 1.0 billion. Further details can be found in note (124) Servicing of subordinated capital.

(80) Hybrid capital

EUR m

	31.12.2012	31.12.2011
Hybrid capital	6.0	119.6
Total	**6.0**	**119.6**

Hybrid capital includes liabilities designated at fair value through profit or loss amounting to EUR 6.0 million (2011: EUR 50.7 million) – see also note (115) Loans and advances and financial liabilities designated at fair value.

(81) Equity

EUR m

	31.12.2012	30.06.2011
Attributable to equity holders of parent	**1,447.6**	**925.6**
Issued capital	1,308.6	808.6
Available for sale reserve	-43.1	-121.4
Foreign currency translation	-95.7	-67.4
Retained earnings (including net consolidated income after minorities)	277.7	305.8
Non-controlling interest	**520.9**	**487.7**
Total	**1,968.4**	**1,413.3**

The issued capital is based on the separate financial statements of Hypo Alpe-Adria-Bank International AG as at 31 December 2012. At EUR 969.1 million (2011: EUR 469.1 million), it equates to the share capital in Hypo Alpe-Adria-Bank International AG, which is divided into 396,288,732 (2011: 191,825,860) no-par bearer shares with voting rights. The development of the share capital is as follows:

EUR m

	Subscribed capital	Number of shares
As at 1.1.2011	**62,474,208.00**	**7,809,276**
Nominal capital reduction 2.6.2011	-43,377,156.49	
After capital reduction	**19,097,051.51**	**7,809,276**
Capital increases according KapBG 20.07.2011	449,999,997.78	184,016,584
As at 31.12.2011	**469,097,049.29**	**191,825,860**
Ordinary capital increase effective 20.12.2012	499,999,999.71	204,462,872
As at 31.12.2012	**969,097,049.00**	**396,288,732**

The extraordinary shareholders' meeting on 13 December 2012 resolved to increase the company's share capital by issuing new no-par bearer shares. The resolution also intends for the new shares to be issued at the pro-rata amount of share capital per individual no-par bearer share (excluding premium). The sole shareholder (Republic of Austria) has the subscription right for newly issued shares.

Issued capital also includes participation capital with a nominal value of EUR 339.5 million (2011: EUR 339.5 million), issued in the years 2008 to 2010. Of this amount, EUR 275.1 million relates to the participation capital issued by Hypo Alpe-Adria-Bank International AG in December 2008 and subscribed by the Republic of Austria.

(82) Statement of cash flows

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

The cash flow from operating activities at Hypo Alpe Adria includes cash inflows and outflows as a result of loans and advances to credit institutions and customers, from liabilities to credit institutions and customers as well as liabilities evidenced by certificates. Changes in trading assets and liabilities are also included.

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

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

The cash and cash equivalents include the balance sheet item cash and balances at central banks, which covers cash on hand and balances with central banks which are due on demand.

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

Risk report

(83) Risk strategy, control and monitoring

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

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

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

(84) Risk organisation and Internal Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the group's Chief Risk Officer (CRO), who is a member of the Hypo Alpe Adria Executive Board. This individual acts independently of market and trading units, with a focus on the minimum requirements for risk management (MaRisk) as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty risks; the reorganisation of problem loans; monitoring the credit-granting process; and risk controlling and monitoring of counterparty, market, liquidity and operational risks as well as other risks at portfolio level. The CRO is also responsible for monitoring risk-bearing capacity and directing the risk capital that is required from an economic point of view.

The Risk Office is an integral part of the Group Risk Governance Rules of Hypo Alpe Adria and consists of four pillars. This concept is cascaded – in other words the four-pillar principle is implemented consistently – both at group and country level. The respective Country CROs must ensure compliance with the risk principles among all units located in the country (Bank, Leasing, Brush, etc.).

The Risk Control pillar includes the following main functions:

- Identifying risks
- Determining risk policy guidelines and limits
- Providing risk methods and models
- Implementing risk analyses, monitoring risks and risk reporting.

The Credit Management pillar includes the following main functions:

- Balance sheet analysis and implementing ratings,
- Credit monitoring
- Credit support
- Country risk portfolio management
- Analysing and reporting retail risks
- Credit underwriting

The Credit Rehabilitation pillar includes the following main functions:

- Restructuring exposures
- Exposure work-out
- Loan loss allowance methodology (tool/rules)

The Credit Processing pillar includes the following main functions:

- Loan and collaterals administration
- Justifying, monitoring and managing collaterals
- Carrying out back office activities
- Compiling a GoB pursuant to BWG

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 that audits the business activities of Hypo Alpe Adria. In terms of organisation, it reports to the Chairman of the Executive Board and also reports in detail to the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Alpe Adria. This area carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

(85) Internal risk management guidelines

Hypo Alpe Adria states its group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating. This ensures that the actual and documented processes coincide at all times.

In 2012, the existing regulations were extensively reviewed and the risk units closed any potential gaps in the written policies. Fundamental to this was the revision of Hypo Alpe Adria's operational risk strategy, which was implemented in April 2012. This includes defined risk parameters, risk-bearing and limit system requirements as well as rules on risk-oriented capital allocation. Additionally, the guidelines for the appropriate measurement and management as part of the Internal Capital Adequacy Assessment Process (ICAAP) were adjusted. Corresponding risk-specific policies and manuals, such as for market, counterparty, concentration, country, reputation and liquidity risks, were also put into force.

Hypo Alpe Adria has clearly defined responsibilities for all of these risk guidelines, ranging from preparation, review and update to roll-out to the subsidiaries. Each of these guidelines must be implemented on local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by instances directly involved in the risk management process. Process-independent responsibility is carried by the Risk Quality Assurance Team and Internal Audit. Hypo Alpe Adria therefore has fully comprehensive and up-to-date internal risk management guidelines.

(86) Measures to improve risk management

86.1. Basel III – credit risk

Due to the preliminary Basel III standard, there have been several changes with regard to credit risk and equity requirements. The new definitions of certain receivables classes require an assessment and/or adjustment in the classifications of receivables. National option rights are removed almost entirely to create a "maximum harmonisation approach". New requirements for property-backed receivables are oriented to the regulations of the national regulators.

With regard to the definition of default, defaulted receivables are determined with a standardised approach for each customer (approach based on internal ratings) instead of on account level (standard approach) as it was done previously. From a regulatory point of view, this results in a rise in defaulted receivables at Hypo Alpe Adria.

To meet the tough requirements of the new Basel III regulations, a project was launched internally as well as in the general data centre. The technical requirements for the preliminary Basel III standard were implemented. The majority of professional requirements are defined by current legislation and any changes can be implemented at short notice.

86.2. Basel II – liquidity risk and liquidity risk management

The biggest challenge faced by liquidity risk management at the beginning of 2012 was to professionally integrate and implement both the new Basel III liquidity regulations and the requirements of the Liquidity Risk Management Act (Liquiditätsrisikomanagementverordnung − LRMV). The infrastructure for a quality-assured and automated data supply, which had been built up in previous years, provided a solid basis for the task of meeting the additional information requirements. This enabled Hypo Alpe Adria to participate in the Quantitative Impact Study (QIS) requested by the regulatory authorities and to send the results calculated for the key figures LCR, NSFR and the monitoring tools to the regulators. In 2012, Hypo Alpe Adria managed to validate and back-test its liquidity forecasts using the infrastructure mentioned above and the respective recording of historic data as well as the application of statistical methods.

In 2013, Hypo Alpe Adria aims to implement the reporting-date-related calculations of the Basel III key figures as well as a forecast calculation while integrating the resulting effects of Basel III in the pre- and post-calculation of products, profit centres and customers. The project for implementing the Basel III liquidity requirements launched in 2011 was expanded to include all of 2013 for this purpose. Another initiative in 2013 is the roll-out of new liquidity risk management tools that are already being used at group level to the relevant subsidiaries for their local use. These are, for example, applications for daily liquidity monitoring, funding diversification, collateral management as well as up-to-date calculation methods for the funding spread risk.

The achieved targets in 2012 and initiatives in 2013 have resulted, or will result, in Hypo Alpe Adria meeting both the qualitative and quantitative requirements of the EBA and OENB/FMA and previously unresolved findings being resolved on the basis of LRMV.

86.3. Target risk portfolio – limit controlling

In 2010/2011 credit risk controlling was implemented in order to provide a better regulation process for Hypo Alpe Adria based on the experiences during the financial crisis. Its objective was the introduction of a stringent portfolio limit system, which has been implemented in the core countries since 2011.

The limit system and the limit process, as efficient controlling instruments for Hypo Alpe Adria, allow the bank to manage its credit portfolio in a targeted way and to assess and limit risk according to capacity. Depending on the degree of risk involved in the transaction – made clear through the combination of rating, size and sector/product group – Hypo Alpe Adria's portfolio is split into low, medium and high risk.

A target risk portfolio, which focuses on the performing portfolio, was modelled for the first time in the second half of 2011 to limit the portfolio. The aim is to improve Hypo Alpe Adria's risk profile in the long term and to develop a sustained and risk-sensitive portfolio pursuant to the requirements of the restructuring plan and within the corresponding time horizon until 2016 for all core banks in the SEE core countries as well as for Hypo Alpe-Adria Bank AG and HBI and to introduce portfolio limits to achieve this task.

By setting portfolio limits, the high risk portfolio share decreased by 6% on the basis of net exposure – which is the basis for portfolio management – and the low risk business portfolio share increased by 16% at the same time in 2012.

The target risk portfolio calculated in 2011 was adjusted to the new risk structure, recalculated on the basis of the current business plan and rolled out in the fourth quarter of 2012/first quarter of 2013.

In order to calculate the target portfolio, the current business plan – the remaining terms of the portfolio inventory – a target split with regard to rating, sector/product and size, as well as prolongation rates supplied by the subsidiaries of Hypo Alpe Adria were all used. The result of this calculation is a target portfolio structure for 2016, which is also broken down for the individual years in between. Due to the more risk-sensitive rating, sector/product and size classifications that were taken into account, the calculated target portfolio structure has an improved risk profile both at the level of the individual institution as well as at Hypo Alpe Adria core country level. This mainly pertains to expected business, which has the greatest impact on the improved risk profile.

The calculated target portfolio – which should be achieved by 2016 – is also broken down for the preceding years for each legal entity. The target portfolio therefore forms the basis for portfolio limits and is used as a benchmark in the ongoing monitoring process.

The limit planning process is based mainly on Group Financial Control's existing budgeting process for planning total assets, income, aggregate risk cover and KSA-RWA. Risk Controlling prepares a limit allocation proposal on the basis of the defined target portfolio. Once this proposal has been approved by the Executive Board, the top-down planned limits are communicated to the subsidiaries. The subsidiaries then implement their (bottom-up) planning and send them back to Group Credit Risk Control to be consolidated and checked for consistency. Afterwards, the final planning is discussed with the subsidiaries and given the final approval.

The corresponding legal entities and the group monitor and control the approved limits on a monthly basis. If limits are exceeded, defined measures have to be implemented in advance and the stipulated escalation process initiated.

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

86.4. Monitoring – Early Warning System

In 2011, Hypo Alpe Adria introduced a group-wide corporate monitoring process (based on the Early Warning System – EWS – installed by the bank) in all core countries, in order to ensure uniform and ongoing monitoring of the actual corporate credit portfolio.

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

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

The corporate monitoring process also has the following secondary aims:

- Standardising the handling process for potential risks
- Fully integrating the monitoring and watch list process in the credit process
- Increasing efficiency when processing watch-list customers
- Clearly defined rules for the cooperation between Monitoring, Underwriting and Sales when dealing with watch list customers
- Highly transparent management and handling of the watch-list portfolio
- Active involvement in reprogramming customers with a high default risk.

Since its introduction, the implementation of the corporate monitoring process has already led to some positive results. Various customers were prevented from defaulting by implementing measures at an early stage. The share of high-risk watch-list customers in the corporate portfolio was also reduced significantly in 2012. Another strong focus was on reducing the incalculable risk by adding collaterals.

In 2012, the corporate monitoring process was improved and expanded considerably. The previous Early Warning System was integrated in Hypo Alpe Adria's IT landscape and launched as a web-based application at the beginning of February 2013. As described in note 86.12., the new EWS application is based on the same platform (PaaS) and database as KOOB v4.0. The integrated workflow system also helped to show the entire early warning process (including individual roll definitions and user authorisations) as well as the monitoring of risk-minimising measures in the application. This aims to provide an even more efficient, effective and prompt monitoring of the watch list portfolio. The central steering of the corporate monitoring process and the new EWS application are also key to effectively supervising the local units. Changes are documented and can be traced at all times thanks to the direct link to the database.

86.5. New migration report – portfolio migration tool

A new migration report was developed in the second half of 2012 to improve the monitoring of Hypo Alpe Adria's portfolio. This is another innovation for reducing portfolio deterioration. This report is a central controlling instrument for further improving Hypo Alpe Adria's portfolio in 2013.

This report shows the migration dynamics within performing, watch and non-performing loans. It also depicts the development of new business and outflows (repayments, use, repossessions, etc.). This report is available to the whole bank, all segments and local subsidiaries. If required, details can be traced right down to the customer / account level.

This steering report is prepared monthly and discussed regularly between the group CRO and the local CROs. All relevant migrations toward deterioration must be explained by the local units. In addition, suitable preventive measures have to be developed and implemented. To prevent the direct migration from performing loans to non-performing loans, monitoring activities will be further increased and tightened in 2013.

86.6. Ongoing evaluation of real estate collateral and other collaterals

The "Collateral Management Policy" and the "Collateral & Collateral Monitoring Manual" stipulate the management of all collaterals at Hypo Alpe Adria. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas minimum standards and maximum securitisation values may only be deviated from if the stated values are stricter than the original ones. All guidelines are updated once a year.

The foundations of group collaterals management, which is implemented by its own department within "Group Credit Processing", are built on the data collection of all collaterals by the system by allocating a reference number to each collateral. This reference number is alphanumerical and is called "GSI" (Group Collateral ID) or "DSI" (Detail Collateral ID). All "GSI / DSI" are checked once a month for the entire group. The data quality of the "GSI / DSI" assigned to all collaterals regularly comes to 99%. As at 31 December 2012, 957,479 "GSI / DSI" were valid, divided into the following collaterals categories: Cash Collateral, Guarantees, Real Estate Mortgages, Moveables, Rights/Receivables, Insurance and Other.

Real Estate accounts for 71% of collaterals internally reported as recoverable; the remaining recoverable collaterals are split between Guarantees (16.9%), Rights/Receivables (6.5%) and Other (5.6%).

The group-wide steering of real estate pledged as collateral is of crucial importance as the total market value of all 84,525 properties is EUR 25.4 billion, making up 43% of all existing market values and also providing 71% of all collaterals internally reported as recoverable. These are divided into 59,545 residential real estate ("RRE") with a market value of EUR 7.84 billion and 24,980 commercial real estate ("CRE") with a market value of EUR 17.5 billion. The ongoing update of the appraisals on which the market values are based that is stipulated in the Solvency Regulations (SolvaV) – every three years for "RRE" and once a year for "CRE" – applies to the whole group. As at 31 December 2012, 99% of all collaterals were up to date.

All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate is evaluated with the help of a valuation tool. A group-wide "collateral workflow" for commercial real estate worth more than EUR 1.0 million has been implemented. It ensures that the required process is maintained, which, in turn, ensures that all data is up to date. All evaluations are requested on the part of the market three months before revaluations are due. The specifically assigned evaluation unit – Commercial Real Estate Management ("CREM") – carries out the revaluations / new valuations and transfers the results to the employees who maintain collaterals in the collaterals systems. The CREM has trained employees (41 in total) who all went through the "Valuation Academy". The appraisals are prepared on the basis of a precisely defined, conservative methodology that is stipulated as a binding rule in the "HAA Real Estate Valuation Standards" and the "HAA Collateral Valuation DB Manual".

In the past two years, the greatest importance was placed on updating the market values. This resulted in the following changes in market values (in percent):

Table 1: Change in market values in 2010 to 2012 (in percent)

	2011-2012	2010-2011
CRE > EUR 1 million	-4.88%	-29.6%
CRE < EUR 1 million	No loss in market value, first validation as from January 2013	-12.5%
RRE	-15.0% second-third of collaterals	-16% first-third of collaterals

The reduction in market value reflects the current market situation in the countries in which Hypo Alpe Adria operates. The valuation rules ensure that the determined market values can be achieved in the case of actual liquidation scenarios. The market values are not expected to change significantly during the 2013 financial year, as the current values are up to date and reflect the market.

The manuals mentioned above, especially the "Collateral & Collateral Monitoring Manual", also stipulate the haircuts of market values underlying the securitisation values (Internal Collateral Value – "ICV"). The reductions are binding for all collaterals recognised by the group and have conservatively high haircuts. This strict methodology is supported by the liquidation results as part of cash exits of non-performing loans in 2011 and 2012: around 181% of the assumed "ICV" was achieved.

All in all, the realised recoverable amount of the liquidated real estate in the period from 2011 to 2012 corresponded to at least the market value. However, as the number of sales does not allow for a sufficient amount for a validation of the haircuts stipulated in the manual, these conservative values will continue to be recognised in 2013. This shows a clear trend toward the used market values actually being recoverable in the case of liquidation (see also note 86.10.2. NPL PORTFOLIO WIND-DOWN 2012).

The following chart shows the real estate market values that qualify for recognition in the group. All tourism properties, for instance, had a 50% haircut and industrial properties a 60% haircut.

Table 1: see "Group Collateral & Monitoring Manual 1.0", page 17

	Pledge/mortgage	Transfer of ownership/ building lease*)	Building on third-party land**)
Owner-occupied apartments and private houses	70	70	60
Construction land	70	70*)	-
Commercial multi-storey dwellings[1)]	70	70	60
Office buildings	60	60	50
Tourism property	50	50*)	40
Agricultural properties	60	60	50
Undeveloped agricultural land	60	60*)	-
Undeveloped agricultural land	60	60*)	-
Commercial properties[3)]	60	60	50
Undeveloped commercial land	60	60*)	-
Public buildings[4)]	50	50	40
Industrial properties	40	40	30
Undeveloped industrial land	40	40*)	-

The market values of all real estate with a market value of less than EUR 1 million are determined with a statistically validated electronic valuation tool. The “TnT” project further develops this statistical tool. It creates a local automated connection between the collaterals databases and the evaluation databases. The values determined by statistical methods are updated monthly, and the documented indices are adjusted every six months due to the collective nature of the data stored in the evaluation databases and external market information. This new tool is being implemented in the first quarter of 2013.

86.7. New rating procedures

In 2012, the group holding company rounded off the rating landscape by introducing new rating tools for banks, insurance companies, states and regional administrative bodies. The bank now has all rating systems required for accurately assessing the credit ratings of all customer groups in all business segments. Hypo Alpe Adria employs the following rating tools: corporate, small and medium enterprises, retail behaviour rating, expert, support, start-up, project finance, commercial real estate, municipalities, countries, insurances, banks and scorecards for private customers.

The procedures comply with the standards stipulated by the regulatory authorities and the central data management system guarantees that data is updated on a daily basis.

The rating procedures developed in-house had been initially validated during development and will be tied into a continuous validation process in 2013. The validation covers both quantitative and qualitative analyses. It integrates the rating factors, selectivity and calibration of the procedure, data quality and the design of the model using statistical and qualitative analyses as well as user feedback.

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

All rating methods were implemented on a central web-based platform that can be accessed from all locations within the Hypo group. All rating information is stored centrally and is available on a daily basis. This provides a distinct advantage and is a main success factor for controlling and ensuring the quality of all processes requiring rating information.

Apart from the considerably improved risk assessment afforded by the newly validated processes, a higher level of rating penetration and data quality is achieved through the central availability of data and consistent reporting.

Almost all of the existing portfolio has since been re-rated with the corresponding new methods for all segments.

The back office is responsible for ensuring that the ratings are complete and of the required quality. Risk Controlling uses standardised reporting for regularly monitoring the quality of the ratings in the portfolios and informs the Executive Board on a monthly basis.

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

The loss given default (LGD) and credit conversion factor (CCF) estimated as part of a project in 2011 were implemented in the risk management system in 2012. To improve the estimation process further, the bank is advancing the collection and documentation of all events of default. This includes a standardised recording of all recovery data and all costs connected with the liquidation and restructuring process.

Together with the data that has already been gathered, all newly collected recovery information is used for improving estimates and validating the existing LGDs and CCFs. The continuous improvement of LGD and CCF estimates will significantly improve the bank's overall processes, especially in terms of pricing and the calculation of risk-bearing capacities.

As in the case of rating methods, a standardised reporting will be implemented for the WebFER system in 2013 in order to provide comprehensive tracking of all recovery information for all new events of default.

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

The standardised management process for handling impairment write-downs in the group was developed further in 2012. The respective group-wide standardised processes (determining, approving and reporting impairments) were further detailed and specified.

Based on the IFRS loan loss allowance tool already in use throughout the group, an IT-based tool has been developed for calculating impairments pursuant to IFRS. The IT-based tool, which is currently in the roll-out phase, is based on the already implemented calculation logic and will deliver significant improvements in the areas of automation, documentation and reporting, among other benefits.

This tool was successfully launched at Hypo Alpe-Adria Bank AG and Hypo Alpe-Adria-Bank International AG in mid-2012. The technical roll-out in the core countries Slovenia, Croatia, Serbia and Montenegro has been largely completed, meaning that the determination of loan loss allowances pursuant to IFRS will most likely be carried out entirely with this new tool in these countries in 2013. The completion of the roll-out in Bosnia and Herzegovina is planned for the second quarter of 2013.

In summary, Hypo Alpe Adria already has a consistent and IFRS-compliant system for calculating loan loss allowances pursuant to IFRS in use throughout the group and its data management will be continuously improved with the new SRP tool. Corresponding successful liquidations in 2012 have confirmed its reliability in use – with realistic estimates of future cash flows being an important factor.

86.10. Comparison of the SRP and expected loss methods

The SRP calculation is based on individual customers and receivables. The expected payments are discounted to the current value and compared with the outstanding current exposures. These individually assessed payments originate either from customers' operations (primary cash flows) or from the liquidation of collaterals and other assets (secondary cash flows). These estimated cash flows are based on the individual situation of the company and markets. With regard to expected payments from the liquidation of collaterals, this means that they are based on market values less liquidation costs as well as – if required – a haircut adjusted to match individual scenarios. The existing non-covered risk (NPLs) can therefore be covered by payments.

The calculation of expected loss (EL) for the credit risk uses a formula for the IRB approach pursuant to the Solvency Regulation (SolvaV). The parameters of this formula are probability of default (PD), loss given default (LGD) and the amount of the receivable (EL=PD*LGD*EAD). The percentage of collateralisation is a major factor with regard to the expected loss. The secured part of the receivable is calculated using a different LGD than for the unsecured part. The amount of the secured part of a receivable in turn depends on the value of the part of collateral that can be allocated to it. The allocable value of a collateral depends on the type of collateral and the related discount (haircut – pursuant to the Collateral Policy or regulatory law for real estate) as well as compliance with obligatory regulatory minimum standards (e.g. annual measurement of commercial real estate). In the calculation, the market values are reduced once again and only recognised as risk-reducing if all minimum requirements have been met. The calculation for real estate is carried out pursuant to section 140 SolvaV. Applying the regulatory method to real estate also requires that the minimum share of the receivable to be secured amounts to 30%. If this requirement is not met, the existing recoverable collateral is treated as non risk-reducing.

Due to the differences in the calculation of SRP described above (carrying amount of the cash flows of the corresponding individual customer) and EL (statistical mean value of cash flows higher than LGD), a shortfall (impairments are less than the EL) occurs in some cases. From December 2010 to December 2012, the shortfall dropped slightly – taking into account the calculation parameters from JRAD I.

The following list provides an overview of the exposures at default and expected losses (JRAD I parameter, UGB), the recognised risk provisions on loans and advances and the resulting shortfall in the NPL portfolio of the core countries:

EUR m

SEE-Region	EAD_Regulatory	Provisions	Expected Loss	Shortfall
Austria	3,312.77	1,239.32	1,263.77	24.45
Croatia	2,058.48	674.97	790.28	115.31
Slovenia	1,078.07	328.01	437.17	109.16
Bosnia and Herzegovina	789.87	253.55	290.47	36.92
Serbia	374.30	117.46	148.45	30.99
Montenegro	620.07	226.52	241.74	15.21
Total	8,233.55	2,839.84	3,171.88	332.04

The above-stated shortfall and regulatory minimum requirements for collaterals are a main driver of the shortfall. Significantly higher results are regularly achieved due to the NPL reduction (for details see “NPL management”). This is caused by higher liquidation income from traditional liquidating of collaterals but also by Hypo Alpe Adria’s active restructuring approach, which has optimised recovery by means of active and intensive individual case management. This is implemented, for instance, by generating payments from operating (“primary”) cash flows or the sale of assets under ordinary market conditions (no “fire sale”). The successful restructuring and reduction activities in 2011 and 2012 shows that liquidation income outweighs the economic shortfall.

86.10.1. WIND-DOWN PORTFOLIO MANAGEMENT

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

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

The wind-down of the portfolio has been consistently advanced and monitored by the responsible central units (GTFR, GCR and HETA Asset Resolution – formerly HLH). In addition, existing bank and lease structures have been reorganised to improve the implementation of the wind-down in operations, and further parts of the portfolio were transferred to the “Wind-Down Financials” portfolio as part of the “Brush” project.

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

The detailed wind-down planning for the portfolio by GTFR and GCR from 2011 has been updated and wind-down plans for 2013 to 2017 have been developed in full cooperation with Financial Controlling. The wind-down plans include the quantification of the pure volume reduction as well as a division into cash and non-cash components and therefore play a major part in controlling the wind-down portfolio.

At the end of 2012, it was decided to let the Group Task Force Rehabilitation continue its work until December 2015 in view of the extended duration of the wind-down plans due to the continuing economic crisis.

The existing tracking tools were developed further at group level to closely monitor the wind-down process. The further development and group-wide implementation of tracking tools will make improved and more targeted management of these portfolios possible. The bank managed to fulfil its governance responsibilities, in particular, in 2012 through corresponding monitoring (increasingly on-site).

86.10.2. NPL PORTFOLIO WIND-DOWN 2012

Thanks to the intensive wind-down of non-performing loans (NPL), all migrations from the performing portfolio to NPL were intercepted and the overall number of NPLs reduced in 2012. Despite conditions in the market remaining difficult, the portfolio wind-down was carried out to preserve value. A corresponding amount of impairment write-downs and provisions for pending losses were reversed in the past two years, particularly through successful liquidations at, or almost at, market value.

Successful liquidations of collaterals in the real estate business largely confirmed the market values and related estimates made by the Rehabilitation units. The successful liquidations at Hypo Alpe-Adria-Bank International AG (analysis is based on property liquidations in the amount of around EUR 370 million in 2011 and 2012), for instance, show that over 70% of all liquidations achieved market value (+/- 10%); 98% of all liquidations exceeded the corresponding ICV level.

Thanks to current expert valuations, a consistent collateral management system and the Rehabilitation units’ corresponding experience in the market – the basis of expected cash flows, which is also reflected in the calculation of specific risk provisions – was re-confirmed in 2012.

These results confirm the approaches and calculations applied in the SRP tools. As recovery has no sufficiently long-term data streams that can be validated, Hypo Alpe Adria continues to apply the conservative haircuts suggested by experts.

The successful liquidations in 2012 also reflect the drop in the number of NPLs. Hypo Alpe Adria uses the migration tool and early-warning monitoring system tool for controlling the portfolio.

In 2013, the focus will remain on winding down these portfolios in accordance with the updated wind-down plans in a manner that preserves value and capital.

86.11. Portfolio transfer and dissolution

Portfolio transfers have been, and still are being, carried out pursuant to Hypo Alpe Adria's strategy to further increase the attractiveness of the sellable parts of the portfolio.

The adjustment of the wind-down portfolio complies with local regulations. True sale transactions were concluded in Italy (2012), Austria (2012) and Montenegro (2011; 2012). An adjustment of the portfolio by means of true sales is also planned in Serbia for 2013. In Slovenia (2011), Croatia (2012) as well as Bosnia and Herzegovina (2011), the portfolio was adjusted on the basis of synthetic transactions.

These are the reasons for the portfolio adjustments at the local units:

- Improving the risk profiles of the core banks so as to come close to the regional average within the industry
- Improving the key figures with regard to profitability (net interest margin, cost/income ratio)
- Reducing the numbers of NPLs
- Strengthening refinancing capabilities (loan/deposit ratio)
- Focusing on the core business
- Maximising sales income

Effective structures and experienced teams were created within the CRO Rehabilitation area to manage the units to be wound down and they will implement the "Wind-Down Business Plan", which conforms with the wider restructuring plans, in such a way as to preserve value and capital. Heta Asset Resolution manages the wind-down units centrally. The portfolio transfer will be complete once this adjustment has been concluded, and the wind-down and continuing bank will be clearly separated.

86.12. Launch of KOOB Release v4

The further development of the group liabilities calculation tool started at the end of 2012 as part of the quality-assurance concept. Main focus was placed on standardising data supplies, centralising and assuring the quality of KOOB maintenance.

One of the main objectives of the project was to migrate the KOOB v3 application to the new IT platform PAAS (Platform as a Service). Improvements based on the new technological possibilities of the new platform were also part of the project. The KOOB application is used within the entire Hypo network and at all subsidiaries. The new application includes numerous small improvements to the existing tool – such as GoB overview metacustomer matching methods, real-time interface with the metacustomer matching tool and new information – and can now also be viewed in KOOB v4. Additionally, the counter for days in arrears, flagging information and GoB manager can be accessed in the tool.

The project further included the limit management application, in which the approved limits and partial limits for all financial institutions are displayed and monitored.

86.13. Improvement to Hypo Alpe Adria's risk data storage and management facility – RiBeCa I

The Risk Bearing Capacity (RiBeCa I) project was launched in response to increased internal and external reporting data requirements. To ensure that the data system is ready for JRAD II, a project was launched in mid-March 2012 in cooperation with a renowned consultancy firm.

The main objectives were:

- Ensuring that local data and group data can be reconciled
- Improving the delivery of collaterals
- Improving documentation
- Improving the delivery of exposure data.

This project had two pillars:

Pillar 1: Risk

- New roll-out of all key fields on the basis of the data specifications issued by the central data pool relevant for all risk-bearing capacity calculations.
- Evaluation of data availability, data quality and the responsibilities for these.

Pillar 2: IT
- Documentation of the processes related to the data sources (data flow documentation, etc.) from the local core systems through to the central risk data storage/management facility.
- Further improvement and simplification of the data flow from the subsidiaries to the group holding company.

The project was successfully concluded at the end of April 2012 and approximately EUR 1 billion of additional market values were recognised as a result.
Further improvements were achieved by tightening local processes for delivering repossessed assets and suspended interests.

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

The "Development Plan" drawn up in 2011 was consistently implemented to ensure a unified structure across the group and to determine the appropriate resources needed. The main pillars of this plan have already been successfully implemented:

1) Developing the retail risk areas in the SEE countries
2) Implementing the Retail Credit Policy as well as centralising Underwriting, which now comprises both the private customer and retail SME customer segment as well as the leasing business in most of the core countries
3) Developing product-specific application scorecards for the SEE countries
4) Implementing fraud prevention measures
5) Introducing monthly portfolio quality calls with all SEE countries to identify portfolio trends early and implement measures
6) Supporting the centralised SEE Collections departments in defining their collection strategies
7) Starting to develop local Retail Risk Data Marts that include control-related risk information
8) Establishing quarterly retail risk reports to the Group Management Board.

The above development went hand in hand with the preparation of comprehensive guidelines that provide the group with a credit-risk-focused framework for the retail business.
The previously implemented measures are showing a positive impact on the quality of new private customer business when evaluating vintage analyses.

86.15. Funds Transfer Pricing – integration of liquidation costs

The concept for the EBA (European Banking Authority) directive "Liquidity Cost and Benefit Allocation" was developed in cooperation with an external consultant in 2012. The professional concept comprises the integration of the direct and indirect liquidity costs in the existing Funds Transfers Pricing project. The implementation of this concept is being developed in 2013 in collaboration with the responsible departments Group Financial Controlling, Group Balance Sheet Management & Treasury and Group Market Risk Control.

86.16. Collateral Management Project

By implementing the "Cash Collateral Management für Derivate in PMS/PMX" (Cash Collateral Management for derivatives in PMS/PMX) project, Hypo Alpe Adria has created system support that is adequate for its system landscape and a quality-assured database for optimising the cash collateral process for derivatives. Hypo Alpe Adria managed cash collaterals of 27 counterparties on a daily or weekly basis as at 31 December 2012. The implementation of this project reduces the operational risk, improves data management and at the same time creates the basis for setting up interfaces for further processing in a central data warehouse. This ensures that the cash collaterals are available automatically and at assured quality for inclusion in the counterparty limits and/or equity.

86.17. Credit Spread Project

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

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

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

Key milestones such as the improvement of the quality of credit-spread-relevant market and partner data as well as the integration of the credit-spread and liquidity-spread effect in instrument pricing and the value-at-risk calculation are already being used in daily operations. The implementation of the functionality of the remaining milestones in the group-wide portfolio and risk management system and therefore the completion of the entire project, is planned for the first half of 2013.

(87) Risk reporting

Timely, independent and risk-adequate reporting for decision makers is guaranteed for all risk types; requests for ad hoc reports are honoured at all times.

The risk report was adjusted to the new situation at Hypo Alpe Adria in 2012. In addition to the existing Management Summary section, the risk-bearing capacity, credit and country risk, market risk, liquidity risk, operational risk and equity risk, the report has been extended to include a depiction of credit risk by steering-relevant groupings: the SEE network, Hypo Alpe-Adria-Bank AG (Austria) and Hypo Alpe-Adria-Bank S.p.A (Italy), Hypo Alpe-Adria-Bank International AG and Heta Asset Resolution (including portfolio transfer). The migration report was also reviewed and now shows the migration in the Watch and NPL areas.

The regular credit risk reports are prepared monthly. Operational risk reports are prepared ad hoc and passed to the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board every six months and in meetings to the CRO every month.

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

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

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

(88) Capital management

The term “own capital funds” currently stands for modified available equity, primarily comprising Tier 1 capital (core capital) and supplementary capital (Tier 2 capital) for the purpose of solvency, plus available third-ranking funds (Tier 3 capital). Tier 1 capital mainly consists of paid-in capital (including participation capital, excluding dividend back-payment obligations) plus reserves and minority interests. Tier 2 capital includes supplementary capital and non-current subordinated liabilities.

Capital resource planning is mainly based on the internal target Tier 1 capital ratio (ratio of eligible Tier 1 capital to total risk positions) and the internal target total equity ratio (ratio of eligible equity to total risk positions) of Hypo Alpe Adria. It defines the upper limit of the risk positions that may be generated from Hypo Alpe Adria’s business activities for the planning period.

Compliance with the resolved risk position limits for individual group companies and business divisions is monitored on an ongoing basis. Monthly reports about the current capacity utilisation are submitted to the Executive Board. The Executive Board is also informed each month about the actual ratios and material effects on these ratios and makes decisions on corresponding measures if actual figures deviate from targets.

Due to the general delay in finalising and implementing Basel III, the Basel II standards as well as those Basel III standards already known at the time of planning – including the newly defined ratios – were taken into account in the planning process.

88.1. ICAAP – Internal Capital Adequacy Assessment Process

In addition to ensuring that regulatory capital requirements are met, securing the group’s ability to bear economic risks forms a central part of steering activities within Hypo Alpe Adria. Hypo Alpe Adria has an institutionalised internal process as regards risk-bearing capacity (ICAAP “Internal Capital Adequacy Assessment Process”).

The bank manages its risks as part of the overall bank management process, which makes risk capital available for the different types of necessary risk involved in following strategies and limits and monitors those risks by placing upper limits on them. The bank’s Risk Office units, together with the Executive Board, are developing a risk strategy with focus on determining risk principles to ensure consistency of the group-wide risk profiles, including the capital and liquidity requirements as part of the business strategy. The main pillars of the risk strategy are defining the risk appetite, appropriately identifying and quantifying each individual risk, risk limiting, controlling and monitoring, organisational framework conditions and preparing internal guidelines and manuals.

The risk strategy goes hand in hand with the business strategy, which is based on four pillars (SEE network, Hypo Bank Austria, Hypo Bank Italy and Heta Asset Resolution). A business strategy is defined for each of the four pillars that are in turn supported by a corresponding measurable risk strategy.

The identification of all material risks through a risk inventory forms the very foundation for implementing the risk-bearing capacity calculation. In 2011, a risk matrix was developed as part of the Risk Inventory Project. All subsidiaries must fill in this document once a year. Following the first risk inventory, the ICAAP components were fundamentally reviewed. For instance, individual calculation models were adapted, new risk types were identified and included in the RBL, the aggregate risk cover components were re-defined and new limits were stipulated for each risk type.

The value at risk (VaR) method was applied for calculating risk capital requirements for credit and market risk, the main risk categories. Hypo Alpe Adria group is controlled pursuant to the gone concern approach with a confidence level of 99.9%. In addition, the going concern approach (confidence level of 95%) is implemented for the “SEE Network” pillar.

Risk capital requirements are offset against risk bearing capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. According to the risk strategy, 80% of the available aggregate risk cover may be used for covering risks with the remaining 20% acting as a stress buffer.

The risk types relevant for calculating risk capital requirements, including the applied target limits (based on 80% of risk bearing capital), are:

- Credit risk (in a broad sense including country, concentration and participation risks) -> limit: 78.5%
- Market risk -> limit: 7%
- Strategic market risk -> limit: 1.5%
- Object risk -> limit: 5%
- Operational risk -> limit: 5%
- As well as other risks (reputation, strategic, capital and business risks) -> limit: 3%

The risk-bearing capacity calculation is carried out monthly and applies three different methods, of which the internal method is used for controlling the group. In addition, risk-bearing capacity calculations for the JRAD I and JRAD II requirements are carried out. In the first half of 2013, the ICAAP group methodology will also be rolled out at the strategic subsidiaries and implemented as an additional controlling instrument – in addition to the local relevant regulations.

The risk-bearing capacity report is produced 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 GREC serves as an operational basis for controlling economic risks. The committee discusses and sets the risk standards (methods, processes, systems and organisation) for the whole of the group. The Chairman of the committee is the Group Chief Risk Officer. In addition to all the managers for the different risk departments, the Group Financial Officer is also a member of the GREC.

88.2. Joint Risk Assessment Decision ("JRAD")

Following an examination of Hypo Alpe Adria's economic capital over the course of 2011, the Austrian Financial Market Authority (FMA) obliged Hypo Alpe Adria to increase its total equity ratio to 12.04% and ensure that the shortfall between the expected losses in the area of credit risk and total risk provisions is covered from 31 December 2012 onwards. The bank reached an agreement approved by the European Commission with its shareholders regarding a EUR 1.5 billion recapitalisation of the bank, consisting of a capital increase by the Republic of Austria (EUR 500 million) and the issue of a state-guaranteed subordinated bond (EUR 1.0 billion). In the recent JRAD study for 2012, the regulatory authority concluded – based on figures as at April 2012 – that the bank had an additional shortfall of EUR 621.9 million and determined that the bank's minimum capital ratio as of 31 December 2013 is 12.4%. However, the actual shortfall will only be established once the notice is settled.

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

(89) Credit risk (Counterparty default risk)

89.1. Definition

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

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

89.2. General requirements

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

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

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

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

89.3. Risk measurement

Hypo Alpe Adria utilises several rating methods for the individual analysis and assessment of its borrowers' creditworthiness. The allocation of debtors to rating classes is carried out on the basis of default probabilities as part of a 25-level master rating scale. As described in note 86.7., Hypo Alpe Adria uses its own rating methods.

89.4. Risk limitation

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

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

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

At portfolio level there are country limits to prevent the formation of risk 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 risk concentrations.

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

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

89.5. Portfolio overview – credit risk

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

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

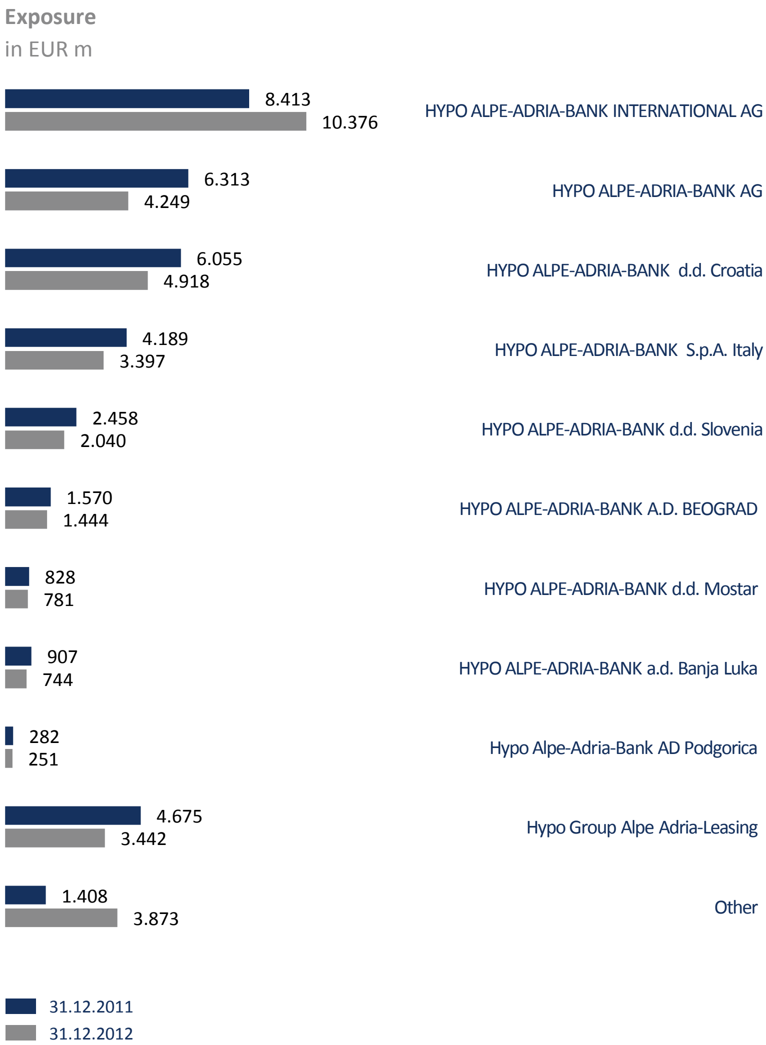
EUR m

	31.12.2012	31.12.2011
Cash and balances at central banks	2,873	757
Loans and advances to credit institutions	1,993	3,136
Risk provisions on loans and advances	-3	-13
Loans and advances to customers	24,402	26,722
Risk provisions on loans and advances	-3,070	-3,090
Trading assets	1	12
Positive fair value from hedge accounting derivatives	1,426	1,434
Financial investments – designated at fair value through profit or loss	783	761
Financial investments – available for sale	2,688	2,652
Financial investments – held to maturity	91	36
Investments in companies accounted for at equity	7	1
Other financial investments		
thereof operating leases	113	148
thereof investment properties	1,279	838
Contingent liabilities	725	756
Other liabilities – irrevocable loan commitments	861	945
Total	**34,170**	**35,094**

Distribution of exposure within the group:

In the year under review exposure within the group fell by EUR 1.6 billion or 4.3%, due to very limited new business, the increased reduction of NPLs and the wind-down strategy (Heta). In total, there are free credit lines at Hypo Alpe Adria amounting to around EUR 1.6 billion.

Within the group, exposure breaks down as follows:

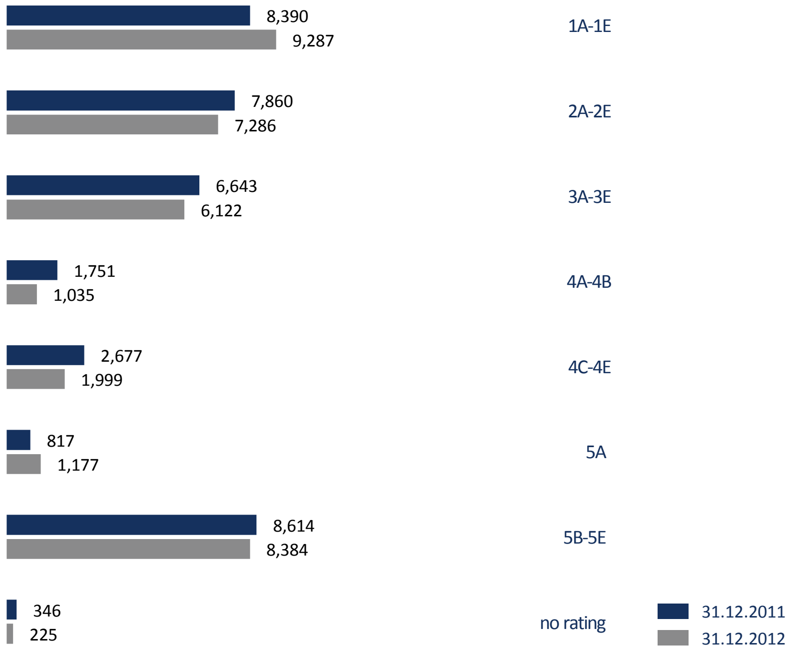


The rise in exposures at Hypo International AG is caused by the portfolio transfer of Hypo Alpe-Adria Bank AG to Hypo Alpe-Adria International AG and the assessment of the capital increase and the funds from the state-guaranteed bond at OeNB. The increase in the “Others” item is due to the previously described brush effect. The 2011 figures were adjusted to provide a better comparison of the allocation.

Exposure by rating class in the group:
Around 26.1% of the exposure is categorised as rating classes 1A to 1E. This exposure relates mainly to loans and advances to credit institutions and public institutions.

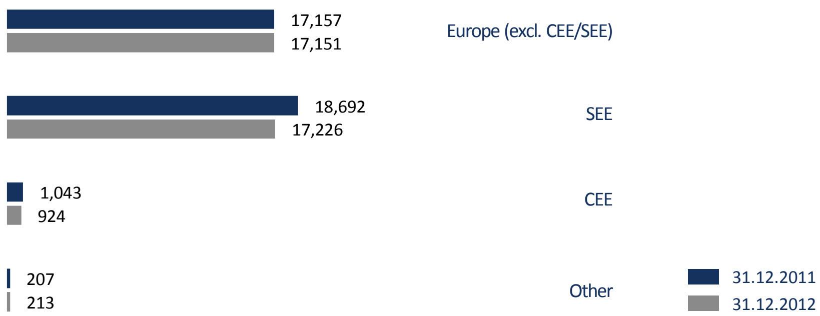
There was only a slight increase in exposure in the classes 5B to 5E (impaired exposure until it is written off) and 5A (arrears > 90 days). The rise in the rating classes 1A to 1E primarily results from the majority of Hypo Alpe Adria's liquidity reserve being held at the OeNB and the implementation of a re-rating of customers with the rating models introduced in 2012.

Exposure by rating class
in EUR m



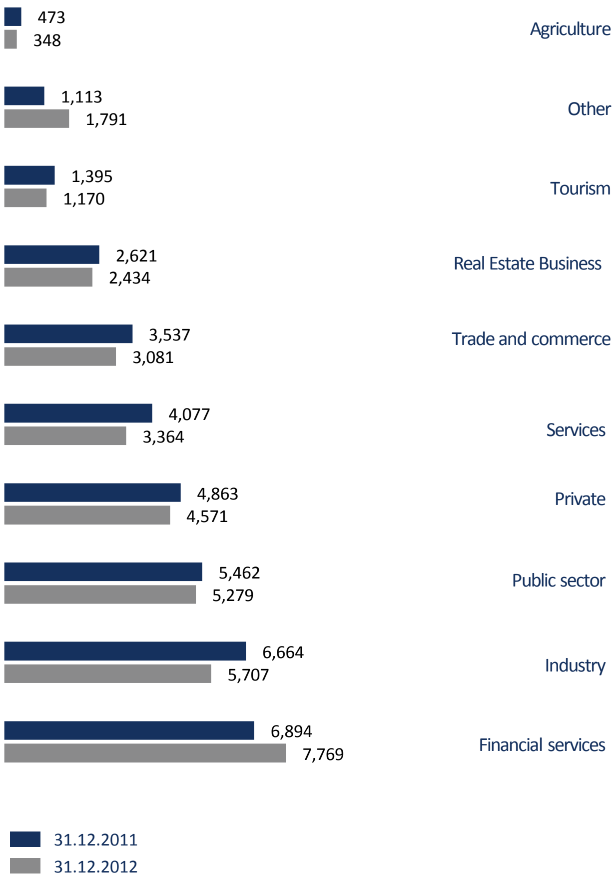
Exposure by region within the group:
The country portfolio of Hypo Alpe Adria is concentrated on the EU and SEE regions. There was, essentially, a reduction in exposure in each country/region.

Exposure by region
in EUR m



Exposure by sector within the group:
A uniform classification code (NACE Codes 2.0) is used in Hypo Alpe Adria for the economic control and strategic focus of industry exposure. This code is mapped into ten industry sectors for reporting purposes. The lower-risk industry groups – credit institutions and the public sector – account for a share of 36.7%. The well-diversified private clients sector has a share of 12.9%.

Exposure by business sector
in EUR m



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

There was a slight increase in the financial services providers sector portfolio, due to the assessment of the cash reserve at OeNB. The 2011 figures were adjusted during the sector allocation.

Exposure by sector and region:
When looking at the industry and region, the majority of financial services providers clearly comes from Europe (excluding CEE/SEE). These are primarily large banks with which Hypo Alpe Adria has built up good business relationships over many years.

EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Services	1,214	1,922	174	54	3,364
Financial services	6,131	1,517	57	64	7,769
Trade and commerce	681	2,309	77	14	3,081
Industry	2,316	3,260	131	0	5,707
Agriculture	69	259	20	0	348
Public sector	3,669	1,368	209	33	5,279
Private	748	3,792	29	2	4,571
Real estate business	1,418	857	159	0	2,434
Other	690	1,039	17	45	1,791
Tourism	215	904	51	0	1,170
Total	**17,151**	**17,226**	**924**	**213**	**35,515**

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

Exposure size category of the transactions:
Around 55.5% of the exposure is found in the size range <=EUR 10 million.
The bank is pursuing a strict strategy of reducing concentration risk in the corporate banking area.

The largest share of the EUR 19.7 billion exposure in the range >EUR 10 million is due to banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of affiliated clients. To provide for an easier comparison with 2011, the figures were adjusted retrospectively.

EUR m

Size classes	31.12.2012	31.12.2011
< 10,000	819	886
10-20.000	504	565
20-50,000	1,000	1,082
50-100,000	1,225	1,293
100-250,000	1,878	1,988
250-500,000	1,347	1,482
500-1,000,000	1,545	1,657
1,000-3,500,000	3,498	3,871
3,500-10,000,000	3,979	4,322
> 10,000,000	19,719	19,952
Total	35,515	37,098

89.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

EUR m

Rating class	Exposure	31.12.2012 Collateral	Exposure	31.12.2011 Collateral
1A-1E	9,265	1,378	8,345	1,439
2A-2E	7,029	3,435	7,584	3,174
3A-3E	5,680	3,262	5,924	3,268
4A-4B	818	466	1,311	728
4C-4E	1,603	895	1,784	1,073
No rating	208	45	260	115
Total	24,603	9,481	25,208	9,796

Financial assets that are overdue, but not impaired: *

EUR m

Classes of loans and advances	Exposure	31.12.2012 Collateral	Exposure	31.12.2011 Collateral
Financial investments	**7**	**0**	**8**	**0**
– 181 to 365 days	7	0	8	0
– over 1 year	0	0	0	0
Loans and advances to credit institutions	**13**	**4**	**0**	**0**
– overdue to 30 days	11	4	0	0
– overdue 31 to 60 days	0	0	0	0
– overdue 61 to 90 days	0	0	0	0
– overdue 91 to 180 days	1	0	0	0
– overdue 181 to 365 days	1	0	0	0
– overdue over 1 year	0	0	0	0
Loans and advances to customers	**3,496**	**2,116**	**4,812**	**3,234**
– overdue to 30 days	767	346	850	587
– overdue 31 to 60 days	326	216	570	398
– overdue 61 to 90 days	102	69	267	193
– overdue 91 to 180 days	819	613	787	643
– overdue 181 to 365 days	1,477	868	2,058	1,208
– overdue over 1 year	5	4	281	205
Total	3,516	2,119	4,820	3,234

* For technical reasons, all customers in the restructuring class (5C) are shown as overdue > 90 days. If looking only at the days overdue without overcontrol through the rating, the following changes occurred in 2012: overdue receivables would decrease by around EUR 402.2 million and receivables not overdue would increase by the same amount. EUR 3,113.6 million of the exposures would therefore have been overdue and EUR 25,005.68 million not overdue at the end of 2012.

Impaired financial assets:

EUR m

		31.12.2012	31.12.2011
Financial investments	Exposure	0	0
	Provisions	0	0
	Collateral	0	0
Loans and advances to credit institutions	Exposure	38	24
	Provisions	2	13
	Collateral	15	5
Loans and advances to customers	Exposure	7,357	7,046
	Provisions	2,937	2,942
	Collateral	2,989	3,083
Total exposure		**7,396**	**7,070**
Total loan loss allowances (including provisions for risks from the lending business)		**2,939**	**2,956**
Total collateral		**3,004**	**3,088**

89.6.1. RENEGOTIATIONS

Within the framework of renegotiations, a change in conditions relating to creditworthiness was applied to financial assets with a total carrying amount of EUR 70.9 million in 2012.

89.6.2. LIQUIDATED COLLATERAL

In the 2012 financial year, collateral amounting to around EUR 143.4 million was liquidated (bail-out purchases). Of this, around EUR 53.5 million related to bail-out purchases by banks and EUR 89.9 million related to assets repossessed by leasing companies.

(90) Participation Risk

90.1. 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).

90.2. General requirements

Prior to 2009, Hypo Alpe Adria (or a subsidiary) had invested in companies that either served to expand its business spectrum, provide services for the bank or function as purely financial holdings to achieve its business objectives. The year 2012 was characterised by the ongoing restructuring measures at Hypo Alpe Adria leading to portfolio rationalisation and 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 that are strategic and non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for equity investments at Hypo Alpe Adria and at its strategic or non-strategic shareholdings across the group, as well as to describe the investment process, steering and reporting in more detail.

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

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

90.3. Risk measurement

Hypo Alpe Adria uses the PD / LGD approach pursuant to section 72 SolvaV for measuring the participation risk for the ICAAP.

90.3.1. RISK CONTROL AND MONITORING
Hypo Alpe Adria has, in the Group Credit Risk Control division, its own independent central unit with the authority to set guidelines on all methods and processes connected with the management of equity risk. The operational implementation of risk controlling instruments is the responsibility of the business units in charge.
Strategic equity investments are integrated into the annual strategy and planning process of Hypo Alpe Adria. Representation on shareholder and supervisory committees allows Hypo Alpe Adria to exert influence over business and risk policies.

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

(91) Country Risk

91.1. 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 or does not meet them at all due to governmental directives or economic/political problems.

For example, country risks may arise from a possible deterioration of national economic conditions, a political or social collapse, 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.

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

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

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

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 estimated internally. 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.

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

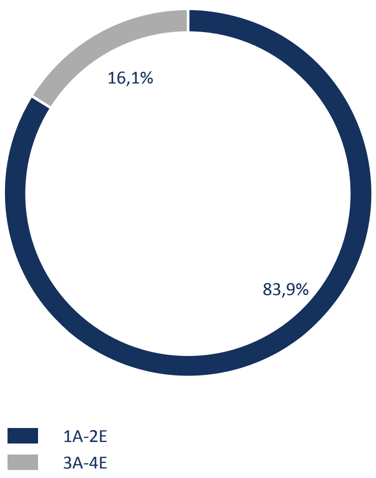
Cross-border transactions by the group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries subject to separate controls that emanate directly from the Executive Board.

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

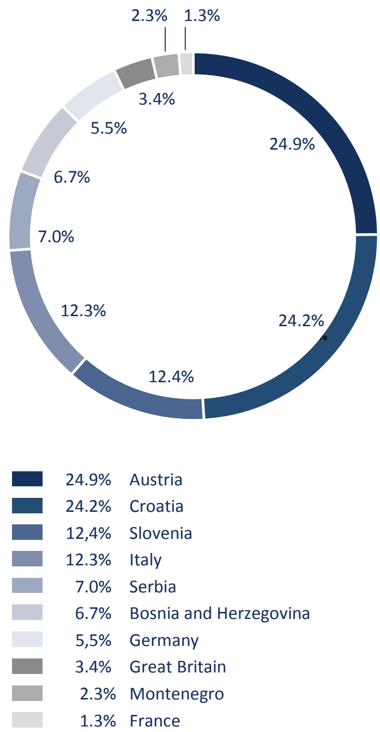
91.6. Portfolio overview – country risk
Exposure by country rating:
The share of exposure in countries with investment grade ratings amounts to 83.9%.

Consequently, some EUR 5.7 billion of exposure was in countries with a non-investment grade rating at the end of 2012. This is in accordance with Hypo Alpe Adria's strategy of conducting business in its core SEE market.

Exposure country rating breakdown
in percent



Top 10 countries by exposure
in percent



Top 10 countries by exposure:
The top 10 countries account for 88.1% of total volume, with Austria and Croatia accounting for the largest share. Hypo Alpe Adria's strategy is to focus on the core markets in the SEE network.

91.7. Core Hypo Alpe Adria country portfolios

Hypo Alpe Adria's activities in the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) are kept to a minimum. The only exception is Italy, where the group supports and funds a subsidiary, Hypo Alpe-Adria-Bank Italy.

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

As the SEE region is Hypo Alpe Adria's core market – through its subsidiaries, Hypo Alpe Adria is present primarily in Croatia, Serbia, Montenegro and Bosnia and Herzegovina – the group is monitoring economic developments in these countries and the forecasts for their economies for 2013 even more closely. This is being done through close monitoring by the subsidiaries involved and through the group holding company, so that they can react swiftly to changes in market conditions.

It can be stated for all SEE country markets that the original economic growth forecasts for 2012 have to be withdrawn, not least because of the countries' strong foreign economic ties with the eurozone, which continues to be the focus of the sovereign debt crisis. At the time of writing, the assumptions are for a 1.4% drop in GDP for this region in 2013. However, Hypo Alpe Adria expects growth of 0.6% in 2014.

As extensively discussed in the group management report, mainly Serbia (close economic connections with Greece) and Bosnia and Herzegovina are affected by high unemployment, which will not reduce in 2013. The accession of Croatia to the EU as of 1 July should also have a positive economic effect in future.

In summary, it can be said that the economies of the SEE country markets will experience a slowdown in 2013, representing an increased challenge to Hypo Alpe Adria in the current year. The group will address this challenge with stringent monitoring of customer accounts and portfolios, renewed efforts in processing collections and non-performing loans, with the result that assets requiring liquidation will be sold in such a way as to preserve value, even in this difficult market environment.

91.8. Side-note: GIIPS

The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and credit institutions.

EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Greece	State and central bank	0.0	6.1
	Regions and municipalities	0.0	0.0
	Banks	0.0	0.0
	Total	**0.0**	**6.1**
Ireland	State and central bank	0.0	0.0
	Regions and municipalities	0.0	0.0
	Banks	58.3	50.8
	Total	**58.3**	**50.8**
Italy	State and central bank	100.4	93.6
	Regions and municipalities	30.5	37.4
	Banks	88.9	129.6
	Total	**219.8**	**260.6**
Portugal	State and central bank	0.0	0.0
	Regions and municipalities	20.0	20.0
	Banks	14.9	25.1
	Total	**34.9**	**45.1**
Spain	State and central bank	0.0	0.0
	Regions and municipalities	50.2	102.5
	Banks	125.0	139.8
	Total	**175.3**	**242.3**
Total		**488.3**	**604.8**

The following sections give a short overview of the economic and political status in the individual, relevant GIIPS:

91.8.1. GREECE:
Hypo Alpe Adria has no exposure to Greece.

91.8.2. ITALY:
After the adoption of a drastic austerity programme with a total volume of EUR 33 billion, the Monti government created an extensive growth programme in January 2012, consisting of liberalisation measures as well as reforms to social welfare and the employment market ("Italian growth package") and designed to boost GDP growth by an additional 1.5% per year. Greater attention will also be paid to concerted efforts to combat tax evasion, also intened to give the economy new impetus. At the beginning of April it was announced that Italy's deficit for 2011 had fallen to 3.8% of GDP (2010: 4.8%), while tax revenues had risen by 1.9%.

The liberalisation and growth measures adopted are expected to give the Italian economy up to an additional 5% in growth by 2020; the government is expected to present a balanced budget in 2014. The Senate also adopted the introduction of a debt ceiling into the constitution. Public sector debts owed to private companies will also be paid off gradually. The Senate passed the controversial employment market reforms, such as relaxing the rules on employment protection, at the end of May.

Despite a number of positive aspects in recent years (Italy has benefited from a primary surplus and relatively low levels of private household debt), Italy remains in recession, which is driving unemployment.

At the beginning of July, Monti announced plans to further intensify austerity measures, including a EUR 26 billion cut in public administration by 2014 and a VAT rise from 1 June 2013. Italy was backed in this by the European Commission.

The European Commission directed massive criticism at Moody's downgrading of Italy's creditworthiness rating from A3 to Baa2; at the same time, Fitch confirmed its A- rating. The above-mentioned austerity programme was approved by the Italian Parliament in August. This programme included additional privatisations as well as reinforced debt relief and a stepping up of anti-tax evasion, anti-money laundering and anti-corruption measures. Tax revenues in the first half of 2012 rose by 2.08%, mainly due to a new real estate tax.

At the end of September, the Italian government was forced to revise deficit goals for 2012 and 2013 in light of the continuing recession. However, Italy is likely to emerge from recession in 2013; measures taken to promote competitiveness will see GDP rise by 4% in the coming ten years. The bond market also relaxed again, something that continued over the course of the year.

Monti was optimistic that Italy would turn its economy around in 2013. An anti-corruption law was passed, together with a surprising drop in income tax for low earners. On a positive note, tax revenue rose by 2.9% in the first ten months of 2012.

December was dominated by Berlusconi's reappearance on the political stage; his party, the PdL (People of Freedom), withdrew its parliamentary support of Monti's government at the time when the latter was trying to implement the 2013 stability law (to further consolidate spending cuts). The EU repeatedly stated that the continuation of the reforms is extraordinarily important to both Italy and the monetary union and that the country must stay on a "path of stability and reform" (Barroso).

The situation on the bond market calmed after a short hold (lowest interest rates since October 2010); according to rating agency Moody's, the political crisis in Italy has had very little impact on the country's creditworthiness. Fitch also recently confirmed its A- rating in light of the progress made in budget consolidation and the structural reforms. Italy also only faces low risks from the banking sector and has a diverse economy and moderate private household debt.

Prime Minister Monti stepped down on 21 December 2012 after parliament had approved the 2013 budget. He then stressed that regardless of the outcome of the parliamentary elections at the end of February 2013, the next government must continue to implement the planned reforms. Italy seems to have overcome the most acute phase of the debt crisis without needing to have recourse to international aid. At the end of December, Monti announced that he would lead a coalition of centrist parties and a civic movement, and that he aims to hold a majority in parliament. He plans to make profound changes to Italy's business and political worlds by implementing an ambitious reform agenda (the Monti agenda).

The fist 2013 bond auction proved positive; Italy's yield fell to its lowest since November 2010 (interest rates on the ten-year government bond dropped to 4.164%).
For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Italy at the time of writing.

91.8.3. IRELAND:
After being granted EUR 85 billion in aid from the EU and the IMF in November 2010 (as a result of the burst housing bubble and the collapse of an inflated financial sector), Ireland succeeded in meeting all budgetary targets set thanks to a rigorous austerity programme in 2011.

The year 2012 was characterised by a marked decline in risk premiums for government bonds to a sustainable level as well as a rise in the current account surplus. The "Troika" repeatedly stated that the country was on course with its cutbacks, saying that it was "setting an example" for the other GIIPS. In a referendum held at the beginning of June, 60% voted yes to the fiscal pact, which calls for the introduction of a debt ceiling and continued savings.

The IMF's audit at the end of the year was very positive, attesting that Ireland's budget for 2013 included a combination of sustained levels of additional income and lower expenses of 2% of GDP. These measures are also expected to suffice to increase growth to 2% by 2014. The European Commission also forecasts that Ireland's economic growth will double to 1.1% in 2013, and to 2.2% in 2014.

Ireland decreased its budget deficit to less than 8% of GDP and exceeded fiscal targets by 0.7%. Another positive note is the fact that the service sector posted its greatest increase in five years, while industry generated growth for nine straight months. In any case, the Irish economy has a flexible, business-friendly and competitive economic structure with strong focus on exports. Ireland plans to emerge from the rescue mechanism as scheduled at the end of 2013, thereby obtaining all of its refinancing on the capital market. Ireland successfully placed its first new bonds (that mature in 2017) of EUR 2.5 billion with investors at the beginning of 2013.
For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Ireland at the time of writing.

91.8.4. PORTUGAL:
At the beginning of 2012, it was announced that Portugal was making progress with the rehabilitation of its state finances (including a strict austerity programme and an extensive privatisation programme), raising in excess of 10% more taxes than planned.

Over the course of the year, Portugal found success time and again in obtaining refinancing on the bond market – and declining yields – and the "Troika" repeatedly confirmed that the country's attempts to rehabilitate its state finances "were on track" (budget deficit in 2011 was 4.2%, significantly exceeding the target of 5.9%).

The European Commission's plans envision Portugal being completely dependent on the markets to provide it with financing from 2014 onwards. The IMF is just as positive with regards to the government's course – cutting the public spending deficit by 47% in the first half of the year. Exports also did well, rising by 4.5%, and tourism levels increased.

Portugal was the first EU member state to ratify the fiscal pact negotiated by the European's heads of state and government at the end of March, which calls for stricter budget discipline and a mandatory debt ceiling.

In light of the continued recession (high unemployment and therefore lower tax revenues), the country's international funding providers gave it more time at the beginning of September to rehabilitate its state finances. The target deficit for 2012 was increased from 4.5% to 5%, with the aim of reaching 3% of economic output as set by the Maastricht Treaty in 2014. The country also aims for GDP to grow by 0.8% in the same year. Portugal launched a successful bond swap, which reduced financing needs for 2014 by around one-third (swapping bonds that mature in September 2013 and have an interest rate coupon of 5.45% with bonds that mature in October 2015 and have a coupon of 3.35%).

As part of the agreements with international funding providers, the Portuguese Parliament recently adopted a controversial austerity programme (of EUR 5.3 billion) for 2013. The privatisations of airports and electricity providers were successful, allowing the country to generate more income than originally planned. At the end of the year, the IMF attested that the Portuguese government had made new significant progress in the implementation of austerity and reform programmes, designed to help create jobs and stimulate the economy.

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

91.8.5. SPAIN:

Spain remains locked in recession despite the radical austerity and structural measures implemented by the government under Prime Minister Rajoy. The fourth austerity package was passed in July 2012, designed to save EUR 150 billion by 2014. As the government possesses an absolute majority, it has thus far been able to force through unpopular measures, in spite of protests (such as cuts to unemployment benefits, reductions in health and cultural spending, raising the effective retirement age, opening up the archaic labour market, increasing VAT). Spain is still struggling with the effects of the real estate and banking crisis (further increase in non-performing loans); the economy is also impacted by high unemployment and high levels of private household debt.

The programme approved by the euro partners in July to find EUR 100 billion to recapitalise Spanish banks (including Bankia) resulted in the country receiving EUR 39.5 billion from the ESM in December via the FROB (government bank bail-out fund); the programme also called for Spain's banking sector to shrink.

On the upside, both the trade and the current account deficits were down significantly as against 2011, while exports rose by a considerable 4.8% in the summer. There are also signs that Spanish competitiveness is on the rise. Compared to other countries, Spanish unit labour costs have fallen by 4.4% since 2008. Cutting social security contributions while at the same time increasing VAT is designed to increase the competitiveness of Spanish products. The labour market also gave a positive signal for the first time in a long time at the end of the year: unemployment dropped by 1.2% as against the previous month. Tourism to Spain hit a new high in 2012 with almost 59 million visitors, up 2.9%, who pumped EUR 34.5 billion into the economy.

The bond market also eased considerably at the end of the year with a significant drop in interest rates: the yield on ten-year government bonds was approximately 5%, down from 7.5% in July. This trend continued at the first bond auction of 2013, allowing Spain to raise much more capital (EUR 5.8 billion) than expected at favourable terms and conditions (2.8-times oversubscription).

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

91.9. Side note: Croatia, Hungary, Slovenia and Cyprus

91.9.1. CROATIA:
The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and banks.

EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Croatia	State and central bank	1,027.6	1,190.6
	Regions and municipalities	45.9	41.3
	Banks	32.3	34.1
	Total	**1,105.7**	**1,266.0**

The accession of Croatia to the EU in July 2013 will improve growth prospects by giving the country access to EU subsidies and a common market. Economic conditions are expected to improve slightly in the second half of 2013: Ratings agency Fitch forecasts GDP growth of 0.3% for 2013 and 1.3% for 2014. According to the Croatian central bank, the HNB, unemployment will rise to some 15.2% in 2013, while inflation may fall to 3.2%. The Croatian government will continue to implement structural reforms and make savings at government departments and agencies. Finance Minister Slavko Linic has stated that this will not incur any new tax expenses, pointing out the necessity of a real estate tax to be introduced next spring. Salaries and pensions are not expected to be cut. The government hopes that cutting VAT for food and drink in restaurants from 25% to 10% will lead to greater tourism investments, price cuts within the sector and more jobs. Tourism is one of the country's most important industries. At 58.9 million overnight stays, an increase of 5.6%, the summer of 2012 was the country's best-ever tourist season.

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

91.9.2. HUNGARY:
The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and banks.

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Hungary	State and central bank	25.6	24.3
	Regions and municipalities	0.0	0.0
	Banks	29.3	43.4
	Total	**54.9**	**67.6**

The Hungarian government signalised that it was willing to compromise on the legislative amendments demanded by the EU following the breakdown of negotiations regarding further funding aid from the IMF and the European Commission – mainly due to increased government control of the Hungarian central bank and the coming into force of the new constitution at the beginning of 2012).

On 17 January 2012, the European Commission opened three infringement proceedings against Hungary as it feared that the independence of the Hungarian central bank, the data protection authority and judiciary from the Hungarian government could no longer be guaranteed following the legislative amendments introduced on 1 January 2012. Prime Minister Orban then assured that the country would fix any problems; he drew attention to the fact that the country had its first-ever stable budget and positive trade balance. Orban also stated that he would do without the disputed consolidation of the central bank and the financial market regulatory body.

In mid-February, the Hungarian parliament resolved to accede to the EU's budget pact, which provides for the monitoring of budgetary discipline. After the European Commission froze EUR 495 million in subsidies from the Cohesion Fund for 2013 because Brussels did not believe that the country was doing enough to control the deficit, Hungary claimed that it was prepared to implement the recommended corrections to the budget.

At the beginning of May, China granted Hungary a development loan of EUR 1 billion; Hungary also signed six bilateral trade agreements.

Following a preliminary resolution to the dispute regarding the independence of the central bank, the European Commission formally lifted the blockade preventing the payment of subsidies and confirmed that the country had made progress in reducing its deficit. The Hungarian Parliament also resolved other requested amendments relating to the central bank at the beginning of July, resulting in the official discontinuation of the proceeding brought by the EU for infringement of EU agreements.

Negotiations were started in July with the IMF and the EU for a new credit line. This resulted in a significant drop in Hungarian refinancing costs on the bond market and strengthened the Hungarian forint.

New differences with lenders led to the introduction of a transaction tax, a planned amendment to the rules governing elections as well as tax cuts, lower pensions, subventions and less red tape, which were demanded by the EU and the IMF.

The fourth quarter was marked by even more disagreements with the EU concerning, among other things, the banking levy; infringement proceedings were also instituted at the European Court of Justice with regard to the special telecom tax introduced in 2010. The European Court of Justice also acknowledged the illegality of the originally planned lowering of retirement ages for judges, prosecutors and notaries, a law which had previously been quashed by the Hungarian Constitutional Court.

New austerity programmes were announced at the beginning of October (EUR 1.4 billion) and in mid-November (EUR 317 million), designed to reduce the budget deficit for 2013 to 2.7% of GDP.

S&P lowered the country's creditworthiness rating to BB (outlook: stable) in light of its faltering growth prospects.

A number of individual provisions of the highly disputed new election law (mandatory voter registration) were lifted by the Hungarian Constitutional Court at the beginning of 2013.

But it was not all bad news: The budget deficit was reduced to 1.8% in the first three quarters of 2012 (down 3.1% year on year) and inflation also fell (central bank forecast for 2013 down from 5.8% to 3.5%). Yields for ten-year government bonds are at their lowest in seven years at 5.855%, meaning that the country can now secure refinancing on the financial markets without any outside help; Hungary also successfully placed EUR 257 million in treasury bills.

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

91.9.3. SLOVENIA

The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and credit institutions.

EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Slovenia	State and central bank	218.4	187.0
	Regions and municipalities	80.8	82.9
	Banks	24.8	59.3
	Total	**324.0**	**329.2**

In mid-February 2013, Standard & Poor's downgraded Slovenia's creditworthiness by one grade from A to A- because of the country's economic and political troubles. Slovenia is currently struggling in the face of falling exports and is doing all it can to stabilise its state finances by restructuring the banking market, among other things. Allegations of corruption against Prime Minister Janez Jansa led to the break-up of the governing coalition formed between the Civic List and conservatives. No additional measures have been announced; the country's "stable" outlook was confirmed. This was primarily justified by Slovenia's rising debt burden (announcement of state aid for state-owned banks due to high valuation allowances, which will likely result in debt rising to 59% of GDP by the end of 2013) and uncertain economic prospects.

Slovenia plans to issue bonds of EUR 3 billion in 2013; refinancing is currently stable at approximately 5.6%.

The budget for 2013 and 2014, which complies with the EU's deficit procedure, includes both austerity measures and additional revenue from an improved investment environment.

The country plans to revive the economy by introducing a range of tax amendments: Corporation tax will be reduced to 17% and will then be lowered by one percentage point each year until 2015. This is expected to result in 3,000 to 4,000 new jobs. The marginal tax rate for top earners with annual incomes over EUR 70,000.00 will be raised. The fight against tax evaders will be intensified with those owing more than EUR 5,000.00 being named on the homepage of the country's finance ministry (as from April 2013). The investment allowance for companies was increased so as to boost investments in intangible and tangible assets. Capital gains tax will rise to 25% and a special real estate tax will be in place until 2014.

The government aims to reduce the deficit to below 2.8% in 2013 and to less than 2.4% in 2014. The measures also include a 5% drop in public-sector pay, pension reform and amendments to labour legislation. The government plans to raise VAT if the deficit exceeds the 3% mark in 2013 and 2014.

On a positive note, the Slovenia Constitutional Court decided at the end of 2012 that no referenda are to be held on the creation of a bad bank or a state holding, thereby strengthening the government's position in its dealings with the unions. For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Slovenia at the time of writing.

91.9.4. CYPRUS:

Hypo Alpe Adria currently has only a very limited number of transactions (EUR <100 thousand) with Cyprus’ banking or public sector.

The Greek part of Cyprus, which joined the EU in 2004, is currently in a veritable financial crisis, caused in part by Greece’s financial problems due to the fact that their economies are closely intertwined (for example, major Cypriot banks in Greece hold more than 10% of Greek deposits). The main problem lies in restructuring the oversized banking industry for which the Cypriot government was forced to assume liability following the Greek haircut at the beginning of 2012.

Cyprus has been in line to receive EU aid since June 2012 when it applied to receive up to EUR 17.5 billion in funding from the ESM to stabilise its banks and state finances.

The country has recently held run-off elections for a new president. Conservative Nikos Anastasiades, who stands for reforms and privatisations and has stressed the need for strict austerity so as to meet the demands of international creditors, prevailed in the presidential elections, winning with 57.5% of the votes. He endorses other pending austerity measures and supports lean administration and transparency in the oversized public sector. His election is interpreted as giving him a strong mandate to return the Mediterranean island back into the European fold. Also of positive note is that Christopher Pissarides, a Cypriot-British Nobel Prize holder, was named head of the newly-formed National Economy Council and the experienced economist Sarris, viewed as the architect behind Cyprus’ admission to the EU, was appointed as the country’s new Finance Minister just one day after the election. The fact that the new Finance Minister was needed to attend a meeting of the Eurogroup on 4 March, which also discussed Cyprus, was given as the reason behind the quick decision.

Russia had granted Cyrus a loan of EUR 2.5 billion at the end of 2011 to be repaid in 2016. Cyprus received complete support from the euro countries in its negotiations to extend this loan by five years. The EU, and Germany in particular, disagree on the question of whether Cyprus is “system-relevant” and therefore whether the country needs aid so as to maintain the financial stability of the eurozone overall. The policy makers of the ECB, the EU and the EMS all believe that this is the case. A number of EU partners accuse the country’s money laundering controls of being too lax, thereby having attracted an enormous amount of money from Russia – money that then flowed back to the East. The country’s low corporate tax rate of only 10% has also been criticised.

However, it is highly unlikely that a decision will be made on aid from the EU, ECB and IMF (“Troika”) before the second half of March 2013, i.e. not until the final results of the presidential elections have been announced.

For these reasons and because of the small portfolio, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Cyprus at the time of writing.

(92) Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These also include concentrations of loans and advances in individual industry sectors, geographic regions as well as concentration from an uneven distribution of collateral providers.

As a result, Hypo Alpe Adria analyses, measures and manages the following concentration risks:

- Counterparty default concentrations;
- Industry sector concentrations
- Geographic concentrations;
- Collateral concentrations.

Counterparty, industry sector and collateral concentrations are measured and managed within the context of the regular ICAAP calculations.
Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor, which changes depending on the type of concentration.

(93) Market price risk

93.1. Definition

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

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

In addition to market risks, market liquidity risks may also be incurred if, in the event of low market demand, the bank is unable to liquidate trading positions during liquidity shortfalls (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

93.2. General requirements

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

93.3. 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 exponentially weighted volatilities and correlations derived from a history of 250 days. For the purpose of determining the economic market risk capital tied up in the risk-bearing capacity calculation, values are scaled to the uniform confidence level of 99.9%, 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 credit spread risks in the current market situation.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called “stress tests”, and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. Back-testing will be performed on the methods and models for defined market risk factors and portfolios at group level and the results presented in Hypo Alpe Adria’s monthly market risk report.

The interest rate risk in the banking book is determined as a present value risk, as are all market risks at Hypo Alpe Adria. The risk of interest rate changes in the banking book is for the most part integrated into ongoing risk monitoring of market risk controlling as per value at risk.

Contractual cancellation rights are modelled as an option, and flow into the risk calculation. All stochastic positions are accounted for in accordance with internal models.

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

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

93.4. Risk limitation

In line with the group’s current risk strategy, a limit for market risk of 10% of the risk capital has been set (target for 2013: 7%). This defined risk capital represents the maximum loss for assuming market risks.

The allocation of capital for market risk is carried out based on a defined limit application process, 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 (client default and investments), credit spread risk (liquid and illiquid), volatility risk and alternative investment risk). Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios. The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the limit system early on.

93.5. Risk control and monitoring

As part of the daily reporting process to the group's Executive Board, the value-at-risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are submitted on a daily basis. Should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

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

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

93.6. Overview – market risk

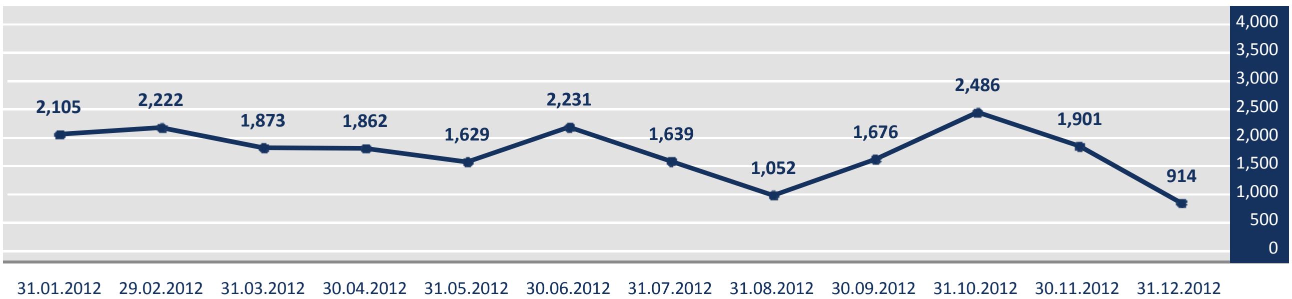
93.6.1. INTEREST RATE RISK

The chart below shows the progression of interest rate risk (including the interest rate risk of the trading book) for Hypo Alpe Adria in 2012.

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

Development in interest rate risk for Hypo Alpe Adria in 2012:

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

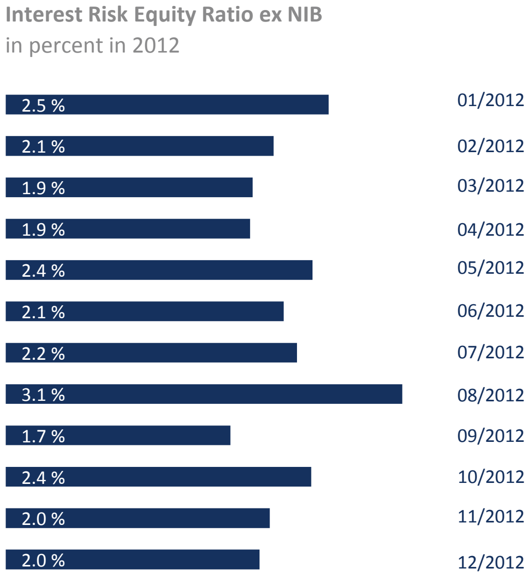


The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the group interest rate gap profile; a second step calculates the risk equity ratio as a percentage of equity capital.

The regulatory limit of 20% and the internal limit of 15% were not even close to being reached or exceeded at any point in the year.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges or portfolio hedges, thereby mitigating interest rate risk.

Interest risk equity ratio ex NIB in percent in 2012:

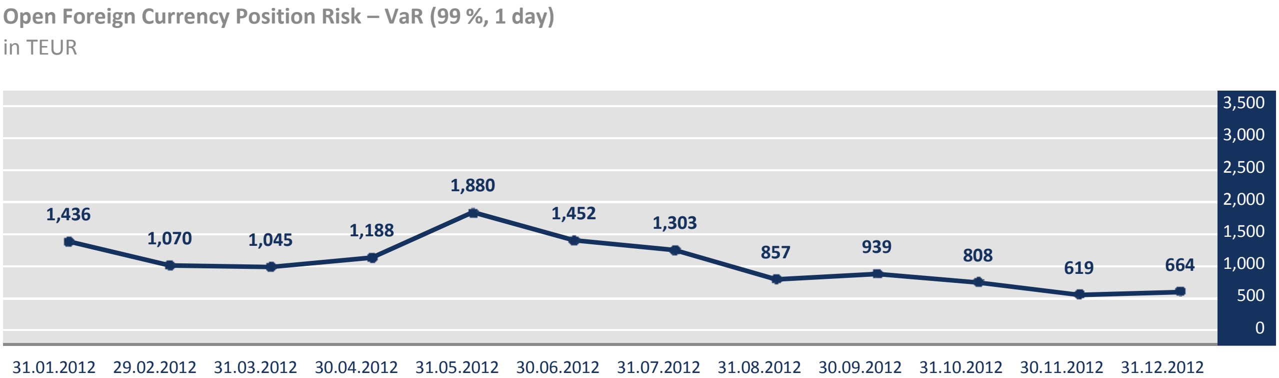


Regulatory requirements state that the proportion of interest rate risk – in the form of the standardised 200-bp rise in directly relevant interest-bearing positions (excluding non-interest-bearing (NIB) positions) – in equity may not exceed 20%. An internal limit for the interest risk equity ratio of a maximum of 15% has been set; however, this has only been sparingly used because of the positive offsetting effects in the interest rate gap profiles. Non-interest-bearing (NIB) positions do not therefore affect interest in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German minimum requirements for Risk Management (MaRisk).

93.6.2. FOREIGN CURRENCY RISK

The data base for determining the value at risk for foreign currency risks at the group level of Hypo Alpe Adria is based on the figures in the OeNB report and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of Hypo Alpe Adria. The main risk drivers for foreign currency risk at Hypo Alpe Adria are the HRK and USD currencies. The value at risk for this foreign currency risk was approximately EUR 0.66 million per day as at 31 December 2012, at a confidence interval of 99%.

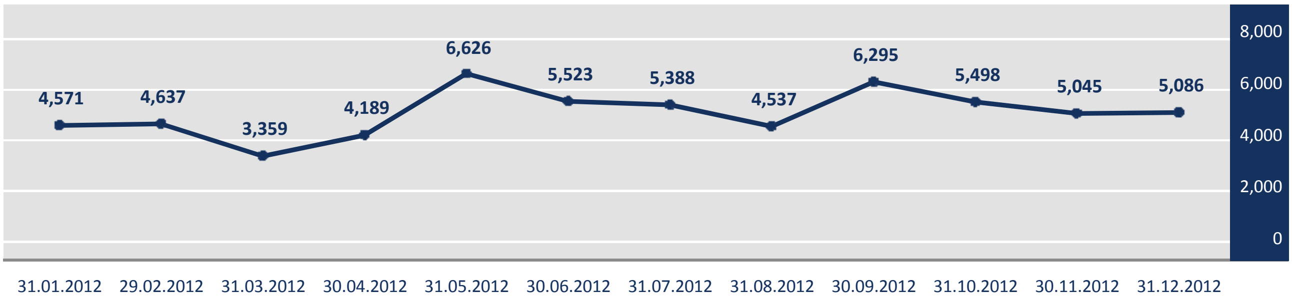
Changes in foreign currency risk at Hypo Alpe Adria in 2012:



In addition to the foreign currency risk from operational business activities, there is an additional foreign currency risk at Hypo Alpe Adria from the consolidation of the strategic investments of Hypo Alpe-Adria-Bank International AG in Hypo Alpe Adria Bank a.d. Beograd and Hypo Alpe Adria Bank d.d. Zagreb. As at 31 December 2012, the value at risk (99%, 1 day) for this strategic foreign currency risk came to approx. EUR 5.09 million.

Change in foreign currency risk in 2012 resulting from strategic holdings:

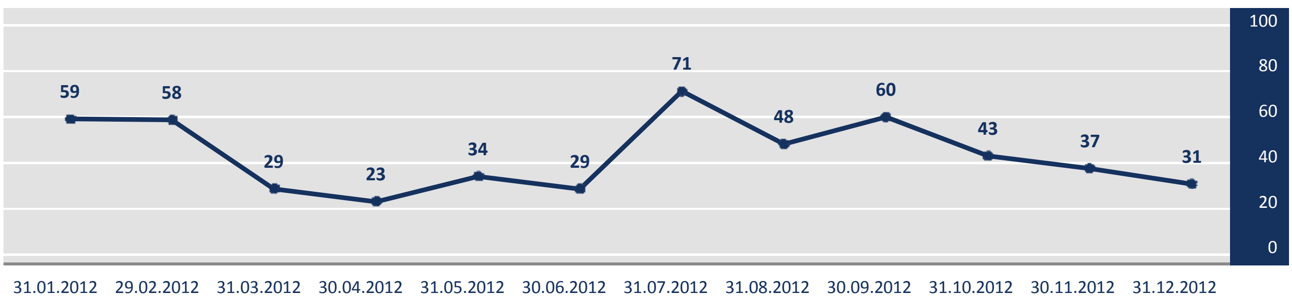
Strategic FX Risk – VaR (99%, 1 day)
in TEUR



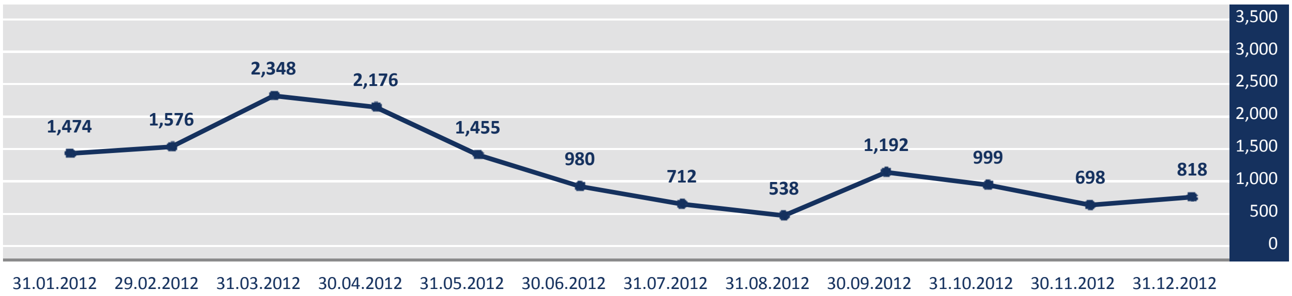
93.6.3. EQUITY RISK
The share capital held in the group is susceptible to market (price) risks, which arise from the uncertainty surrounding the future value of these shares. Hypo Alpe-Adria-Bank International AG makes a distinction between equity price risks, which arise from liquidating collateral related to credit risk transactions, where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements (client default), and equity price risks from an investment viewpoint (investments). The largest proportion of the risk lies in the share portfolio in the banking book investments of Hypo Alpe Adria Bank Slovenia, Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria). The value at risk for the equity price risk (client default) at Hypo Alpe Adria amounted to EUR 0.82 million as at 31 December 2012 with a one-day holding period and a confidence level of 99%, and EUR 0.03 million for the equity price risk from an investment viewpoint. 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 2012:

Equity Risk – Investments – VaR (99 %, 1 day)
in TEUR



Equity Risk – Client Default – VaR (99 %, 1 day)
in TEUR

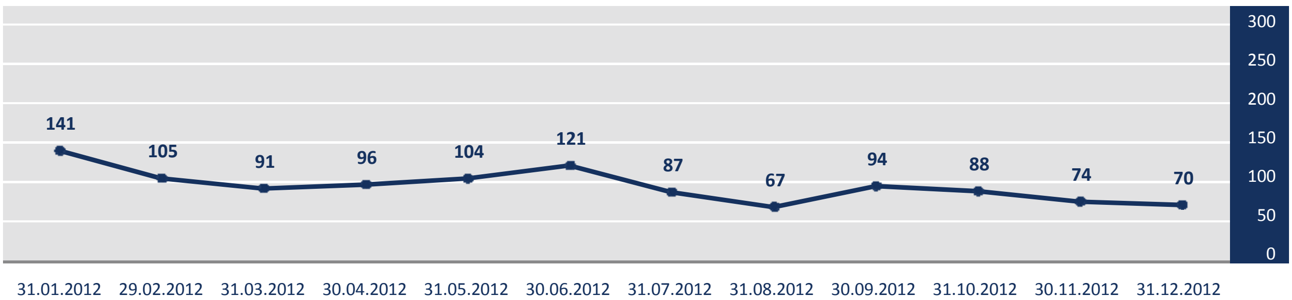


93.6.4. ALTERNATIVE INVESTMENT RISK

The alternative investment risk within Hypo Alpe Adria stood at EUR 0.07 million at year-end 2012 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 2012:

Alternative-Investment-Risk – VaR (99%, 1 day)
in TEUR

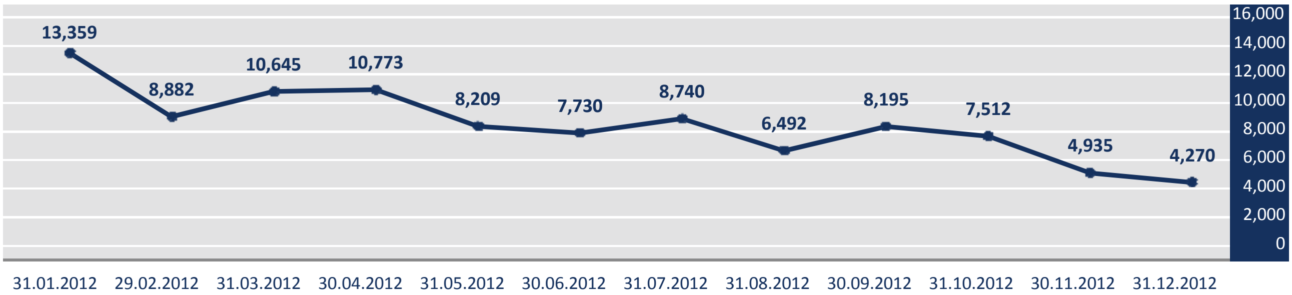


93.6.5. CREDIT SPREAD RISK

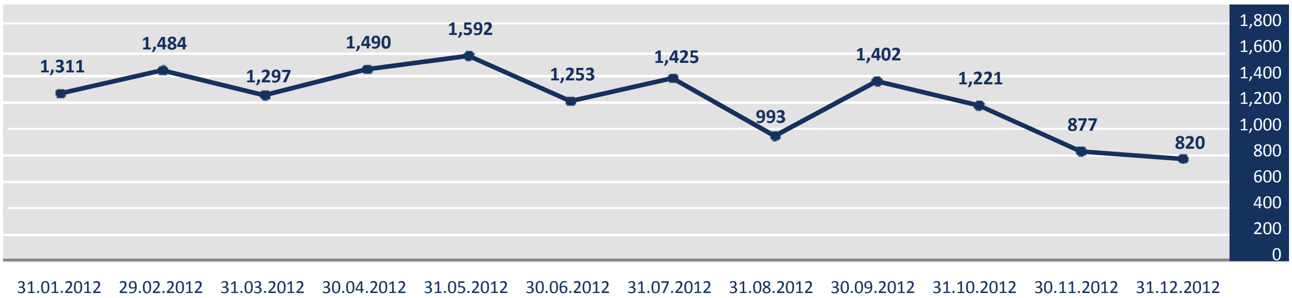
The liquid credit spread risk within Hypo Alpe Adria stood at EUR 4.07 million at year-end 2012 with a 1-day value at risk and 99% confidence level – the illiquid credit spread risk stood at EUR 0.87 million at year-end 2012 with a 1-day value at risk and 99% confidence level, representing the main market risk driver at Hypo Alpe Adria. The most important influencing factor is the liquidity reserves in the form of securities in Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria). Consequently, there is very limited scope for reducing risk from these positions.

Changes in credit spread risk in Hypo Alpe Adria in 2012:

Credit-Spread-Risk (liquid) – VaR (99 %, 1 day)
in TEUR



Credit-Spread-Risk (illiquid) – VaR (99 %, 1 day)
in TEUR

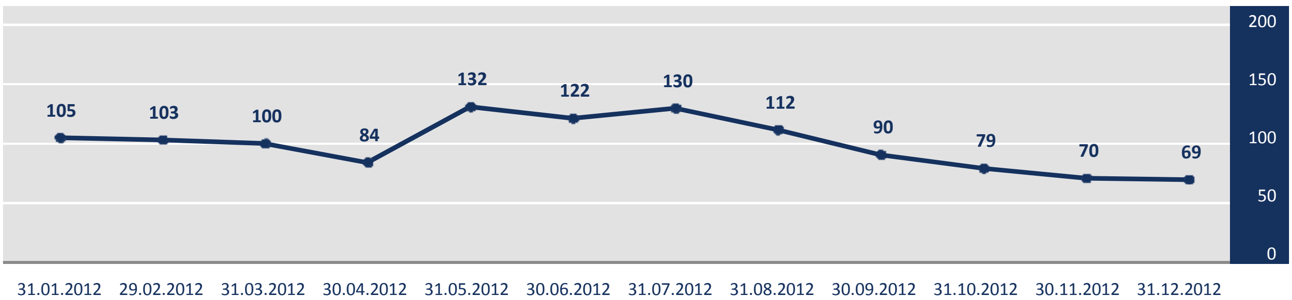


93.6.6. VOLATILITY RISK

The volatility risk for Hypo Alpe Adria at year-end 2012 stood at EUR 0.07 million, 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 2012:

Volatility Risk – VaR (99 %, 1 day)
in TEUR



(94) Liquidity risk

94.1. 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.

94.2. 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 that applies across the entire group.

Liquidity steering and management at group level are the responsibility of the Group Balance Sheet Management & Treasury division of Hypo Alpe Adria. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at group level, takes place. The local treasury units are responsible for operational liquidity steering and liquidity offsets. At group level, liquidity risk controlling is the responsibility of the Group Market Risk Control division of Hypo Alpe Adria, and of the respective risk control unit at local level. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

Hypo Alpe Adria has in place emergency liquidity planning that 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.

94.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe Adria is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favourable terms and conditions. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of liquidity potential are as follows:

- Free access to central bank and interbank funds
- ECB-eligible securities
- Issue potential in the cover register
- Senior bond issues
- Subsidised loans
- Securitisation potential

In addition to the normal scenario, other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow as well as transfer limits), supplement the risk measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared in the risk-bearing capacity calculation to the economic equity.

94.4. 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.

In order to provide short-term management of the liquidity risk for a period of twelve months, the following liquidity potential was held as at 31 December 2012, divided into a base reserve and a stress reserve (liquidity buffer for stress situations):

EUR m

Base reserve	Volume
Repo with national banks	260
Subtotal base reserve	260
Stress reserve	**Volume**
Repo with national banks	943
T-bills and repo securities issued by local banks	169
Minimum reserve	112
Subtotal stress reserve	1,224
Total liquidity potential	1,484

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 to 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 first and second grade liquidity reserves.

94.5. 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.

94.6. Overview – liquidity situation

In addition to funding activities which fall within covered debt securities (covered bonds, Pfandbriefe), there was once again an increase in senior unsecured transactions, it was predominantly issuers with credit standing who satisfied the increased interest from investors. Sufficient numbers of customers existed to take on bank issues of subordinated capital, especially in the second half of 2012.

The European Central Bank (ECB) initiated a number of special measures to satisfy the massive refinancing needs of several European banks, although there is still a very large imbalance between banks with high refinancing needs and banks with very high levels of excess liquidity, which cannot be offset through direct transactions between the banks.

While bank in peripheral countries in particular depend on the ECB or local national banks for their refinancing, there is also a great deal of interest for banks with good credit ratings and excess liquidity to invest their excess liquidity in the ECB, even if no interest is offered.

The ECB has established itself as an intermediary, thereby helping to stabilise the money markets.

The continuing loss in confidence between the banks was countered by the ECB with the following measures (among others):

- Reducing interest rates to an historic low of 0.75%;
- Relaxing requirements for the securities that banks can submit to the central bank;
- Buying of sovereign and covered bonds by the ECB;

- Providing three-year loans by means of two extraordinary long-term refinancing options (LTRO) in December 2011 and February 2012 with full allocation;
- Lowering the minimum reserve from 2% to 1%.

Refinancing and liquidity therefore did not pose as great a problem in 2012 as growing economic concerns.

However, lending levels declined – at times significantly – in recent months, despite the efforts made by the central banks. Peripheral countries in particular have been hit by the dreaded and feared credit crunch.

Household and corporate lending has been in decline ever since the outbreak of the financial crisis. Lending has only risen slightly since 2009, and many countries have seen levels drop.

After the outflow of primary funds in 2009, Hypo Alpe Adria was able to record customer deposit increases in 2012, as it had done in 2010 and 2011. This growth can be attributed to revived investor trust and to the group's strategy. In terms of deposit stability, it must be noted that most of the rise in customer deposits was recorded in the retail segment.

A securitisation of the Italian property leasing portfolio was finalised in the second half of the year. This transaction led to an inflow of funds totalling more than EUR 150 million at Hypo Italy.

Overall, the liquidity situation of Hypo Alpe Adria in 2012 was characterised by over-liquidity. At no time was it necessary to access liquidity reserves; instead, all liabilities were met using current cash flows.

A EUR 500 million capital increase by the shareholder, the Republic of Austria, and the issue of a state-guaranteed bond in the amount of EUR 1.0 billion were effected in December 2012. This significantly increased liquidity levels at the end of the year; the liquidity position in 2013 is also forecast to be comfortable in light of expected inflows and outflows.

Below is a listing of due dates for the financial liabilities of Hypo Alpe Adria, based on the following conservative assumptions:
- Current accounts, call money and cash collaterals are due on the next working day;
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day;
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented.

EUR m

at 31 December 2012	1 Y -2013	2 Y -2014	3 Y -2015	4 Y -2016	5 Y -2017	> 5 Y (> 2017)	Total
Financial liabilities*							
Liabilities to credit institutions	2,739	790	495	92	371	217	4,704
Liabilities to customers	6,165	343	73	23	57	64	6,725
Liabilities evidenced by certificates	2,616	1,553	2,739	2,034	4,460	2,388	15,790
Promissory notes	10	75	125	369	1,115	379	2,072
Total	11,530	2,761	3,432	2,517	6,002	3,047	29,290

* Relevant to liquidity.

Maturities of financial liabilities
as of 31 December 2012 in EUR m

As the graph shows the main due dates for issues and refinancing stretch out to 2017, in addition to the conservative modelling of liabilities in the first maturity band. This is taken account of in the funding planning, with particular care directed at broadening the liquidity resources and defining measures and a framework for ensuring the financing base for Hypo Alpe Adria's business activities.

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book: hedge transactions on the asset side of the balance sheet (e.g. fixed rate bonds)
- Market Risk Steering ALM: hedge transactions to steer the interest rate gap profile
- Market Risk Steering B2B: back-to-back transactions by Hypo Alpe-Adria-Bank International AG on the basis of the hedge requirement of individual subsidiaries
- Market Risk Steering FVO: hedge transactions under the fair value option
- Market Risk Steering FX: derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies
- Market Risk Steering HA: hedge transactions in the course of hedge accounting

EUR m

at 31 December 2012	1 Y -2013	2 Y -2014	3 Y -2015	4 Y -2016	5 Y -2017	> 5 Y (> 2017)	Total
Net cash flow from derivatives							
Banking book	-44	-46	-37	-29	-18	-48	-222
Market Risk Steering ALM	0	0	0	0	0	0	-1
Market Risk Steering B2B	0	0	0	0	0	0	1
Market Risk Steering FVO	20	20	29	19	16	102	206
Market Risk Steering FX	1	1	-197	1	-38	-34	-266
Market Risk Steering HA	309	268	220	182	132	26	1,136
Total	285	242	15	173	92	47	853

* Relevant to liquidity.

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions.

(95) Operational Risk

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

The aim of operational risk management at Hypo Alpe Adria is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). Consolidated subsidiaries must implement operational risk on the basis of the Basel II standard approach ("STA") as part of the project agreements. Operational risks are identified and evaluated, so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined.

For this reason, all banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidated group, are taken into account in every aspect of operational risk management.

Other non-consolidated subsidiaries are required to agree the scope of implementation separately with the group.

The OpRisk responsibility of sub-organisations of the subsidiaries is the responsibility of the subsidiary concerned.

In order to ensure that synergy effects are achieved, arrangements have been made with Group Legal Services that the operational risk management software ("Inform") will also include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

The operational risk management software ("Inform") forms the platform for implementing the appropriate instruments at Hypo Alpe Adria.

The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within Hypo Alpe Adria has been set at EUR 5,000. All losses, from 1 January 2006 onwards, must be recorded.

OpRisk 2012 milestones and results:

The priorities of OpRisk in 2012 lay in recording all risk-relevant cases at group level and, derived from this, conducting a detailed analysis with the aim of defining preventative measures for future cases. This was carried out through regular checks and feedback on quality with/from the subsidiaries as well as establishing a series of a range of data quality checking routine, the results of which are to be followed up on by the subsidiaries themselves, accompanied by targeted risk assessments.

The next operational risk milestone was reached by the implementation of a state-of-the-art software tool, the SAS EGRC. All VaR OpRisk calculations options will be open following its launch in the second quarter of 2013.

Another focus was put on training local Operational Risk Officers, who were assigned to functions. They were provided with local training, in cooperation with local risk managers.

The flow of information to management was intensified further. A committee dealing with issues is set up every quarter and meets regularly. Any unresolved issues are discussed with those in charge, with the results presented to management. These committees – both at country- and group-level – meet quarterly; country-level committees send status reports to the group. Results are discussed in workshops and the information is shared with the relevant departments (Audit, Compliance, ICS, etc.).

The group also plans to launch an e-learning tool in 2013 to raise awareness of the issue.

(96) Object risk

At Hypo Alpe Adria, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by Hypo Alpe Adria. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account as these are already covered by credit risk.

Hypo Alpe Adria Group aims to reduce object risk exposures by pro-actively selling the assets in question in a timely manner. The market and/or carrying amounts of the assets in question serve as the basis for the measurement of object risk.

Capital requirements are calculated using the standardised approach. This states that the market value is multiplied by a risk weighting of 100% and then by the regulatory factor of 8%.

(97) Other Risks

Hypo Alpe Adria classes the following risk types as "Other risks":

- Strategic risk;
- Capital risk;

- Reputation risk;
- Business risk.

In the risk-bearing capacity calculation, 3% of the risk capital required – as stated in the risk strategy (for all other risk types) – is held as a buffer for "Other risks".

(98) Outlook for 2013

In the year under review, Hypo Alpe Adria further developed its risk controlling and risk management instruments. Thanks to targeted training sessions and seminars for staff in the risk departments and through recruiting experienced employees, their technical expertise was improved further.

In 2013 the risk management function will be improved further, so as to equip it for the internal and external challenges of the future. When developing the procedures to be applied for mapping and managing risk, attention will be paid not just to meeting requirements under supervisory law but also to taking account of the group's future strategy.

This applies particularly to the following areas:

98.1. Additional portfolio quality improvements in the "continuance" part of the bank

A particular focus will be on the risk profile and asset quality of the "continuance" parts of the portfolio in 2013. Special attention will be paid to South-Eastern Europe, with very ambitious goals in terms of the reduction of the NPL ratio and an improvement in the distribution of ratings

We have been provided with a toolbox for this purpose, consisting of a portfolio migration tool, and early-warning system, various monitoring processes and a target risk portfolio. These controlling instruments are coordinated so as to improve the portfolio. This improvement is also supported operationally by an own watch loan initiative, among other things.

98.2. Risk Academy

Due to the technical knowledge gained of the bidding procedure in 2012, a tender was started in February 2012. From the 13 providers entering bids, five were invited to personally present their offers. The documents and presentations soon showed that the very wide range of requirements within the Risk Office could not all be met by just one provider. As a result and after an intensive selection process, Risk Reward ltd. was selected as the main vendor. The company will be aided in the sub-areas by other sub-vendors as part of the Hypo Risk Academy (HRA).

The following six job roles were defined for the Risk Office and assigned Key Risk Competences (KRC):

- Credit Risk Controller;
- Market Risk Controller;
- Credit Underwriter;
- Retail Risk Manager;
- Rehabilitation Manager;
- Credit Processing Manager.

Based on these job roles and KRC, framework conditions were worked out with the main vendor, consisting of the following criteria:

- Each job role has three training stages (levels 1, 2 and 3) and each stage of training consists of 15 days; these are to be split between the main and sub-vendors depending on the topic.
- Each level has three groups of courses and each course ends with a test; this needs to be passed before the next course can be taken.
- Each level ends with a test; passing this test earns the participant a certificate for the level in question.

In September, approximately 900 employees at Hypo Risk Offices in the SEE countries took a placement test, which resulted in them being classed as either level 1, level 2 or level 3 by Risk Reward. The placement tests were written for each of the job roles and dealt with general risk knowledge as well as job-specific questions and an appropriate weighting.

Together with the main vendor, a training catalogue was then created with details on each job role and level; the splitting of the training days between the main and sub-vendors was then also stipulated. Three pilot training sessions were then held in the three largest training centres (Klagenfurt, Zagreb, Belgrade) in the autumn to explore organisational and logistical requirements.

The agreements with the sub-vendors are currently being finalised, with the additional training being drawn up and agreed.

The official start to HRA is set for February 2013.

98.3. Basel III – key liquidity figures

From the point of view of liquidity, quantitative key figures are being introduced under Basel III which measure both the short-term liquidity situation in a severe stress case (liquidity coverage ratio) as well as the long-term liquidity structure by means of the net stable funding ratio (NSFR). The aim is to have a large enough pool of liquid assets available for short-term stress cases and, in the medium-to-long term to balance the structure across both sides of the balance sheet. In addition, monitoring instruments in the form of specific measurement parameters are to be introduced. These are:

- Contractual maturity mismatches
- Finance concentrations
- Available unencumbered assets
- Liquidity coverage ratio (LCR) by main currencies
- Market-related monitoring instruments

According to the Basel III document, the liquidity provisions will come into effect in 2015 (liquidity coverage ratio) and 2018 (net stable funding ratio). Within the context of the Quantitative Impact Study, Hypo Alpe Adria reported the LCR and NSFR as at 31 December 2012 to both the OeNB and the EBA for the first time in March 2012 and will subsequently report these indicators quarterly. The LCR applied at Hypo Alpe Adria level; the NSFR amounts to >80%.

According to the most recent publications, considerable revisions have been made to the way in which the LCR is calculated: more lenient outflow rates and additional limits on the recognition of liquid assets – which had a positive impact of the LCR. The LCR will increase gradually from 60% in 2015 to 100% in 2019.

98.4. Asset liability management system

Within the context of the ALM enhancement project for the measurement of interest rate and liquidity risks and a subsequent pre-case study, Kamakura Risk Manager (KRM) was chosen from six providers evaluated as to their suitability as future Hypo Alpe Adria ALM solution providers. KRM offers integrate risk measurement which - together with market and liquidity risk factors, among other things - enables credit risk parameters to be included in asset liability management. This was implemented in January 2013 and contains improved group-wide data management, advanced analytics and the forging of business intelligence structures to enable effective overall bank controlling.

The solution currently being implemented, provides for the entire group to be provided with interest-rate-risk-relevant data at individual item level via standardised interfaces with integrated data quality controls performed by the central “data hub” and/or the centralised “Group Data Warehouse“ either monthly or weekly until the end of the year with minimal technical delays. The risk analyses start with the regulatory requirements for static interest rate gap profiles and interest rate statistics up to and including interest rate value at risk and interest rate scenario analyses; these are all prepared by the Kamakura Risk Manager at group- and single-entity-level and then made available to the entire group via the “Group Data Warehouse”. Business intelligence solutions such as Online Analytical Processing (OLAP) cubes are being developed to aid in the reporting. The implementation will improve data frequency, availability, granularity and quality; it will also mean that analysis and reporting opportunities will be oriented to Hypo Alpe Adria-suited asset liability management.

This group risk management platform will enable further developments to the management of the net interest result, the integration of liquidity risk measurement as well as IFRS 9 (Financial Instruments) and IFRS 13 (Fair Value) measurement beyond 2013.

98.5. Outlook for market risk limitation in 2013

In 2012, improvements to Hypo Alpe Adria’s market-risk limiting continued so as to comply with regulatory requirements and to improve the management of market risks and the monitoring of tied-up economic market risk capital. Efforts were made to prevent the unreasonable recognition of economic effects from market risks within the context of the risk-bearing capacity calculation, taking into account that defined limit systems, process and methods must ensure an adequate and timely calculation of the current tied-up economic market risk. The application of correlation assumptions within a market-risk factor in relation to the setting of group limits was converted from static adjustments to group consolidation factors to a dynamic concept, which allows for a faster and more effective reaction to changed market conditions. The defined changes will be implemented operationally beginning in 2013 within the context of limiting market risks.

98.6. Adjusting risk parameters

The first of the validation reports ("backtesting") for the behavioural score and the corporate customer rating were prepared in 2012. All rating tools will be subjected to detailed validation in 2013 pursuant to the approved validation plan. This will result in a comprehensive validation report for each of the rating procedures. The elements and a detailed description of the process are described and regulated in the validation concept.

The WebFER loss database will be rolled out in all core businesses in 2013, and the data already gathered will be used to improve the existing LGD/CCF estimates.

98.7. Risk-bearing capacity optimisation II – RiBeCa II

More data is needed to give Hypo Alpe Adria better controlling, for Hypo Alpe Adria's sales process and for the monitoring of portfolio transfers. Various data fields need to be rolled out once more in order to obtain the required data quality from Hypo Alpe Adria's subsidiaries. This project will address units in the "continuance" part of the bank.

The main focus will be on income, interest and improved range of exposure products. The project will be headed by Risk Controlling together with IT, Financial Controlling and back-office units with external support in the first half of 2013.

We expect that, if successful, this may improve the management of income and risks at single entity level. This is particularly important in terms of tracking new business within the context of the EU proceedings.

98.8. Expanding the PMS market risk system

The system support implemented in Collateral Management in 2012 for derivatives will be supplemented by adjustments to group Counterparty Clearing in 2013. Enhancements to the assessment and risk models, with regard to OIS discounting, Credit Value Adjusted (CVA) and Debit Value Adjusted (DVA) as well as regulatory requirements for the group derivative register, will also be evaluated and implemented.

98.9. Wind-down targets

In 2012, Hypo Alpe Adria laid the foundations for a successful continuation of the value-preserving portfolio wind-down in the wind-down perimetry. Heta Asset Resolution was re-installed as the holding and management company for the wind-down area; its primary responsibility is the coordination and controlling of Hypo Alpe Adria companies allocated for winding down.

Group and local rehabilitation units, the staffing of which was completed in 2012, remains responsible for operational case management. Based on the specialist expertise garnered by these units and their comprehensive market knowledge, detailed winding-down plans were also prepared in 2013 that provide for a significant reduction of Hypo Alpe Adria's NPL portfolio. This will be boosted by increased watch loan activities, whereby additional NPL migration aims to largely avoid a strong and structured monitoring unit.

The rehabilitation unit will continue to focus on the value-preserving winding-down of the portfolio by means of restructuring agreements and/or the market price-compliant disposal of securities. In cases where the temporary illiquidity of the markets and/or the interferences of former borrowers/project sponsors do not allow for the short-term realisation of market prices, property used as collateral is temporarily taken over by the group's own development companies as an additional measure; these are then controlled by HETA Asset Resolution. This is designed, on the one hand, to move the properties from the reach of the negative sphere of influence of former project managers and, on the other hand, to leverage upside potential in the properties with the help of targeted investment measures and marketing activities.

98.10. HLA Integration Risk Controlling

Hypo Leasing Austria's risk controlling tasks will be assumed by Hypo Alpe Adria's Risk Controlling in the first half of 2013. This means that only one unit in Austria will then be responsible for undertaking risk controlling activities, thereby increasing synergies and efficiency. SLAs will determine the activities.

Further information on risk management, the organisational structure and the risk capital situation is published by Hypo Alpe Adria in a disclosure report in accordance with sections 26 and 26a BWG. This disclosure report is available online on the group's website (www.hypo-alpe-adria.com) under Investor Relations.

Supplementary information

(99) Analysis of remaining maturity

EUR m

Analysis of remaining maturity as at 31.12.12	Total up to 1 year	Total over 1 year	Total
Loans and advances to credit institutions	1,752.0	241.1	**1,993.1**
Loans and advances to customers	8,038.9	16,362.6	**24,401.5**
Trading assets	1.4	0.1	**1.5**
Derivative financial instruments	83.1	1,343.0	**1,426.1**
Financial investments – designated at fair value through profit or loss	40.4	743.0	**783.4**
Financial investments – available for sale	823.2	1,865.2	**2,688.3**
Financial investments – held to maturity	8.0	82.5	**90.5**
Other assets	295.7	421.2	**716.9**
Liabilities to credit institutions	3,324.3	1,928.2	**5,252.5**
Liabilities to customers	5,827.7	2,578.2	**8,405.9**
Liabilities evidenced by certificates	2,602.5	12,233.3	**14,835.8**
Trading liabilities	0.0	0.0	**0.0**
Derivative financial instruments	8.5	773.5	**781.9**
Other liabilities	279.1	148.5	**427.6**
Subordinated capital	498.8	1,458.4	**1,957.3**
Hybrid capital	0.0	6.0	**6.0**

EUR m

Analysis of remaining maturity as of 31.12.2011	Total up to 1 year	Total over 1 year	Total
Loans and advances to credit institutions	2,752.1	381.2	**3,133.4**
Loans and advances to customers	9,550.9	17,171.5	**26,722.4**
Trading assets	0.8	11.3	**12.0**
Derivative financial instruments	25.0	1,409.0	**1,434.0**
Financial investments – designated at fair value through profit or loss	92.4	668.2	**760.6**
Financial investments – available for sale	1,573.8	1,077.9	**2,651.7**
Financial investments – held to maturity	0.0	36.5	**36.5**
Other assets	505.7	578.9	**1,084.7**
Liabilities to credit institutions	2,908.4	2,770.0	**5,678.4**
Liabilities to customers	5,818.4	2,382.7	**8,201.1**
Liabilities evidenced by certificates	2,549.6	14,597.7	**17,147.4**
Derivative financial instruments	123.1	593.2	**716.3**
Other liabilities	340.1	183.9	**524.0**
Subordinated capital	445.4	590.6	**1,036.0**
Hybrid capital	0.0	119.6	**119.6**

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 carrying amount.

(100) Finance leases

Receivables under finance lease are included in loans and advances to credit institutions and to customers; they break down as follows:

EUR m

	31.12.2012	31.12.2011
Minimum lease payments (agreed instalments + guaranteed residual value)	**5,218.6**	**6,379.3**
Non guaranteed residual value (+)	**518.9**	**589.6**
Gross investment value (=)	**5,737.5**	**6,968.9**
up to 1 year	1,120.4	1,370.7
from 1 year to 5 years	2,079.5	2,669.9
over 5 years	2,537.6	2,928.3
Unrealized financial income (interest) (-)	**-996.0**	**-1,336.2**
up to 1 year	-170.7	-223.5
from 1 year to 5 years	-444.6	-585.8
over 5 years	-380.7	-526.9
Net investment value (=)	**4,741.5**	**5,632.8**

The cumulated risk provision on uncollectable outstanding minimum leasing payments from finance lease for 2012 amounts to EUR 455.4 million (2011 adjusted: EUR 531.5 million).

The total amount of contingent payment of rents from finance lease contracts recognised as income in the reporting period was EUR 23.2 million (2011: EUR 5.2 million).

EUR m

	31.12.2012	31.12.2011
Present value of non guaranteed residual values	**518.9**	**589.6**
up to 1 year	28.6	28.8
from 1 year to 5 years	75.4	79.1
over 5 years	414.9	481.7
Present value of minimum lease payments	**4,222.6**	**5,043.1**
up to 1 year	921.1	1,118.4
from 1 year to 5 years	1,559.5	2,005.0
over 5 years	1,742.0	1,919.7

The net investments from finance leases also include the present value of the non-guaranteed residual value.
Leased assets corresponding to finance leases break down as follows:

EUR m

	31.12.2012	31.12.2011
Real estate leases	3,215.1	3,699.3
Vehicle leases	654.0	849.0
Boat leases	121.4	167.7
Other movables	751.0	916.8
Total	**4,741.5**	**5,632.8**

(101) Operating leases

The future minimum lease payments from non-terminable operating leases are as follows for each of the years shown below:

EUR m

	31.12.2012	31.12.2011
up to 1 year	62.2	89.5
from 1 to 5 years	207.6	198.8
over 5 years	134.2	133.8
Total	**404.0**	**422.0**

The breakdown by leased assets of minimum lease payments from non-terminable operate leases is as follows:

EUR m

	31.12.2012	31.12.2011
Real-estate leases	328.1	335.9
Vehicle leases	38.9	48.2
Boat leases	7.0	13.1
Other movables	30.0	24.9
Total	**404.0**	**422.0**

(102) Borrowing costs

Borrowing costs arising in relation to qualified assets as per IAS 23 are capitalised together with manufacturing costs. Essentially, qualified assets comprise buildings under construction, 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 reporting period, as well as the financing cost rates applicable across the group:

EUR m

	31.12.2012	31.12.2011
Borrowing costs capitalised during the period	0.3	0.7
Financing cost rates in %	1.4	1.7

(103) Development costs

In 2012, Hypo Alpe Adria capitalised development costs of EUR 0.6 million for self-generated software as defined in IAS 38 – Intangible assets.

EUR m

	31.12.2012	31.12.2011
Development costs capitalised during the period	0.6	7.6

(104) Assets/liabilities in foreign currencies

The following balance sheet amounts are in foreign currency denominations:

EUR m

	31.12.2012	31.12.2011
Assets	10,834.9	19,245.7
Liabilities	6,964.1	25,684.7

The majority of the difference between the respective sums is hedged through foreign exchange swaps (currency swaps and cross-currency swaps) and foreign exchange forwards.

(105) Fiduciary transactions

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

EUR m

	31.12.2012	31.12.2011
Loans and advances to customers	73.2	75.5
Fiduciary assets	**73.2**	**75.5**
Liabilities to credit institutions	73.2	75.5
Fiduciary liabilities	**73.2**	**75.5**

(106) Repurchase agreements

At the end of the year, the following repurchase and reverse repurchase commitments from repurchase agreements existed:

EUR m

	31.12.2012	31.12.2011
Liabilities to credit institutions	300.8	335.4
Liabilities to customers	0.0	0.0
Repurchase agreements	**300.8**	**335.4**

EUR m

	31.12.2012	31.12.2011
Loans and advances to credit institutions	1.8	4.0
Loans and advances to customers	2.9	16.3
Reverse repurchase agreements	**4.8**	**20.3**

(107) Assets given as collateral

Assets with a value of EUR 1,502.0 million (2011: EUR 1,339.3 million) were provided to third parties as collateral for own debts. The affected assets, primarily cash collaterals and securities held at Oesterreichische Nationalbank (OeNB), will continue to be recognised in Hypo Alpe Adria's balance sheet.

EUR m

	31.12.2012	31.12.2011
Liabilities to credit institutions	528.2	325.1
Liabilities to customers	2.1	2.6
Liabilities evidenced by certificates	971.7	1,011.6
Total	**1,502.0**	**1,339.3**

Securities in the amount of EUR 152.7 million (2011: EUR 60.4 million) were loaned through securities transactions.

(108) Subordinated assets

The following assets shown in the statement of financial position are subordinated assets:

EUR m

	31.12.2012	31.12.2011
Loans and advances to customers	6.8	13.9
Financial investments – available for sale*	46.9	43.6
Total	**53.6**	**57.5**

*Prior year adjusted.

(109) Contingent liabilities and other off-balance-sheet liabilities

The following off-balance-sheet liabilities existed on the balance sheet date:

EUR m

	31.12.2012	31.12.2011
Contingent liabilities	**724.8**	**755.6**
from bills of exchange transferred for settlement	0.4	1.1
from credit guarantees	431.2	453.1
from letters of credit	20.1	22.2
from other guarantees	249.2	260.1
from other contingent liabilities	23.8	19.0
Other liabilities	**877.4**	**961.7**
from irrevocable credit commitments	861.3	944.7
from other liabilities	16.1	17.0
Total	**1,602.2**	**1,717.3**

Other liabilities include liabilities due to the purchase or construction of investment properties and tangible assets totalling EUR 14.6 million (2011: EUR 15.6 million).

(110) 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 approximately EUR 7.6 billion as of the reporting date 31 December 2012 (2011: EUR 9.0 billion). After taking account of the funds taken up by the Pfandbriefstelle and forwarded to the institutions already referred to, in the amount of EUR 2.0 billion (2011: EUR 2.3 billion), the resulting amount which must be reported in accordance with section 237 (8a) of the Austrian Commercial Code comes to EUR 5.6 billion (2010: EUR 6.7 billion).

(111) Breakdown of securities admitted to stock exchange trading

EUR m

	31.12.2012	31.12.2011
Trading assets		
Bonds and other fixed-interest securities	1.3	11.5
thereof listed	1.3	11.5
thereof unlisted	0.0	0.0
Shares and other non-fixed-interest securities	0.1	0.5
thereof listed	0.0	0.4
thereof unlisted	0.1	0.0
Financial investments – designated at fair value through profit or loss		
Bonds and other fixed-interest securities	185.2	159.2
thereof listed	185.2	159.2
thereof unlisted	0.0	0.0
Shares and other non-fixed-interest securities	19.1	37.5
thereof listed	1.8	1.8
thereof unlisted	17.3	35.7
Financial investments – available for sale		
Bonds and other fixed-interest securities	1,510.1	1,523.3
thereof listed	1,477.1	1,469.8
thereof unlisted	33.1	53.5
Shares and other non-fixed-interest securities	40.8	58.5
thereof listed	27.7	49.6
thereof unlisted	13.2	8.9
Financial investments – held to maturity		
Bonds and other fixed-interest securities	85.5	36.5
thereof listed	83.3	36.5
thereof unlisted	2.3	0.0

(112) Restructuring expenses

The restructuring costs comprise the following elements:

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Restructuring provisions	-6.5	-0.1
Other restructuring costs	-0.1	-0.9
Release of not fully used restructuring provisions	8.4	0.0
Total	**1.8**	**-1.0**

Hypo Alpe-Adria-Bank International AG's group-wide restructuring plan adopted in 2009 was rescinded in 2012; the Executive Board is no longer pursuing this plan. A new restructuring plan is currently being devised for the holding company, but this plan does not yet meet the criteria of IAS 37. At EUR 7.6 million, the restructuring provision created in previous years was therefore used as planned in financial year 2012 or largely recognised in income.

(113) Audit expenses

The following fees were incurred by the audit company Ernst & Young in the period under review:

EUR m

	31.12.2012	31.12.2011
Audit fees for the annual financial statements	**-2.4**	**-2.6**
expenses for the current year	-2.3	-2.3
expenses relating to the previous year	-0.1	-0.3
Fees for other services	**-0.2**	**-1.5**
other assurance services	-0.1	-0.9
tax consultancy	0.0	0.0
other services	-0.1	-0.6
Total services	**-2.7**	**-4.0**

The audit expenses incurred in the 2012 financial year include the net audit fee (excluding value-added tax) as well as the related cash expenditures. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna), invoices for services rendered directly by other companies within the Ernst & Young network to Hypo Alpe-Adria-Bank International AG or to its subsidiaries have been included in the total sum.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) annual financial statements, the group reporting packages of the subsidiaries audited by Ernst & Young, as well as the costs of the consolidated financial statement itself.

In the previous year, 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. This (voluntary) review was not performed in the 2012 financial year.

(114) Measurement categories in accordance with IAS 39

The statement of financial position as of 31 December 2012 is broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2012
Cash and balances at central banks	2,873.2						2,873.2
Loans and advances to credit institutions	1,993.1						1,993.1
Loans and advances to customers	24,401.5						24,401.5
Risk provisions on loans and advances	-3,083.7						-3,083.7
Trading assets		1.5					1.5
Derivative financial instruments		53.2	152.0			1,220.9	1,426.1
Financial investments – afvtpl			783.4				783.4
Financial investments – afs				2,688.3			2,688.3
Financial investments – htm					90.5		90.5
Other assets*	55.7						55.7
Total financial assets	**26,239.7**	**54.7**	**935.4**	**2,688.3**	**90.5**	**1,220.9**	**31,229.5**
Liabilities to credit institutions	5,252.5						5,252.5
Liabilities to customers	7,971.6		434.3				8,405.9
Liabilities evidenced by certificates	14,422.5		413.4				14,835.8
Derivative financial instruments		314.6	109.6			357.7	781.9
Subordinated capital	1,929.9		27.3				1,957.3
Hybrid capital			6.0				6.0
Other liabilities*	76.0						76.0
Total financial liabilities	**29,652.5**	**314.6**	**990.6**	**0.0**	**0.0**	**357.7**	**31,315.4**

* Other assets/other liabilities show accruals and financial instruments which are included in the other assets/other liabilities on the assets/liabilities side.

Abbreviations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit and loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

The statement of financial position as of 31 December 2011 is broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2011
Cash and balances at central banks	757.5						757.5
Loans and advances to credit institutions	3,133.4						3,133.4
Loans and advances to customers	26,722.4						26,722.4
Risk provisions on loans and advances	-3,110.0						-3,110.0
Trading assets		12.0					12.0
Derivative financial instruments		54.8	136.2			1,243.1	1,434.0
Financial investments – afvtpl			760.6				760.6
Financial investments – afs				2,651.7			2,651.7
Financial investments – htm					36.5		36.5
Other assets	119.9			0.4			120.3
Total financial assets	**27,623.1**	**66.8**	**896.8**	**2,652.0**	**36.5**	**1,243.1**	**32,518.3**
Liabilities to credit institutions	5,678.4						5,678.4
Liabilities to customers	7,773.5		427.6				8,201.1
Liabilities evidenced by certificates	16,708.3		439.1				17,147.4
Derivative financial instruments		323.6	118.7			274.0	716.3
Subordinated capital	1,016.3		19.7				1,036.0
Hybrid capital	68.9		50.7				119.6
Other liabilities	131.3						131.3
Total financial liabilities	**31,307.8**	**323.6**	**1,005.1**	**0.0**	**0.0**	**274.0**	**33,030.1**

* Other assets/other liabilities show accruals and financial instruments which are included in the other assets/other liabilities on the assets/liabilities side.

Abbreviations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit and loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

(115) 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 long-term bonds issued with a 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 values for individual items included in statement of financial position have resulted from applying the fair value option:

EUR m

	31.12.2012	31.12.2011
Loans and advances to customers and credit institutions	579.1	563.9
Bonds and other fixed-interest securities	185.2	159.2
Shares and other non-fixed-interest securities	19.1	37.5
Total	**783.4**	**760.6**
Liabilities to customers	434.3	427.6
Liabilities evidenced by certificates	413.4	439.1
Subordinated capital	27.3	19.7
Hybrid capital	6.0	50.7
Total	**881.0**	**937.2**

The valuation result from the application of the fair value option comes to a total of EUR -6.9 million (2011: EUR +106.3 million), see note (44) Result from financial investments – designated at fair value through profit or loss.

As of 31 December 2012, the maximum potential default risk for loans and advances designated at fair value recognised in profit or loss was EUR 513.7 million (2011: EUR 534.4 million). The change in the fair value that is attributable to changes in the credit rating was EUR +4.6 million in the 2012 financial year (2011: EUR -1.1 million); since the designation, the cumulated change amounts to EUR -2.9 million (2011: EUR -7.5 million). The fair value changes attributable to changes in the credit rating were determined by calculating differences, comparing the fair value based on the credit rating spreads at the end of the reporting period to that at the beginning of the reporting period.

The fair value of a financial liability takes into account the credit risk of this financial liability. The table below shows the fair value change attributable to credit risk for financial liabilities designated at fair value.

EUR m

	31.12.2012	31.12.2011 *
Cumulative changes in fair value	103.5	214.4
Fair-value-change in reporting year	-32.2	136.8

*Prior-year value adjusted.

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 actual business year mainly result from the "pull-to-par effect" (when prices rise as the maturity date approaches).

For all financial liabilities designated at fair value, the contractual repayment sum due to be paid by the group on maturity (assumption of redemption at 100) was EUR 54.3 million higher than the amount shown in the statement of financial position as of 31 December 2012 (2011: EUR 39.4 million). The contractual repayment sum due to be paid by the group on maturity equates to the sum that the group must repay at the earliest possible due date set down in the contracts. If the amount due to be repaid has not been determined (as is the case, for example, with perpetuals), the amounts for these financial instruments will not be recognised.

(116) 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 net present value 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 therefore 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 attributable to the hedged part of the loan. The hedge serves above all to minimise the market value risk caused by interest rate changes.

With regard to hedging risks arising from interest rate changes, no separate calculation of the fair value was carried out.
As the carrying amount of unhedged fixed interest loans and advances according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method.

For this purpose, Hypo Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

116.1. 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 (13) Fair value).

EUR m

31.12.2012	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	1.5	0.0	0.0	1.5
Derivative financial instruments	0.0	1,425.4	0.6	1,426.1
Financial investments – designated at fair value through profit or loss	50.0	667.6	65.8	783.4
Financial investments – available for sale	2,278.8	392.6	17.0	2,688.3
Total	**2,330.3**	**2,485.6**	**83.4**	**4,899.3**
Liabilities				
Liabilities to customers	378.0	56.3	0.0	434.3
Liabilities evidenced by certificates	340.7	72.7	0.0	413.4
Derivative financial instruments	0.0	781.9	0.0	781.9
Subordinated capital	0.0	27.3	0.0	27.3
Hybrid capital	6.0	0.0	0.0	6.0
Total	**724.7**	**938.2**	**0.0**	**1,662.9**

EUR m

31.12.2011	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	12.0	0.0	0.0	12.0
Derivative financial instruments	0.0	1,429.5	4.5	1,434.0
Financial investments – designated at fair value through profit or loss	0.0	759.1	1.5	760.6
Financial investments – available for sale	2,210.8	422.9	18.0	2,651.7
Total	**2,222.8**	**2,611.5**	**24.0**	**4,858.4**
Liabilities				
Liabilities to customers	374.2	53.5	0.0	427.6
Liabilities evidenced by certificates	350.6	88.5	0.0	439.1
Derivative financial instruments	0.0	716.3	0.0	716.3
Subordinated capital	0.0	19.7	0.0	19.7
Hybrid capital	50.7	0.0	0.0	50.7
Total	**775.5**	**877.9**	**0.0**	**1,653.4**

The reconciliation of the financial instruments in level III is shown in the table below.

EUR m

31.12.2012	At start of reporting period (+)	Total gains/ losses	Re-valuation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period (-)
Assets									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	4.5	-5.0	0.0	0.0	0.0	0.0	0.0	1.2	0.6
Financial investments – designated at fair value through profit or loss	1.5	0.2	0.0	0.0	0.0	65.8	-1.8	-0.0	65.8
Financial assets- available for sale	18.0	1.2	-0.1	-0.1	-3.1	0.2	-0.0	0.9	17.0
otal	**24.0**	**-3.6**	**-0.1**	**-0.1**	**-3.1**	**66.0**	**-1.8**	**2.0**	**83.4**

EUR m

31.12.2011	At start of reporting period (+)	Total gains/ losses	Re-valuation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period (-)
Assets									
Trading assets	10.0	2.2	0.0	0.0	-8.8	0.0	-3.5	0.0	0.0
Derivative financial instruments	9.6	-5.0	0.0	0.0	0.0	0.0	0.0	-0.1	4.5
Financial investments – designated at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	1.5
Financial assets – available for sale	46.4	-1.0	-8.1	8.0	-6.9	0.0	-17.1	-3.3	18.0
Total	**66.0**	**-3.7**	**-8.1**	**8.0**	**-15.6**	**1.5**	**-20.6**	**-3.4**	**24.0**

The column “Total gains/losses” contains both income and expenses from financial instruments which were held as at 31 December 2012, as well as from financial instruments which are no longer on the books as at 31 December 2012. Profits and losses for derivative financial instruments are reported in result from trading; depending on their categories, the remaining items are reported either in the income statement or in equity. Losses of EUR 2.2 million resulted from current financial instruments held as of 31 December 2012 (2011: EUR -5.4 million). The bonds designated at fair value are still held as at 31 December 2012, however, there is no carrying amount available for them.

A total of EUR 1.8 million was reclassified from level III to level II (2011: 3.2 million). As a result of the limited availability of external market value data, some EUR 66.0 million was reclassified from level II to level III (2011: EUR 0.0 million).

116.2. Fair value of financial instruments not measured at fair value in the statement of financial position

In the table below, the respective fair values are shown for the carrying amounts of financial instruments not measured at fair value in the statement of financial position:

EUR m

	31.12.2012			31.12.2011		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	1,990.1	1,990.1	0.0	3,120.1	3,120.1	0.0
Loans and advances to customers	21,361.8	21,331.3	30.5	23,634.7	23,632.6	2.1
Financial investments – held to maturity	90.5	90.5	0.0	34.5	36.5	-2.0
Other financial investments – investment properties*	1,195.4	1,365.5	-170.1	863.0	792.6	70.4
Total	**24,637.7**	**24,777.3**	**-139.6**	**27,652.3**	**27,581.8**	**70.5**
Liabilities						
Liabilities to credit institutions	5,239.2	5,252.5	-13.3	5,687.7	5,678.4	9.3
Liabilities to customers	8,058.8	7,971.6	87.2	7,658.7	7,773.5	-114.8
Liabilities evidenced by certificates	14,523.7	14,422.5	101.2	16,466.4	16,708.3	-241.9
Subordinated capital	1,622.9	1,929.9	-307.0	920.1	1,016.3	-96.3
Hybrid capital	0.0	0.0	0.0	68.9	68.9	0.0
Total	**29,444.6**	**29,576.5**	**-131.9**	**30,801.7**	**31,245.4**	**-443.7**

* In the previous year, other financial investments also included assets used for operating leases; these were not included in 2012. Prior-year figures have been adjusted accordingly.

(117) Derivative financial instruments

The following business had not yet been transacted at the reporting date:

EUR m

	31.12.2012			31.12.2011		
		Fair value			Fair value	
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
a) Interest- related transactions						
OTC-products	**14,162.9**	**1,341.0**	**459.0**	**14,942.9**	**1,279.5**	**358.8**
- Interest rate swaps	14,066.4	1,340.3	458.3	14,820.7	1,277.9	357.8
- Forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0
- Interest options	2.5	0.0	0.0	9.6	0.1	0.1
- Caps, floors	77.6	0.3	0.8	76.4	0.9	0.6
- Other interest derivatives	16.4	0.4	0.0	36.2	0.6	0.3
b) Currency-related transactions						
Exchange-traded products:	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
- Foreign exchange futures	0.0	0.0	0.0	0.0	0.0	0.0
OTC-products	**4,485.4**	**85.0**	**322.9**	**5,082.3**	**154.4**	**336.1**
- Currency swaps	1,225.7	72.2	320.8	1,448.6	129.9	325.8
- Cross currency swaps	3,011.9	11.8	1.7	3,495.3	19.2	9.3
- Forward exchange contracts – purchases	123.8	0.3	0.0	28.7	0.4	0.1
- Forward exchange contracts – sales	121.3	0.0	0.4	28.7	0.1	0.5
- Currency swaptions	2.6	0.6	0.0	81.0	4.8	0.4
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
OTC-products	**0.0**	**0.0**	**0.0**	**7.3**	**0.2**	**0.0**
- Share-/indices linked options	0.0	0.0	0.0	7.3	0.2	0.0
d) Credit-linked derivatives						
OTC-products	**0.0**	**0.0**	**0.0**	**30.0**	**0.0**	**21.3**
- Credit default swaps	0.0	0.0	0.0	30.0	0.0	21.3
- Total return swaps	0.0	0.0	0.0	0.0	0.0	0.0

The majority of derivative transactions serve the purpose of hedging fluctuations related to interest rates, foreign currency rates or market values. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the disclosure and measurement of the derivatives, see notes (11) Financial instruments: recognition and measurement and (14) Hedge accounting.

(118) Related party disclosures

Business relations with related parties on the respective balance sheet dates were as follows:

EUR m

as at 31.12.2012	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	**124.6**	**587.4**	**119.9**	**1.6**
Loans and advances to customers	110.9	184.6	122.0	1.5
Risk provisions on loans and advances	-0.4	-46.4	-2.2	0.0
Other assets	14.1	449.2	0.0	0.1
Liabilities	**8.3**	**11.6**	**0.0**	**4.4**
Liabilities to customers	0.0	11.1	0.0	4.2
Provisions	2.0	0.1	0.0	0.2
Other financial liabilities	6.2	0.0	0.0	0.0
Subordinated capital	0.0	0.4	0.0	0.0
Liabilities arising from guarantees	**0.0**	**3.9**	**0.0**	**0.0**
Guarantees issued by the group for related party	0.0	3.9	0.0	0.0
Guarantees received by the group from related party	0.0	0.0	0.0	0.0

as at 31.12.2011	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	**128.0**	**169.9**	**135.5**	**1.2**
Loans and advances to customers*	128.0	139.6	133.4	1.0
Risk provisions on loans and advances	0.0	-33.1	2.1	0.0
Other assets	0.0	63.4	0.0	0.1
Liabilities	**12.7**	**18.2**	**0.6**	**3.6**
Liabilities to customers	0.0	8.3	0.6	3.6
Provisions	10.0	2.4	0.0	0.0
Other financial liabilities	2.7	0.0	0.0	0.0
Subordinated capital	0.0	7.5	0.0	0.0
Liabilities arising from guarantees	**0.0**	**15.5**	**0.0**	**0.0**
Guarantees issued by the group for related party	0.0	15.5	0.0	0.0
Guarantees received by the group from related party	0.0	0.0	0.0	0.0

*Prior year adjusted.

Key management personnel are defined as Executive Board members of subsidiary banks and of significant leasing companies as well as the second level of management of Hypo Alpe-Adria-Bank International AG. Loans and advances to companies accounted for at equity are shown in the table under the item affiliated companies.

In addition, at the end of the reporting period there are business relations with publicly-owned organisations, to an extent common to the banking industry.

The relationships with members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (129) Relationships with members of the executive bodies.

The following expenses were incurred in addition to the charges due to the Republic of Austria and its directly attributable legal entities incurred during the course of normal business activities:

EUR m

	1.1. - 31.12.2012	1.1. - 31.12.2011
Bank tax Austria	-22.1	-17.7
Fees for Government Guaranteed subordinated bonds	-2.8	0.0
Fees for Government Guaranteed bonds (other)	-8.0	-9.6
Fees for Guarantees	-19.6	-20.0
Penalty claim	-5.0	-1.0
Total	**-57.4**	**-48.3**

(119) Participation capital

As a result of the resolution passed at the general shareholders' meeting for Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed at the extraordinary shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Hypo Alpe-Adria-Bank International AG and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 275,111,072.56 (18,000 participation certificates each with a value of EUR 15,283.94848). Under section 23 (3) (8) BWG there is no obligation to make back-payments of dividends on participation capital. On the basis of the issue agreement and by applying section 102 BWG, the Republic of Austria is in principle entitled to exchange all the participation certificates it owns, at a conversion price to be determined in accordance with the conditions for the participation certificates, into no-par bearer shares in Hypo Alpe-Adria-Bank International AG.

The participation capital subscribed to by the previous owners in the course of the change in ownership of Hypo Alpe-Adria-Bank International AG which became effective on 29 December 2009 currently has a value, after the allocation of losses in 2011 and the capital reduction, of EUR 64,428,867.95. According to the conditions for subscribing to the issue of participation capital in 2009, the holders of participation capital will be entitled to a dividend of 6.0% p.a. for the first time in the 2013 financial year, provided that this is covered by net income for the year after movements in reserves and the payment of dividends on the participation capital totalling EUR 275,111,072.56 and held by the Republic of Austria, and that the relevant resolution has been passed by the Boards.

Participation capital totalling EUR 339,539,940.51 is reported under equity in the item subscribed capital in the consolidated financial statements for Hypo Alpe-Adria-Bank International AG. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is the separate financial statements for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG and the prerequisite is sufficient annual profit after movement in reserves.

(120) Breaches of financial covenants

In the financial year 2012 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.

(121) Statutory guarantee

The legal guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as commitments entered into between 3 April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The State will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) provides for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid. Availing themselves of the contractually agreed rights to termination, notice was given by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) to terminate the guarantee commission agreement as of 31 December 2011, whereby the contractual obligation to pay guarantee commission would cease as from 2012. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at the bank.

Divergent legal positions exist on the guarantee commission for 2011. It can be assumed that the legal dispute between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) regarding the guarantee commission will continue.

The sums for which the State of Carinthia is liable as at 31 December 2012 are as follows:

EUR m

	31.12.2012	31.12.2011
Hypo Alpe-Adria-Bank International AG	13,931.4	16,175.1
Hypo Alpe-Adria-Bank AG (Austria)	998.4	1,320.6
Total	14,929.8	17,495.7

(122) Important proceedings

122.1. EU proceedings

The guarantee agreement concluded at the end of December 2010 with the Republic of Austria (see note (123) Guarantee agreement) has been provisionally approved by the European Commission and the decision was published at the start of 2012. The approval was made subject to the Commission approving the bank's restructuring plan based on the state aid provided through the nationalisation in 2009.

The updating of the restructuring plan was discussed in a meeting held in Brussels in November 2012. As agreed, this was presented to the shareholders at the beginning of February 2013 so that it could then be submitted to the European Commission.

In response to the sovereign debt crisis in the eurozone and its effects on the European financial sector, the worsening of economic conditions in Europe and in particular in the Hypo core regions of South-Eastern Europe and the conclusion reached by the supervisory authorities in the JRAD process (see note (88.2) Joint Risk Assessment Decision (“JRAD”)) that there is a requirement for additional capital for the bank, Hypo Alpe-Adria-Bank International AG has sharpened its strategy. This has included adjusting planning to take account of the worsened economic forecasts and, amongst other measures, resolving to switch the subsidiaries to self-financing through local deposits from 2012 onwards. As a measure to cover the additional capital requirement, a state-guaranteed bond was issued in the amount of EUR 1.0 billion and a EUR 500.0 million capital increase was carried out, both in December 2012. The measures result from the increased minimum capital requirements set by the Austrian Financial Market Authority as part of its JRAD1 notification; this was formally registered by the European Commission on 3 December 2012, which then granted preliminary approval on 5 December 2012. In its approval decision, the European Commission confirmed limits on state-aid measures granted to the minimum required, and the appropriateness of the planned non-profit linked guarantee remuneration and the issue terms and conditions for the new shares to be granted as part of the capital increase. The state guarantee for the subordinated bond will also comply with the rules on state aid if the guarantee remuneration is linked to profit as proposed.

Following the capital measures, the European Commission imposed conditions (Behavioural Measures) with preliminary approval dated 5 December 2012; these came into force on 1 January 2013. These mainly relate to the management of new business and represent a list of criteria designed to ensure the recoverability of new financing. The requirements stipulate, among other things, specific credit rating levels, collateralisation ratios and maturities, regulate the issue of foreign currency loans, and boost the level of self-refinancing by improving the loan-to-deposit ratio within a certain period of time. The group’s Executive Board, in consultation with the European Commission, has retained a Monitoring Trustee, who is responsible for monitoring the requirements mentioned above, and will arrange for the immediate implementation of the “Behavioural Measures” and the resulting reporting obligations at Hypo Alpe-Adria-Bank International AG and the units concerned. Before coming to a final decision, the European Commission plans to adjust the Behavioural Measures in line with the market, meaning that the actual implementation may still change.

As a further measure and after consultation with the European Commission, Hypo Alpe Adria bought back various hybrid and supplementary capital instruments issued by Hypo Alpe-Adria-Bank International AG and its Austrian subsidiary Hypo Alpe-Adria-Bank AG at prices far below their nominal values or terminated them at no charge in 2012; these are significant steps towards strengthening its capital resources and towards involving hybrid and supplementary capital creditors in burdensharing (see note (124) Servicing of subordinated capital).

Negotiations with the European Commission in the state-aid proceedings are now in the final phase; the European Commission expects to conclude its investigation in 2013. The authorities in Brussels are, in principle, satisfied with the strategy being pursued by the bank following its restructuring. The – in part – massive turbulence in the financial markets in general and in the region of South Eastern Europe in particular, the scale of which was unexpected, is leading all concerned to focus on the possible modification of the timescales and deadlines involved, as well as the income to be raised from the reprivatisation of the three tendered banking operations (Austria, Italy and the SEE network). Potential scenarios and their ramifications were presented to the European Commission in a paper and are being discussed on an ongoing basis in close cooperation with representatives of the owner. All parties have stated their intention to bring the proceedings to a conclusion and to implement the actions agreed in 2013. However, at the time of writing, it cannot be estimated with any degree of certainty when the EU state-aid proceedings will in fact 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.

122.2. Proceedings relating to BayernLB

Hypo Alpe-Adria-Bank International AG, together with experts, has thoroughly analysed whether the financing extended to Hypo Alpe Adria by the former shareholder BayernLB since 2008 constitutes an equity-substituting shareholder's loan. On the basis of this investigation the criteria for a qualification as replacement equity as stated in the law on equity substitution (Eigenkapitalersatz-Gesetz, EKEG) are seen to be met in certain cases. Under §14 EKEG, equity substitution means a suspension of the repayment of the majority of funds provided by BayernLB. Accordingly, repayments on the relevant funds have to be suspended until a sustainable restructuring of Hypo Alpe Adria has been achieved and reclaiming by BayernLB is not permitted until such time. Payments already made on the majority of received funds have to be reclaimed from BayernLB. Currently the total volume of outstanding BayernLB financing extended to Hypo Alpe Adria amounts to approximately EUR 2.3 billion. Further to this the bank has made repayments including interest on funds received from 2008 onwards amounting to another approximately EUR 2.3 billion. Hypo Alpe-Adria-Bank International AG has lodged a statement of defence against the declaratory action of BayernLB. Existing reclaims (pursuant to section 14 EKEG) of EUR 1 were included in the consolidated financial statements in light of the pending proceedings.

At the end of June 2011, Hypo Alpe-Adria-Bank International AG filed an application at the Commercial Court in Vienna for a declaratory judgement against BayernLB. The claim was specifically about the interpretation of two provisions in the share purchase agreement, concluded between BayernLB, the Republic of Austria and Hypo Alpe-Adria-Bank International AG. Clarification was sought on whether BayernLB may continue to charge Hypo Alpe-Adria-Bank International AG higher interest rates for loans and advances as a result of Hypo Alpe Adria ceasing to be part of the BayernLB group of credit institutions, and whether lines of credit according to the shareholding sales agreement are covered by BayernLB's waiver. At the end of April 2012, BayernLB filed a lawsuit against Hypo Alpe-Adria-Bank International AG for the payment of consulting fees. The background to this is the commissioning by BayernLB at the end of 2008 of a consulting company to deliver consultancy and support services as part of a restructuring project for Hypo Alpe-Adria-Bank International AG. Both cases were settled in August 2012.

BayernLB filed a claim in July 2011 against the HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS) calling for the reversal of share purchase agreements made in 2007 and concerning the acquisition of a total of 175,316 shares in Hypo Alpe-Adria-Bank International AG on the grounds of intent to mislead in conjunction with the eligibility to count as equity the preference shares that had been issued by Hypo Alpe-Adria-Leasing Holding AG (now HETA Asset Resolution GmbH). The sum in dispute, originally set at EUR 50.0 million, was reduced to EUR 10.0 million by BayernLB in a hearing on 14 March 2012. MAPS has served a third-party notice on Hypo Alpe-Adria-Bank International AG on the grounds that the actions of supporting the due diligence process and drawing up the consolidated financial statements as at 31 December 2006, in which the preference shares were shown as equity, could, as the actions of employees and executive bodies of Hypo Alpe-Adria-Bank International AG, be attributed to the same. Hypo Alpe-Adria-Bank International AG has joined these proceedings as a third-party intervener. Subsequently, Hypo Alpe-Adria-Bank International AG served third-party notices on potential recourse parties, so as not to rule out claims to recourse by Hypo Alpe-Adria-Bank International AG in the event that MAPS should make a claim. The court did not allow these and many of the other third-party interveners, who had also stated that they intend to intervene. Negotiations regarding the extensive taking of evidence in the main proceedings are expected to be completed by the end of summer 2013.

122.3. Other proceedings

122.3.1. PROCEEDINGS RELATING TO THE STATE OF CARINTHIA
In a judgement by the Regional Court in Klagenfurt dated 27 April 2012, the claim by the State of Carinthia for the payment of guarantee commission for 2010 totalling EUR 6.2 million plus interest was admitted. This judgement has in the meantime become final; the amount of guarantee commission in dispute – including interest and court costs – has already been paid. Please refer to note (120) Statutory guarantee for details on the guarantee commission for 2011.

In December 2011, an application for a declaratory judgement against the bank was made by the State of Carinthia as a participant in connection with the capital reduction resolution passed at the general shareholders' meeting on 30 May 2011. Essentially the plaintiff claims that the loss allocated to the participation capital is invalid and the entitlement of the participants involved to future interest payments should be on the basis of the nominal value of the capital prior to the reduction. The claim submitted has no effect in terms of company law on the capital reduction which has already been registered and is legally valid; nor on the capital increase which took place on 30 June 2011. The application for a declaratory judgement was upheld in the first instance by the Commercial Court in Vienna in a judgement dated 16 July 2012. Hypo Alpe-Adria-Bank International AG appealed against this judgement of the first instance with due notice. The judgement of the Higher Regional Court in Vienna dated 29 January 2013 granted the Hypo Alpe-Adria-Bank International AG's appeal in full, repealing the judgement of the Commercial Court in Vienna. An appeal may be made to the Supreme Court. It is highly likely that the state of Carinthia will pursue this legal channel.

122.3.2. PROCEEDINGS RELATING TO LOANS AND PARTICIPATIONS
At the end of 2010, a borrower filed a lawsuit against Hypo Alpe-Adria-Bank d.d., Zagreb, and against Hypo Alpe-Adria-Bank International AG. The action was only formally brought against Hypo Alpe-Adria-Bank International AG in November 2012: The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff's claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0 million. 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. The complaint was answered in due time. A committee of creditors for one of the joint plaintiffs, which has since become insolvent, has withdrawn this complaint. The cases against the other joint plaintiffs continue.

In 2002 Hypo Alpe-Adria-Nekretnine d.o.o. acquired 100.0% of the shares in a Croatian company, which were sold on by the same in 2005 to a third party. In the same year the original vendor claimed the share sale agreement of 2002 was void. This claim was upheld in the first instance in March 2011; Hypo Alpe-Adria-Nekretnine d.o.o. then filed an appeal. A decision from the court of appeal is not expected for one and a half to two years. The consequences of a negative outcome of this case for Hypo Alpe-Adria-Nekretnine d.o.o. would be the reversal of the share sale agreement and all subsequent transactions; the resulting damages cannot be quantified at this point in time.

Hypo Alpe-Adria-Bank International AG had previously held a 49.0% share in the Liechtenstein bank Alpe Adria Privatbank AG i.L.; the remaining 51.0% of the shares were held by AAP Holding AG, a company based in Liechtenstein. The 51.0% share previous held by AAP Holding AG was acquired by Hypo Alpe-Adria-Bank International AG in 2012; this transaction was concluded on 19 September 2012. The liquidation of Alpe Adria Privatbank AG i.L. resolved at the general shareholders' meeting in April 2009 is at an advanced stage. Investigations are being conducted, involving the authorities in Liechtenstein and Austria, into various facts and suspicions which show a connection to Liechtenstein, in order to make it possible for Hypo Alpe Adria to examine and pursue any further claims for damages. After consulting with the Liechtenstein FMA and the liquidator, an interface between Hypo Alpe-Adria-Bank International AG and AAP in liquidation is currently under development. Investigations relating to the processing of past cases in Liechtenstein are likely to last for the whole of 2013.

In Serbia, Croatia and Bosnia, bank customers and bodies representing bank customers have lodged claims against Hypo Alpe Adria group companies, or have threatened to do so. They allege that provisions in some lending agreements relating to interest are not in compliance with the law and/or that interest rate adjustments did not comply with contractual provisions. Some cases also allege that clauses contained in the agreements regarding coupling with the CHF benchmark index rate were changed, and that these were instead coupled with the EUR benchmark interest rate. The subsidiaries in Serbia and Croatia expect the bank to win. An expert opinion has been prepared for a similar issue in Bosnia and Herzegovina; this states that stipulations contained in the loan agreements that enable the bank to unilaterally change interest rates may conflict with local consumer protection rules. Approximately 160 proceedings have been instituted in Bosnia.

In addition, the subsidiary in Italy has been confronted with numerous complaints and media reports stating that interest rate adjustment clauses in leasing agreements for the benefit of the bank were applied incorrectly, resulting in higher obligations for customers. This case only applies to corporate/SME leasing clients; retail customers were not affected. The claims are primarily based on the fact that the bank did not pass on drops in the EUR/CHR benchmark interest rate to customers in a timely manner and/or to the correct extent. As in many of the complaints, there is evidence of a clear misunderstanding of the effects of lower benchmark interest rates on customers' contractual obligations, the bank is endeavouring to create interest rate adjustment mechanisms to provide clarity. The bank will also ensure transparency in cases where a drop in customer creditworthiness or customers' failure to fulfil contractual obligations (such as in the case of late payments or default) results in the bank having to pass on additional financing costs incurred to the customers. In cases where it ultimately becomes evident that adjustments to the benchmark interest rate were not passed on sufficiently to customers, the bank – as in the past – will endeavour to quickly process all complaints and ensure transparency.

122.3.3. PROCEEDINGS RELATING TO INVESTORS AND EXPERTS
At the beginning of April 2012, one investor filed a claim at the Regional Court in Klagenfurt against Hypo Alpe-Adria-Bank International AG. In this claim he asserted for damages and warranty and application made for a declaratory judgement. Specifically, the plaintiff calls for the repayment of the nominal value (including statutory interest on arrears) of a supplementary capital bond issued by Hypo Alpe-Adria-Bank International AG and redeemed at no value due to the statute on loss allocation contained in section 23 (7) (3) BWG. The plaintiff also calls for the payment of interest due on the bond from April 2009 to April 2011 including statutory interest on arrears. Hypo Alpe-Adria-Bank International AG takes the view that the redemption of the bond at no value upon reaching final maturity was correct (see also note (124) Servicing of subordinated capital).

The former consultant who had filed a lawsuit against Hypo Alpe-Adria-Bank International AG based on a consulting contract in October 2009 for payment of unpaid fees totalling EUR 65.0 thousand, has, based on the same consulting contract, filed a further lawsuit seeking payment of unpaid fees totalling EUR 576.0 thousand and seeking a declaratory judgement confirming entitlement to additional fees. Hypo Alpe-Adria-Bank International AG assumes that the claims have no basis in law. The second of the proceedings relating to EUR 576.0 thousand has been interrupted until a legally binding decision has been reached in the first case.

122.3.4. PROCEEDINGS REGARDING THE INVOLVEMENT OF FORMER SHAREHOLDERS
On 21 March 2012, Hypo Alpe-Adria-Bank International AG filed a suit against original shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, Kärntner Landes- und Hypothekenbank-Holding and B & Co BeteiligungsgmbH as well as a total of nine former Executive and Supervisory Board members (so-called "consultants" civil suit). The sum in dispute is EUR 50.1 million, of which EUR 50.0 million is for demands for performance of obligations and EUR 100,000.00 for declaratory relief. The claims made relate to what Hypo Alpe-Adria-Bank International AG considers the undue distribution of a disproportionate special dividend to the above-mentioned shareholders in 2008 for the 2007 financial year. In a submission dated November 2012, one of the joint defendants, B & Co BeteiligungsgmbH, filed a counterclaim during the proceedings for EUR 250.0 million due to assumed deception when acquiring shares relating to a Hypo Alpe-Adria-Bank International AG capital increase in 2006 to be offset against the claim (and up to that amount); the company also addressed this purported claim out of court. Hypo Alpe-Adria-Bank International AG does not believe this counterclaim to be valid. The first hearings regarding the oral hearings are expected to be held in April 2013.

(123) Guarantee agreements

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG, with the Republic taking on liability as a statutory guarantor pursuant to section 1356 of the Austrian Civil Code (ABGB). The liability of the Republic of Austria 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 million ("maximum guaranteed sum"). 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, based on the nominal value of the part of the receivables for which liability is assumed. 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 by the end of 2014. The utilisation of the guarantee will be ensured with the statutory guarantor prior to expiration.

In return for the guarantee agreement, the bank has undertaken to reduce the guarantee liability of the Republic of Austria by buying back government guaranteed bonds (GGB). The bank met this obligation through buying back issues totalling EUR 751.7 million in February 2011. The volume of open guaranteed issues now stands at EUR 583.6 million. The EU Commission provisionally approved the guarantee agreement as additional state aid on 19 July 2011 because it is consistent with the requirement to recapitalise financial institutions following the financial crisis. The approval was made subject to the

Commission approving the bank's final restructuring plan based on the state aid provided through the emergency nationalisation in 2009. Please refer, in this connection, to note (122.1) EU proceedings.
A claim on the guarantee given by the Republic of Austria was made for the first time in the second half of 2012 for two loans for which the relevant legal consequences apply. The guarantee agreement concluded with the Republic of Austria provides for current liability commission for claims for which the guarantee was utilised only in the event the certain financial key figures (including covering the guarantee fees with profit) are met. As these conditions were not met in 2012, no payments were made for the claims on the guarantee and these were not shown as expenses. In the event of such a claim on the guarantee, the Republic of Austria is entitled to regress from Hypo Alpe-Adria-Bank International AG, dependent on certain key financial figures (including covering the distributable net income for the year).
Hypo Alpe-Adria-Bank International AG is currently in talks regarding measures designed to increase the operationalisation of the guarantee. The bank aims to clarify the reasons and the terms and conditions of the drawdown in order to maintain and secure the recoverability and therefore also the effectiveness of own capital funds in the best possible way in the future. The position taken by both contractual partners provides for, among other things, a limited extension of the guarantee of at least twelve months and an extension of the drawdown period, the substitution of the statutory guarantee by a guarantee pursuant to section 1346 of the Austrian Civil Code (ABGB) (subsidiary guarantee), a revision of drawdown conditions and a revision of the process to assess the drawdown conditions.

(124) Servicing of subordinated capital

124.1. 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 at 31 December 2007 to 2010 meet this criterion, following formal adoption of the financial statements, interest on the supplementary capital issues of both credit institutions could not be paid out.

The financial statements for Hypo Alpe-Adria-Bank International AG as at 31 December 2011 and 2012 also did not meet this criterion, and consequently interest on the supplementary capital issues made by Hypo Alpe-Adria-Bank International AG could not be paid out. According to the specific legal provisions, payment of interest may only be resumed when subsequent adopted financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (before movements in reserves) have been shown. Hypo Alpe-Adria-Bank International AG assumes that there will be an obligation to make back payments of interest for the preceding periods of non-payment.

The financial statements for Hypo Alpe-Adria-Bank AG (Austria) as from 31 December 2011 again show an annual profit (prior to movements in reserves). Consequently, Hypo Alpe-Adria-Bank AG (Austria) may resume payments of interest relating to the supplementary capital issues made by it. When ongoing payments of interest were resumed by Hypo Alpe-Adria-Bank AG (Austria) the interest payments not made for the preceding periods and relating to the supplementary capital issues made by Hypo Alpe-Adria-Bank AG (Austria) were 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 its term. This means that the losses must be allocated in proportion to the paid-in capital in accordance with section 23 (3) BWG and to the supplementary capital (pari passu) of the supplementary capital bond in question. The loss allocation must be applied not only in the case of redemption at term but also in the event of premature repayment by giving notice on the issue or through a premature buy-back of the issue. Please refer, in this connection, to the claim brought against Hypo Alpe-Adria-Bank International AG by an investor in April 2012 for the payment of the nominal value plus all non-paid interest charges relating to a supplementary capital bond, which reached final maturity in April 2011 and was redeemed at no value because of the loss allocation provision applicable to it (see note (122) Other proceedings).

In August 2012, Hypo Alpe-Adria-Bank AG (Austria) terminated two supplementary capital bonds with a nominal price of EUR 20 million as part of the split. This led to a premature realisation of what is already the total loss of the nominal value of the bonds, resulting in extraordinary income of approximately EUR 24.3 million being generated at group level.

In December 2012, Hypo Alpe-Adria-Bank International AG offered to buy back four supplementary capital bonds from shareholders. This buyback offer was part of the group’s current capital management, which aims to improve capital resources by increasing core capital. The invitation was approved by the European Commission in the dedicated consultation proceedings within the context of the ongoing state-aid investigation. The bank bought back and withdrew a nominal total of EUR 8.6 million of the EUR 55.0 million in (nominal) supplementary capital subject to the buyback.

Taking into account the loss allocation required by law, a complete financial loss in relation to the remaining supplementary capital issues by Hypo Alpe-Adria-Bank International AG has been established. As previous statistics (net loss for the year based on the figures as of the balance sheet date) had already assumed that investors would see a total loss, it is almost impossible for a reversal to occur prior to the end of the term of the instruments, even from a dynamic perspective (when including forecasts). On the basis of the significant change in forward-looking assessment, future cash flows to investors will have to be adjusted so that the effective interest rate method does not report positive supplementary capital. As a result, the supplementary capital measured at amortised cost was impaired in the 2012 financial year pursuant to IAS 39 and IAS 8.

Please refer to note (46) Result from other financial investments for details on the resulting effects.

124.2. Hybrid capital

Hypo Alpe Adria has in the past made a total of two issues of subordinated hybrid capital, with no obligation to re-margin interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75.0 million and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150.0 million). Both issues are essentially for an unlimited term, although the issuer has an unilateral right to terminate.

The primary criterion for servicing the outstanding 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 for Hypo Alpe-Adria-Bank International AG as at 31 December 2012 prepared in accordance with UGB/BWG show a clear loss (prior to movements in reserves), the main prerequisite for servicing hybrid capital is not met, and thus may not be carried out.

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 re-margin 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.

Hypo Alpe-Adria Bank International AG made an offer to investors dated 29 February 2012 to buy back in cash hybrid capital issued through two companies in Jersey at a nominal value of up to EUR 225.0 million. The offer was open until 22 March 2012. Hybrid capital totalling approx. EUR 165.0 million (from both issues) was taken out of the market. The take-up quota was more than 70%. The buyback was implemented on 27 April 2012. The buyback marks a further step towards restructuring and improving the capital structure, as hybrid capital will no longer count as core capital under Basel III. Following the buyback, approximately EUR 60.0 million of hybrid capital is still on the market.

The hybrid capital of Hypo Alpe-Adria Jersey Ltd. measured at amortised cost (nominal value: EUR 36.5 million) was assessed in the same way as the supplementary capital. As no more payments are expected on this instrument in the future, this was valued at zero in the consolidated financial statements. The hybrid capital of Hypo Alpe-Adria (Jersey) II Ltd. (nominal value: EUR 23.5 million) is measured at fair value; the valuation here is based on the market price at the balance sheet date.

124.3. 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.

Hypo Alpe-Adria-Bank International AG placed a subordinated bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375% p.a. on the nominal value. The Republic of Austria has given an unconditional and irrevocable guarantee, and has received the necessary provisional approval of the European Commission. In exchange for the guarantee, Hypo Alpe Adria has undertaken to pay the Republic of Austria a guarantee fee as calculated by the European Commission.

(125) Own capital funds as defined by the Austrian Banking Act (BWG)

The own capital funds of the group as defined by the Austrian Banking Act (BWG) and by the Solvency Regulations (SolvaV) are made up as follows:

EUR m

	31.12.2012	31.12.2011
Core capital (Tier 1)	**2,022.1**	**1,602.8**
Paid-in capital	1,308.6	808.6
Reserves (incl. non-controlling interests in equity)	774.4	1,009.8
Funds for general banking risks	153.7	0.7
Intangible assets	-33.0	-56.1
Deduction net loss, material negative results	-181.6	-160.2
Supplementary elements (Tier 2)	**1,011.0**	**867.1**
Supplementary capital	0.0	65.7
Subordinated capital	1,011.0	801.4
Deductions pursuant to Section 23 (13) BWG	**-9.0**	**-9.5**
Tier 3 (reclassified Tier 2 capital)	**33.0**	**38.3**
Own capital funds according to BWG	**3,057.1**	**2,498.7**
Own capital funds requirement according to BWG	**1,883.2**	**2,048.9**
Surplus capital	**1,173.9**	**449.8**
Coverage	162.3%	122.0%

Hybrid capital of EUR 213.9 million was reported under the reserves in 2011.

EUR m

	31.12.2012	31.12.2011
Risk-weighted basis for assessment in acc. with section 22 of the BWG (banking book)	**21,323.5**	**23,111.0**
thereof 8% minimum own funds requirements	1,705.9	1,848.9
Own funds requirement – securities trading book	8.1	8.3
Own funds requirement – open foreign exchange position	24.9	30.0
Own funds requirement – operational risk	144.3	161.7
Total own capital funds requirement	**1,883.2**	**2,048.9**

EUR m

	31.12.2012	31.12.2011
Assessment basis banking book (risk-weighted)	**21,323.5**	**23,111.0**
Tier 1 ratio	9.5%	6.9%
Own capital funds ratio	14.3%	10.8%
Assessment basis incl. market and operational risk	**23,540.1**	**25,611.7**
Tier 1 ratio	8.6%	6.2%
Own capital funds ratio	13.0%	9.8%

In the 2012 financial year, Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of Hypo Alpe Adria, was in compliance with the minimum own funds requirements as defined by the Austrian Banking Act.

The buyback of hybrid capital totalling some EUR 165.0 million in April 2012, which has already been detailed in note (124.2.) Hybrid capital, after deduction of all expenses connected to the transaction led to income attributable to the group's own capital funds of approximately EUR 154.6 million, of which EUR 153.0 million was allocated to the fund for general banking risks. The allocation of the fund for general banking risks to the own capital funds happened for the first time on 30 April 2012.

Hypo Alpe-Adria-Bank AG (Austria) also terminated two supplementary capital bonds with a nominal price of EUR 20.0 million as part of the demerger. This resulted in an extraordinary income of approximately EUR 24.3 million being generated at group level.

The resulting gain under UGB/BWG on the supplementary capital – which is no longer eligible on the reporting date following the buyback in December 2012 – amounted to EUR 10.7 million and is allocated to Tier 1 capital.

Value effects from existing hybrid and supplementary capital measured at amortised cost using the effective interest rate method resulted in a one-off effect in profit and loss of EUR 99.9 million, of which EUR 68.6 million related to own capital funds.

Tier 2 supplementary capital and the capital previously allocated to Tier 1 hybrid capital in accordance with regulation were converted into highest quality Tier 1 capital by the above-mentioned active capital management measures; the company has permanent access to this capital and can use it to sustain capital strength.

(126) Portfolio transfers in the SEE network and in the banks in Italy and Austria

The aim of re-privatising the marketable units is preceded by the portfolio transfers currently taking place within the context of the group “Brush” project. Following the portfolio transfers in the 2011 financial year, when group units in Slovenia, Bosnia and Herzegovina, and Montenegro outsourced their non-performing loan portfolios to other group companies, this was then also implemented in Croatia, Austria and Italy as planned in 2012. While the portfolio transfers in Croatia took the form of “synthetic” transfers, those in Austria and Italy took the form of a demerger, which led to the actual transfer of assets from the Austria subsidiary’s spun-off portfolio to Hypo Alpe-Adria-Bank International AG (Austria) and the spun-off part of the Italian bank was split off and transferred to Hypo Alpe-Adria-Leasing s.r.l. (Italy). A portfolio in Montenegro was transferred at the end of 2012 by means of a true sale and the assets transferred from the local bank to a subsidiary of the Montenegrin leasing unit.

A further portfolio transfer is planned in Slovenia in reaction to the difficult economic situation and as preparation for the planned re-privatisation. Specifically, this relates to the Slovenian leasing company, which will focus on the core business “movables” following the transfer.

Legal provisions in Serbia do not permit synthetic portfolio transfers as in Croatia, Bosnia and Herzegovina, and Slovenia; instead, portfolios here must be disposed of by legal contract. Legal amendments to allow the transfers of portfolios were implemented in Serbia at the end of 2012. The transaction is currently being prepared and it is planned to implement this in the 2013 financial year.

(127) Employee data

	31.12.2012	31.12.2011
Employees at closing date (Full Time Equivalent -FTE)	6,576	7,690
Employees average (FTE)	7,371	7,774

(128) Severance and pension payments

The outlay of the parent company for severance and pension payments is shown in the table below:

in EUR thousand

		31.12.2012		31.12.2011
	Severance Payments	Pensions	Severance Payments	Pensions
Key management personnel	595.8	0.0	181.4	0.0
Other employees	1,411.9	92.2	1,273.4	0.0
Members of Executive Board	35.0	0.0	35.6	0.0
Total	**2,042.7**	**92.2**	**1,490.4**	**0.0**

(129) Relationship with members of the executive bodies

129.1. 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 20.2 thousand (2011: EUR 335.0 thousand).

All transactions with members of the executive bodies are handled by the domestic subsidiary, Hypo Alpe-Adria-Bank AG in Klagenfurt am Wörthersee. The account relationships between the executive bodies of the Austrian parent company and Hypo Alpe-Adria-Bank AG (Austria) are unexceptional.

The financial relationship of Hypo Alpe Adria to the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG is as follows:

in EUR thousand

	31.12.2012	31.12.2011
Loans and advances	**20.2**	**335.0**
Supervisory Board	20.2	335.0
Liabilities	**1,275.2**	**869.3**
Executive Board	819.1	825.6
Supervisory Board	456.1	43.7

in EUR thousand

	31.12.2012	31.12.2011
At end of previous period	**335.0**	**7.0**
New loans issued during the period	0.0	335.1
Amount owing to bank recorded on the balance sheet	0.0	0.0
Amount received by the bank	0.0	-5.8
Changes to Executive bodies	-314.8	-1.2
Credit repaid during the period	0.0	0.0
At end of reporting period	**20.2**	**335.0**
Interest income	0.4	2.9

in EUR thousand

	31.12.2012	31.12.2011
At end of previous period	**869.3**	**1,036.5**
Deposits received during the period	523.9	120.1
Changes to Executive bodies	-13.7	-102.9
Deposits paid out during the period	-104.2	-184.4
At end of reporting period	**1,275.2**	**869.3**
Interest expenses on liabilities	14.2	12.2

129.2. Breakdown of remuneration received by members of the executive bodies of the group's parent company

Remuneration received by the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG for carrying out their functions, received from this or from another group company, is as follows:

in EUR thousand

	31.12.2012	31.12.2011
Executive Board	**2,474.4**	**2,549.2**
thereof ongoing payments	2,474.4	2,549.2
Supervisory Board	**127.5**	**181.8**
Remuneration of former members of the Executive and Supervisory Board and their surviving dependents	**463.8**	**457.6**
thereof related to termination	0.0	0.0
thereof payments after termination	463.8	457.6
Total	**3,065.7**	**3,188.7**

The members of the Executive Board and Supervisory Board are stated in note (130) Executive bodies.

(130) Executive bodies

Supervisory Board

Chairman of the Supervisory Board:
Johannes DITZ

Deputy Chairman of the Supervisory Board:
Rudolf SCHOLTEN

Members of the Supervisory Board:
Helmut DRAXLER
Alois STEINBICHLER

Appointed to the Supervisory Board by the Works Council:
Gerhard PLIESCHNIG, Chairman of the Works Council
Gernot BAIER, until 29 February 2012
Alexandra DOHR, from 1 March 2012 to 16 May 2012
Richard JOHAM, from 17 May 2012

Federal Supervisory Authorities

State Commissioner:
Angelika SCHLÖGEL, until 30 June 2012
Alexander PESCHETZ, from 1 July 2012

Deputy State Commissioner:
Monika HUTTER

Trustees

Trustee:
Alexander PESCHETZ, Federal Ministry of Finance

Deputy Trustee:
Jakob Köhler, Federal Ministry of Finance

Executive Board

Gottwald KRANEBITTER, Chairman of the Executive Board
Wolfgang EDELMÜLLER, Deputy Chairman of the Executive Board
Johannes PROKSCH, Member of the Executive Board
Rainer SICHERT, Member of the Executive Board

(131) Material subsidiaries as at 31 December 2012

HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

SEE NETWORK

Slovenia:
- HYPO ALPE-ADRIA-BANK d.d., Ljubljana
- HYPO LEASING[1] d.o.o., Ljubljana 25/75 %

Croatia:
- HYPO ALPE-ADRIA-BANK d.d., Zagreb
- HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb

Bosnia and Herzegovina:
- Hypo Alpe-Adria-Bank A.D., Banja Luka 99,7291 %
- Hypo Alpe-Adria-Leasing d.o.o., Banja Luka 99,7291 %
- HYPO ALPE-ADRIA-BANK d.d., Mostar 99,9985 %

Serbia:
- HYPO ALPE-ADRIA-BANK AD, Belgrade 99,9990 %

Montenegro:
- HYPO ALPE-ADRIA-BANK[2] A.D., Podgorica 99,88/0,12%

OTHER BANKS

Austria:
- HYPO ALPE-ADRIA-BANK AG, Klagenfurt/WS

Italy:
- HYPO ALPE-ADRIA-BANK S.P.A., Udine 99,9998 %

ASSET RESOLUTION - FINANCIALS

Austria:
- HETA Asset Resolution GmbH, Klagenfurt/WS
- HYPO ALPE-ADRIA-LEASING GmbH, Klagenfurt/WS

Slovenia:
- TCV d.o.o.,[1] Ljubljana 25/75 %
- TCK d.o.o.,[1] Ljubljana 25/75 %

Croatia:
- HYPO-LEASING KROATIEN d.o.o., Zagreb
- HYPO ULAGANJA d.o.o., Zagreb
- H-ABDUCO d.o.o., Zagreb

Bosnia and Herzegovina:
- HETA d.o.o., Sarajevo
- BORA d.o.o., Banja Luka

Serbia:
- HYPO ALPE-ADRIA-LEASING DOO, Belgrade
- HYPO ALPE-ADRIA-RENT DOO, Belgrade
- HYPO DEVELOPMENT DOO, BELGRADE
- HETA REAL ESTATE D.O.O., BELGRADE

Italy:
- HYPO ALPE-ADRIA-LEASING S.r.l., Udine

Bulgaria:
- HYPO ALPE-ADRIA-LEASING[3] OOD, Sofia 99,87/0,13 %
- HYPO ALPE-ADRIA AUTOLEASING[3] OOD, Sofia 99,76/0,24 %

Montenegro:
- HYPO ALPE-ADRIA-LEASING D.O.O., Podgorica
- HYPO ALPE-ADRIA-DEVELOPMENT, D.O.O., PODGORICA

Macedonia:
- HYPO ALPE-ADRIA-LEASING DOOEL, Skopje

Hungary:
- HYPO Alpe-Adria-Leasing Zrt., Budapest

Ukraine:
- HYPO ALPE-ADRIA-LEASING TOV, Kiev

Germany:
- HYPO ALPE-ADRIA-LEASING GmbH, Munich

ASSET RESOLUTION - OTHER

Austria:
- CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS
- HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS
- Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS
- PROBUS Real Estate GmbH, Vienna
- Hypo Alpe Adria IT Holding GmbH, Klagenfurt/WS

Croatia:
- REZIDENCIJA SKIPER d.o.o.,[4] Savudrija
- GRAND HOTEL LAV d.o.o., Podstrana

Serbia:
- ZAJEDNIČKI INFORMACIONI SISTEM, DOO BELGRADE

Participations without additional percentage are direct or indirect 100 % participations of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG (HBInt.)

1) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the minority share of 25 % of HYPO LEASING d.o.o. Ljubljana as well as of TCK d.o.o. and TCV d.o.o.; 75 % is owned by HETA Asset Resolution GmbH.
2) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of 99,88 % of HYPO ALPE-ADRIA-BANK A. D., Podgorica; 0,12 % are owned by HETA Asset Resolution GmbH .
3) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of the two bulgarian leasingcompanies; the small minority share is owned by HETA Asset Resolution GmbH.
4) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of 75 % of REZIDENCIJA SKIPER d.o.o.; the minority share of 25 % is owned by HYPO ALPE-ADRIA-BETEILIGUNGEN GmbH.

(132) Scope of consolidation

The consolidated group of companies as defined in IFRS as at 31 December 2012 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	closing date	Type
ALFA CAR PROJEKT d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
Alpe Adria Privatbank AG in Liquidation	Schaan	100.0	100.0	31.12.2012	KI
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	100.0	100.0	31.12.2012	FI
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
Alpe-Adria nekretnine d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2012	FI
Alpe-Adria-Projekt GmbH	Munich	100.0	100.0	31.12.2012	FI
Ananke Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	SU
BETA NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2012	HI
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
Carinthia I Limited	St. Helier – Jersey	100.0	51.0	31.12.2012	FI
Carinthia II Limited	St. Helier – Jersey	100.0	51.0	31.12.2012	FI
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
D.S. car d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2012	SU
EPSILON GRAĐENJE d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
ERCS 2008 Kft.	Budapest	100.0	100.0	31.12.2012	SU
GRAND HOTEL LAV d.o.o.	Podstrana	100.0	100.0	31.12.2012	SU
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6.0	6.0	31.12.2012	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	100.0	100.0	31.12.2012	FI
H-ABDUCO d.o.o.	Zagreb	100.0	100.0	31.12.2012	HI
HBInt Credit Management Limited	St. Helier – Jersey	51.0	51.0	31.12.2012	FI
HETA Asset Resolution GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	FH
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2012	FI
HILLTOP Holding Anstalt	Vaduz	100.0	100.0	31.12.2012	SU
HTC ENA d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
HYPERIUM DOOEL Skopje	Skopje	100.0	100.0	31.12.2012	SU
Hypo Alpe Adria IT Holding GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
Hypo Alpe-Adria (Jersey) II Limited	St. Helier – Jersey	100.0	100.0	31.12.2012	SU
Hypo Alpe-Adria Jersey Limited	St. Helier – Jersey	100.0	100.0	31.12.2012	SU
HYPO Alpe-Adria Leasing Zrt.	Budapest	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	(99.76/0.24)	100.0	31.12.2012	FI
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.7	99.7	31.12.2012	KI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	(99.88/0.12)	100.0	31.12.2012	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	100.0	100.0	31.12.2012	KI
HYPO ALPE-ADRIA-BANK AG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.0	100.0	31.12.2012	KI

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	closing date	Type
HYPO ALPE-ADRIA-BANK d.d.	Mostar	100.0	100.0	31.12.2012	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100.0	100.0	31.12.2012	KI
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.0	100.0	31.12.2012	KI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100.0	100.0	31.12.2012	FI
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING D.O.O. – PODGORICA	Podgorica	100.0	100.0	31.12.2012	FI
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100.0	99.7	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING GmbH	Munich	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING OOD	Sofia	(99.87/0.13)	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100.0	100.0	31.12.2012	FI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2012	HI
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100.0	100.0	31.12.2012	HI
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.0	100.0	31.12.2012	HI
HYPO ALPE-ADRIA-ZASTUPNIK – Društvo za zastupanje u osiguranju d.o.o.	Sarajevo	100.0	100.0	31.12.2012	HI
HYPO CENTER -2 d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
Hypo Group Netherland Holding B.V. in liquidatie	Amsterdam Zuidoost	100.0	100.0	31.12.2012	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam Zuidoost	100.0	100.0	31.12.2012	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt am Wörthersee	(99.9/0.1)	100.0	31.12.2012	FI
HYPO HOUSE D.O.O. – PODGORICA	Podgorica	100.0	100.0	31.12.2012	HI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	99.0	100.0	31.12.2012	FI
HYPO LEASING d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2012	FI
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2012	FI
HYPO NEPREMIČNINE d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
HYPO PC d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
HYPO SERVICE S.R.L.	Tavagnacco	100.0	100.0	31.12.2012	HI
HYPO ULAGANJA d.o.o. za usluge	Zagreb	100.0	100.0	31.12.2012	SU
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	HI
HYPO Wohnbau GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2012	FI
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	100.0	100.0	31.12.2012	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2012	FI
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100.0	100.0	31.12.2012	FI
LOMA CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	closing date	Type
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0	100.0	31.12.2012	SU
MM THETA d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
MM ZETA d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
Norica Investments Limited	St. Helier – Jersey	51.0	51.0	31.12.2012	FI
PIPER d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
PROBUS Real Estate GmbH	Vienna	100.0	100.0	31.12.2012	HI
QLANDIA MARKETING d.o.o.	Ljubljana	100.0	100.0	31.12.2012	SU
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2012	SU
SINGULUS d.o.o.	Zagreb	100.0	100.0	31.12.2012	SU
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2012	SU
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2012	SU
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	100.0	100.0	31.12.2012	FI
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztõ Kft.	Budapest	100.0	100.0	31.12.2012	SU
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2012	HI
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2012	HI
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100.0	100.0	31.12.2012	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	100.0	100.0	31.12.2012	FI
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2012	SU
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2012	SU
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.-u likvidaciji	Zagreb	100.0	100.0	31.12.2012	HI
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.0	100.0	31.12.2012	HI

The following companies – insofar as the provisions in IFRS 5 do not apply – are shown with their respective financial statements as at 31 December 2012:

EUR m

Company	Registered office	Ownership (direct) in %	Ownership (indirect)in %	Carrying amount of investment as of 31.12.2012	Share of profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.5	29.5	6.0	0.0
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	1.3	0.0
URBANA PRENOVA IZOLA d.o.o.	IZOLA	40.0	40.0	0.0	0.0

Abbreviations:

KI	Credit institutes
FI	Financial services
HI	Services
SU	Other

(133) Events after the reporting date

At the end of January 2013, the bank received the “Joint Decision” from the Austrian Financial Markets Authority (FMA) on the recently concluded capital budgeting within the context of the Joint Risk Assessment and Decision process (JRAD). The FMA deems it necessary for the bank to have an own capital funds ratio of 12.40% and cover the difference between the expected losses in the area of credit risk and total risk provisions (shortfall); the bank has been given until 31 December 2013 to fulfil this requirement. The formal national JRAD notification of the decision has yet to be delivered to the bank.

Following the capital measures conducted in 2012, the European Commission imposed conditions (Behavioural Measures) with a decision dated 5 December 2012; the Behavioural Measures came into force on 1 January 2013 and mainly relate to the management of new business and represent a catalogue of measures designed to ensure the recoverability of new financing. The group’s Executive Board, in consultation with the European Commission, has assigned a Monitoring Trustee, who is responsible for monitoring the requirements mentioned above, and will arrange for the immediate implementation of the “Behavioural Measures” and the resulting reporting obligations at Hypo Alpe-Adria-Bank International AG and the units concerned. In the context of the final decision of the European Commission it is intended to adjust the Behavioural Measures in line with the market, meaning that the actual implementation may still change.

In the legal dispute with the State of Carinthia regarding the capital reduction in 2011, the judgement of the Higher Regional Court in Vienna dated 29 January 2013 granted Hypo Alpe-Adria-Bank International AG’s appeal in full, repealing the judgement of the Commercial Court in Vienna.

BayernLB filed an application at the Regional Court in Munich for a declaratory judgement with regard to BayernLB’s equity-substituting loan. Hypo Alpe-Adria-Bank International AG was served with the suit on 1 February 2013. Please refer to note (122.2.) for details on both of the above-mentioned pending proceedings.

Klagenfurt am Wörthersee, 6 March 2013
Hypo Alpe-Adria-Bank International AG

Executive Board

Gottwald Kranebitter mp
(Chairman)

Wolfgang Edelmüller mp (Deputy Chairman)	Johannes Proksch mp	Rainer Sichert mp

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, 6 March 2013
Hypo Alpe-Adria-Bank International AG

Executive Board

Gottwald Kranebitter mp
(Chairman)

Wolfgang Edelmüller mp (Deputy Chairman)	Johannes Proksch mp	Rainer Sichert mp

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 fiscal year from 1 January 2012 to 31 December 2012. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended 31 December 2012, and the notes.

Management's responsibility for the consolidated financial statements and for the accounting system

The company's management is responsible for the group's accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flow for the fiscal year from 1 January 2012 to 31 December 2012, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying the opinion, we draw attention to the following:

- the disclosures provided by the company's management in the notes to the consolidated financial statements in note (1.2) Important events and in note (88.2) Joint Risk Assessment Decision process ("JRAD"), which refer to the regulatory JRAD (Joint Risk Assessment Decision) process. The Joint Decision in January 2013 uncovered a substantial shortfall between the anticipated regulatory credit risk losses and total risk provisions; the banking regulatory authorities stipulated that the group achieve a quota of minimum own capital funds of 12.4% by 31 December 2013. The company is currently planning to ensure, through appropriate measures, that sufficient own capital funds are in place by 31 December 2013. If the measures planned by the company's management should not lead to the company attaining the stipulated quota of minimum own capital funds by 31 December 2013, there will then be considerable uncertainty as to the group's ability to continue as a going concern;
- the disclosures provided by the company's management in the notes to the financial statements in note (1.2) Important events and note (122.1.) EU proceedings. When drawing up the consolidated financial statements, the company's

management assumed a positive ruling by the European Commission in the ongoing state-aid investigation regarding the restructuring plan prepared by the company's management and submitted to the European Commission. The Commission's approval is also a prerequisite for the guarantee agreement concluded on 28 December 2010 between the Republic of Austria and the bank which runs until 30 June 2013 (see also the explanations and comments provided by the company's management in note (123) Guarantee agreements). The date and content of this European Commission ruling cannot be foreseen, as disclosed by the company's management in the notes. For this reason, material uncertainties exist with regard to the impact the ruling would have on the group's future business activities and the values disclosed in the consolidated financial statements;
- the disclosures provided by the company's management in the notes to the financial statements in note (123) Guarantee agreements, which describes the planned additions / amendments to the guarantee agreement with the Republic of Austria. No legally valid agreement has yet been reached on the content of these additions / amendments – as disclosed by the company's management in the notes. There is, as a result, significant uncertainty regarding the value of the portion of the receivables in the group's loan portfolio covered by this guarantee;
- the disclosures provided by the company's management in the notes to the consolidated financial statements in note (4) Use of estimates and assumptions/Uncertainties in connection with estimates, in connection with the assessment of the recoverability of problem loans and lease agreements and the assessment of the value of the interest in non-consolidated companies. The quality of the loan portfolio in the SEE region and the value of the non-consolidated companies depend to a very great extent on future macro-economic – but also potential legislative – developments in these markets. As explained in note (86.10) Comparison of the SRP and expected loss methods, when determining loan loss provisions, the Executive Board expects that most of the collateral can be realised at market values and in the planned (relatively short) time frames. An unfavourable change in economic conditions and/or in the real estate markets – which cannot be excluded – could have a significant influence on the asset values disclosed in the consolidated financial statements (in particular provisions for bad debts and investment values), as well as on the group's equity and own capital funds.

Comments on the consolidated management report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the group's position. The auditor's report 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 (2) UGB (Austrian Commercial Code) are appropriate.

Vienna, 6 March 2013

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner
Wirtschaftsprüfer

Mag. Friedrich O. Hief
Wirtschaftsprüfer

Management report for 2012

Hypo Alpe-Adria-Bank International AG

Management report for 2012 HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

The consolidated financial statements for the group as at 31 December 2012 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) and published both in printed form and on the internet (www.hypo-alpe-adria.com). The separate financial statements for Hypo Alpe-Adria-Bank International AG have been drawn up in accordance with Austrian law (Austrian Enterprise Code (UGB)/Austrian Banking Act (BWG); the management report which follows relates to the separate financial statements.

1. General economic conditions

European countries, and particularly Hypo Alpe Adria's SEE countries, have been exposed to the effects of the global financial crisis ever since it started in 2007. While many economic experts were forecasting a significant recovery of the global economy from 2011, it can be said now that these forecasts were too optimistic and macro-economic key indicators had to be massively adjusted downwards. As a result, 2012 continued to be plagued by the ongoing financial crisis, European sovereign debt crisis and general crisis of confidence among consumers, which had a corresponding effect on the development of the bank's core markets.

The Austrian economy started off well in 2012. However, domestic demand was unable to compensate for the downward export trend, meaning that growth slowed down over the second half of the year and economic growth was forecast at a mere 0.4%. The unemployment rate rose to 4.5% as a consequence. That being said, momentum continued to be provided by exports, and the downturn was slower than in all other European countries. For 2013, slight economic growth of 0.5% is anticipated, and the macroeconomic situation is expected to stabilise further.

In Italy, GDP fell by around 2.5% in the previous year. Unemployment hit 11% in the same period. The decline in GDP and the rise in unemployment were caused by the austerity measures forced upon the country by other EU member states, the slowly spreading sovereign debt crisis and the associated collapse of domestic demand. At 3%, inflation in Italy is above the eurozone average. The main factor behind this is an increase in taxes for the purposes of fiscal consolidation. The economic climate is expected to remain sluggish in 2013, resulting in a further decline in economic output of around 1.2%.

Bank deleveraging, stagnating demand in the eurozone and government austerity measures led to real GDP in Slovenia falling by around 1.8% in the previous year. Domestic political insecurity is threatening to delay important reforms. Against this backdrop, and given the climate of recession in the eurozone, it is expected that Slovenian GDP will fall further by approximately 1.8% in 2013.

Over the last few years, Croatia has benefited strongly from tourism (accounting for 20% of its GDP) and an expanding service sector, making it less export-dependent than other economies in the region. Another important feature of 2012 in Croatia was the strict policy of fiscal consolidation made necessary by the conditions of EU accession, among other things, which resulted in a restrictive fiscal policy. At the same time, the external framework conditions of the Croatian economy were also problematic in 2012. This led to a decline in economic output and a further increase in unemployment following two years of stagnation in 2010 and 2011. Real GDP fell by around 2% in 2012. In 2013, the country will likely record a decrease of an additional 1.5%. Adverse outside influences coupled with the slow response of the Croatian government to a lack of competitiveness and continued deleveraging will be contributing factors in the continuation of this recession.

Weak eurozone demand, the devaluation of the Serbian dinar and a decline in consumer spending were not the only problems to hit Serbia in 2012. The country also had to contend with political standstill. Real GDP fell by around 1.5% in 2012. In addition, it is expected that the unemployment rate will rise to 26%. The outlook for 2013 is somewhat better thanks to new export capacity, increased government spending and a more stable currency.

The collapse of exports and poor domestic demand are the primary factors behind the current recession in Bosnia and Herzegovina. One positive aspect is that the conclusion of negotiations with the IMF and the subsequent budgetary consolidation of the country's two entities paved the way for an IMF stand-by arrangement worth USD 500 million. Real GDP fell by around 2.0% over the previous year. In view of further adjustments to domestic demand, GDP is expected to fall by 1.5% in 2013.

The small, strongly tourism-dependent economy of Montenegro is currently in the process of becoming a developed economy and continues to be afflicted by structural deficiencies. Montenegro increased its focus on the energy sector in 2012, which had a positive effect on economic output and limited the decline in GDP in 2012. GDP in Montenegro fell by around 0.4% in 2012.

In conclusion, 2013 is expected to be a tough year for Hypo Alpe Adria in its core markets.

(Economic data for 2012 is projected data)
(Source: Hypo Research Department)

2. Overview

2.1. Description of the company and its activities

Hypo Alpe-Adria-Bank International AG is the management holding company for all companies in the Hypo Alpe Adria group and is headquartered in Klagenfurt am Wörthersee. As at 31 December 2012, the bank primarily operated in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro through its subsidiaries.

Hypo Alpe Adria was founded in 1896 in Klagenfurt and remained a typical regional bank right up to the 1980s. The strategic focus of Hypo Alpe Adria's business was centred on public-sector financing activities in Carinthia. Only in the 1990s did Hypo Alpe Adria begin its gradual expansion into the Alps-to-Adriatic region and develop from a Carinthian regional bank into an international finance group.

As a result of years of aggressive growth with no risk limitation, over-optimistic assessments and severe operating deficiencies in all major units of the bank – the real extent of which was not sufficiently expressed or was not evident from an outside perspective at the time of emergency nationalisation and therefore only became gradually apparent over the course of the ongoing restructuring and rehabilitation of the bank – Hypo Alpe Adria experienced ever greater turmoil during the global financial crisis and had to be rescued through nationalisation at the end of 2009. The Republic of Austria has been the sole owner of the bank since December 2009.

As a consequence of the emergency nationalisation, the owner put in place a new senior management team in 2010, which is implementing a clear restructuring plan. The restructuring plan is based on a four-pillar strategy that flows into the complete financial transformation of Hypo Alpe Adria. The strategic pillars of Austria (HBA), Italy (HBI), South-East Europe (SEE) and Wind-Down (HETA Asset Resolution) were formed to enable the targeted implementation of the strategy. While the Austrian, Italian and SEE pillars were subject to fundamental restructuring in order to restore profitability, the Wind-Down pillar houses all non-strategic assets that are scheduled to be wound down in a value-preserving manner.

After the active reprivatisation process was started in 2011 for the Austrian and Italian pillars, the reprivatisation process for the SEE network – which consists of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and a management holding company in Austria – also began in 2012, and the active search for a buyer was able to commence.

2.2. Rating

In November 2011, Hypo Alpe-Adria-Bank International AG retained its institutional rating. Prior to this, Moody's had once again confirmed an unchanged rating of investment grade Baa3 (negative outlook).

In the 2012 financial year, Moody's reclassified the rating of the State of Carinthia on 21 February 2012, which resulted in the rating of state-guaranteed bonds being downgraded from Aa3 to A1.

The rating of the state-guaranteed subordinated bond issued in December 2012 was extremely satisfactory. The state guarantee underpinning this bond was structured in such a manner that it was awarded ratings of Aaa (Moody's), AA+ (S&P) and AAA (Fitch), in spite of the fact that it is a subordinated bond.

All information on the ratings of state-guaranteed bonds and the "Pfandbrief" rating are available on the Group website (www.hypo-alpe-adria.com) under Investor Relations.

2.3. EU proceedings/restructuring measures

Hypo Alpe Adria Bank continued to strive for completion of the EU investigation into state aid in 2012.

The negotiations with the European Commission on the investigations into state aid are now in their final phase. The authorities in Brussels are, in principle, satisfied with the strategy being pursued by the bank following its restructuring. The – in part – massive turbulence in the financial markets in general, and in the region of South Eastern Europe in particular, and the unexpected scale of this turbulence might result in potential changes in timing of the reprivatisation of the three tendered banking operations (Austria, Italy and the SEE network) and the expected value Potential scenarios and their implications were presented to the European Commission at the end of the first half of the year and are being discussed on an ongoing basis in close cooperation with representatives of the owner.

An update to the restructuring plan was discussed in a meeting held in Brussels in November 2012. In addition, compliance with "behavioural measures", which are monitored by an independent monitoring trustee as stipulated in the aid investigation, was imposed on Hypo Alpe Adria. Before coming to a final decision, the European Commission plans to adjust the behavioural measures in line with the market, meaning that the actual implementation may still change.

As agreed with the European Comission, another updated restructuring plan was presented to the shareholders at the beginning of February 2013 and further on, submitted to the European Commission. The European Commission expects to conclude its investigation in 2013.

2.4. BayernLB equity substituting loans

After the major need for risk provisions had been identified, Hypo Alpe-Adria-Bank International AG addressed the issue of whether the financial lines granted to Hypo Alpe Adria by its former shareholder BayernLB since 2008 habve been equity substituting shareholder´s loans by assigning external experts for the purpose of a comprehensive analysis. According to the results of this analysis, the requirements for qualifying the majority of these financing lines as equity substituting capital under the Austrian Equity Substituting Capital Act (Eigenkapitalersatz-Gesetz [EKEG]) are met.

Following Sec. 14 EKEG, a mandatory suspension of repayments applies regarding the majority of the financing lines granted by BayernLB. Accordingly, repayment of the loans affected must be suspended until Hypo Alpe-Adria has been sustainably restructured and BayernLB must not call in the loans. Repayments already made regarding the respective financing linesmust be claimed back from BayernLB. At present, the volume of the outstanding financing lines granted by BayernLB to Hypo Alpe Adria is approximately EUR 2.3 billion. In addition, Hypo Alpe-Adria-Bank International AG has already made repayments and interest rate payments totalling approximately EUR 2.3 billion on the financing lines granted by BayernLB since 2008.

Hypo Alpe-Adria-Bank International AG has submitted a statement of defence against a lawsuit for declaratory judgement filed by BayernLB. With regard to this proceeding pending at court, the claims for repayments according to Sec. 14 EKEG are recorded in the consolidated statement with EUR 1,--.

2.5. Forensic investigations in the past

In the 2012 financial year, the bank embedded in its articles of association its commitment to forensic investigations on the past. Since June 2012, an authorised coordinator has been coordinating activities and supporting the company. What was previously known as CSI Hypo was transformed into the company's Forensics department with the support of the coordinator and in conjunction with the Supervisory Board and the Executive Board. The Forensics department, which reports directly to the Executive Board and works closely with the coordinator, manages the work of dealing with the past. It focuses on protecting, preparing and presenting the results of forensic investigations.

By 31 December 2012, a total of 74 cases in Austria and abroad had been reported to the relevant public prosecutors with total damages amounting to approximately EUR 770 million. In addition, there are currently five civil law suits against former senior executives and third parties before the civil courts in Austria, in which claims for EUR 107.0 million are being asserted.

In 2012, the Forensics department concentrated on the following major groups of themes: “BayernLB equity”, “Consultants”, “Liechtenstein” and “HLH preference shares”. In addition, the subjects of network analysis and the relevance of forensic expertise within the bank were also addressed. The Forensics department manages each individual case (numbering around 1,100), from internal protections and clarification of legal and financial appraisals to the submission of lawsuits and cases to the relevant authorities and the accompaniment of ongoing legal disputes. In addition, the Forensics department also streamlines the case portfolio by closing cases in which no breaches of civil or criminal law are apparent in order to pool resources to concentrate on specific cases.

Findings made in forensic investigaton on the past and the cases launched as a result criminal complaints have entered into serveral imprisonments (not yet legally binding). The authorities ordered around 350 accounts to be disclosed and issued 300 directives. Direct outflows have amounted to approximately EUR 25 million thus far. The data and information secured and organised by the Forensics department covers approximately 4.7 million documents and is prepared and made available to the various stakeholders – public prosecutors, federal criminal police office, finance ministry, auditors, the Finanzprokuratur and other recipients – in accordance with valid laws and provisions using specialist computer software. The forensic structures established in bank subsidiaries also make a major contribution to this.

2.6. Buy-back of hybrid and supplementary capital

In April 2012, a volume of around EUR 165.0 million out of the total of EUR 225.0 million of hybrid capital issued through two Jersey issuance vehicles and recognised as hybrid and subordinated capital in the separate financial statements of Hypo Alpe-Adria-Bank International AG was removed from the market. The acceptance rate achieved of over 70% demonstrated the very high level of acceptance by the holders of both issues and has resulted in a strengthening of own capital funds by EUR 154.4 million

In December 2012, Hypo Alpe-Adria-Bank International AG also made a public offer to its supplementary capital creditors to buy back four additional supplementary capital bonds worth a total of EUR 55.0 million. This buy-back programme resulted in the generation of non-recurring earnings attributable to own capital funds totalling approximately EUR 10.7 million.

Measurement effects from remaining supplementary capital issued by Hypo Alpe-Adria-Bank International AG resulted in a Tier 1 effect of EUR 68.0 million in the 2012 financial year.

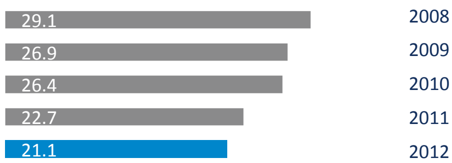
These active capital management measures allowed Tier 2 capital amounting to approximately EUR 235 million to be converted, with an effect of around EUR 233 million, into top-quality Tier 1 capital that is now available to the company to strengthen its capital base over the long term.

3. Business development at Hypo Alpe-Adria-Bank International AG

3.1. Development of the balance sheet

In the 2012 financial year, there was a further reduction in the total assets of Hypo Alpe-Adria-Bank International AG, which, as the central holding and management company for the Hypo Alpe Adria group, takes on the main funding function for the group. As in previous years, this was due to the lower level of new business targeted by certain group companies as well as the stop on new business for the third-party customer portfolio of Hypo Alpe-Adria-Bank International AG and some of the wind-down companies. A capital increase by the sole owner in December 2012 amounting to EUR 0.5 billion and the issuance of a state-guaranteed subordinated bond amounting to EUR 1.0 billion stood in contrast to this.
As a result, total assets decreased over the course of the year by 7.1%, from EUR 22.7 billion to EUR 21.1 billion (or by EUR -1.6 billion) in total.

Total assets
in Eur bn



Balances at central banks increased by over EUR 2.0 billion in the 2012 financial year to EUR 2.1 billion. This is primarily due to additional liquid funds from the aforementioned capital measures.
Loans and advances to customers, which also covers funding for the leasing subsidiaries, amounted to EUR 10.4 billion, some EUR 1.4 billion or 16.1% below the level of the previous year (EUR 9.0 billion). This increase is mainly due to the customer portfolios assumed as part of the demerger of Hypo Alpe-Adria-Bank AG. However, at EUR 1.2 billion, the largest effect resulted from the internal transfer of lines of credit from loans and advances to credit institutions caused by internal portfolio transfers in wind-down companies.

The risk provisions for loans and advances to customers increased from EUR 1.3 billion to EUR 1.4 billion in 2012. The increase of EUR 0.1 billion is due on the one hand to the increase in risk provisions for lines of credit for subsidiaries. These are formed particularly in the event of negative equity at subsidiaries in order to provide for all necessary recapitalisation measures. On the other hand, the transfer of the portfolios of the Austrian subsidiary transferred to Hypo-Alpe-Adria-Bank International AG within the scope of the demerger also had an impact here.

Loans and advances to credit institutions fell from EUR 9.1 billion to EUR 4.5 billion in the 2012 financial year, which equates to a reduction of EUR 4.6 billion or 50.8%. This significant decline is predominantly due to the demerger of the subsidiary Hypo Alpe-Adria-Bank AG (Austria), over the course of which previous loans to this credit institution were replaced by the underlying loans and advances to customers from the transferred sub-portfolio. Moreover, 2012 also saw repayments on and buy-back of issued liabilities, which led to a utilisation of liquid funds recognised in 2011 as loans and advances to credit institutions as well as the restructuring of the liquid funds held at the European Central Bank, which are now recognised under cash in hand, balances with other banks due to the non-current nature of the assessment.

Shares in affiliated companies decreased from EUR 2.6 billion to EUR 2.5 billion in the year under review. This overall reduction is due to the impairment write-down on the carrying amounts for participations, which became necessary following the recalculation of the values of the companies as a result of business plans being drawn up for the next five years.

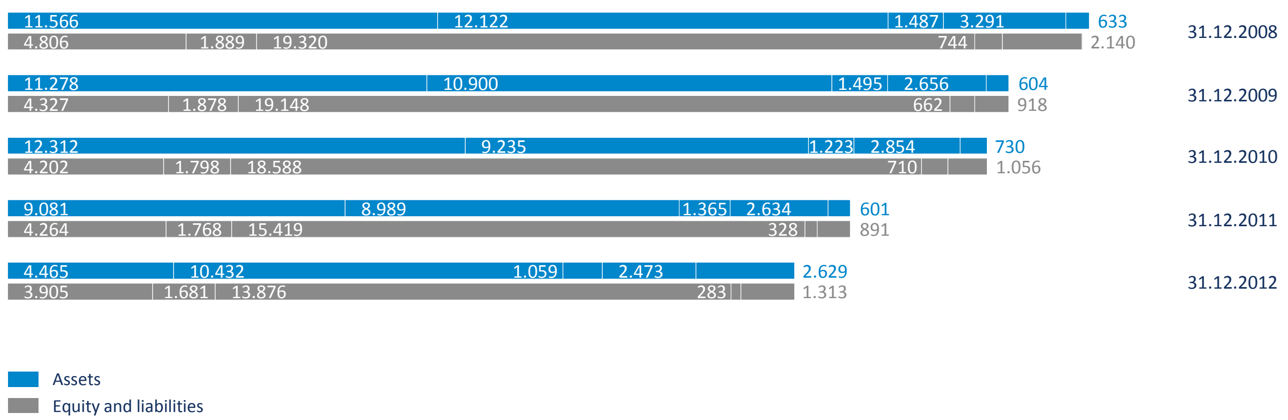
Liabilities to customers and own issues of debt evidenced by certificates amounted to EUR 13.7 billion (2011: EUR 16.1 billion) in the year under review and were thus EUR 2.3 billion below the previous-year levels as a result of the repayment of liabilities. This item therefore accounts for 64.8% of total assets (70.8% in the previous year).

Liabilities to credit institutions were slightly down year on year at EUR 3.9 billion (2011: EUR 4.3 billion).

The increase in subordinate liabilities is mainly due to the issue of the aforementioned EUR 1.0 billion state-guaranteed subordinated bond; the buy-back of one of the hybrid capital bonds recognised under this category in April 2012 had a compensatory effect. The decline in supplementary capital, recognised at approximately EUR 0.2 billion in the previous year, is partly due to this buy-back. The carrying amount of the remaining supplementary capital with a notional value of approximately EUR 0.1 billion was adjusted on the basis of the re-assessment of resulting cash flows in line with the expected repurchase amount.

Equity increased by approximately EUR 0.3 billion from EUR 0.3 billion to EUR 1.2 billion in the 2012 financial year as a result of the capital increase of EUR 0.5 billion carried out by the Republic of Austria. The loss for the financial year had a negative impact on this item.

Balance sheet structure
in EUR m



Balance sheet structure

EUR m

Assets	2012	2011	2010	2009	2008
Loans and advances to credit institutions	4,465	9,081	12,312	11,278	11,566
Loans and advances to customers	10,432	8,989	9,235	10,900	12,122
Fixed income securities, shares and investment funds	1,059	1,365	1,223	1,495	1,487
Shares in associated and affiliated companies	2,473	2,634	2,854	2,656	3,291
Other assets	2,629	601	730	604	633
Total assets	**21,058**	**22,670**	**26,354**	**26,933**	**29,099**

EUR m

Equity and Liabilities	2012	2011	2010	2009	2008
Equity	1,160	891	1,056	918	2,140
Funds for general banking risks	153	0	0	0	200
Liabilities to credit institutions	3,905	4,264	4,202	4,327	4,806
Liabilities to customers	1,681	1,768	1,798	1,878	1,889
Liabilities evidenced by certificates and subordinated capital	13,876	15,419	18,588	19,148	19,320
Other liabilities	283	328	710	662	744
Total assets	**21,058**	**22,670**	**26,354**	**26,933**	**29,099**

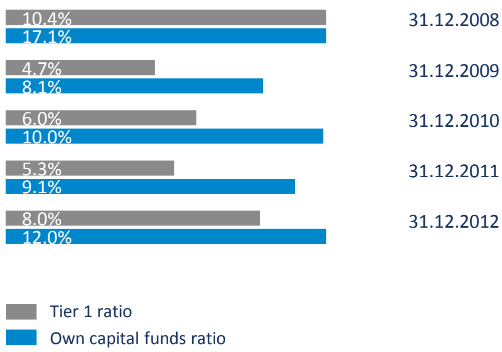
3.2. Own capital funds

Total own capital funds as defined by the Austrian Banking Act (BWG) came to EUR 1,967.0 million as at 31 December 2012 (2011: EUR 1,528.7 million). The legal minimum requirement stood at EUR 1,314.8 million (2011: EUR 1,346.6 million), which corresponds to a surplus of EUR 652.2 million (2011: EUR 182.1 million) or a coverage of 149.6% (2011: 113.5%).

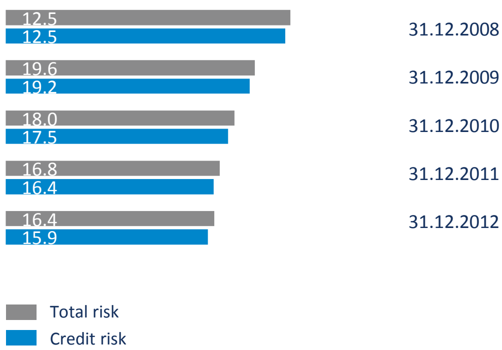
The changes in total own capital funds during the financial year were due to the issue of state-guaranteed subordinated capital (EUR 1.0 billion) and the capital increase carried out in the 2012 financial year, which was partially compensated for by the negative result for the year and the buy-back of supplementary and subordinated capital. The subordinated bond amounting to EUR 1.0 billion did not fully impact own capital funds due to the limited eligibility of 50% of Tier 1 capital in accordance with Basel II regulations. The value of risk-weighted assets (RWA) decreased further in comparison to 31 December 2011, from EUR 16.4 billion to EUR 15.9 billion. This was achieved in spite of counter-effects from the change to risk weighting as a result of country rating downgrades.

The Tier 1 ratio in relation to the banking book (credit risk) amounted to 8.2% as at 31 December 2012 (2011: 5.4%). In relation to the total capital base (including market and operational risk), the Tier 1 ratio was 8.0% as at 31 December 2012 (2011: 5.3%), and the own capital funds ratio (solvency ratio) was 12.0% (2011: 9.1%), i.e. over the legally required minimum level of 8.0% in Austria.

Development of the own capital funds ratio and the Tier 1 ratio
in percent



Total risk/Credit risk
in EUR bn



3.3. Development of results

The results for Hypo Alpe-Adria-Bank International AG in the 2012 financial year were characterised by a renewed increase in the operating result and impairment write-downs relating to participation measurements, which, together with other factors and the loss carry-forward of EUR -164.7 million, led to net accumulated losses of EUR 395.9 million.

Due to the increased interest income resulting from rising interest conditions relating to the refinancing of subsidiaries and the lower interest expense caused by the general drop in interest rates and the premature repayment of lines of credit, interest income increased year on year by EUR 20.0 million to EUR 74.0 million (2011:EUR 54.0 million).

An increase in income from securities and participations by EUR 11.7 million to EUR 95.5 million (2011: 83.9 million) was recorded in 2012. The increase is predominantly the result of a dividend amounting to EUR 43.9 million from a subsidiary paid out in the 2012 financial year, a different year than that of its allocation.

Net fee and commission income, as the net result between fee and commission income (EUR 13.0 million) and expenses (EUR -30.6 million), came to EUR -17.5 million in 2012 (2011: EUR -5.5 million). Aside from the decline in income from the loss of commission expenses due to the direct funding raised by the subsidiaries, increases in commission expenses caused by a settlement reached in the 2012 financial year also played a part in this result.

Other operating income, at EUR 27.5 million, was EUR 27.1 million below the prior-year result of EUR 54.6 million and resulted primarily from the recharging of services to subsidiaries. The sum also contained income of EUR 10.1 million from the scheduled tiering of supplementary capital in the 2011 financial year. Total operating income in the 2012 financial year increased from EUR 185.1 million to EUR 190.7 million, a rise of EUR 5.6 million or 3.0%.

Headcount rose slightly in the 2012 financial year from 586 (annual average in 2011) to 587 (annual average in 2012). As a result, the personnel expenses, at EUR -53.7 million, remained at around the same level as the previous year (EUR -52.4 million), thereby increasing operating expenses for Hypo Alpe-Adria-Bank International AG. The reversal of provisions for bonus payments carried out as a result of the general stop on bonus payments and the partial reversal of restructuring provisions had a positive impact on personnel expenses.

Other overhead costs fell by EUR 45.6 million to EUR -49.2 million in the 2012 financial year. This item includes, among other things, liability expenses of EUR -10.7 million (2011: EUR -30.4 million) in connection with the two government-backed bonds (GGB) and the guarantee liability of the State of Carinthia up to and including 2011. Aside from the loss of expenses for the state guarantee, the decline in this item is primarily due to the significant EUR 25.8-million reduction in legal and consultancy costs.

Other operating expense was, at EUR -19.5 million, significantly lower than in the previous year (2011: EUR -3.8 million). The increase is mainly the result of the allocation of provisions for pending losses of EUR -13.9 million in the financial year relating to a leasing contract underpinning a corporate asset. This item had included material provisions for a possible retrospective classification as non-eligible of the preferential shares issued for EUR 200 million by Hypo Alpe-Adria-Leasing Holding AG (now: Hypo Alpe-Adria-Leasing Holding GmbH). Furthermore, this amount also includes expenses and provisions for fines from the breach of contractual obligations.

In total, the operating result for the bank, like the balance of operating income and operating expense, increased from EUR 33.1 million to EUR 67.2 million in 2012. This equates to a rise of EUR 34.1 million compared to the previous year.

The result on the measurement and disposal of receivables and securities held as current assets came to EUR -15.0 million in the 2012 financial year (2011: EUR 222.6 million). This item included income of EUR 32.3 million (2011: EUR 11.2 million) from the reversal of derivative positions. The reversal of the interest rate hedge came as the result of a detailed analysis and led to a reduction in interest risk. Furthermore, this item also included income of EUR 68.0 million from the impairment write-down of supplementary capital bonds issued by Hypo Alpe-Adria-Bank International AG caused by the measurement of issues with the anticipated repayment amount.

The credit risk provisions necessary for third-party account business increased in the year under review, leading to a net allocation of EUR 47.8 million (2011: net reversal of EUR 88.3 million). The primary cause of this was the extremely difficult macroeconomic climate that led to customers being unable to make repayments on their loans and the remaining NPL (non-performing loans) portfolio only being wound down at a very slow pace.

There were also negative effects totalling EUR -104.3 million (2011: EUR 153.7 million) from the allocation of provisions for lines of credit for subsidiaries that had been set up in connection with the conclusion of capital measures for the subsidiaries. The effects from recapitalisation during the year under review are shown in the result from measurement and disposal of financial investments, participations and interests in affiliated companies.

In contrast to the charges in the 2011 financial year, a positive result was reported in the securities portfolio classified as current assets in the banking book in the 2012 financial year. In total, this amounted to approximately EUR 39.8 million (2011: EUR -11.2 million), the bulk of which arose from the reversal of derivative positions.

The loss on the measurement and disposal of securities and investments in affiliated companies came to EUR -263.9 million in the 2012 financial year (2011: EUR -381.6 million). While charges mainly arose from leasing in the previous year, negative effects relating to leasing investments in the 2012 financial year were seen as moderate at EUR -19.7 million (2011: -199.3 million). In the previous year, capital injections from Hypo Alpe-Adria-Bank International AG to cover the losses in the companies concerned contributed to the negative result.

While there had been a positive result of EUR 6.5 million from the measurement of banking participations in the previous year, these had to be written off by EUR 167.3 million in the 2012 financial year as a result of deterioration in the business plan. A part of this concerned effects resulting from a distribution of dividends to Hypo Alpe-Adria-Bank International AG.

Of the charges relating to the other participation portfolio amounting to EUR -76.5 million (2011: EUR -153.8 million), EUR -62.4 million resulted from the impairment write-down of a holding company under which principally leasing subsidiaries are pooled.

The income generated in connection with banking book securities classified as fixed assets came to EUR 2.7 million and was thus EUR 37.7 million higher than the previous-year amount (2011: EUR -35.0 million). The main reason for the negative result in the previous year was impairment write-downs of EUR -22.6 million necessary on the Greek papers in the portfolio.

Taking into account all the above-mentioned effects, a loss from ordinary activities of EUR -211.7 million was recorded for 2012 (2011: EUR -125.9 million).

As in the previous year, the item extraordinary result, which came to EUR 7.4 million (2011: EUR -16.0 million), includes the expenses for "Forensics", consisting of expenses incurred up until the fourth quarter of 2012 as well as estimates of future costs. The latter include forensic and legal consultancy costs as well as the costs of legal proceedings in the main. Furthermore, effects from the buy-back of hybrid capital in April 2012 (EUR 154.4 million) and the buy-back of supplementary capital carried out in December 2012 (EUR 10.7 million) are also included. At the same time as the buy-back of hybrid capital, funds also recognised under this item were allocated for general bank risks (EUR 153.0 million), which led to an immediate increase in equity.

Income tax expenses for the financial year came to EUR -7.7 million (2011: EUR -7.5 million) and were primarily due to the tax allocations from the domestic tax group and to foreign withholding tax expenses. After taking into account other taxes of EUR -19.2 million, which consists primarily of the banking tax, the net loss for the 2012 financial year was EUR -231.2 million (2011: EUR -164.7 million).

In consideration of the loss carry-forward from the 2011 financial year of EUR -164.7 million, the net accumulated losses of Hypo Alpe-Adria-Bank International AG amounted to EUR -395.9 million in the 2012 financial year, the bulk of which resulted from impairment write-downs on bank participations.

3.4. Earnings ratios

The cost/income ratio as at the balance sheet date stood at 64.7% and was thus 17.4% lower than in the previous year (2011: 82.1%). This is due to increased total operating income and reduced operating expenses. As a result of the annual net loss, return on equity (ROE) and return on assets (ROA) ratios for the 2012 financial year are not meaningful.

4. Analysis of non-financial key performance indicators

4.1. Customer and market development

Customer focus and increase in deposits

In 2012, Hypo Alpe Adria reinforced its position as a reliable and important business partner in its SEE core markets and focused its activities primarily on increasing deposits and ensuring good credit quality. In spite of the ongoing financial crisis, Hypo Alpe Adria was able to increase its customer base by over 6% and now serves over 1.3 million customers.

In its core SEE countries, around 100,000 new customers were acquired, increasing the customer base by 11%, through the systematic implementation of the new customer strategy, the expansion of the branch network and a stronger focus on services. In addition, structural changes – particularly the separation of front and back office, the establishment of central settlement centres and successful product campaigns – helped increase private customer deposits in SEE by some 7% or EUR 200 million. Increases in customer deposits in Slovenia, Croatia and Serbia outweighed overall market growth by a significant margin.

The most substantial increases in deposits of over 20% and over 10% were seen in Montenegro and Serbia respectively, while Croatia also performed well in this respect with growth of just under 10%. Despite a decline in deposits in the market as a whole, Hypo Alpe Adria was able to able to boost its market share in terms of deposits in the corporate client segment by a small margin in Croatia and by over 13% in Serbia, taking overall market share in these countries to 6.4% and 6.0% respectively.

Good credit quality despite difficult climate

In total, a substantial improvement was seen in credit quality in new business while margins remain stable or even increased. For commercial customers and public sector clients, new business efforts were focused on customers with a higher credit rating. More than 60% of new business was concluded as investment grade or upper non-investment grade business. At the same time, margins were increased and risk costs reduced. The substantial increase in the quality of new business and the strategy of consistent risk diversification resulted in a scheduled fall in total corporate lending volume in SEE. Targeted cross-selling and the adjustment of the product portfolio allowed the group to increase its proportion of commission income by some 20% within a single year.

The group's loan/deposit ratio improved again by just under 30 percentage points as a result of the systematic focus on the defined strategy.

Process optimisation, good purchasing management and the consistent orientation of resources toward the market situation were the driving forces behind an almost 14% reduction in total costs in SEE, despite the expansion of the branch network. Costs were cut by a similar margin in Italy and to an even greater extent in Austria.

In Italy, the group's orientation toward retail business brought substantial success; deposits rose by around 15% in spite of ongoing restructuring measures. In Austria, a significant improvement to the result was also achieved.

Further milestones reached

Since nationalisation, the group has addressed many important issues in the Operations and Market division, resulting in state-of-the-art business models and modern operations platforms being established for Hypo Alpe Adria's individual bank subsidiaries. Most relevant projects were successfully wrapped up in the 2012 financial year. These significant improvements to fundamental structures also form the basis for market potential to be seized, even beyond the successful reprivatisation process.

The most significant measures included:

- Needs-oriented sales and product strategy for affluent private customers and corporate customers, including modern sales management.
- A modern branch concept, the fundamental philosophy of which has now also been applied to existing branches.
- The opening of 26 new branches in important strategic locations in 2011 and 2012 while optimising the total number of locations at the same time.
- Systematic focus on customers through the centralisation of non-core sales activities as well as of a service quality programme. Success is verified on a regular basis through market surveys and mystery shoppers.
- The development of new products and sales channels, such as mobile banking in Croatia, the successful "Conto 10" product in Italy and the mobile "Hypo Kiosk" in Slovenia.
- The successful positioning of the group as a partner for public-sector financing and the integrated consulting strategy for corporate customers, such as the EU Desk.
- Focused customer acquisition strategies in close cooperation with target segments defined by the bank's Risk divisions.
- Improvement of profitability by implementing a risk-adjusted pricing approach.
- The successful integration of formerly independent leasing operations into the banks, leading to clearly measurable success in cross-selling.

The Operations/IT division was completely restructured and repositioned as the backbone of successful market activities and the permanent driver of productivity and efficiency. The most important measures were as follows:

- The successful roll-out of a modern IT platform in Bosnia and Herzegovina and an intensive focus on improving the quality of and the intelligent use of data.
- The full restructuring of professional collection centres and a structured, state-of-the-art collection process for private customers. This is making a major contribution to keeping the non-performing portfolio under control. The establishment of highly effective teams for the sale of forfeited collateral (remarketing), which sold 3,575 collaterals worth EUR 56 million, including 78 ships with a total value of EUR 17 million, andreduced the portfolio of forfeited collateral by 37%.
- The establishment of back office service centres, which remove some of the back office workload from the branches, increased the flexibility of resources management and led to more than 25% of costs being saved in the respective area.
- The creation of modern call centres to support sales and ease the workload in branches.
- A brand-new procurement process subject to widespread acclaim from external specialists, saving tens of millions of euros, with potential for more.
- The establishment of a group of highly qualified specialists in property valuation and property monitoring and of a Valuation Academy for ongoing training and quality assurance.
- Systematic reduction of occupancy and building costs, including through the modification of service-level agreements, adjusted rental contracts and the maximisation of spatial capacity.

All of these activities were geared towards Hypo Alpe Adria's strategic goals: Focus on private customer business, increasing deposits, good quality of new business, increasing efficiency and success through quality instead of through price leadership.

The continual improvement process at Hypo Alpe Adria was also subject to widespread acclaim from elsewhere, including awards such as:

- "Investment Management Company of the Year 2012" awarded by Croatian financial magazine "World Finance"
- "Best in Class" for Straight-through Processing from J.P. Morgan
- "Process Award 2012", in the "Supportive Processes" category, awarded by the "Society for Process Management"
- "Recommender" award from the Finanz-Marketing Verband (FMVÖ) in the "Interregional Bank" category
- GFK study confirms above-average customer satisfaction in SEE markets.

Hypo Alpe Adria has repositioned itself as a modern, competitive bank in the areas of Sales and Operations and is on the right track for the next phase of market development. In 2013, the focus will continue to be on intensive cost management and the enhancement of core processes through lean management projects. In Serbia, the roll-out of the new core banking system will be finalised. We will also launch an internet platform for the sale of forfeited securities. In terms of our customers, the service quality programme, the systematic development of our range of products and services for special segments (corporate customers, affluent private customers) and the development of a pragmatic database marketing model will be at the forefront of our activities.

4.2. Developing talent/staff

In terms of human resources management, the 2012 financial year was mainly characterised by cost-reducing measures that were initiated throughout Hypo Alpe Adria in October 2011. Aside from the implementation of staff reduction measures, the necessary recruitment and investment in training measures were subject to strict needs analysis and monitoring processes.

The number of employees at Hypo Alpe-Adria-Bank International AG fell in the 2012 financial year from 615 as at 31 December 2011 to 584 as at 31 December 2012.

Employees
Figures from 2008 to 2012

Performance management
The most important change in the 2012 financial year was the introduction of a software tool for top-level management within the group. This software has increased transparency both for group executives as well as for employees. On the basis of CRD III requirements, the goal management process was enhanced by orienting and harmonising the key priorities at company and group levels with individual goals.

Learning & development
Learning and development activities are focused on management development. Standardised training course programmes are offered for top-level management, middle management and the lower management level. Around 600 managers took part in this training course programme. The main aim was to bring across the strategy to training participants and offer managers the chance to learn how to lead effectively and motivate in times of crisis.

The annual manager conference was also held again in Slovenia. The manager conference is an annual event where the current financial year is discussed at length and plans and strategies for the future are debated together with the top levels of management.

Another of Hypo Alpe Adria's focuses this year was shaping the structure of professional development in critical employee segments. Further training programmes are to be concluded with an exam and/or certification. This is to guarantee that the participants acquire in-depth knowledge and therefore contribute to the enhancement of the company.

The third focus of activities lay in increasing awareness for the prevention of fraud and the organisation of various training courses for employees, at group level and at national level.

Talent management
Promoting motivated and skilled employees is of particular significance at Hypo Alpe Adria. For this reason, a comprehensive talent management programme was implemented in 2012 involving the development of competency models for managers and risk management employees as and when required.
At the same time, selected analysis of employee expertise was carried out (e.g. in assessment centres) in order to pinpoint corresponding further training measures. This process will be continued in 2013 and individual career plans will be taken into consideration.

Employee survey
As in 2011, a comprehensive employee satisfaction survey was also carried out among all bank and leasing units in July 2012. Despite the ongoing restructuring process, more than 2,200 employees once again took part in the survey, which equates to a participation rate of 42%. The results of the survey and the action plans developed as a result were presented to the Supervisory Boards of the relevant institutions. The progress of the implemented measures is regularly monitored by human resources management.

4.3. Corporate Social Responsibility
Hypo Alpe Adria has been concentrating its corporate social responsibility activities under the name "Hypo Pro Futuro" for several years. These activities are mainly focused on targeted charity commitments in SEE countries, Austria and Italy. Social facilities and social institutions form the main focus. Fulfilling Hypo Alpe Adria's corporate social responsibility has become an integrated part of the corporate management process. As a result, Hypo Alpe Adria will in future support and intensify charity projects, particularly in the areas of education, art, health and child welfare in all countries it operates in.

Hypo Alpe Adria is also aware of its responsibility toward the environment. Employees are required to ensure they preserve resources in their day-to-day work. Keeping print-outs, and particularly colour print-outs, to a bare minimum and avoiding unnecessary energy consumption through lighting or air-conditioning units, for instance, are just some of the measures that have been embedded within Hypo Alpe Adria. Moreover, business trips to group countries have also been significantly reduced, with an increasing amount of communication switching to video conference centres.

5. Risk report

5.1. Preamble

Within the context of its function as a holding company, Hypo Alpe-Adria-Bank International AG mainly undertakes group controlling functions. For this reason, most of the measures initiated at holding level are cascaded down into responsibilities or projects within the group. The measures are to a large extent also centrally managed and monitored directly by Hypo Alpe-Adria-Bank International AG.

5.2. Risk strategy, control and monitoring

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

The following central principles apply to the overall controlling process at Hypo Alpe-Adria-Bank International AG:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Minimum Requirements for Risk Management (MaRisk) and the BWG.
- The group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, analysing, measuring, combining, directing and monitoring the different risk types.

Appropriate limits are set and effectively monitored for material risk types. The system for applying limits is currently being enhanced.

5.3. Organisation and Internal Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the group's Chief Risk Officer (CRO), who is a member of the Hypo Alpe Adria Executive Board. This individual acts independently of market and trading units, with a focus on the minimum requirements for risk management (MaRisk) as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty risks; the reorganisation of problem loans; monitoring the credit-granting process; and risk controlling and monitoring of counterparty, market, liquidity and operational risks as well as other risks at portfolio level. The CRO is also responsible for monitoring risk-bearing capacity and directing the risk capital that is required from an economic point of view.

The Risk Office is an integral part of the Group Risk Governance Rules of Hypo Alpe Adria and consists of four pillars. This concept is cascaded – in other words, the four-pillar principle is implemented consistently – both at group and country levels. The respective Country CROs must ensure compliance with the risk principles among all units located in the country (Bank, Leasing, Brush, etc.). The following overview shows the four-pillar management of Hypo Alpe Adria's Risk Office:

The Risk Control pillar includes the following main functions:

- Identifying risks
- Determining risk policy guidelines and limits
- Providing risk methods and models
- Implementing risk analyses, monitoring risks and risk reporting

The Credit Management pillar includes the following main functions:

- Balance sheet analysis and implementing ratings
- Credit monitoring
- Credit support
- Country risk portfolio management
- Analysing and reporting retail risks
- Credit underwriting

The Credit Rehabilitation pillar includes the following main functions:

- Restructuring exposures
- Work-Out exposures
- Loan loss allowance methodology (tool/rules)

The Credit Processing pillar includes the following main functions:

- Loan and securities administration
- Justifying, monitoring and managing securities
- Carrying out back office activities
- Compiling a GoB pursuant to BWG

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 that audits the business activities of Hypo Alpe Adria; in terms of organisation, it reports to the Chairman of the Executive Board and also reports in detail to the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Alpe Adria. This area carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

5.4. Restructuring of internal policies and guidelines for risk management

Hypo Alpe Adria states its group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating. This ensures that the actual and documented processes coincide at all times.

In 2012, the existing regulations were extensively reviewed and the risk units closed any potential gaps in the written policies. Fundamental to this was the revision of Hypo Alpe Adria's operational risk strategy, which was implemented in April 2012. This includes defined risk parameters, risk bearing and limit system requirements as well as rules on risk-oriented capital allocation. Additionally, the guidelines for the appropriate measurement and management as part of the Internal Capital Adequacy Assessment Process (ICAAP) were adjusted. Corresponding risk-specific policies and manuals, such as for market, counterparty, concentration, country, reputation and liquidity risks, were also put into force.

Hypo Alpe Adria has clearly defined responsibilities for all of these risk guidelines, ranging from preparation, review and update to roll-out at the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by instances directly involved in the risk management process. Process-independent responsibility is carried by the Risk Quality Assurance Team and Internal Audit.

Hypo Alpe Adria therefore has fully comprehensive and up-to-date internal risk management guidelines.

5.5. Measures to improve risk controlling and risk monitoring

The following improvements were worked on by the various risk functions within Hypo Alpe-Adria-Bank International AG in 2012.

5.5.1. Basel III – credit risk

Due to the preliminary Basel III standard, there have been several changes with regard to credit risk and equity requirements. The redefinition of certain classes of receivables requires an assessment and/or adjustment of classifications of receivables. National option rights are removed almost entirely to create a "maximum harmonisation approach". New requirements for property-backed receivables are aligned with the regulations of the national regulators.

With regard to the definition of default, defaulted receivables are determined with a standardised approach for each customer (approach based on internal ratings) instead of at account level (standard approach) as before. From a regulatory point of view, this results in a rise in defaulted receivables at Hypo Alpe Adria.

To meet the tough requirements of the new Basel III regulations, a project was launched internally as well as in the general data centre. The technical requirements for the preliminary Basel III standard were implemented. The majority of professional requirements are defined by current legislation and any changes can be implemented at short notice.

5.6. Basel III – liquidity risk and liquidity risk management

The biggest challenge faced by liquidity risk management at the beginning of 2012 was to professionally integrate and implement both the new Basel III liquidity regulations and the requirements of the Liquidity Risk Management Act (Liquiditätsrisikomanagementverordnung – LRMV). The infrastructure for a quality-assured and automated data supply, which had been built up in previous years, provided a solid basis for the task of meeting the additional information requirements. This enabled Hypo Alpe-Adria-Bank International AG to participate in the Quantitative Impact Study (QIS) requested by the regulatory authorities and to send the results calculated for the key figures LCR, NSFR and the monitoring tools to the regulators. Hypo Alpe-Adria-Bank International AG managed to validate and back-test its liquidity forecasts with the help of the infrastructure mentioned above and the respective recording of historic data as well as the application of statistical methods in 2012.

In 2013, Hypo Alpe-Adria-Bank International AG aims to implement the reporting-date-related calculations of the Basel III key figures as well as a forecast calculation while integrating the resulting effects of Basel III in the pre- and post-calculation of products, profit centres and customers. The project for implementing the Basel III liquidity requirements launched in 2011 was expanded to include all of 2013 for this purpose. Another initiative in 2013 will be to implement new instruments and corresponding liquidity risk management reports. These are, for example, applications for daily liquidity monitoring, funding diversification, collateral management as well as up-to-date calculation methods for the funding spread risk.

The achieved targets in 2012 and initiatives in 2013 have resulted, or will result, in Hypo Alpe-Adria-Bank International AG meeting both the qualitative and quantitative requirements of the EBA and OENB/FMA and previously unresolved findings being resolved on the basis of LRMV.

5.6.1. New migration report

A new migration report was developed in the second half of 2012 to improve the monitoring of Hypo International's portfolio. This is another innovation for reducing portfolio deterioration. This report is a central steering instrument for further improving Hypo Alpe Adria's portfolio in 2013.

This report shows the migration dynamics within performing, watch and non-performing loans. It also depicts the development of new business and outflows (repayments, use, repossessions, etc.). This report is available to the whole banks and all segments. If required, details can be traced right down to customer/account level.

This steering report is prepared monthly and discussed regularly. All relevant migrations toward deterioration must be explained by the responsible units. In addition, suitable preventive measures have to be developed and implemented. To prevent the direct migration from performing loans to non-performing loans, monitoring activities will be further increased and tightened in 2013.

5.6.2. Ongoing evaluation of real estate collateral and other collaterals

The "Collateral Management Policy" and the "Collateral & Collateral Monitoring Manual" stipulate the management of all collaterals at Hypo International. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas minimum standards and maximum securitisation values may only be deviated from if the stated values are stricter than the original ones. All guidelines are updated once a year.

The foundations of collaterals management, which is implemented by its own department within "Group Credit Processing", are built on the data collection of all collaterals by the system by allocating a reference number to each collateral. This reference number is alphanumerical and is called "GSI" (Group Collateral ID) or "DSI" (Detailed Collateral ID). All "GSI/DSI" are checked once a month.

The ongoing update of the appraisals on which the market values are based as stipulated in the Solvency Regulations (SolvaV) – every three years for "RRE" and once a year for "CRE" – applies to the whole group. As at 31 December 2012, 99% of all collaterals were up to date.

All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate is evaluated with the help of a valuation tool. A group-wide "collateral workflow" for commercial real estate worth more than EUR 1.0 million has been implemented. It ensures that the required process is maintained, which, in turn, ensures that all data is up to date. All evaluations are requested on the part of the market three months before revaluations are due. The specifically assigned evaluation unit – Commercial Real Estate Management ("CREM") – carries out the revaluations/new valuations and transfers the results to the employees who maintain collaterals in the collaterals systems. The CREM has trained employees (41 in total) who all went through the "Valuation Academy". The appraisals are prepared on the basis of a precisely defined, conservative methodology that is stipulated as a binding rule in the "HAA Real Estate Valuation Standards" and the "HAA Collateral Valuation DB Manual".

Main focus has been placed on updating the market values in the past two years.

The reduction in market value reflects the current market situation in the countries in which Hypo Alpe-Adria-Bank International AG operates. The valuation rules ensure that the determined market values can be achieved in the case of actual liquidation scenarios. The market values are not expected to change significantly during the 2013 financial year, as the current values are up to date and reflect the market.

The manuals mentioned above, especially the "Collateral & Collateral Monitoring Manual", also stipulate the haircuts of market values underlying the securitisation values (Internal Collateral Value – "ICV"). The reductions are binding for all collaterals recognised by the group and have conservatively high haircuts.

All in all, the realised recoverable amount of the liquidated real estate in the period from 2011 to 2012 corresponded to at least the market value. However, as the number of sales does not allow for a sufficient amount for a validation of the haircuts stipulated in the manual, these conservative values will continue to be recognised in 2013. This shows a clear trend toward the used market values actually being recoverable in the case of liquidation.

The market values of all real estate with a market value of less than EUR 1 million are determined with a statistically validated electronic valuation tool. The "TnT" project further develops this statistical tool. It creates a local automated connection between the collaterals databases and the evaluation databases. The values determined by statistical methods are updated monthly, and the documented indices are adjusted every six months due to the collective nature of the data stored in the evaluation databases and external market information. This new tool is being implemented in the first quarter of 2013.

5.6.3. New rating procedures

In 2012, Hypo Alpe-Adria-Bank International AG rounded off the rating landscape by introducing new rating tools for banks, insurance companies, states and regional administrative bodies. The bank now has all rating systems required for accurately assessing the credit ratings of all customer groups in all business segments. Hypo International employs the following rating tools: corporate, small and medium enterprises, retail behaviour rating, expert, support, start-up, project finance, commercial real estate, municipalities, countries, insurances, banks and scorecards for private customers.

The procedures comply with the standards stipulated by the regulatory authorities, and the central data management system guarantees that data is updated on a daily basis.

The rating procedures developed in-house had been initially validated during development and will be tied into a continuous validation process in 2013. The validation covers both quantitative and qualitative analyses. It integrates the rating factors, selectivity and calibration of the procedure, data quality and the design of the model using statistical and qualitative analyses as well as user feedback.

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

All rating methods were implemented on a central web-based platform that can be accessed from all locations within the Hypo group. All rating information is stored centrally and is available on a daily basis. This provides a distinct advantage and is a main success factor for controlling and ensuring the quality of all processes requiring rating information.

Apart from the considerably improved risk assessment afforded by the newly validated processes, a higher level of rating penetration and data quality is achieved through the central availability of data and consistent reporting.

Almost the entire existing portfolio has since been re-rated with the corresponding new methods for all segments.

The back office is responsible for ensuring that the ratings are complete and of the required quality. Risk Controlling uses standardised reporting for regularly monitoring the quality of the ratings in the portfolios and informs the Executive Board on a monthly basis.

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

The loss given default (LGD) and credit conversion factor (CCF) estimated as part of a project in 2011 were implemented in the risk management system in 2012. To improve the estimation process further, the bank is advancing the collection and documentation of all events of default. This includes a standardised recording of all recovery data and all costs connected with the liquidation and restructuring process.

Together with the data that has already been gathered, all newly collected recovery information is used for improving estimates and validating the existing LGDs and CCFs. The continuous improvement of LGD and CCF estimates will significantly improve the bank's overall processes, especially in terms of pricing and the calculation of risk bearing capacities.

As in the case of rating methods, a standardised reporting will be implemented for the WebFER system in 2013 in order to provide comprehensive tracking of all recovery information for all new events of default.

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

The standardised management process for handling impairment write-downs in the group was developed further in 2012. The respective group-wide standardised processes (determining, approving and reporting impairments) were further detailed and specified.

Based on the IFRS loan loss allowance tool already in use throughout the group, an IT-based tool has been developed for calculating impairments pursuant to IFRS. It has been used successfully at Hypo Alpe-Adria-Bank International AG since mid-2012. The IT-based tool is based on the calculation logic already implemented and will deliver significant improvements in the areas of automation, documentation and reporting, among other benefits.

In summary, Hypo Alpe-Adria-Bank International AG already has a consistent and IFRS-compliant system for calculating loan loss allowances pursuant to IFRS in use throughout the group, and its data management will be continuously improved with the new SRP tool. Corresponding successful liquidations in 2012 have confirmed its reliability in use – with realistic estimates of future cash flows being an important factor.

5.6.6. Launch of KOOB Release v4

The further development of the group liabilities calculation tool started at the end of 2012 as part of the quality assurance concept. Main focus was placed on standardising data supplies, centralising and assuring the quality of KOOB maintenance.

One of the main objectives of the project was to migrate the KOOB v3 application to the new IT platform PAAS (Platform as a Service). Improvements based on the new technological possibilities of the new platform were also part of the project. The KOOB application is used within the entire Hypo network and at all subsidiaries. The new application includes numerous small improvements to the existing presentation – such as GoB overview metacustomer matching methods, real-time interface with the metacustomer matching tool and new information – can now also be viewed in KOOB v4. Additionally, the counter for days in arrears, flagging information and GoB manager can be accessed.

The project further included the limit management application, in which the approved limits and partial limits for all financial institutions are displayed.

Further improvement potential is being developed on an ongoing basis, and a KOOB v5 follow-up project is in the pipeline for 2013.

5.6.7. Funds Transfer Pricing – integration of liquidation costs

The concept for the European Banking Authority (EBA) directive "Liquidity Cost and Benefit Allocation" was developed in cooperation with an external consultant in 2012. The professional concept comprises the integration of the direct and indirect liquidity costs in the existing Funds Transfer Pricing project. The implementation of this concept is being developed in 2013 in collaboration with the responsible departments: Group Financial Controlling, Group Balance Sheet Management & Treasury and Group Market Risk Control.

5.6.8. Collateral Management project

By implementing the "Cash Collateral Management für Derivate in PMS/PMX" (Cash Collateral Management for derivatives in PMS/PMX) project, Hypo Alpe-Adria-Bank International AG has created an adequate system support for its system landscape and a quality-assured database for optimising the cash collateral process for derivatives. Hypo Alpe-Adria-Bank International AG managed cash collaterals of 27 counterparties on a daily or weekly basis as at 31 December 2012. The implementation of this project reduces the operational risk, improves data management and at the same time creates the basis for setting up interfaces for further processing in a central data warehouse. This ensures that the cash collaterals are available at assured quality for inclusion in the counterparty limits and/or equity.

5.6.9. Credit Spread project

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

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

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

Key milestones, such as the improvement of the quality of credit-spread-relevant market and partner data as well as the integration of the credit-spread and liquidity-spread effect in instrument pricing and the value-at-risk calculation, are already being used in daily operations. The implementation of the functionality of the remaining milestones in the group-wide portfolio and risk management system, and therefore the completion of the entire project, is planned for the first half of 2013.

5.7. Credit risk (counterparty default risk)

5.7.1. Definition

In terms of scale, credit risks constitute the most significant risks for Hypo Alpe-Adria-Bank International AG. These 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 collaterals, reduced by the recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfillment risks from trading transactions.

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

5.7.2. General requirements

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

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

The Credit Committee is a permanent institution of Hypo Alpe-Adria-Bank International AG 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.

5.7.3. Risk measurement

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

As described in section 5.4.4, Hypo Alpe-Adria-Bank International AG uses a rating method developed in-house. Until the end of 2011, Hypo Alpe Adria also used modules from "RSU Rating Service Unit GmbH & Co. KG", which conform to the requirements of the internal rating based approach (IRBA).

5.7.4. Risk limitation

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

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

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

At portfolio level, there are country limits to prevent the formation of risk 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 risk concentrations.

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

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

5.7.5. Portfolio overview – credit risk

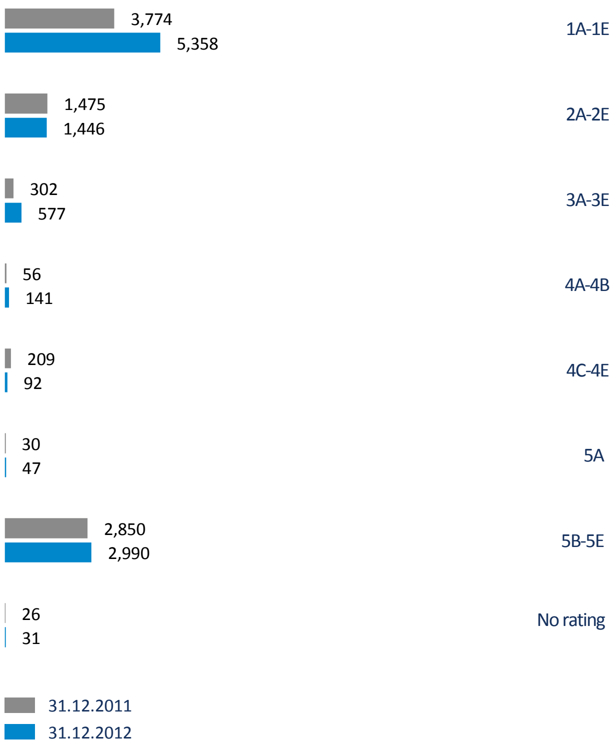
In economic risk controlling, the fair value of an asset is used for the calculation of the relevant exposure. For accounting purposes, exposure is calculated on the basis of carrying amounts. As a result, the figures are not directly comparable and require reconciliation.

In all credit risk overviews, all loans and advances from Hypo Alpe-Adria-Bank International AG that are part of the UGB scope of consolidation have been excluded. As a result, no funding lines for the banking and leasing units are shown, for example.

Exposure by rating class in Hypo Alpe-Adria-Bank International AG

Around 64% of the exposure is categorised as rating classes 1A to 2E. This rise is primarily due to the increase in the liquidity reserve at the national bank and the inclusion of the demerger portfolio of HYPO ALPE-ADRIA-BANK AG.

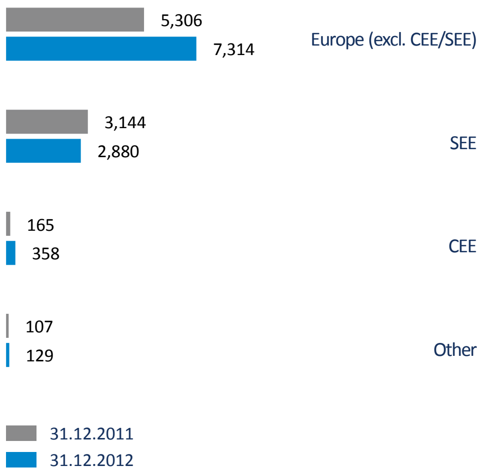
Exposure by rating class
in EUR m



Exposure by region in Hypo Alpe-Adria-Bank International AG

The country portfolio of Hypo Alpe-Adria-Bank International AG is concentrated on the EU and SEE regions. There was, essentially, a reduction in exposure in each country/region. The decrease corresponds to the wind-down strategy of Hypo Alpe-Adria-Bank International AG.

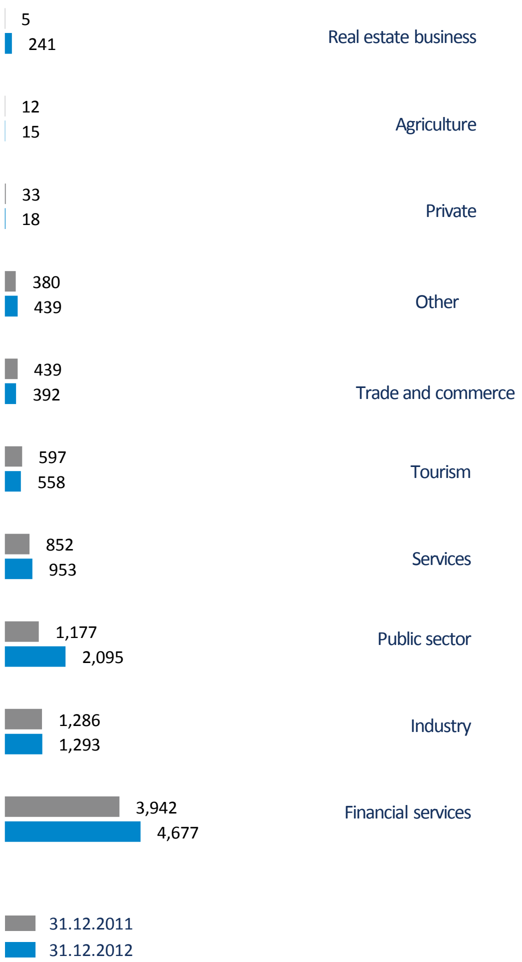
Exposure by region
in EUR m



Exposure by business sector in Hypo Alpe-Adria-Bank International AG

A uniform classification code (NACE Code 2.0) is used in Hypo Alpe-Adria-Bank International AG for the economic control and strategic focus of industry exposure. This code is mapped into ten industry sectors for reporting purposes. Here, the lower-risk industry groups – credit institutions and the public sector – account for a share of 63.4%. The well-diversified private clients sector has a share of 0.17%. Sector-related concentration risks have arisen in the real estate and tourism sectors. These risks are being reduced in a targeted manner by the Group Task Force founded in 2010.

Exposure by business sector
in EUR m



Exposure by sector and region

When looking at the industry and region, the majority of financial services providers clearly comes from Europe (excluding CEE/SEE). These are primarily large banks with which Hypo Alpe-Adria-Bank International AG has built up good business relationships over many years. The figures relate to the customer's official home country.

The corporate business is mainly focused on Hypo Alpe-Adria-Bank International AG's core countries in SEE.

Business sector

in EUR m

Business sector	Europe (excl. CEE/SEE)	SEE	CEE	Other	Total
Services	309	520	75	49	953
Financial services	4,549	61	42	24	4,677
Trade and commerce	66	314	0	12	392
Industry	269	1,013	10	0	1,293
Agriculture	0	8	7	0	15
Public sector	1,645	230	207	13	2,095
Private	4	15	0	0	18
Real estate business	225	6	10	0	241
Other	220	181	6	32	439
Tourism	26	533	0	0	558
Total	**7,314**	**2,880**	**358**	**129**	**10,681**

Presentation of the exposure by size classes

Around 91.17% of the exposure is found in the size range <=EUR 10 million.

The bank is pursuing a strict strategy of reducing concentration risk in the corporate banking area.

A majority is allocable to banks and or the public sector. These transactions are necessary for securing liquidity, long-term investments and for hedge transactions. The presentation is based on the group of affiliated clients. To provide for an easier comparison with 2011, the figures were adjusted retrospectively.

Size classes

in EUR m

Size classes	31.12.2011	31.12.2012
< 10,000	1.2	1.2
10–20,000	0.2	0.1
20–50,000	0.6	0.6
50–100,000	0.6	1.6
100–250,000	5.0	5.4
250–500,000	9.5	9.6
500–1,000,000	17.6	31.3
1,000–3,500,000	197.9	239.9
3,500–10,000,000	531.3	653.0
> 10,000,000	7,958.7	9,738.7
Total	**8,722.5**	**10,681.5**

5.7.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:

Rating class

in EUR m

Rating class	Exposure	31.12.2012 Collateral	Exposure	31.12.2011 Collateral
1A–1E	5,358	811	3,774	220
2A–2E	1,446	884	1,475	254
3A–3E	574	414	299	119
4A–4B	111	47	51	39
4C–4E	88	31	208	73
No rating	31	1	26	0
Total	**7,608**	**2,188**	**5,833**	**706**

Financial assets that are overdue, but not impaired:*

Classes of loans and advances

in EUR m

Classes of loans and advances	Exposure	31.12.2012 Collateral	Exposure	31.12.2011 Collateral
Financial assets	**7**	**0**	**13**	**0**
–181 to 365 days	7	0	13	0
– over 1 year	0	0	0	0
Loans and advances to credit institutions	**2**	**0**	**0**	**0**
– overdue to 30 days	0	0	0	0
– overdue 31 to 60 days	0	0	0	0
– overdue 61 to 90 days	0	0	0	0
– overdue 91 to 180 days	1	0	0	0
– overdue 181 to 365 days	1	0	0	0
– overdue over 1 year	0	0	0	0
Loans and advances to customers	**893**	**546**	**1,066**	**488**
– overdue to 30 days	37	25	0	0
– overdue 31 to 60 days	0	0	1	1
– overdue 61 to 90 days	0	0	4	4
– overdue 91 to 180 days	45	31	18	13
– overdue 181 to 365 days	811	490	1,028	455
– overdue over 1 year	0	0	16	15
Total	**901**	**546**	**1,080**	**488**

* For technical reasons, all customers in the restructuring class (5C) are shown as overdue > 90 days. If looking only at the days overdue without over-regulation through the rating, the following changes occurred in 2012: overdue receivables would decrease by around EUR 157.1 million and receivables not overdue would increase by the same amount. EUR 744.1 million of the exposures would therefore have been overdue and EUR 7,765.1 million not overdue at the end of 2012.

Impaired financial assets:

in EUR m

		31.12.2012	31.12.2011
Financial assets	Exposure	0	0
	Provisions	0	0
	Collateral	0	0
Loans and advances to credit institutions	Exposure	2	13
	Provisions	2	13
	Collateral	0	0
Loans and advances to customers	Exposure	2,170	1,797
	Provisions	1,137	1,070
	Collateral	652	503
Total exposure		**2,172**	**1,810**
Total loan loss allowances (incl. provisions for risks from the lending business)		**1,139**	**1,083**
Total collateral		**652**	**503**

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 0 million in 2012.

Liquidated collateral

In the 2012 financial year, collateral amounting to around EUR 0 million was liquidated (bail-out purchases).

5.8. Participation risk

5.8.1. 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).

5.8.2. General requirements

Prior to 2009, Hypo Alpe Adria (or a subsidiary) had invested in companies that either served to expand its business spectrum, provide services for the bank or function as purely financial holdings to achieve its business objectives. The year 2012 was characterised by the ongoing restructuring measures at Hypo Alpe-Adria-Bank International AG leading to portfolio rationalisation and 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 that 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-Bank International AG and at its strategic or non-strategic shareholdings across the group, as well as to describe the investment process, steering and reporting in more detail.

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

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

5.8.3. Risk measurement
Hypo Alpe Adria uses the PD/LGD approach pursuant to section 72 SolvaV for measuring the participation risk for the ICAAP.

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

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

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

5.9. Country risk

5.9.1. 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.

5.9.2. General requirements
As part of its business activities, and in pursuit of its long-term strategy, Hypo Alpe-Adria-Bank International AG knowingly assumes country risks that are limited in size.

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

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

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 estimated internally. 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.

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

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

5.9.5. Risk control and monitoring
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis and reports breaches directly to the Executive Board as part of regular

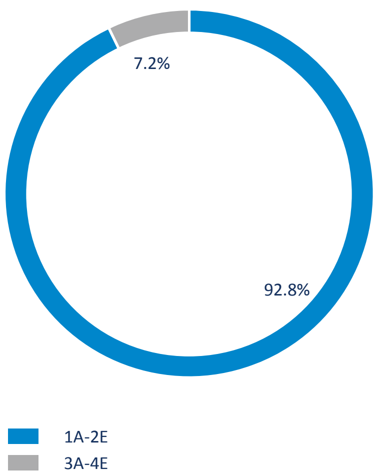
country limit utilisation reporting. Ad hoc reports (e.g. GIIPS) are also prepared as required.

5.9.6. Portfolio overview – country risk

Exposure country rating breakdown

The share of exposure in countries with investment-grade ratings amounts to 92.8%. Consequently, some EUR 0.766 billion of exposure was in countries with a non-investment grade rating at the end of 2012.

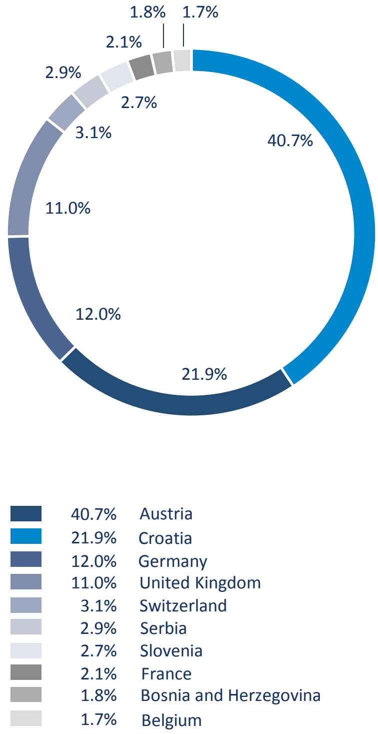
Exposure – country rating breakdown
in percent



Top ten countries by exposure

The top ten countries account for 87.7% of total volume, with Austria and Croatia accounting for the largest share.

Top 10 countries by exposure
in percent



5.9.7. Core Hypo Alpe-Adria-Bank International AG country portfolios

Hypo Alpe-Adria-Bank International AG's activities in the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) are kept to a minimum. The only exception is Italy, where the group supports and funds a subsidiary, Hypo Alpe-Adria-Bank Italy. The country limits for all the GIIPS states are currently frozen at Hypo Alpe-Adria-Bank International AG. An exception is made for Italy where transactions within Hypo Alpe Adria may continue to be carried out.

As the SEE region is Hypo Alpe-Adria-Bank International AG's core market –Hypo Alpe-Adria-Bank International AG is present primarily in Croatia, Serbia, Montenegro, and Bosnia and Herzegovina through its subsidiaries – the group is monitoring economic developments in these countries and the forecasts for their economies for 2013 even more closely. This is being done through close monitoring by the subsidiaries involved and through the group holding company, so that they can react swiftly to changes in market conditions.

It can be stated for all SEE country markets that the original economic growth forecasts for 2013 have to be withdrawn, not least because of the countries' strong foreign economic ties with the eurozone, which continues to be the focus of the sovereign debt crisis. At the time of writing, the assumptions are for a 1.4% drop in GDP for this region in 2013. However, Hypo Alpe-Adria-Bank International AG expects growth of 0.6% in 2014.

As extensively discussed, Serbia (close economic connections with Greece) and Bosnia and Herzegovina are particularly affected by high unemployment, which will not reduce in 2013. Croatia's accession to the EU as of 1 July should also have a positive economic effect in the future.

In summary, it can be said that the economies of the SEE country markets will experience a slowdown in 2013, representing an increased challenge to Hypo Alpe-Adria-Bank International AG in the current year. The group will address this challenge with stringent monitoring of customer accounts and portfolios, and renewed efforts in processing collections and non-performing loans, with the result that assets requiring liquidation will be sold in such a way as to preserve value, even in this difficult market environment.

Side-note: GIIPS

The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and banks.

in EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Greece	State and central bank	**0.0**	**5.9**
	Regions and municipalities	0.0	0.0
	Banks	0.0	0.0
	Total	**0.0**	**5.9**
Ireland	State and central bank	**0.0**	**0.0**
	Regions and municipalities	0.0	0.0
	Banks	58.3	49.2
	Total	**58.3**	**49.2**
Italy	**State and central bank**	**46.7**	**33.3**
	Regions and municipalities	30.4	24.8
	Banks	42.6	49.2
	Total	**119.7**	**107.3**
Portugal	**State and central bank**	**0.0**	**0.0**
	Regions and municipalities	20.0	10.0
	Banks	14.9	10.5
	Total	**34.9**	**20.5**
Spain	**State and central bank**	**0.0**	**0.0**
	Regions and municipalities	50.2	90.5
	Banks	10.2	28.4
	Total	**60.5**	**118.9**
Total		**273.5**	**301.7**

Greece:

Hypo Alpe-Adria-Bank International AG has no exposure to Greece.

Italy:

After the adoption of a drastic austerity programme with a total volume of EUR 33 billion, the Monti government created an extensive growth programme in January 2012 consisting of liberalisation measures as well as reforms to social welfare and the employment market ("Italian growth package"). It was designed to boost GDP growth by an additional 1.5% per year. Greater attention will also be paid to concerted efforts to combat tax evasion, also intended to give the economy new impetus. At the beginning of April, it was announced that Italy's deficit for 2011 had fallen to 3.8% of GDP (2010: 4.8%), while tax revenues had risen by 1.9%.

The liberalisation and growth measures adopted are expected to give the Italian economy up to an additional 5% in growth by 2020; the government is expected to present a balanced budget in 2014. The Senate also adopted the introduction of a debt ceiling into the constitution. Public sector debts owed to private companies will also be paid off gradually. The Senate passed the controversial employment market reforms, such as relaxing the rules on employment protection, at the end of May.

Italy remains in recession, the pressure of which is driving unemployment, despite a number of positive aspects. For a number of years now, Italy has benefited from a primary surplus and relatively low levels of private household debt.

At the beginning of July, Monti announced plans to further intensify austerity measures, including a EUR 26 billion cut in public administration by 2014 and a VAT rise from 1 June 2013. Italy was backed in this by the European Commission.

The European Commission directed massive criticism at Moody's downgrading of Italy's creditworthiness rating from A3 to Baa2; at the same time, Fitch confirmed its A-rating. The above-mentioned austerity programme was approved by the Italian Parliament in August. This programme included additional privatisations as well as reinforced debt relief and a stepping up of anti-tax evasion, anti-money laundering and anti-corruption measures. Tax revenues in the first half of 2012 rose by 2.08%, mainly due to a new real estate tax.

At the end of September, the Italian government was forced to revise deficit goals for 2012 and 2013 in light of the continuing recession. However, Italy is likely to emerge from recession in 2013; measures taken to promote competitiveness will see GDP rise by 4% in the coming ten years. The bond market also relaxed again, something that continued over the course of the year.

Monti was optimistic that Italy would turn its economy around in 2013. An anti-corruption law was passed, together with a surprising drop in income tax for low earners. On a positive note, tax revenue rose by 2.9% in the first ten months of 2012.

December was dominated by Berlusconi's reappearance on the political stage; his party, the PdL (People of Freedom), withdrew its parliamentary support of Monti's government at the time when this was trying to implement the 2013 stability law (to further consolidate spending cuts). The EU has repeatedly stated that the continuation of the reforms is extraordinarily important to both Italy and the monetary union and that the country must stay on a "path of stability and reform" (Barroso).

The situation on the bond market calmed after a short hold (lowest interest rates since October 2010); according to rating agency Moody's, the political crisis in Italy has had very little impact on the country's credit rating. Fitch also recently confirmed its A- rating in light of the progress made in budget consolidation and the structural reforms. Italy also only faces low risks from the banking sector and has a diverse economy and moderate private household debt.

Prime Minister Monti stepped down on 21 December 2012 after parliament had approved the 2013 budget. He then stressed that regardless of the outcome of the parliamentary elections at the end of February 2013, the next government must continue to implement the planned reforms. Italy seems to have overcome the most acute phase of the debt crisis without needing to have recourse to international aid. At the end of December, Monti announced that he would lead a coalition of centrist parties and a civic movement, and that he aims to hold a majority in parliament. He plans to make profound changes to Italy's business and political worlds by implementing an ambitious reform agenda (the Monti agenda).

The first 2013 bond auction proved positive; Italy's yield fell to its lowest since November 2010 (interest rates on the ten-year government bond dropped to 4.164%).

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

Ireland:

After being granted EUR 85 billion in aid from the EU and the IMF in November 2010 (as a result of the burst housing bubble and the collapse of an inflated financial sector), Ireland succeeded in 2011 in meeting all budgetary targets set thanks to a rigorous austerity programme.

The year 2012 was characterised by a marked decline in risk premiums for government bonds to a sustainable level as well as a rise in the current account surplus. The "Troika" repeatedly stated that the country was on course with its cutbacks, saying that it was "setting an example" for the other GIIPS. In a referendum held at the beginning of June, 60% voted yes to the fiscal pact, which calls for the introduction of a debt ceiling and continued savings.

The IMF's audit at the end of the year was very positive, attesting that Ireland's budget for 2013 included a combination of sustained levels of additional income and lower expenses of 2% of GDP. These measures are also expected to suffice to increase growth to 2% by 2014. The European Commission also forecasts that Ireland's economic growth will double to 1.1% in 2013 and to 2.2% in 2014.

Ireland decreased its budget deficit to less than 8% of GDP and exceeded fiscal targets by 0.7%. Another positive note is the fact that the service sector posted its greatest increase in five years, while industry generated growth for nine straight months. In any case, the Irish economy has a flexible, business-friendly and competitive economic structure with a strong focus on exports. Ireland plans to emerge from the rescue mechanism as scheduled at the end of 2013, thereby obtaining all of its refinancing on the capital market. Ireland successfully placed its first new bonds (that mature in 2017) of EUR 2.5 billion with investors at the beginning of 2013.

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

Portugal:

At the beginning of 2012, it was announced that Portugal was making progress with the rehabilitation of its state finances (including a strict austerity programme and an extensive privatisation programme), raising in excess of 10% more taxes than planned.

Over the course of the year, Portugal found success time and again in obtaining refinancing on the bond market – and declining yields – and the "Troika" repeatedly confirmed that the country's attempts to rehabilitate its state finances "were on track" (budget deficit in 2011 was 4.2%, significantly exceeding the target of 5.9%).

The European Commission's plans envision Portugal being completely dependent on the markets to provide it with financing from 2014 onwards. The IMF is just as positive with regards to the government's course, cutting the public spending deficit by 47% in the first half of the year. Exports also did well, rising by 4.5%, and tourism levels increased.

Portugal was the first EU member state to ratify the fiscal pact negotiated by the EU heads of state and government at the end of March, which calls for stricter budget discipline and a mandatory debt ceiling.

In light of the continued recession (high unemployment and therefore lower tax revenues), the country's international funding providers gave it more time at the beginning of September to rehabilitate its state finances. The target deficit for 2012 was increased from 4.5% to 5%, with the aim of reaching 3% of economic output as set by the Maastricht Treaty in 2014. GDP is expected to grow again in the same year – by 0.8%. Portugal launched a successful bond swap, which reduced financing needs for 2014 by around one-third (swapping bonds that mature in September 2013 and have an interest rate coupon of 5.45% with bonds that mature in October 2015 and have a coupon of 3.35%).

As part of the agreements with international funding providers, the Portuguese Parliament recently adopted a controversial austerity programme (of EUR 5.3 billion) for 2013. The privatisations of airports and electricity providers were successful, allowing the country to generate more income than originally planned. At the end of the year, the IMF attested that the Portuguese Government had made new significant progress in the implementation of austerity and reform programmes, designed to help create jobs and stimulate the economy.

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

Spain:

Spain remains locked in recession despite the radical austerity and structural measures implemented by the government under Prime Minister Rajoy. The fourth austerity package was passed in July 2012, designed to save EUR 150 billion by 2014. As the government possesses an absolute majority, it has thus far been able to force through unpopular measures, in spite of protests (such as cuts to unemployment benefits, reductions in health and cultural spending, raising the effective retirement age, opening up the archaic labour market, increasing VAT). Spain is still struggling with the effects of the real estate and banking crisis (further increase in non-performing loans); the economy is also impacted by high unemployment and high levels of private household debt.

The programme approved by the euro partners in July to find EUR 100 billion to recapitalise Spanish banks (including Bankia) resulted in the country receiving EUR 39.5 billion from the ESM in December via the FROB (government bank bail-out fund); the programme also called for Spain's banking sector to shrink.

On the upside, both the trade and the current account deficits were down significantly as against 2011, while exports rose by a considerable 4.8% in the summer. There are also signs that Spanish competitiveness is on the rise. Compared to other countries, Spanish unit labour costs have fallen by 4.4% since 2008. Cutting social security contributions while increasing VAT is designed to increase the competitiveness of Spanish products. The labour market also gave a positive signal for the first time in a long time at the end of the year: unemployment drop by 1.2% as against the previous month. Tourism to Spain hit a new high in 2012 with almost 59 million visitors, up 2.9%, who pumped EUR 34.5 billion into the economy.

The bond market also eased considerably at the end of the year with a significant drop in interest rates: the yield on ten-year government bonds was approximately 5%, down from 7.5% in July. This trend continued at the first bond auction of 2013, allowing Spain to raise much more capital (EUR 5.8 billion) than expected at favourable terms and conditions (oversubscribed 2.8 times).

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

Side-note: Croatia, Hungary, Slovenia and Cyprus

Croatia:

The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and banks.

in EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Croatia	State and central bank	40.0	0.0
	Regions and municipalities	1.0	0.0
	Banks	0.0	0.0
	Total	**41.0**	**0.0**

The accession of Croatia to the EU in July 2013 will improve growth prospects by giving the country access to EU subsidies and a common market. Economic conditions are expected to improve slightly in the second half of 2013: Rating agency Fitch forecasts GDP growth of 0.3% for 2013 and 1.3% for 2014. According to the Croatian central bank, the HNB, unemployment will rise to some 15.2% in 2013, while inflation may fall to 3.2%. The Croatian government will continue to implement structural reforms and make savings at government departments and agencies. Finance Minister Slavko Linic has stated that this will not incur any new tax expenses, pointing out the necessity of a real estate tax to be introduced next spring. Salaries and pensions are not expected to be cut. The government hopes that cutting VAT for food and drink in restaurants from 25% to 10% will lead to greater tourism investments, price cuts within the sector and more jobs. Tourism is one of the country's most important industries. At 58.9 million overnight stays, an increase of 5.6%, the summer of 2012 was the country's best-ever tourist season.

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

Hungary:

The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and banks.

in EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Hungary	State and central bank	25.6	19.0
	Regions and municipalities	0.0	0.0
	Banks	20.0	14.2
	Total	**45.6**	**33.2**

The Hungarian government signalised that it was willing to compromise on the legislative amendments demanded by the EU following the breakdown of negotiations regarding further funding aid from the IMF and the European Commission – mainly due to increased government control of the Hungarian central bank and the coming into force of the new constitution at the beginning of 2012.

On 17 January 2012, the European Commission opened three infringement proceedings against Hungary, as it feared that the independence of the Hungarian central bank, the data protection authority and judiciary from the Hungarian government could no longer be guaranteed following the legislative amendments introduced on 1 January 2012. Prime Minister Orban then assured the EU that the country would fix any problems; he drew attention to the fact that the country had its first-ever stable budget and positive trade balance. Orban also stated that he would do without the disputed consolidation of the central bank and the financial market regulatory body.

In mid-February, the Hungarian parliament resolved to accede to the EU's budget pact, which provides for the monitoring of budgetary discipline. After the European Commission froze EUR 495 million in subsidies from the Cohesion Fund for 2013 because Brussels did not believe that the country was doing enough to control the deficit, Hungary claimed that it was prepared to implement the recommended corrections to the budget.

At the beginning of May, China granted Hungary a development loan of EUR 1 billion; Hungary also signed six bilateral trade agreements.

Following a preliminary resolution to the dispute regarding the independence of the central bank, the European Commission formally lifted the blockade preventing the payment of subsidies and confirmed that the country had made progress in reducing its deficit. The Hungarian Parliament also resolved other requested amendments relating to the central bank at the beginning of July, resulting in the official discontinuation of proceeding brought by the EU for infringement of EU agreements.

Negotiations were started in July with the IMF and the EU for a new credit line. This resulted in a significant drop in Hungarian refinancing costs on the bond market and strengthened the Hungarian forint.

New differences with lenders led to the introduction of a transaction tax, a planned amendment to the rules governing elections as well as tax cuts, lower pensions, subventions and less red tape, all of which were demanded by the EU and the IMF.

The fourth quarter was marked by even more disagreements with the EU concerning, among other things, the banking levy; infringement proceedings were also instituted at the European Court of Justice with regard to the special telecom tax introduced in 2010. The European Court of Justice also acknowledged the illegality of the originally planned lowering of retirement ages for judges, prosecutors and notaries, a law which had previously been quashed by the Hungarian Constitutional Court.

New austerity programmes were announced at the beginning of October (EUR 1.4 billion) and in mid-November (EUR 317 million), designed to reduce the budget deficit for 2013 to 2.7% of GDP.

S&P lowered the country's credit rating to BB (outlook: stable) in light of its faltering growth prospects.

A number of individual provisions of the highly disputed new election law (mandatory voter registration) were lifted by the Hungarian Constitutional Court at the beginning of 2013.

But it was not all bad news: The budget deficit was reduced to 1.8% in the first three quarters of 2012 (down 3.1% year on year), and inflation also fell (central bank forecast for 2013 down from 5.8% to 3.5%). Yields for ten-year government bonds are at their lowest in seven years at 5.855%, meaning that the country can now secure refinancing on the financial markets without any outside help; Hungary also successfully placed EUR 257 million in treasury bills.

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

Slovenia:

The table below shows only the direct exposure (securities and customer business) as at 31 December 2012 to central banks, states, regions and credit institutions.

in EUR m

Breakdown by country and risk segment		Total fair value 2012	Total fair value 2011
Slovenia	State and central bank	14.2	19.2
	Regions and municipalities	10.2	0.0
	Banks	19.3	45.2
	Total	**43.7**	**64.4**

In mid-February 2013, Standard & Poor's downgraded Slovenia's creditworthiness by one grade from A to A- in light of the country's economic and political troubles. Slovenia is currently struggling in the face of falling exports and is doing all it can to stabilise its state finances by restructuring the banking market, among other things. Allegations of corruption against Prime Minister Janez Jansa led to the break-up of the governing coalition formed between the Civic List and conservatives. No additional measures have been announced; the country's "stable" outlook was confirmed. This was primarily justified by Slovenia's rising debt burden (announcement of state aid for state-owned banks due to high valuation allowances, which will likely result in debt rising to 59% of GDP by the end of 2013) and uncertain economic prospects.

Slovenia plans to issue bonds of EUR 3 billion in 2013; refinancing is currently stable at approximately 5.6%.

The budget for 2013 and 2014, which complies with the EU's deficit procedure, includes both austerity measures and additional revenue from an improved investment environment.

The country plans to revive the economy by introducing a range of tax amendments. Corporation tax will be reduced to 17% and will then be lowered by one percentage point each year until 2015. This is expected to result in 3,000 to 4,000 new jobs. The marginal tax rate for top earners with annual incomes over EUR 70,000.00 will be raised. The fight against tax evaders will be intensified, with those owing more than EUR 5,000.00 being named on the homepage of the country's finance ministry (as from April 2013). The investment allowance for companies was increased so as to boost investments in intangible and tangible assets. Capital gains tax will rise to 25% and a special real estate tax will be in place until 2014.

The government aims to reduce the deficit to below 2.8% in 2013 and to less than 2.4% in 2014. The measures also include a 5% drop in public-sector pay, pension reform and amendments to labour legislation. The government plans to raise VAT if the deficit exceeds the 3% mark in 2013 and 2014.

On a positive note, the Slovenian Constitutional Court decided at the end of 2012 that no referenda are to be held on the creation of a bad bank or a state holding, thereby strengthening the government's position in its dealings with the unions. For these reasons, Hypo International did not consider there to be an impairment requirement on its exposure to Slovenia at the time of writing.

Cyprus:

Hypo Alpe Adria currently has only a very limited number of transactions (EUR <100 thousand) with Cyprus' banking or public sectors.

The Greek part of Cyprus, which joined the EU in 2004, is currently in a veritable financial crisis, caused in part by Greece's financial problems due to their economies being closely intertwined (for example, major Cypriot banks in Greece hold more than 10% of Greek deposits). The main problem lies in restructuring the oversized banking industry, for which the Cypriot government was forced to assume liability following the Greek haircut at the beginning of 2012.

Cyprus has been in line to receive EU aid since June 2012, when it applied to receive up to EUR 17.5 billion in funding from the ESM to stabilise its banks and state finances.

The country has recently held run-off elections for a new president. Conservative Nikos Anastasiades, who stands for reforms and privatisations and has stressed the need for strict austerity so as to meet the demands of international creditor, prevailed in the presidential elections, winning with 57.5% of the votes. He endorses other pending austerity measures and supports lean administration and transparency in the oversized public sector. His election is interpreted as giving him a strong mandate to return the Mediterranean island back into the European fold. Also of positive note is that Christopher Pissarides, a Cypriot-British Nobel Prize holder, was named head of the newly-formed National Economy Council and that the economist Sarris, viewed as the architect behind Cyprus' admission to the EU, was appointed as the country's new Finance Minister just one day after the election. The fact that the new Finance Minister was needed to attend a meeting of the Eurogroup on 4 March, which would also discuss Cyprus, was given as the reason behind the quick decision.

Russia had granted Cyrus a loan of EUR 2.5 billion at the end of 2011 to be repaid in 2016. Cyprus received complete support from the euro countries in its negotiations to extend this loan by five years. The EU, and Germany in particular, disagree on the question of whether Cyprus is "system-relevant" and therefore whether the country needs aid so as to maintain the financial stability of the eurozone overall. The policy makers of the ECB, the EU and the EMS all believe that this is the case. A number of EU partners accuse the country's money laundering controls of being too lax, thereby having attracted an enormous amount of money from Russia – money that then flowed back to the East. The ountry's low corporate tax rate of only 10% was also criticised.

However, it is highly unlikely that a decision will be made on aid from the EU, ECB and IMF ("Troika") before the second half of March 2013.

For these reasons and because of the small portfolio, Hypo International did not consider there to be an impairment requirement on its exposure to Cyprus at the time of writing.

5.10. Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These also include concentrations of loans and advances in individual industry sectors, geographic regions as well as concentration from an uneven distribution of collateral providers.

As a result, Hypo Alpe-Adria-Bank International AG analyses, measures and manages the following concentration risks:

- Counterparty default concentrations
- Industry sector concentrations
- Geographic concentrations
- Collateral concentrations

Counterparty, industry sector and collateral concentrations are measured and managed within the context of the regular ICAAP calculations.

Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor, which changes depending on the type of concentration.

5.11. Market price risk

5.11.1. Definition

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

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

In addition to market risks, market liquidity risks may also be incurred if, in the event of low market demand, the bank is unable to liquidate trading positions during liquidity shortfalls (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

5.11.2. General requirements

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

5.11.3. Risk measurement

Hypo Alpe-Adria-Bank International AG 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 the economic market risk capital tied up in the calculation of risk bearing capacity, values are scaled to the uniform confidence level of 99.9%, assuming liquidation over a specific time period for each risk factor.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also taking into account the increased significance of interest risk in the current market situation.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called "stress tests", and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required.

The interest rate risk in the banking book is determined as a present value risk, as are all market risks at Hypo Alpe-Adria-Bank International AG. 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.

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.

5.11.4. Risk limitation

In line with the group's current risk strategy, a limit for market risk at group level of 10% of the risk capital has been set (target for 2013: 7%). This defined risk capital represents the maximum loss for assuming market risks.

The allocation of capital for market risk is carried out based on a defined limit application process, 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 (client default and investments), credit spread risk (liquid and illiquid), volatility risk and alternative investment risk). Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios.

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

.

5.11.5. Risk control and monitoring

As part of the daily reporting process to the group's Executive Board, the value-at-risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are submitted on a daily or weekly basis.

Should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

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

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

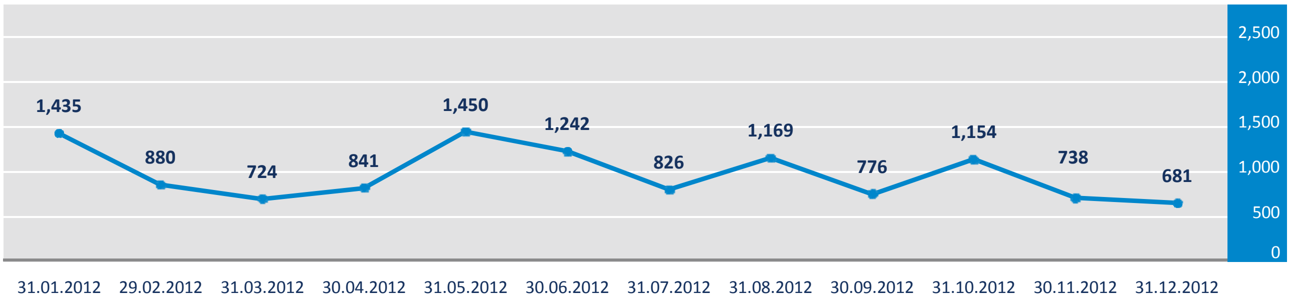
5.11.6. Overview – market risk

5.11.6.1. Interest rate risk

The chart below shows the progression of economic interest rate risk (including the interest rate risk of the trading book) for Hypo Alpe-Adria-Bank International AG for 2012. The interest rate gap profile for Hypo Alpe-Adria-Bank International AG contains all interest-rate-relevant on- and off-balance-sheet items with their next interest rate fixing date. All interest-bearing balance sheet items are taken as the basis for calculating interest-rate risk and thus for limiting risk. Non-interest-bearing items like equity, tangible and intangible assets are not comprides in the interest risk calculation.

Development in interest rate risk for Hypo Alpe-Adria-Bank International AG in 2012:

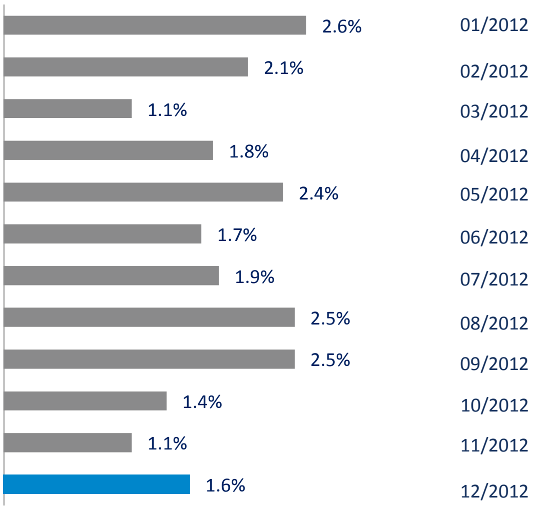
Interest Rate Risk (Trading Book + Banking Book) – VaR (99%, 1 day)
in TEUR



The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the interest rate gap profile; a second step calculates the risk equity ratio as a percentage of equity capital. The regulatory limit of 20% and the internal limit of 15% were not even close to being reached or exceeded at any point in the year.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges or portfolio hedges, thereby reducing interest rate risk.

Interest Risk Equity Ratio ex NIB
in percent in 2012



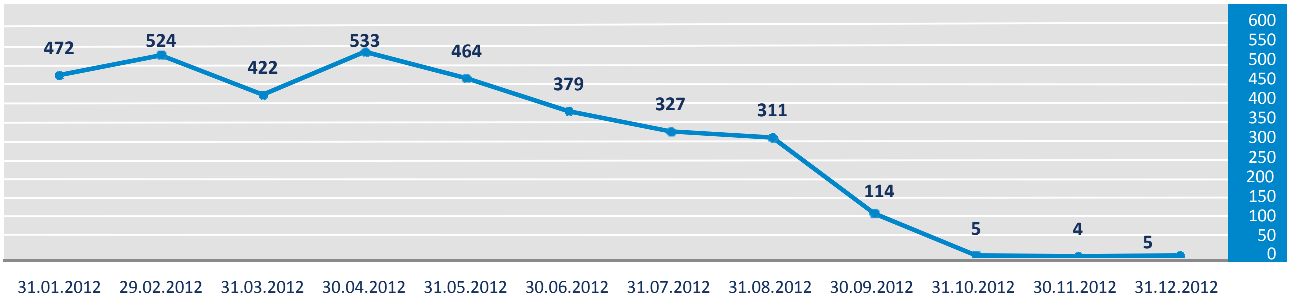
The interest rate risk - standardized 200-bps shift - of all interest bearing positions (exclusive non-interest-bearing positions) in proportion to the equity capital may not exceed the ratio of 20%. An internal limit for the interest risk equity ratio of a maximum of 15% has been set; however, this has only been used sparingly because of the positive offsetting effects in the interest rate gap profiles. Non-interest-bearing (NIB) positions do not 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).

5.11.6.2. Open currency positions

The data base for determining the value at risk for open foreign currency positions at group level of Hypo Alpe-Adria-Bank International AG is based on the figures in the MW52 report and contains operational business activities. Open foreign currency positions thereby cover the entire FX risk of Hypo Alpe-Adria-Bank International AG. The main risk drivers for open foreign currency positions at Hypo Alpe-Adria-Bank International AG are the USD and CHF currencies. The value at risk for this FX risk was approximately EUR 0.005 million per day as at 31 December 2012, at a confidence interval of 99%. The drop in VaR as from August 2012 was caused by the decrease of the public HRK resulting from forward transactions between Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank d.d. Zagreb as part of the equity reduction of Hypo-Alpe-Adria-Bank d.d. Zagreb.

Change in the open currency positions of Hypo Alpe-Adria-Bank International AG in 2012:

Open Foreign Currency Position Risk – VaR (99%, 1 day)
in TEUR



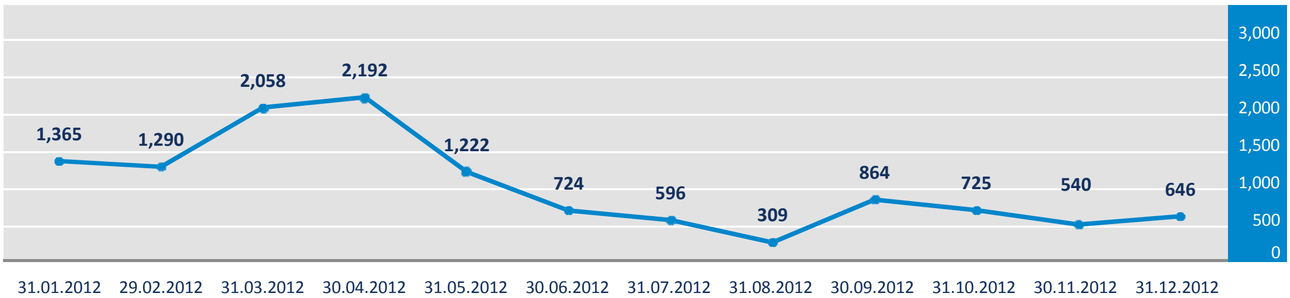
In addition to the FX risk from operational business activities, there is an additional open currency position at Hypo Alpe-Adria-Bank International AG arising out of the hedging activities relating to an open strategic currency position at group level. This results from the consolidation of the strategic participation by Hypo Alpe-Adria-Bank International AG in Hypo Alpe-Adria-Bank a.d. Belgrade. The value at risk (99%, 1 day) for this hedging activity by Hypo Alpe-Adria-Bank International AG was approximately EUR 5.07 million as at 31 December 2012; it compensated for this level of FX risk at group level.

5.11.6.3. Equity risk

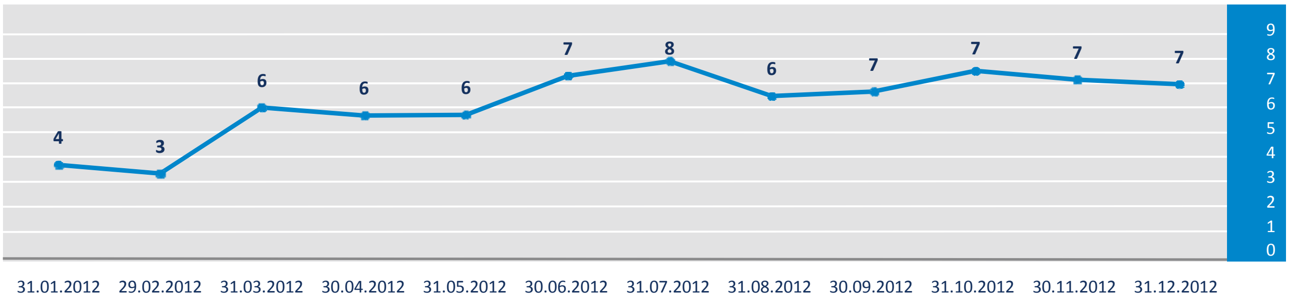
The share capital held in Hypo Alpe-Adria-Bank International AG is susceptible to market (price) risks, which arise from the uncertainty surrounding the future value of these shares. Hypo Alpe-Adria-Bank International AG makes a distinction between equity price risks, which arise from liquidating collateral related to credit risk transactions where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements (client default) and equity price risks from an investment viewpoint (investments). The value at risk for the equity price risk (client default) at Hypo Alpe-Adria-Bank International AG amounted to EUR 0.65 million as at 31 December 2012 with a one-day holding period and a confidence level of 99% and EUR 0.007 million for the equity price risk from an investment viewpoint. In line with the risk strategy, no further increase in share positions from an investment viewpoint is planned in Hypo Alpe Adria.

Change in equity price risk in Hypo Alpe-Adria-Bank International AG in 2012:

Equity Risk – Client Default – VaR (99%, 1 day)
in TEUR



Equity Risk – Investments – VaR (99%, 1 day)
in TEUR



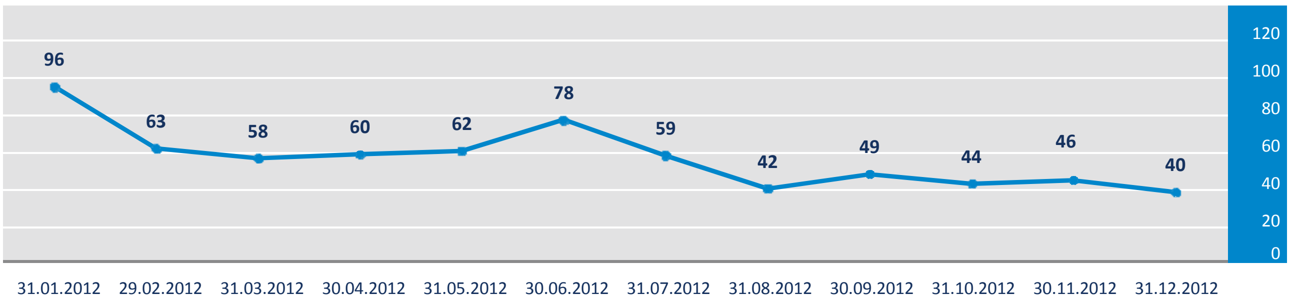
The main risk drivers of equity price risk at Hypo Alpe-Adria-Bank International AG are positions that arise from liquidating collateral related to credit risk transactions, where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements.

5.11.6.4. Alternative investment risk

The alternative investment risk within Hypo Alpe-Adria-Bank International AG stood at EUR 0.04 million at the end of 2012 with a one-day value at risk and 99% confidence level. In line with the current risk strategy, the alternative investments book contains a wind-down portfolio – for this reason, sales orders are already in place for all investments in the alternative investments book of Hypo Alpe-Adria-Bank International AG.

Change in the alternative investment risk of Hypo Alpe-Adria-Bank International AG in 2012:

Alternative Investment Risk – VaR (99%, 1 day)
in TEUR

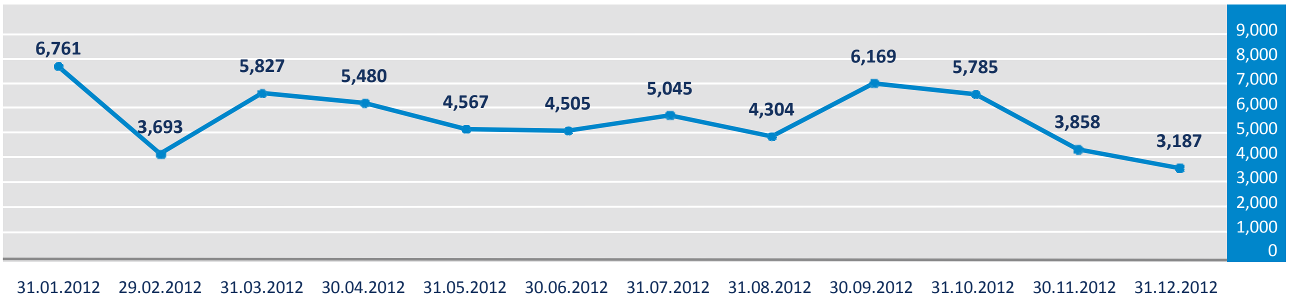


5.11.6.5. Credit spread risk

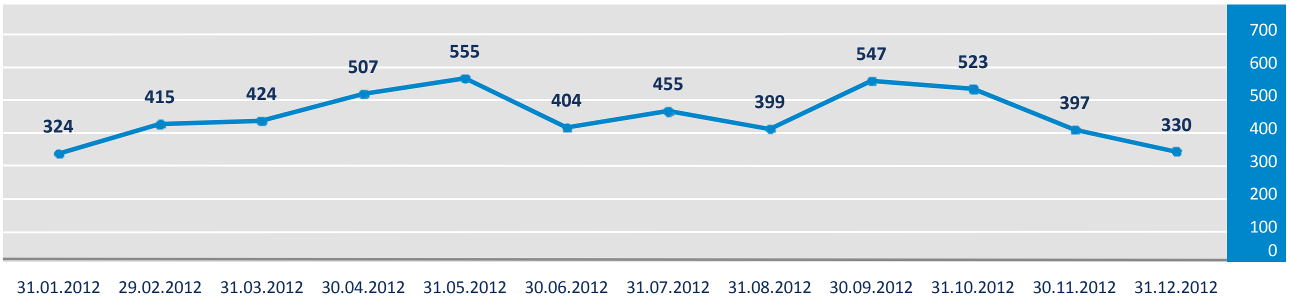
The liquid credit spread risk within Hypo Alpe-Adria-Bank International AG stood at EUR 3.19 million at the end of 2012 with a one-day value at risk and 99% confidence level – the illiquid credit spread risk stood at EUR 0.33 million at the end of 2012 with a one-day value at risk and 99% confidence level, representing the main market risk driver at Hypo Alpe-Adria-Bank International AG. The greatest influencing factor is the liquidity reserves held in the form of securities. Consequently, there is very limited scope for reducing risk from these positions.

Change in credit spread risk in Hypo Alpe-Adria-Bank International AG in 2012:

Credit Spread Risk (liquid) – VaR (99%, 1 day)
in TEUR



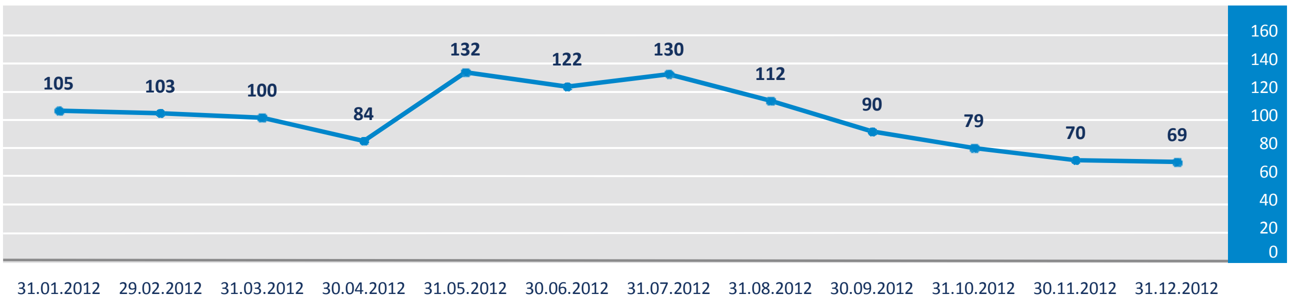
Credit Spread Risk (illiquid) – VaR (99 %, 1 day)
in TEUR



5.11.6.6. Volatility risk
The volatility risk for Hypo Alpe-Adria-Bank International AG at the end of 2012 stood at EUR 0.07 million, with a one-day value at risk and a confidence level of 99%. Volatility risk is defined within Hypo Alpe-Adria-Bank International AG 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-Bank International AG in 2012:

Volatility Risk – VaR (99%, 1 day)
in TEUR



5.12. Liquidity risk

5.12.1. Definition
Hypo Alpe-Adria-Bank International AG 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.

5.12.2. General requirements

The strategic principles of handling liquidity risks at Hypo Alpe-Adria-Bank International AG 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 that applies across the entire group.

Liquidity steering and management at group level are the responsibility of the Group Balance Sheet Management & Treasury division of Hypo Alpe-Adria-Bank International AG. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at group level, takes place. Liquidity risk controlling is the responsibility of the Group Market Risk Control division of Hypo Alpe-Adria-Bank International AG. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

Hypo Alpe-Adria-Bank International AG has in place emergency liquidity planning that has been set out in writing. It sets out the processes and control or hedging instruments that 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.

5.12.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe-Adria-Bank International AG 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
- Subsidised loans
- Securitisation potential.

In addition to the normal scenario, other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow as well as transfer limits), supplement the risk-measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration in the calculation of risk bearing capacity are set against the economic equity.

5.12.4. Risk controlling

A bundle of different liquidity reserves ensures that Hypo Alpe-Adria-Bank International AG 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. The liquidity buffer for stress situations came to EUR 663 million as of 31 December 2012.

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of liquidity control. 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 are adhered to; this includes meeting the minimum reserve as well as first- and second-grade liquidity reserves.

In order to provide short-term management of the liquidity risk for a period of twelve months, the following liquidity potential was held as at 31 December 2012, divided into a base reserve and a stress reserve (liquidity buffer for stress situations):

in EUR m

Base reserve	Volume
Repo with national banks	159
Subtotal base reserve	*159*
Stress reserve	**Volume**
Repo with national banks	663
Subtotal stress reserve	*663*
Total liquidity potential	**822**

5.12.5. Risk monitoring

The monitoring of liquidity risk is carried out on the basis of the liquidity ratio and "time-to-wall" key indicators under normal and stress conditions and through the integration of the structural liquidity risk into the bank's overall controlling.

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set 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; 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.

5.12.6. Overview – liquidity situation

In addition to funding activities which fall within covered liabilities evedenced by certificates (covered bonds, Pfandbriefe), there was once again an increase in senior unsecured transactions, whereby it was still predominantly reserved to issuers with credit standing to satisfy the increased interest from investors. Sufficient numbers of customers existed to take on bank issues of subordinated capital, especially in the second half of 2012.

The European Central Bank (ECB) initiated a number of special measures to satisfy the massive refinancing needs of several European banks, although there is still a very large imbalance between banks with high refinancing needs and banks with very high levels of excess liquidity, which cannot be offset through direct transactions between the banks.

While banks in peripheral countries in particular depend on the ECB or local national banks for their refinancing, there is also a great deal of interest from banks with good credit ratings and excess liquidity to invest this in the ECB, even if no interest is offered.

The ECB has established itself as an intermediary, thereby helping to stabilise the money markets.

The continuing loss in confidence between the banks was countered by the ECB with the following measures (among others):

- Reduction in interest rates to an historic low of 0.75%
- Relaxing requirements for the securities that banks can submit to the central bank
- Buying of sovereign and covered bonds by the ECB
- Providing three-year loans by means of two extraordinary long-term refinancing options (LTRO) in December 2011 and February 2012 with full allocation
- Lowering the minimum reserve from 2% to 1%

Refinancing and liquidity therefore did not pose as great a problem in 2012 as growing economic concerns.

However, lending levels declined – at times significantly – in recent months, despite the efforts made by the central banks. Peripheral countries in particular have been hit by the dreaded and feared credit crunch.

Household and corporate lending has been in decline ever since the outbreak of the financial crisis. Lending has only risen slightly since 2009, and many countries have seen levels drop.

Overall, the liquidity situation of Hypo-Alpe-Adria-Bank International in 2012 was characterised by over-liquidity. At no time was it necessary to access liquidity reserves; instead, all liabilities were met using current cash flows.

A EUR 500-million capital increase by the shareholder, the Republic of Austria, and the issue of a state-guaranteed bond in the amount of EUR 1.0 billion were effected in December 2012. This significantly increased liquidity levels at the end of the year; the liquidity position in 2013 is also forecast to be comfortable in light of expected inflows and outflows.

Below is a listing of due dates for the financial liabilities of Hypo Alpe-Adria-Bank International AG, based on the following conservative assumptions:

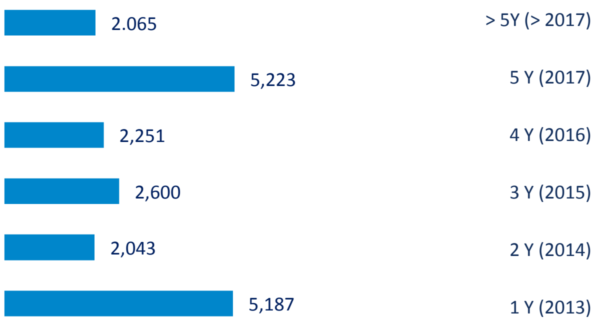
- Current accounts, call money and cash collaterals are due on the next working day;
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day;
  Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented.

in EUR m.

As at 31 December 2012	1 Y -2013	2 Y -2014	3 Y -2015	4 Y -2016	5 Y -2017	> 5 Y (> 2017)	Total
Financial liabilities*							
Liabilities to credit institutions	2,843	571	1	0	0	0	3,416
Liabilities to customers	135	0	0	0	0	0	135
Liabilities evedenced by certificates in issue	2,200	1,412	2,473	1,833	4,192	1,711	13,871
Promissory notes	10	60	125	369	1,030	354	1,948
Total	**5,187**	**2,043**	**2,600**	**2,251**	**5,223**	**2,065**	**19,369**

* Relevant to liquidity.

Maturities of financial liabilities
as of 31 December 2012 in EUR m



As the graph shows, the main due dates for issues and refinancing stretch out to 2017, in addition to the conservative modelling of liabilities in the first maturity band. 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-Bank International AG's business activities.

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book: Hedge transactions on the asset side of the balance sheet (e.g. fixed rate bonds)
- Market Risk Steering ALM: Hedge transactions to steer the interest rate gap profile
- Market Risk Steering B2B: Back-to-back transactions by Hypo Alpe-Adria-Bank International AG on the basis of the hedge requirement 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.

in EUR m.

As at 31 December 2012	1 Y -2013	2 Y -2014	3 Y -2015	4 Y -2016	5 Y -2017	> 5 Y (>2017)	Total
Net cash flow from derivatives							
Banking book	-36	-37	-29	-23	-14	-38	-176
Market Risk Steering ALM	0	0	0	0	0	0	0
Market Risk Steering B2B	0	0	0	0	0	0	1
Market Risk Steering FVO	25	24	33	22	18	111	233
Market Risk Steering FX	4	22	-199	0	-32	-34	-239
Market Risk Steering HA	282	248	200	162	112	-41	963
Total	**276**	**258**	**5**	**162**	**85**	**-2**	**782**

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.

5.13. Operational risk

Hypo Alpe-Adria-Bank International AG defines operational risk ("OpRisk") as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as risks to reputation, but not strategic risks.

The aim of operational risk management at Hypo Alpe-Adria-Bank International AG 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.

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 that synergy effects are achieved, arrangements have been made with Group Legal Services that the operational risk management software ("Inform") will also include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

The operational risk management software is the platform for implementing the relevant instruments at Hypo Alpe-Adria-Bank International AG.

The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within Hypo Alpe-Adria-Bank International AG has been set at EUR 5,000. All losses from 1 January 2006 onwards must be recorded.

OpRisk 2012 milestones and results:

The priorities of OpRisk in 2012 lay in recording all risk-relevant cases at group level and, derived from this, conducting a detailed analysis with the aim of defining preventative measures for future cases. This was carried out through regular checks and feedback on quality with/from the subsidiaries as well as establishing a series of a range of data quality checking routine, the results of which are to be followed up on by the subsidiaries themselves, accompanied by targeted risk assessments.

The next operational risk milestone was reached by the implementation of a state-of-the-art software tool, the SAS EGRC. All VaR OpRisk calculations options will be open following its launch in the second quarter of 2013.

Another focus was on training local Operational Risk Officers, who are assigned to functions. They were provided with local training, in cooperation with local risk managers.

The flow of information to management was intensified further. A committee dealing with issues is set up quarterly and meets regularly. Any unresolved issues are discussed with those in charge, with the results presented to management.

The group also plans to launch an e-learning tool in 2013 to raise awareness of the issue.

5.14. Object risk

At Hypo Alpe-Adria-Bank International AG, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by Hypo Alpe Adria. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

Hypo Alpe-Adria-Bank International AG aims to reduce object risk exposures by proactively selling the assets in question in a timely manner. The market and/or carrying amounts of the assets in question serve as the basis for the measurement of object risk.

Capital requirements are calculated using the standardised approach. This states that the market value is multiplied by a risk weighting of 100% and then by the regulatory factor of 8%.

5.15. Other risks

Hypo Alpe-Adria-Bank International AG classes the following risk types as "Other risks":

- Strategic risk
- Capital risk
- Reputation risk
- Business risk

In the calculation of risk bearing capacity, 3% of the risk capital required – as stated in the risk strategy (for all other risk types) – is held as a buffer for "Other risks".

5.16. Outlook for 2013

In the year under review, Hypo Alpe-Adria-Bank International AG developed its risk controlling and risk management instruments further. Thanks to targeted training sessions and seminars for staff in the risk departments, and through recruiting experienced employees, their technical expertise was improved further.

In 2013, the risk management function will be improved further, so as to equip it for the internal and external challenges of the future. When developing the procedures to be applied for mapping and managing risk, attention will be paid not just to meeting requirements under supervisory law but also to taking account of the group's future strategy.

This applies particularly to the following areas:

5.16.1. Risk Academy

Due to the technical knowledge gained of the bidding procedure in 2012, a tender was started in February 2012. From the 13 providers entering bids, five were invited to personally present their offers. The documents and presentations showed quickly that the very wide range of requirements within the Risk Office could not all be met by just one provider. As a result, and after an intensive selection process, Risk Reward ltd. was selected as the main vendor, which will be aided in the sub-areas by other sub-vendors as part of the Hypo Risk Academy (HRA).

The following six job roles were defined for the Risk Office and assigned Key Risk Competences (KRC):

- Credit Risk Controller
- Market Risk Controller
- Credit Underwriter
- Retail Risk Manager
- Rehabilitation Manager
- Credit Processing

Based on these job roles and KRC, framework conditions were worked out with the main vendor, consisting of the following criteria:

- Each job role has three training stages (levels 1, 2 and 3), and each stage of training consists of 15 days; these are to be split between the main and sub-vendors depending on the topic.
- Each level has three groups of courses, and each course ends with a test; this needs to be passed before the next course can be taken.
- Each level ends with a test; passing this test earns the participant a certificate for the level in question.

In September, approximately 130 employees at Hypo Risk Offices of Hypo Alpe-Adria-Bank International AG took a placement test, which resulted in them being classed as either level 1, level 2 or level 3 by Risk Reward. The placement tests were written for each of the job roles and dealt with general risk knowledge as well as job-specific questions and an appropriate weighting.

Together with the main vendor, a training catalogue was then created with details on each job role and level; the splitting of the training days between the main and sub-vendors was then also stipulated. Three pilot training sessions were then held in the three largest training centres (Klagenfurt, Zagreb, Belgrade) in the autumn to explore organisational and logistical requirements.

The agreements with the sub-vendors are currently being finalised, with the additional training being drawn up and agreed.

5.16.2. Basel III – key liquidity figures

From the point of view of liquidity, quantitative key figures are being introduced under Basel III that measure both the short-term liquidity situation in a severe stress case (liquidity coverage ratio) as well as the long-term liquidity structure (net stable funding ratio). The aim is to have a large enough pool of liquid assets available for short-term stress cases and, in the medium to long term, to balance the structure across both sides of the balance sheet. In addition, monitoring instruments in the form of specific measurement parameters are to be introduced. These are:

- Contractual maturity mismatches
- Finance concentrations
- Available unencumbered assets

- Liquidity coverage ratio by main currencies
- Market-related monitoring instruments

According to the Basel III document, the liquidity provisions will come into effect in 2015 (liquidity coverage ratio) and 2018 (net stable funding ratio). Within the context of the Quantitative Impact Study, Hypo Alpe-Adria-Bank International AG reported the LCR and NSFR as at 31 December 2012 to both the OenB and the EBA for the first time in March 2012 and will subsequently report these indicators quarterly. As at 30 September 2012, the LCR of Hypo Alpe-Adria-Bank International AG was rather comfortable at 148.2%, and the NSFR came to 83.3%, despite the very conservative requirements prior to the current audits.

According to the most recent publications, considerable revisions have been made to the way in which the LCR is calculated: more lenient outflow rates and additional limits on the recognition of liquid assets – which had a positive impact of the LCR. The LCR will increase gradually from 60% in 2015 to 100% in 2019.

5.16.3. Asset liability management system

Within the context of the ALM enhancement project for the measurement of interest rate and liquidity risks and a subsequent pre-case study, Kamakura Risk Manager (KRM) was chosen from six providers evaluated as to their suitability as future Hypo Alpe Adria ALM solution providers. KRM offers integrated risk measurement, which – together with market and liquidity risk factors, among other things – enables credit risk parameters to be included in asset liability management. This was implemented in January 2013 and contains improved group-wide data management, advanced analytics and the forging of business intelligence structures to enable effective overall bank controlling.

The solution currently being implemented is designed to provide the entire group with interest-rate-risk-relevant data at individual item level via standardised interfaces with integrated data quality controls performed by the central "data hub" and/or the centralised "Group Data Warehouse" either monthly or weekly until the end of the year with minimal technical delays. The risk analyses start with the regulatory requirements for static interest rate gap profiles and interest rate statistics up to and including interest rate value at risk and interest rate scenario analyses; these are all prepared by the Kamakura Risk Manager at group- and single-entity level and then made available to the entire group via the "Group Data Warehouse". Business intelligence solutions, such as Online Analytical Processing (OLAP) cubes, are being developed to aid in the reporting. The implementation will improve data frequency, availability, granularity and quality; it will also mean that analysis and reporting opportunities will be geared towards adequate asset liability management for Hypo Alpe-Adria-Bank International AG.

This group risk management platform will enable further developments to the management of the net interest result, the integration of liquidity risk measurement as well as IFRS 9 (Financial Instruments) and IFRS 13 (Fair Value) measurement beyond 2013.

5.16.4. Outlook for market risk limitation in 2013

In 2012, improvements to Hypo Alpe-Adria-Bank International AG's market-risk limiting continued so as to comply with regulatory requirements and to improve the management of market risks and the monitoring of tied-up economic market risk capital. Efforts were made to prevent the unreasonable recognition of economic effects from market risks within the context of the calculation of risk bearing capacity, taking into account that defined limit systems, process and methods must ensure an adequate and timely calculation of the current tied-up economic market risk capital. The application of correlation assumptions within a market-risk factor in relation to the setting of group limits was converted from static adjustments to group consolidation factors to a dynamic concept, which allows for a faster and more effective reaction to changed market conditions. The defined changes will be implemented operationally beginning in 2013 within the context of limiting market risks.

5.16.5. Adjusting risk parameters

The first of the validation reports ("back-testing") for the behavioural score and the corporate customer rating were prepared in 2012. All rating tools will be subjected to detailed validation in 2013 pursuant to the approved validation plan. This will result in a comprehensive validation report for each of the rating procedures. The elements and a detailed description of the process are described and regulated in the validation concept.

The WebFER loss database will be rolled out in all core businesses in 2013, and the data already gathered will be used to improve the existing LGD/CCF estimates.

5.16.6. Expanding the PMS market risk system

The system support implemented in Collateral Management in 2012 for derivatives will be supplemented by adjustments to group Counterparty Clearing in 2013. Enhancements to the assessment and risk models, with regard to OIS discounting, Credit Value Adjusted (CVA) and Debit Value Adjusted (DVA) as well as regulatory requirements for the group derivative register, will also be evaluated and implemented.

6. Internal control system (ICS)

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

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

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

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

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

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

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

6.1. ICS-related activities in 2012

Developments seen in 2011 continued in 2012 – particularly with regards to ICS-relevant interfaces with compliance, the credit process and processing of specific risk provisions.

At Hypo Alpe-Adria-Bank International AG level, reporting- and treasury-relevant processes were recorded and subjected to a risk assessment process according to ICS criteria. The necessary measures were then developed as a result. Test scenarios were developed and carried out jointly with the owners.

The programme necessary for the tests was implemented, and the persons responsible for ICS were trained on how to use it.

6.2. Outlook

Adhering strictly to the COSO Framework, the prioritisation of the ICS-relevant processes will be checked on the basis of the most recent balance sheet in 2013 (statement of financial positions) and, where necessary, modified. The integration with the Operational Risk department will continue, so as to be able to exploit the possible synergies from both areas of activity (OpRisk and ICS) in the best possible way and to create an optimal structure so as to avoid potential losses.

A group-wide e-learning tool is being established, together with the issue of operational risk, in order to create additional awareness.

7. Research and development

Hypo Alpe-Adria-Bank International AG does not conduct any R&D activities of its own.

8. Events after the balance sheet date

In late January 2013, the bank received the joint decision of the Austrian Financial Markets Authority (FMA) concerning the recent capital budgeting carried out within the scope of the Joint Risk Assessment and Decision Process (JRAD). In order to cover all potential risks, the FMA stipulates a group-own capital funds ratio of 12.40% and the coverage of the shortfall between expected losses from credit risk and impairments; the bank has until 31 December 2013 to fulfil the requirements. The official national JRAD resolution has not yet been submitted to the bank.

As a result of the capital measures carried out in 2012, the European Commission resolved on 5 December 2012 to implement requirements known as "Behavioural Measures", which came into force on 1 January 2013. The Behavioural Measures predominantly concern new business performance and represent a strict series of criteria which is intended to secure the loan commitment of new funding. The group's Executive Board has assigned a Monitoring Trustee in conjunction with the Commission who is responsible for monitoring compliance with the aforementioned measures and will organise the immediate implementation of the Behavioural Measures and any resulting reporting obligations at Hypo Alpe-Adria-Bank International AG as well as any affected units. Before coming to a final decision, the European Commission plans to adjust the Behavioural Measures in line with the market, meaning that the actual implementation may still change.

During the legal dispute with the State of Carinthia concerning the 2011 decapitalisation, the Higher Regional Court (OLG) of Vienna upheld the appealed launched by Hypo Alpe-Adria-Bank International AG with its judgement dated 29 January 2013, thereby annulling the judgement of the Commercial Court of Vienna.

BayernLB has filed an application for a declaratory judgement at the District Court of Munich regarding the BayernLB equity replacement loans. Hypo Alpe-Adria-Bank International AG was notified of this application on 1 February 2013. We refer to Section (29) Important proceedings with regard to further details of the aforementioned pending legal disputes.

9. Outlook

In the fourth year following the bank's nationalisation in 2009, Hypo Alpe Adria is at an important crossroads, and any future strategies will be decisively influenced by the European Commission's decision into the aid investigation. It is assumed that there will be some degree of clarity within the first half of the year as to whether and under which conditions state aid is finally approved and what basis, or rather time frame, will apply to the continuation of rationalisation and restructuring measures.

Hypo Alpe Adria is striving to make a sustainable, value-preserving step in the privatisation of its Austrian subsidiary over the course of 2013, which, following subsequent organisational measures within the group, is to be capable of being positioned as an independent institute on its domestic market.

With 1.2 million customers and EUR 4.6 billion of deposits, the SEE network, which has been completely restructured over the past few years and has now recorded a positive result for the second year in succession, also finds itself in a competitive reprivatisation process, the preparations for which are extremely solid in view of strategic investors. The value-maximising completion of this process that is being strived for will depend on the time frame stipulated by the European Commission as well as market demand and the existing market environment.

After the economic recovery forecast in the SEE region failed to materialise in 2012, there are justified prospects for a turnaround, albeit only a slight one. However, even this would not be sufficient to lead growth rates in Hypo Alpe Adria's core countries out of the minus range according to existing forecasts. Despite the fact that the upcoming EU accession of Croatia gives us good reason to hope for positive economic impetus, the management believes that sustainable recovery will not arrive until after 2013.

In terms of the market and in view of the maintenance and expansion of some 1.3 million customer relationships throughout the group, service quality and the dedicated development of the scope of products and services for customer segments are at the forefront of activities within the scope of possible EU requirements. Other focuses of Hypo Alpe Adria's operations in the current financial year will be the further intensification of cost management and the optimisation of core process through lean management.

Alongside the banks that are to be privatised, a robust business area has established itself in the form of "asset resolution", which plays a major role in the activities and orientation of Hypo Alpe Adria solely on account of its volume, accounting for some one-third of the bank's balance sheet. Winding down assets at an even pace, particularly those from the bank's high-risk past, is a serious financial challenge in the current economic climate and, at the same time, represents a pivotal component of risk reduction across the entire group organisation – something which remains one of Hypo Alpe Adria's top priorities.

A two-pronged strategy will be pursued in 2013 when it comes to the task of clearing up the past entrusted to the bank and the resulting legal cases. While investigative work in Austria driven forward by the bank should lead to more cases being brought before the courts, international preliminary prosecution operations will also gain momentum in other countries.

In 2013, Hypo Alpe Adria will continue in its efforts to contribute independently and as thoroughly as possible to the fulfilment of the capital requirements imposed on it by banking regulators as a result of risks seen in the past and look for ways to minimise any potential further investment from the federal budget.

Above all, this means the systematic continuation in efforts to reduce total assets and operating costs. While the contraction of the group will be reflected in operating income, the aim of a more compact Hypo Alpe Adria is to reduce risk within the group at the same time and at least stabilise portfolio quality, depending on overall development of the market that is out of the group's control. Hypo Alpe Adria sees robust development of NPL ratios and risk costs across normal market trends as the primary measurement parameters for this strategy.

Given the multitude of challenges facing Hypo Alpe Adria within the scope of the ongoing rationalisation, reprivatisation and capital-preserving wind-down process – coupled with the significant number of weighted influences from the market, authorities or courts of law that are unable to be actively controlled – the performance of Hypo Alpe Adria in 2013, as shown by the key profit indicators, will continue to be oriented towards the preservation of the funds provided by the Republic of Austria since nationalisation to the greatest extent possible.

Klagenfurt am Wörthersee, 6 March 2013
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

FINANCIAL STATEMENTS (UGB/BWG)

Balance Sheet as at 31 December 2012

				31.12.2012 EUR	31.12.2011 EUR thousand
Assets					
1.	Cash in hand, balances with other banks			2,115,684,057.55	3,238
2.	Treasury bills and other bills eligible for refinancing with central banks				
	a) Treasury bills and other similar securities		424,977,647.15		448,942
	b) bills for refinancing with central banks		0.00		
				424,977,647.15	448,942
3.	Loans and advances to credit institutions				
	a) Repayable on demand		407,791,027.12		506,712
	b) Other loans and advances		4,057,375,152.57		8,574,242
				4,465,166,179.69	9,080,954
4.	Loans and advances to customers			10,431,921,951.54	8,988,814
5.	Bonds and other fixed income securities				
	a) Issued by the public sector		61,861,553.08		43,426
	b) Issued by others		561,755,984.43		843,077
	of which own liabilities evedenced by certificates	EUR 34.332,668.50 (prior year: EUR 148.718 thousand)		623,617,537.51	886,503
6.	Shares and other non-fixed income securities			10,298,035.08	29,201
7.	Shares in associated companies			7,729,788.10	8,174
	thereof: credit institutions	EUR 6.957,090.48 (prior year: EUR 6.957 thousand)			
8.	Shares in affiliated companies			2,464,906,211.66	2,626,077
	thereof: credit institutions	EUR 1.805,100.722.78 (prior year: EUR 1.935,654 thousand)			
9.	Intangible fixed assets			3,278,846.72	1,178
10.	Tangible fixed assets			6,792,667.80	1,671
	thereof: Land and buildings used by the company for its own activities	EUR 4.810,528.78 (prior year: EUR 810 thousand)			
11.	Own shares or interests and interests in controlling or majority holding companies			0.00	0
	thereof: nominal value	EUR 0.00			
12.	Other assets			482,243,783.62	576,020
13.	Drawn capital, which is not called in, but yet deposited			0.00	0
14.	Deferred assets			21,211,329.86	19,255
	Total assets			**21,057,828,036.28**	**22,670,027**
	Below-the-line memo items				
1.	Foreign assets			16,659,096,561.63	18,766,666

				31.12.2012 EUR	31.12.2011 EUR thousand
Equity and Liabilities					
1.	Liabilities to credit institutions				
	a) Repayable on demand		1,116,216,950.22		1,007,235
	b) With agreed maturities or periods of notice		2,788,367,562.91		3,256,602
				3,904,584,513.13	4,263,837
2.	Liabilities to customers				
	a) Savings deposits, thereof:				
		aa) Repayable on demand	53,769.55		
		bb) With agreed maturities or periods of notice	10.59	53,780.14	47
	b) Other liabilities, thereof:				
		aa) Repayable on demand	38,845,549.15		64,537
		bb) With agreed maturities or periods of notice	1,641,848,627.00		1,702,953
				1,680,694,176.15	1,767,490
3.	Debt evidenced by certificates				
	a) Bonds issued			11,974,284,518.73	14,277,011
	b) Other debt evidenced by certificates			0.00	0
4.	Other liabilities			130,681,588.23	133,781
5.	Deferred assets			45,262,215.59	55,548
6.	Provisions				
	a) Provisions for severance payments		3,187,666.00		2,924
	b) Provisions for pensions		6,203,883.00		5,292
	c) Tax provisions		0.00		0
	d) Other		97,779,274.55		131,151
				107,170,823.55	139,367
7.A	Funds for general banking risks			153,000,000.00	0
8.	Subordinated liabilities			1,902,162,627.90	895,718
9.	Supplementary capital			0.00	246,121
10.	Issued capital			1,308,636,989.51	808,637
11.	Appropriated paid-in capital			2.22	0
	a) Fixed reserves		2.22		
	b) Non fixed reserves		0.00		
12.	Revenue reserves			0.00	0
	a) Legal reserves		0.00		
	b) statutory reserves		0.00		
	c) Other reserves		0.00		
13.	Liability reserves under section 23 (6) BWG			247,165,247.42	247,165
14.	Net accumulated losses			–395,868,446.29	–164,694.69
15.	Tax-free reserves				
	a) Valuation reserves due to unscheduled depreciation			0.00	0
	b) Other tax-free reserves			0.00	0
	thereof:				
		aa) Investment reserve pursuant to sec. 9 EStG 1988	0.00		
		bb) Investment allowance pursuant to sec. 10 EStG 1988	0.00		
		cc) Rent reserve pursuant to sec.11 EStG 1988	0.00		
		dd) Transfer reserve pursuant to sec. 12 EStG 1988	0.00		
	Total equity and liabilities			**21,057,828,036.28**	**22,670,027**

			31.12.2012 EUR	31.12.2011 EUR thousand
	Below-the-line memo items			
1.	Contingent liabilities		313,374,623.27	1,648,444
	thereof:			
	a) Acceptances and endorsements	0.00		0
	b) Guarantees and other collateral securities	313,374,623.27		1,648,444
	(prior year: EUR 357.746 thousand)			
2.	Loan exposures		929,726,444.64	1,368,438
	thereof: Commitments arising from repurchase transactions			
3.	Commitments arising from fiduciary transactions		39,264,500.01	0
4.	Eligible capital under section 23 (14)		1,967,016,959.93	1,797,215
	thereof: capital under section 23 (14) (7)	9,494,105.80		
	(prior year: EUR 10.567 thousand)			
5.	Capital reserve requirements under section 22 (1)		1,314,781,179.21	1,437,208
	thereof: capital under section 22 (1) (1) and (4)	1,275,908,556.08		
	(prior year: EUR 1.336,029 thousand)			
6.	Foreign liabilities		5,316,417,678.50	5,698,675
7.	Hybrid capital pursuant to section 24 (2) (5) and (6)		0.00	0

Income statement for the period 1 January to 31 December 2012

				31.12.2012 EUR	31.12.2011 EUR thousand
1.	Interest and similar income			965,339,370.68	1,134,506
	thereof: fixed-interest securities EUR 51,056,655.38				
	(prior year: EUR 40.355 thousand)				
2.	Interest and similar expenses			–891,376,088.85	–1,080,537
I.	**NET INTEREST INCOME**			**73,963,281.83**	**53,969**
3.	Income from equity interests and investments				
	a) Shares, other equity interests and non-interest-bearing securities		83,146.86		46
	b) Associated companies		3,097.75		389
	c) Affiliated companies		95,455,527.96		83,427
				95,541,772.57	83,863
4.	Fee and commission income			13,032,885.67	20,424
5.	Fee and commission expenses			–30,563,877.03	–25,931
6.	Net income from trading activities			11,236,561.41	–1,823
7.	Other operating income			27,534,162.10	54,645
II.	**OPERATING INCOME**			**190,744,786.55**	**185,147**
8.	General administrative expenses				
	a) Personnel expenses: thereof				
	aa) Wages and salaries	–38,491,488.40			–40,429
	bb) Costs of statutory social security contributions and other pay-related contributions	–10,500,131.04			–9,154
	cc) Other social welfare contributions	–775,006.61			–771
	dd) Expenses for pensions and other retirement benefits	–957,747.03			–735
	ee) Pension provision allocations	–911,418.00			0
	ff) Expenses for severance payments and contributions to employee severance funds	–2,042,724.46			–1,307
			–53,678,515.54		–52,396
	b) Other administrative expenses (operating expenses)		–49,232,915.59		–94,822
				–102,911,431.13	–147,217
9.	Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)			–1,086,843.77	–1,107
10.	Other operating expenses			–19,500,053.70	–3,762
III.	**OPERATING EXPENSES**			**–123,498,328.60**	**–152,086**
	thereof: overheads (EUR 123,498,328.60)				
	(prior year: EUR 152.085 thousand)				

			31.12.2012 EUR	31.12.2011 EUR thousand
IV.	**OPERATING PROFIT**		**67,246,457.95**	**33,061**
11./12.	Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets		–15,032,597.41	222,569
13./14.	Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies		–263,892,435.83	–381,573
V.	**PROFIT FROM ORDINARY ACTIVITIES**		**–211,678,575.29**	**–125,943**
15.	Extraordinary income thereof: withdrawal from the fund for general banking risks	EUR 0.00 (prior year: EUR 0 thousand)	165,127,014.08	0
16.	Extraordinary expenses thereof: allocation to fund for general banking risks	EUR (153,000,000.00) (prior year: EUR 0 thousand)	–157,770,196.39	–15,950
17.	**Extraordinary result**		**7,356,817.69**	**–15,950**
18.	Income taxes thereof: expenses connected to the taxation agreement	EUR 3,881,386.98 (prior year: EUR 3.766 thousand)	–7,694,834.70	–7,460
19.	Other taxes not recognised under the item 18		–19,157,786.10	–15,342
VI.	**Net loss for year**		**–231,174,378.40**	**–164,695**
20.	Changes in reserves thereof: allocation/reversal of liability reserves	EUR 0.00 (prior year: reversal EUR 0 thousand)	0.00	0
21.	**Loss carried forward**		**–164,694,067.89**	**0**
VIII.	**NET ACCUMULATED LOSSES**		**–395,868,446.29**	**–164,695**

Notes to the financial statements for the financial year 2012

I. BASIC ACCOUNTING PRINCIPLES

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

The financial statements consist of the balance sheet, income statement and the notes. In addition, there is a management report, which is in accord with the financial statements.

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

II. ACCOUNTING AND MEASUREMENT POLICIES

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

The principle of individual measurement is applied to the measurement of assets and liabilities and the going concern principle is applied to the valuation of the enterprise as a whole. With regard to the continuance of the credit institution as a going concern, the Executive Board has made the same assumptions that underpin the group's restructuring plan drawn up for the purposes of the EU state-aid investigation, although the future development of the business is accompanied by a high degree of uncertainty given the current volatility in economic and financial markets.

In the Joint Risk Assessment & Decision Process ("JRAD") conducted by the supervisory authorities, Hypo Alpe-Adria-Bank International AG was presented with stipulations relating to the minimum requirements for own capital funds, to be met by the deadline of 31 December 2012. The bank reached an agreement approved by the European Commission with its shareholders regarding a EUR 1.5 billion recapitalisation of the bank, consisting of a capital increase by the Republic of Austria (EUR 500.0 million) and the issue of a state-guaranteed subordinated bond (EUR 1.0 billion). This means that Hypo Alpe Adria had a consolidated own capital funds ratio of 13.00% as at 31 December 2012, up 1.00% on the minimum requirement.

In 2012, the regulatory authorities re-assessed the risks and the requisite capital required ("JRAD 2"), based on figures as at April 2012 and determined that the Group requires a total capital ratio of at least 12.40%. The corresponding "Joint Decision" was taken at the end of January 2013; the bank was given until 31 December 2013 to implement the changes.

Attention is drawn to the possible consequences of the EU state-aid investigation proceedings and of the Joint Risk Assessment & Decision process and the resulting uncertainty as to continuing as a going concern.

The principle of prudence is applied, paying particular attention to the special features of the banking business: only profits and gains realised at balance sheet date are recognised, and all recognisable risks and impending losses have been taken into account. The assessment methods applied in the past continue to be applied.

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

Loans and advances to credit institutions and customers are in general included at their nominal value; risk provisions formed on loans and advances have been deducted. Premiums and discounts on issue are recognised under accrued assets and liabilities respectively and written back over the life of the security.

Credit risks are accounted for by specific and portfolio-based loan loss allowances for loans and advances and by provisions for off-balance-sheet commitments. Risk provisions pursuant to UGB/BWG are determined and calculated in accordance with the detailed provisions of the International Financial Reporting Standards (IFRS). Specific loan loss allowances are created where there is an objective indication of credit risk, taking into account the amount of the expected loss. The size of the specific loan loss allowance is calculated on the basis of the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the provided collaterals. The calculation of portfolio-based loan loss allowances is derived essentially from the Basel II model, although internal parameters are also applied that are validated and adapted to current conditions on an ongoing basis. General loan loss provisions as defined in section 57 (1) BWG are not created. 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 in the relevant markets, and this is reflected in the measurement of available collateral for the credit and leasing portfolios. By implementing active restructuring and targeted wind-down management, Hypo Alpe-Adria-Bank International AG expects to optimally utilise securities as well as payments from other commercial papers in this respect. Moderate market recovery is anticipated from 2013 onward, particularly for high-quality properties in prime locations. A different assessment of these assumptions may result in significantly different valuations of risk provisions for loans and advances. The actual loan defaults can therefore differ from the risk provisions for loans and advances reported in these separate financial statements. Through successful liquidation and restructuring, a reduction in the volume of business and improvements in the monitoring and collections processes, the effect on the income statement for 2012 was stabilised to a large extent. Considering the current weakness in the economy, the possibility cannot be discounted that it will be necessary to make further provisions for the existing loan portfolio in 2013.

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

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

Securities forming part of the trading book are included at market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. If no quoted prices exist, the future cash flows of a financial instrument are discounted to present value using the relevant interest rate curve. Measurement is carried out by means of processes and financial calculations which are standard for this sector.

Investments in associated companies and **shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down. If an impaired investment has to be further written down as a result of a company valuation, then the size of the impairment write-down is, at maximum, the total cost of the acquisition. The intrinsic value of their carrying amounts is checked as required, and at least once a year immediately prior to the balance sheet date. The securities designated to the banking book assets reflect the value of the two investment companies accordingly. The valuation of material subsidiaries, in particular the banking and leasing subsidiaries, draws on the current business plans and applies the net discounted cash flow method, which is common practice for banks and financial institutions. The underlying base interest rate used as at 31 December 2012 was 2.25% (2011: 2.75%); country-specific market risk premiums were determined using recognised benchmark comparisons; and the Tier 1 ratio for the banking subsidiaries for the medium term of the planning period was taken to be 8.0% from 2013 and 8.5% from 2017 (EU) (prior year: 8.0% from 2012 and 8.5% from 2016); and 12.0% from 2016 and 10.0% from 2017 (non-EU and accession countries) (prior year: 12% from 2015 and 10% from 2016) (with the exception of Croatia: 10.0% from 2015 and 8.5% from 2017 (prior year: 8.0% from 2015 and 8.5% from 2016)). In exceptional cases, the DCF-based (higher) value was assumed and valuation based on the minimum expected sales price at which the company will be sold. With regard to the company values calculated there is in each case the realistic expectation of achieving this value even if there is currently not a market for disposing of the interest in the short term. Any amounts required to cover potentially negative equity in the subsidiaries, according to international accounting principles, are provided for in the year in which the loss arises.

Intangible assets, together with **tangible assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2% and 4%, for movable assets they range from 5% to 33%, and for software they are 25%. Low-value items for which the cost of acquisition is less than EUR 400 are written off immediately in the year of acquisition.

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 (before movements in reserves). 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 its term. It became evident in 2012 that it may not be possible to repay supplementary capital bonds issued by Hypo Alpe-Adria-Bank International AG at the originally agreed price due to their share in losses. The supplementary capital is measured on the basis of current company planning as well as future estimates including likely repayment amounts. The supplementary capital obligations will be reduced as the supplementary capital issued by Hypo Alpe-Adria-Bank International AG as at 31 December 2012 is expected to post a final loss and no sustainable reversals are expected. The resulting effects on profit or loss will be reported in net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets. Please refer to note (12) Supplementary and subordinated capital for further details.

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

Provisions for pensions were calculated actuarially using the unit credit method in accordance with the provisions of IAS 19 in the year under review. The so-called corridor method of distributing the actuarial gains and losses was not used. The calculation assumed an interest rate of 3.25% (2011: 4.75%) and an unchanged annual pension increase of 2.0%.

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were calculated actuarially also using the unit credit method in accordance with the provisions of IAS 19 (without applying the corridor method). The calculation used an interest rate of 3.25% (2011: 4.75%) and assumed an unchanged salary increase rate of 3.0% p. a., taking into account a deduction of 0.0% (2011: 0.0%) to reflect employee turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment.

Other provisions are based on the amounts expected to be required over and above the amounts of known liabilities. The restructuring provisions are also shown in this item; they are created in the relevant item of expense.

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the banking book or to the trading book, depending on their purpose. Pending transactions, as a matter of principle, are not recognised in the balance sheet. Derivatives allocated to the trading book (currency futures) are recognised at market value in UGB accounting and included under other assets or other liabilities. Where banking book derivatives are not being directly used to hedge an underlying transaction and are intended to hedge a risk other than a currency risk, a provision for anticipated losses – and not fully effective hedging relationships – is shown in the balance sheet for any negative market value existing on the balance sheet date. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. When measuring options, option price models based on the Black-Scholes models or the Hull-White models that take into account actual market parameters are used.

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

The demerger of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) in the 2012 financial year and the inclusion of a subportfolio by Hypo Alpe-Adria-Bank International AG means that the prior-year amounts (2011) disclosed in the annual financial statements of Hypo Alpe-Adria-Bank International AG are at times only partially comparable. Please refer to note (28) for more details.

III. NOTES TO THE BALANCE SHEET

(134) Relations with affiliated and associated companies

The following balance sheet item includes loans and advances and liabilities in respect of affiliated or associated companies:

EUR thousand

	31.12.2012	31.12.2011
A3: Loans and advances to credit institutions	**4,465,166**	**9,080,954**
of which to affiliated companies	673,905	7,628,769
of which to associated companies	0	0
of which to non-group companies	3,791,261	1,452,185
A4: Loans and advances to customers	**10,431,922**	**8,988,814**
of which to affiliated companies	4,506,918	5,863,699
of which to associated companies	0	0
of which to non-group companies	5,925,004	3,125,115
P1: Liabilities to credit institutions	**3,904,585**	**4,263,837**
of which to affiliated companies	183,865	239,518
of which to associated companies	0	0
of which to non-group companies	3,720,720	4,024,319
P2: Liabilities to customers	**1,680,748**	**1,767,537**
of which to affiliated companies	126,631	223,982
of which to associated companies	0	0
of which to non-group companies	1,554,117	1,543,555
P8: Subordinated liabilities	**1,902,163**	**895,718**
of which to affiliated companies	0	75,000
of which to associated companies	0	0
of which to non-group companies	1,902,163	820,718

Loans and advances to credit institutions fell from EUR 9.1 billion to EUR 4.5 billion in the 2012 financial year, which equates to a reduction of EUR 4.6 billion or 50.8%. This significant drop is primarily due to the demerger of subsidiary bank Hypo Alpe-Adria-Bank AG (Austria), which resulted in previous financing provided to this bank being replaced by the underlying loans and advances to customers from the transferred subportfolio received. Issued liabilities were also repaid and bought back in 2012, leading to the utilisation of the cash and cash equivalents reported under loans and advances to credit institutions in 2011 as well as to a reclassification of the cash and cash equivalents deposited at the European Central Bank, which are now reported under cash in hand, balances with other banks due to their assessed short-term nature.

Ranked in order of the largest sums of loans and advances and/or liabilities to affiliated credit institutions, they are as follows:

Loans and advances to affiliated credit institutions:
- HYPO ALPE-ADRIA-BANK S.P.A., Italy
- HYPO ALPE-ADRIA-BANK d.d., Croatia
- HYPO ALPE-ADRIA-BANK d.d., Slovenia
- HYPO ALPE-ADRIA-BANK AD BEOGRAD, Serbia

Liabilities to affiliated credit institutions:
- HYPO ALPE-ADRIA-BANK AD BEOGRAD, Serbia
- HYPO ALPE-ADRIA-BANK d.d., Slovenia
- HYPO ALPE-ADRIA-BANK AG, Austria
- HYPO ALPE-ADRIA-BANK A.D. PODGORICA, Montenegro

(135) Maturities of balance sheet items

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

EUR thousand

	31.12.2012	31.12.2011
A3: Loans and advances to credit institutions	**4,465,166**	**9,080,955**
- payable on demand	407,791	506,712
- up to three months	454,430	1,469,359
- three months to one year	656,489	1,537,354
- one year to five years	1,948,391	2,897,468
- over five years	998,065	2,670,062
A4: Loans and advances to customers	**10,431,923**	**8,988,813**
- payable on demand	981,385	625,955
- up to three months	1,525,857	1,250,277
- three months to one year	2,617,099	2,025,354
- one year to five years	3,253,737	3,038,416
- over five years	2,053,845	2,048,811
P1: Liabilities to credit institutions	**3,904,585**	**4,263,837**
- payable on demand	1,116,217	1,007,235
- up to three months	39,440	48,166
- three months to one year	1,774,036	1,270,714
- one year to five years	853,653	1,648,719
- over five years	121,239	289,003
P2: Liabilities to customers	**1,680,747**	**1,767,538**
- payable on demand	38,899	64,584
- up to three months	32,027	0
- three months to one year	184,079	127,647
- one year to five years	1,083,361	523,500
- over five years	342,381	1,051,807

Of the other loans and advances reported under the item other assets, EUR 34,083 thousand (2011: EUR 136,940 thousand) is for a term of more than one year. The same applies for EUR 293,239 thousand (2011: EUR 285,090 thousand) of the other liabilities.

(136) Securities

Information in accordance with section 64 (1) (10) and (11) BWG:

EUR thousand

	31.12.2012	31.12.2011
Treasury bills and other bills eligible for refinancing with central banks	**424,978**	**448,942**
of which listed	424,978	448,942
of which not listed	0	0
of which fixed assets	182,365	202,246
of which accrued interest	3,799	4,699
of which current assets	233,742	237,415
of which accrued interest	5,073	4,582
3. Loans and advances to credit institutions (evidenced by certificates)	**4,231**	**4,000**
of which listed	0	0
of which not listed	4,231	4,000
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	4,228	4,000
of which accrued interest	3	0
4. Loans and advances to customers (evidenced by certificates)	**253,347**	**31,327**
of which listed	0	0
of which not listed	253,347	31,327
of which fixed assets	251,171	30,266
of which accrued interest	811	1
of which current assets	1,349	1,044
of which accrued interest	15	16
5. Bonds and other fixed income securities	**623,618**	**886,502**
of which listed	623,618	885,780
of which not listed	0	722
of which fixed assets	240,250	267,164
of which accrued interest	2,761	2,536
of which current assets	374,532	608,473
of which accrued interest	6,074	8,330
6. Shares and other non-interest-bearing securities	**12,563**	**29,201**
of which listed	6,679	21,998
of which not listed	5,884	7,203
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	12,563	29,201
of which accrued interest	0	0
7. Shares in associated companies	**7,730**	**8,174**
of which listed	0	0
of which not listed	7,730	8,174
8. Shares in affiliated companies	**2,464,906**	**2,626,077**
of which listed	0	0
of which not listed	2,464,906	2,626,077

The composition of bonds and other fixed-interest securities was as follows:

	31.12.2012	31.12.2011
Issued by the public sector	**61,862**	**43,426**
Issued by others	**561,756**	**843,077**
Own issues	34,631	149,203
Domestic bonds (credit institutions)	30,742	26,082
Foreign bonds (credit institutions)	238,047	386,880
Mortgage bonds and municipal bonds	237,048	267,938
Convertible bonds	0	0
Other bonds	21,288	12,974
Total	**623,618**	**886,503**

The difference between the value of securities recognised at their higher market value and their acquisition cost (section 56 (5) BWG) comes to EUR 11,636 thousand (2011: EUR 2,254 thousand).

In 2013 fixed-income securities from the bank's own holdings shall fall due as follows: an amount of EUR 102,625 thousand (prior-year figure relating to 2012: EUR 137,246 thousand) from euro-denominated securities and EUR 5,788 thousand (prior-year figure relating to 2012: EUR 58,308 thousand) from foreign-denominated securities.

Fixed-interest securities from private issuers, which were eligible for refinancing by the Oesterreichische Nationalbank on the balance sheet date, amounted to EUR 430,654 thousand (2011: EUR 648,057 thousand).

Subordinated securities within the meaning of section 45 (2) BWG with a value of EUR 54,475 thousand (2011: EUR 72,825 thousand) were held as at 31 December 2012.

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

Securities which are classified as current assets in either the trading book or the banking book are recognised at their respective market values. Securities which are classified as financial investments are recognised in the accounts at acquisition cost or at a lower repayment amount, less write-downs for permanent impairments.

Financial investments recognised at fair value (section 237a (1) (2) UGB) are broken down as follows:

EUR thousand

	Carrying amount 31.12.2012	Losses not yet recognised 31.12.2012	Carrying amount 31.12.2011	Losses not yet recognised 31.12.2011
Treasury bills	182,365	–24,901	202,246	–32,703
Loans and advances to banks (fixed-interest securities)	0	0	0	0
Loans and advances to customers (fixed-interest securities)	251,171	–7,826	30,266	–9,836
Bonds and other fixed income securities	240,250	–17,276	267,164	–38,109
Shares in associated companies	0	0	0	0
Shares in affiliated companies	0	0	0	0
Total	**673,786**	**–50,003**	**499,676**	**–80,648**

Write-downs totalling EUR 3,960 thousand (2011: EUR 37,119 thousand) were made on financial investments where a detailed analysis revealed permanent impairment.

For financial investments for which no assumption of permanent impairment has been made, the option to make an unscheduled write-back was waived. The amount of appreciation not written back in accordance with section 208 (2) UGB comes to EUR 4,299 thousand (2011: EUR 6,253 thousand).

There were no write-backs made on financial investments in the year under review.

(137) Investments in associated and affiliated companies

Details of interests in associated and affiliated companies as required under section 238 (2) UGB are shown in Annex 3 to these notes.

In the 2012 financial year, impairment write-downs totalling EUR 263,575 thousand (2011: EUR 411,405 thousand) were made on the carrying amounts for affiliated companies. These were necessary as a result of permanent impairment or because of requirements to cover the losses of subsidiary companies.

Furthermore, revaluations of the carrying amounts for affiliated companies totalling EUR 97 thousand (2011: EUR 64,817 thousand) were made in the 2012 financial year.

(138) Intangible and tangible fixed assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Annex 1 to these notes).

As at 31 December 2012, the value of land included in land and buildings was EUR 3,087 thousand (2011: EUR 74 thousand).

(139) Other assets

The breakdown of other assets is as follows:

in EUR thousand

	31.12.2012	31.12.2011
Interest income	237,524	259,665
- of which to be paid after the closing date	190,136	204,861
Offset claim	8,723	33,384
Receivables from dividends paid out in different year to their allocation	90,611	74,483
Receivables arising from the foreign exchange valuation of banking book derivatives	20,457	39,967
Loans to affiliated companies	24,226	99,651
Receivables from trading book derivatives	14,411	19
Trade receivables	66,392	68,851
Other loans and advances	19,899	0
Total	**482,244**	**576,020**

The loans and advances to affiliated companies in the prior year relate to the capital reduction carried out at the Croatian subsidiary bank in 2011, which was paid back in 2012. The item "extraordinary expenses" includes a receivable from the Federal Ministry of Finance in the amount of EUR 18,139 thousand from a claim on a guarantee originating from the concluded guarantee agreement (see also note (29.1)). This item also includes reclaims from former owners that are recognised at EUR 1, based on commercial prudence. The nominal value of this reclaim is approximately EUR 2,300,000 thousand.

(140) Other liabilities

The breakdown of other liabilities is as follows:

in EUR thousand

	31.12.2012	31.12.2011
Interest expenses	74,905	62,015
- of which to be paid after the closing date	55,853	48,972
Clearing account balances	2,877	827
Fees and levies	6,090	14,415
Liabilities from foreign currency measurement of banking book derivatives	8,729	13,240
Liabilities from trading book derivatives	14,364	22
Trade payables	1,546	3,058
Miscellaneous liabilities	22,171	40,205
Total	**130,682**	**133,781**

Other liabilities include a sum totalling EUR 2,444 thousand (2011: EUR 10,749 thousand) under the item fees and levies which relates to the tax allocation arising from the group taxation arrangement. Miscellaneous liabilities include EUR 17,161 thousand (2011: EUR 25,537 thousand) in accruals from guarantee commissions.

(141) Deferred assets

This item includes payments which have to be spread over the term of the agreements to which they relate. The sum total of deferred assets as at 31 December 2012 was EUR 21,211 thousand (2011: EUR 19,255 thousand).

(142) Provisions

The breakdown of other provisions is as follows:

in EUR thousand

	31.12.2012	31.12.2011
Holiday not taken	2,904	3,303
Long-service bonuses	670	550
Employee performance bonuses	38	1,173
Legal and consultancy fees	15,989	32,094
Risks from the lending business	31,964	45,153
Restructuring provisions	4,208	7,660
Letters of comfort/guarantees for subsidiaries	17,899	17,086
Provisions related to issued participation capital	2,000	1,000
Miscellaneous provisions	22,106	23,131
Total	**97,778**	**131,150**

The provisions for risk from the lending business include both provisions at portfolio level amounting to EUR 3,827 thousand (2011: EUR 5,863 thousand) as well as for specific cases amounting to EUR 28,138 thousand (2011: EUR 39,291 thousand).

The bank's personnel planning and efficiency improvement programme generally intend for a reduction in employees by the end of 2017. The corresponding restructuring provisions were adjusted in 2012 to cover the currently required amount; EUR 3,452 thousand was released as a result (2011: no change).

The provisions in connection with issued participation capital concern provisions for agreed covenants arising out of the participation capital provided by the Republic of Austria in 2008. The provisions recognised in the previous year were used accordingly. EUR 2,000 thousand was newly allocated to this provision in 2012.

The amount of EUR 17,086 thousand provided for as at 31 December 2011 for obligations towards subsidiary companies was used almost completely during 2012 for capital measures to cover their losses. There were no new allocations in the financial year (2011: EUR 15,234 thousand) to cover future losses at group companies. In 2012, this item also includes provisions for pending losses in the amount of EUR 13,889 thousand, which result from an internal lease agreement for a corporate asset.

Miscellaneous provisions include EUR 5,588 thousand (2011: EUR 10,744 thousand) in provisions for potential penalties.

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

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

According to the AFRAC position paper, a provision should be formed for the ineffective parts of a derivative with a negative market value from 1 January 2011 onwards. In the case of a micro hedge, if all the parameters of the underlying transaction and the hedging transaction are identical but offset each other, this is an indicator of a fully effective hedging relationship. All micro hedges are subjected to a check at Hypo Alpe-Adria-Bank International AG and the effectiveness of the hedging relationship is documented.

.

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

- Hedge accounting of derivatives at fair value:
  For transactions designated as fair value hedges in accordance with the IFRS international accounting standards, the same assumption of a micro-hedge is made under UGB/BWG. The base parameters of all fair value hedges are identical, although opposites; and their effectiveness is measured on a monthly basis. Hedge efficiency is calculated on the basis of the cumulated theoretical change in price of the underlying transaction as well as the hedge transaction from the start of the hedge using a regression model (advanced dollar offset method) for the hedged risk factors on a monthly basis in the portfolio and risk management system (PMS). At Hypo Alpe-Adria-Bank International AG, only fair value hedges which serve to secure the market value of assets and obligations (underlying transactions) are used within the framework of hedge accounting. The underlying transactions are liabilities evidenced by certificates, subordinated liabilities and securities. The risks to be hedged concern the interest risk and the foreign currency risk. The hedging period is identical to the term of the underlying transaction.

- Hedge accounting of Fair Value Option derivatives:
  In IFRS it is assumed that FVO transactions will have a compensatory effect between underlying and hedge transactions. The connection is documented in this way. These transactions constitute identical, offsetting hedges, as the basic parameters of the underlying and hedge transactions match. For this reason, no provision was created. The derivatives are used to hedge liabilities evidenced by certificates, subordinated liabilities and securities. The risks to be hedged concern the interest risk and the foreign currency risk. The hedging period is identical to the term of the underlying transaction.
  A part of the takeover of the demerger portfolio of Hypo Alpe-Adria-Bank AG as at 1 September 2012 (with retrospective effect as at 1 January 2012), provisions in the amount of EUR -0.5 million were recognised for one measurement unit, which is comprised of a loan (acquisition of Leasing Windpark Eifel receivable) and a derivative hedging transaction.

- Hedge accounting of stand-alone derivatives:
  The remaining swap portfolio – cross-currency swaps and so-called mirror transactions for which the bank acts as counterparty for the external market participant and which are subsequently passed on to group companies – is monitored and included in the calculations. Hypo Alpe-Adria-Bank International AG uses cross-currency swaps to exchange currency liquidity; every cross-currency swap is treated as a measurement unit with its own counterpart as at 31 December 2012. This relationship is also documented. Mirror transactions are interest rate swaps, and care is taken to ensure the market values compensate for each other to a large extent. If there is a negative balance at individual transaction level, a provision must be formed. Provisions of EUR 0.6 million were recognised as at 31 December 2012.

Hypo Alpe-Adria-Bank International AG required provisions totalling EUR 1,230 thousand (2011: EUR 652 thousand) in this respect as at 31 December 2012.

(143) Information on risk provisions

Risk provisions were created for:

in EUR thousand

	31.12.2012	31.12.2011
Loans and advances to credit institutions	**2,412**	**13,064**
Specific risk provisions	2,412	13,064
Portfolio-based provisions	0	0
Loans and advances to customers	**1,385,687**	**1,229,155**
Specific risk provisions	1,352,482	1,203,813
Portfolio-based provisions	33,205	25,342
Off-balance-sheet risks from the lending business	**31,965**	**45,154**
Individual provisions	28,138	39,291
Portfolio-based provisions	3,827	5,863
Total	**1,420,064**	**1,287,373**

For credit defaults existing on the balance sheet date but not yet identified as such, a portfolio value adjustment of EUR 37,032 thousand (2011: EUR 31,205 thousand) was created.

(144) Deferred liabilities

This item contains income which must be spread over the term of the agreement to which it relates. The sum total of deferred liabilities as at 31 December20 12 came to EUR 45,262 thousand (2011: EUR 55,548 thousand) and includes up-front payments received on derivative transactions.

Deferred liabilities primarily include an amount of EUR 43,176 thousand (2011: EUR 52,988 thousand) reflecting the recognition in the income statement of the unwinding of swaps forming part of other transactions.

(145) Supplementary and subordinated capital

Supplementary and subordinated capital cannot be repaid prematurely, nor can it be pledged or assigned. In the event of liquidation or insolvency, the entitlements rank behind all other creditors' claims, and may not be set off against receivables of the bank.

The carrying amount of supplementary capital (excluding deferred interest) as at 31 December 2012 was EUR 0 thousand (2011: EUR 245,424 thousand). The carrying amount of subordinated capital (excluding deferred interest) came to EUR 1,891,255 thousand (2011: EUR 886,469 thousand). The bank held capital with a nominal value of EUR 0 thousand (2011: EUR 31,987 thousand). The carrying amount of the subordinated capital in accordance with the provisions of section 23 (8) BWG was EUR 1,571,255 thousand (2011: EUR 555,469 thousand). The supplementary and subordinated capital has a remaining term ranging from 2 years to over 5 years.

Hypo Alpe-Adria-Bank International AG has in the past issued supplementary capital pursuant to section 23 (7) BWG, which in accordance with regulations has been allocated to own capital funds. 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 none of the previous financial statements for the financial years ending 31 December 2007 to 2011 nor the current financial statements for the financial year ending 31 December 2012 meet this criterion, and following the formal adoption of the financial statements, interest on the supplementary capital issues may not be paid out.

According to the specific legal provisions, payment of interest may only be resumed when subsequent adopted financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (before movements in reserves) have been shown.

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 its term. This means that the losses must be allocated in proportion to the paid-in capital in accordance with section 23 (3) BWG and to the supplementary capital (pari passu) of the supplementary capital bond in question. The loss allocation must be applied not only in the case of redemption at term but also in the event of premature repayment by giving notice on the issue or through a premature buy-back of the issue. Please refer, in this connection, to the claim brought against Hypo Alpe-Adria-Bank International AG by UniCredit Bank AG for the payment of the nominal value plus all non-paid interest charges relating to a supplementary capital bond, which reached final maturity in April 2011 and was redeemed at no value because of the loss allocation provision applicable to it (see note (29.) Important proceedings).

Hypo Alpe-Adria Bank International AG made an offer to investors dated 29 February 2012 to buy back in cash hybrid capital issued through two companies in Jersey and recognised as supplementary or subordinated capital in the separate financial statements of Hypo Alpe-Adria-Bank International AG at a nominal value of up to EUR 225.0 million. The offer was open until 22 March 2012. Hybrid capital totalling approx. EUR 165.0 million (from both issues) was taken out of the market. The take-up quota was more than 70%. The buyback was implemented on 27 April 2012. The buyback marks a further step towards restructuring and improving the capital structure, as hybrid capital will no longer count as core capital under Basel III. Following the buyback, approximately EUR 60.0 million of hybrid capital is still on the market.

In December 2012, Hypo Alpe-Adria-Bank International AG offered to buy back four supplementary capital bonds from shareholders. This buyback offer was part of the group's current capital management, which aims to improve capital resources by increasing core capital. The invitation was approved by the European Commission in the dedicated consultation proceedings within the context of the ongoing state-aid investigation. The bank bought back and withdrew a nominal total of EUR 8.6 million of the EUR 55.0 million in (nominal) supplementary capital subject to the buyback.

Taking into account the loss allocation required by law, a complete financial loss in relation to the remaining supplementary capital issues by Hypo Alpe-Adria-Bank International AG has been established. As previous statistics (net loss for the year based on the figures as at the balance sheet date) had already assumed that investors would see a total loss, it is almost impossible for a reversal to occur prior to the end of the term of the instruments, even from a dynamic perspective (when including forecasts). On the basis of the significant change in forward-looking assessment, future cash flows to investors had to be adjusted so that no further positive supplementary capital was reported. In the 2012 financial year, the supplementary capital was therefore written down to the expected repayment amount. Please refer to note (25) for the resulting effects.

Hypo Alpe-Adria-Bank International AG placed a subordinated bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375% p.a. on the nominal value. The Republic of Austria has given an unconditional and irrevocable guarantee, and has received the necessary provisional approval of the European Commission. In exchange for the guarantee, Hypo Alpe-Adria-Bank International AG has undertaken to pay the Republic of Austria a guarantee fee as calculated by the European Commission.

No subordinated loans were taken out in 2012 apart from the previously mentioned subordinated bond of EUR 1.0 billion. The subordinated capital which exceeds 10% of the total sum for subordinated liabilities of EUR 1,902,163 thousand (2011: EUR 1,141,839 thousand), and which thus exceeds EUR 190,216 thousand, breaks down as follows:

	ISIN	Nominal in EUR m	Due date	Interest rate
2.375% HAAB GUARNT.NTS 12–22	XS0863484035	1,000	00.01.1900	2.375
FRN HAAB VAR.ANL 07/17	XS0283714896	230	23.01.2017	variable

The terms and conditions for the subordinated liabilities shown above, as well as for all subordinated liabilities, comply with the provisions of section 23 (8) BWG.

The total expenses paid for subordinated liabilities in the year under review came to EUR 30,672 thousand (2011: EUR 29,715 thousand).

(146) Issued capital

The share capital in Hypo Alpe-Adria-Bank International AG as at the reporting date amounts to EUR 969,097 thousand (2011: EUR 469,097 thousand) and is divided into 396,288,732.00 (2011: 191,825,860.00) no-par bearer shares.

The extraordinary shareholders' meeting on 13 December 2012 resolved to increase the company's share capital by EUR 500,000 thousand by issuing 204,462,872 new no-par bearer shares. The resolution intended for the new shares to be issued at the pro-rata amount of share capital per individual no-par bearer share (excluding premium). The sole shareholder (Republic of Austria) had the subscription right for newly issued shares.

As a result of the resolution passed in the general shareholders' meeting for Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed in the extraordinary shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Hypo Alpe-Adria-Bank International AG and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 275,111 thousand (18,000 participation certificates each with a value of EUR 15.28394848). Under section 23 (3) (8) BWG there is no obligation to make back-payments of dividends on participation capital.

On the basis of the issue agreement and by applying section 102 BWG, the Republic of Austria is in principle entitled to exchange all the participation certificates it owns, at a conversion price to be determined in accordance with the conditions for the participation certificates, into no-par bearer shares in Hypo Alpe-Adria-Bank International AG.

The participation capital subscribed to by the previous owners in the course of the change in ownership of Hypo Alpe-Adria-Bank International AG which became effective on 29 December 2009 currently has a value, after allocation of losses and the capital reduction, of EUR 64,429 thousand.

According to the conditions for subscribing to the issue of participation capital in 2009, the holders of participation capital will be entitled to a dividend of 6.0% p.a. for the first time in the 2013 financial year, provided that this is covered by net income for the year after movements in reserves of Hypo Alpe-Adria-Bank International AG and the payment of dividends on the participation capital totalling EUR 275,111 thousand and held by the Republic of Austria, and that the relevant resolution has been passed by the Boards.

Participation capital is reported at its nominal amount under equity in the item issued capital in the separate financial statements for Hypo Alpe-Adria-Bank International AG. In the event of the liquidation of the issuer, holders of participation capital have the same rights to the proceeds of liquidation as holders of similarly-ranked capital; during its term, with the exception of capital corrections, no ongoing allocation of earnings is made. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is sufficient annual profit after movement in reserves.

(147) Reserves

Changes in capital, revenue and liability reserves were as follows:

in EUR thousand

	At start of year 1.1.2012	Additions	Reversals	Stock at end 31.12.2012
Capital reserves	0	0	0	0
Revenue reserves	0	0	0	0
Liability reserves	247,165	0	0	247,165

There were no changes to the reserves during the financial year. There were no untaxed reserves as at 31 December 2012.

IV. OFF-BALANCE-SHEET ITEMS

(148) Derivative financial instruments

The following transactions were unsettled as at 31 December 2012:

in EUR thousand

		Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
a)	**Interest-related business**				
	OTC-products	**15,660,404**	**15,660,404**	**1,452,284**	**633,775**
	Interest rate swaps	15,615,995	15,615,995	1,451,949	633,439
	Interest swaptions	0	0	0	0
	Forward rate agreements	0	0	0	0
	Cap, Floor	44,409	44,409	335	335
	Exchange-traded products	**0**	**0**	**0**	**0**
	Future bond	0	0	0	0
b)	**Currency-related business**				
	OTC-products	**3,776,025**	**3,771,144**	**119,625**	**328,737**
	Currency swaps	1,492,277	1,492,277	105,762	320,760
	Cross currency swaps	2,282,080	2,277,199	13,857	7,971
	Forward exchange contracts	1,668	1,668	7	6
	Currency swaptions	0	0	0	0
	Exchange-traded products	**0**	**0**	**0**	**0**
c)	**Securities-related business**				
	OTC-products	**0**	**0**	**0**	**0**
d)	**Other**				
	OTC-products	**0**	**0**	**0**	**0**
	Credit Default Swaps	0	0	0	0
	Total Return Swaps	0	0	0	0
	Exchange-traded products	**0**	**0**	**0**	**0**

The majority of derivative transactions are used to hedge against fluctuations in interest rates, exchange rates or market prices. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities.

The comparative values as at 31 December 2011 were:

EUR thousand

	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
a) Interest-related business				
OTC-products	**16,959,976**	**16,960,417**	**1,470,545**	**–495,061**
Interest rate swaps	16,916,153	16,916,153	1,469,599	–496,007
Interest swaptions	4,800	4,800	84	84
Forward rate agreements	0	0	0	0
Cap, Floor	39,023	39,464	862	861
Exchange-traded products	**0**	**0**	**0**	**0**
Future bond	0	0	0	0
b) Currency-related business	**0**	**0**	**0**	**0**
OTC-products	**4,008,487**	**3,991,561**	**205,744**	**335,091**
Currency swaps	1,938,340	1,938,340	182,323	325,780
Cross currency swaps	2,068,289	2,051,360	23,402	9,290
Forward exchange contracts	1,858	1,861	19	22
Currency swaptions	0	0	0	0
Exchange-traded products	**0**	**0**	**0**	**0**
c) Securities-related business	**0**	**0**	**0**	**0**
OTC-products	**0**	**0**	**0**	**0**
d) Other	0	0	0	0
OTC-products	**30,000**	**30,000**	**0**	**21,336**
Credit Default Swaps	30,000	30,000	0	21,336
Total Return Swaps	0	0	0	0
Exchange-traded products	**0**	**0**	**0**	**0**

(149) Liability for commitments issued through the "Pfandbriefstelle"

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG is, 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 approximately EUR 7.6 billion as at the reporting date 31 December 2012 (2011: EUR 9.0 billion). This equates to almost the entire sum of the Pfandbriefstelle's liabilities as at 31 December 2012. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Hypo Alpe-Adria-Bank International AG, in the amount of EUR 1.3 billion (2011: 1.4 billion), the resulting amount which must be reported in accordance with section 237 (8a) UGB comes to EUR 6.4 billion (2011: 7.6 billion).

(150) Other off-balance-sheet financial obligations

The financial obligations shown as below-the-line items in the balance sheet are as follows:

EUR thousand

	31.12.2012	31.12.2011
Contingent liabilities	**313,375**	**357,745**
Guarantees and other collateral securities	297,888	306,653
Letters of credit	15,487	21,093
Contingent guarantees from credit derivatives	0	30,000
Loan exposures	**929,726**	**1,069,198**

Loan exposures comprise unused credit lines of EUR 929,726 thousand (2011: EUR 1,069,198 thousand).

In addition to the contingent liabilities disclosed below the line, there is also an obligation with respect to the obligatory membership of “Hypo-Haftungs-Gesellschaft m.b.H” in relation to the safety of deposits under section 93 BWG.

There is also another financial obligation consisting of a joint surety for the mortgage bonds issued by the Pfandbriefstelle (Mortgage Bond Division of the Austrian State Mortgage Banks).

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank International AG will amount to EUR 1,959 thousand in the 2013 financial year (prior-year figure relating to 2012: EUR 2,067 thousand) and EUR 9,163 thousand in total for financial years 2013 to 2017 (prior-year figure relating to 2012 to 2015: EUR 9,678 thousand).

In addition to the contingent liabilities and loan exposures shown below the line, there are liquidity guarantees and letters of comfort to individual group companies to an extent that is customary for the business. Nearly all group companies are dependent on the provision of liquid funds and own funds by Hypo Alpe-Adria-Bank International AG for the continuation and maintenance of their business activities. This applies particularly to the group’s leasing subsidiaries, which do not have access to their own sources of funding or liquidity and must therefore be financed by the ultimate holding company, as a result of which the risk of material loss also transfers to the bank providing the credit. Where these companies do not have sufficient own funds available which are not compensated by positive results during the planning period, thus placing the servicing of internal lines of refinancing for the group at risk, a recapitalisation of the company in question, which is shown as expense, is carried out by Hypo Alpe-Adria-Bank International AG.

There are no profit and loss transfer agreements or other obligations on the basis of which Hypo Alpe-Adria-Bank International AG would be obliged to absorb the losses of related group companies.

In 2011 Hypo Alpe-Adria-Bank International AG signed a purchase option agreement obliging it to acquire the leased real estate pertaining to the headquarters in Klagenfurt once the leasing agreements reach their term in 2019 to 2022, if requested in writing by its indirect subsidiary Hypo Immobilien- und Bauconsult GmbH.

(151) Fiduciary transactions

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

EUR thousand

	31.12.2012	31.12.2011
Loans and advances to credit institutions	0	0
Loans and advances to customers	39,265	0
Securities and shares in associated companies	0	0
Other trust assets	0	0
Trust assets	**39,265**	**0**
Liabilities to credit institutions	39,265	0
Liabilities to customers	0	0
Other fiduciary liabilities	0	0
Fiduciary liabilities	**39,265**	**0**

Trust income and expenses were as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
Trust income	100	0
Trust expenses	0	0

V. NOTES TO THE INCOME STATEMENT

(152) Regional breakdown of income and expense

Interest income and expense is shown as a regional breakdown, with allocation to a region dependent on the location of the registered office of the company.

EUR thousand

Interest and similar income	1.1-31.12.2012	1.1-31.12.2011
Loans and advances to credit institutions and customers	**392,917**	**482,105**
of which Austria	38,147	51,920
of which International	354,770	430,185
Fixed-income securities	**51,057**	**40,356**
of which Austria	21,678	6,851
of which International	29,379	33,505
Other assets	**521,367**	**612,044**
of which Austria	521,348	612,015
of which International	19	29

EUR thousand

Interest and similar expenses	1.1-31.12.2012	1.1-31.12.2011
Liabilities to credit institutions and customers	**192,546**	**226,272**
of which Austria	6,180	4,402
of which International	186,366	221,870
Debt evidenced by certificates	**404,779**	**485,919**
of which Austria	404,779	485,919
of which International	0	0
Other liabilities	**294,051**	**368,346**
of which Austria	289,674	364,025
of which International	4,377	4,321

(153) Income from participations

Income from participations for the purposes of section 238 (4) UGB was as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
Dividends recognised in parent's accounts during the year earned, rather than the year the resolution was passed to distribute profit:	**90,101**	**75,447**
Norica Investment Ltd., Jersey	6,735	4,661
Hypo Alpe-Adria-Bank S.p.A., Udine	0	45,388
HYPO ALPE-ADRIA-BANK AG, Klagenfurt	48,000	6,116
Hypo Alpe-Adria-Bank d.d., Zagreb	34,585	5,600
HYPO ALPE-ADRIA-BANK AD BEOGRAD	0	12,236
HBInt Credit Management Limited, Jersey	781	1,446
Dividends received	**5,441**	**8,416**
HYPO ALPE-ADRIA-BANK AG, Klagenfurt	1,084	0
Hypo Group Netherland Holding B.V., Amsterdam	0	3,755
Hypo Consultants Holding GmbH	260	0
HBInt Credit Management Limited, Jersey	4,011	4,092
Other	86	569
Total	**95,542**	**83,863**

Impairment write-downs and other income and expenses connected to participations arising in 2012 are shown under the items “13./14. Net income/expense from remeasurement disposal of securities treated as financial asset, and from investments in associated and affiliated companies”.

(154) Net fee and commission income

The breakdown of fee and commission income and expenses is as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
From the lending business	**–16,672**	**–3,957**
Fee and commission income	12,280	19,948
Fee and commission expenses	–28,952	–23,905
From the securities business	**–1,009**	**–713**
Fee and commission income	75	195
Fee and commission expenses	–1,084	–908
From other transactions	**150**	**–837**
Fee and commission income	678	281
Fee and commission expenses	–528	–1,118
Total	**–17,531**	**–5,507**

Fee and commission expenses amounting to EUR 19.6 million in the 2012 financial year (2011: EUR 20.0 million) are as a result of the liability commission paid to the Republic of Austria in conjunction with the EUR 200 million guarantee agreement dating from 2010 (please also see note (31)).

(155) Other administration expenses (operating expenses)

The breakdown of other administration expenses is as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
Legal and consultancy costs	15,840	41,595
Liability costs for government-guaranteed issues	10,737	9,617
Advertising expenses	1,129	2,446
Rental and leasing expenses	5,035	4,743
IT costs	3,433	3,071
Data centre costs	2,010	1,690
Training expenses	1,264	977
Issue costs	861	50
Travel expenses	1,423	1,504
Fleet costs	926	1,146
Insurance	1,400	1,284
Telephone/postage costs	586	814
Costs in connection with company legal structure	205	206
Office/stationery costs	107	155
Miscellaneous operating expenses	4,276	25,523
Total	**49,232**	**94,821**

As a result of Hypo Alpe-Adria-Bank International AG's function as a holding company, some of the centrally procured third-party services, in particular the marketing expenses, are charged out to the group companies and the income from this is shown as other operating income.

(156) Other operating income

The breakdown of other operating income is as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
Income from rental and leasing contracts	469	8
Income from release of provisions	11,722	17,630
IC group internal charging	12,735	21,237
Other operating income	2,553	15,706
Income from selling real estates	55	63
Total	**27,534**	**54,644**

(157) Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets

In the 2012 financial year, this item in the total amount of EUR -15,033 thousand contained EUR 68,014 thousand in income from the impairment write-down of supplementary capital bonds issued by Hypo Alpe-Adria-Bank International AG. As these bonds are expected to generate a total loss for investors, the repayment amount had to be reduced – at least to a "market-induced" value. The buyback of parts of the supplementary capital bonds at prices between 1.5% and 4% (excluding the 10% investor "incentive premium" approved by the European Commission) in December 2012 generally ensured such value as implied by the market.

(158) Extraordinary result

The extraordinary result of EUR 7,357 thousand (2011: EUR -15,950 thousand) includes the results from the buybacks of hybrid and supplementary capital in February and December 2012 in the total amount of EUR 165,128 thousand. This item also includes the resulting allocation to the fund for general banking risks in the amount of EUR 153,000 thousand.
In addition, the extraordinary result includes the expenses from dealing with the past of the Hypo Alpe Adria Group. The expenses arising to the bank primarily relate to forensic and legal consultancy costs, as well as accruals for the costs of legal proceedings. The item includes both costs which have been incurred in 2012 as well as estimates of future costs which the bank will incur from dealing with individual cases. In the 2012 financial year, expenses came to EUR -6,368 thousand (2011: EUR -15,950 thousand).

VI. SUPPLEMENTARY INFORMATION

(159) Assets pledged as collateral pursuant to section 64 (1) (8) BWG

Assets classed as other current assets and with a value of EUR 1,335,701 thousand (2011: EUR 1,286,679 thousand) were pledged as collateral for liabilities to credit institutions, in accordance with section 64 (1) (8) BWG.

The affected assets, primarily cash collaterals and securities held at Oesterreichische Nationalbank (OeNB), will continue to be recognised in Hypo Alpe Adria's balance sheet.

EUR thousand

	31.12.2012	31.12.2011
Loans and advances to credit institutions	378,162	275,109
Securities	957,539	1,011,570
Total	**1,335,701**	**1,286,679**

The loans and advances to credit institutions result from cash collaterals which are typical for the sector, pledged in connection with negative fair value from derivatives. Cash collaterals received for positive fair value are shown as liabilities to credit institutions.

Securities of EUR 152,745 thousand (2011: EUR 60,435 thousand) were lent within the scope of the securities lending business.

(160) Liabilities evedenced by certificates falling due in the following year

In 2013, liabilities evedenced by certificates as defined in section 64 (1) (7) BWG issued by Hypo Alpe-Adria-Bank International AG and amounting to EUR 2,201,095 thousand (prior-year figure relating to 2011: EUR 2,277,276 thousand) shall become due.

(161) Demerger of Hypo Alpe-Adria-Bank AG (Austria)

In April 2012, the Executive Board of Hypo Alpe-Adria-Bank International AG resolved to prepare the demerger of Hypo Alpe-Adria-Bank AG (Austria) on the basis of the financial statements as at 31 December 2011 to support the ongoing sales process of the subsidiary bank Hypo Alpe-Adria-Bank AG (Austria). The strategic core business ("Core Area") will remain at Hypo Alpe-Adria-Bank AG (Austria) and defined, non-strategic assets and business areas ("Non-core Area") will be taken over by Hypo Alpe-Adria-Bank International AG. Total demerged assets amounted to around EUR 1.98 billion. Pursuant to section 15 of the Austrian Demerger Act (SpaltG), there is a joint and several liability for the receiving company covering the transferring company's liabilities dating back to the period until entry of the demerger in the commercial register up to the amount of the received net assets. For Hypo Alpe-Adria-Bank International AG, this liability is limited to an amount in the low two-digit million range.

Hypo Alpe-Adria-Bank International AG takes advantage of the option to carry forward the carrying amount of the received assets pursuant to section 202 (2) (1) UGB.

The shareholders' meeting of Hypo Alpe-Adria-Bank International AG approved the demerger on 10 August 2012. The Financial Markets Authority also approved the demerger pursuant to section 21 (1) (6) BWG in its notification dated 13 August 2012. The demerger and takeover agreement was entered in the commercial register on 5 September 2012 and the demerger has therefore been legally effective as from that date.

The objective of the demerger is to change Hypo Alpe-Adria-Bank AG (Austria) into a marketable bank without major risk portfolios that holds all licences required for permanent banking operations.

(162) Important proceedings

162.1. EU restructuring proceedings

The guarantee agreement concluded at the end of December 2010 with the Republic of Austria (see note (31) Guarantee agreement) was provisionally approved by the European Commission and the decision was published at the start of 2012. The approval was made subject to the Commission approving the bank's restructuring plan based on the state aid provided through the emergency nationalisation in 2009.

The updating of the restructuring plan was discussed in a meeting held in Brussels in November 2012. As agreed, this was presented to the shareholders at the beginning of February 2013 so that it could then be submitted to the European Commission.

In response to the sovereign debt crisis in the eurozone and its effects on the European financial sector, the worsening of economic conditions in Europe and in particular in the Hypo core regions of South-Eastern Europe and the conclusion reached by the supervisory authorities in the Joint Risk Assessment Decision (JRAD) process that there is a requirement for additional capital for the bank (see note (32) Own capital funds as defined by the Austrian Banking Act), Hypo Alpe-Adria-Bank International AG has sharpened its strategy. This has included adjusting planning to take account of the worsened economic forecasts and, amongst other measures, resolving to switch the subsidiaries to self-financing through local deposits from 2012 onwards. As a measure to cover the additional capital requirement, a state-guaranteed bond was issued in the amount of EUR 1.0 billion and a EUR 500.0 million capital increase was carried out, both in December 2012. The measures result from the increased minimum capital requirements set by the Austrian Financial Market Authority as part of its JRAD1 notification; this was formally registered by the European Commission on 3 December 2012, which then granted preliminary approval on 5 December 2012. In its approval decision, the European Commission confirmed limits on state-aid measures granted to the minimum required, and the appropriateness of the planned non-profit linked guarantee remuneration and the issue terms and conditions for the new shares to be granted as part of the capital increase. The state guarantee for the subordinated bond will also comply with the rules on state aid if the guarantee remuneration is linked to profit – as proposed.

Following the capital measures, the European Commission imposed conditions (Behavioural Measures) with a decision dated 5 December 2012; the Behavioural Measures came into force on 1 January 2013 and mainly relate to the management of new business and represent a catalogue of measures designed to ensure the recoverability of new financing. The requirements stipulate, among other things, specific levels of creditworthiness, collateralisation ratios and terms, regulate the issue of foreign currency loans, and boost the level of self-refinancing by improving the loan-to-deposit ratio within a certain period of time. The group's Executive Board, in consultation with the European Commission, has assigned a Monitoring Trustee, who is responsible for monitoring the requirements mentioned above, and will arrange for the immediate implementation of the "Behavioural Measures" and the resulting reporting obligations at Hypo Alpe-Adria-Bank International AG and the units concerned. In the context of the final decision of the European Commission it is intended to adjust the Behavioural Measures in line with the market, meaning that the actual implementation may still change.

Negotiations with the European Commission in the state-aid proceedings are now in the end phase; the European Commission expects to conclude its investigation in 2013. The authorities in Brussels are, in principle, satisfied with the strategy being pursued by the bank following its restructuring. The – in part – massive turbulence in the financial markets in general and in the region of South Eastern Europe in particular, the scale of which was unexpected, is leading all concerned to focus on the possible modification of the timescales and deadlines involved, as well as the income to be raised from the reprivatisation of the three tendered banking operations (Austria, Italy and the SEE network). Potential scenarios and their ramifications were presented to the European Commission in a paper and are being discussed on an ongoing basis in close cooperation with representatives of the owner. All parties have stated their intention to bring the proceedings to a conclusion and to implement the actions agreed in 2013. However, at the time of writing, it cannot be estimated with any degree of certainty when the EU state-aid proceedings will in fact 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.

162.2. Proceedings relating to BayernLB

Hypo Alpe-Adria-Bank International AG, together with experts, has thoroughly analysed whether the financing extended to Hypo Alpe Adria by the former shareholder BayernLB since 2008 constitutes an equity-substituting shareholder's loan. On the basis of this investigation the criteria for a qualification as replacement equity as stated in the law on equity substitution (Eigenkapitalersatz-Gesetz, EKEG) are seen to be met in certain cases. Under section 14 EKEG, equity substitution means a suspension of the repayment of the majority of funds provided by BayernLB. Accordingly, repayments on the relevant funds have to be suspended until a sustainable restructuring of Hypo Alpe Adria has been achieved and reclaiming by BayernLB is not permitted until such time. Payments already made on the majority of received funds have to be reclaimed from BayernLB. At present, the outstanding loans granted by BayernLB to Hypo Alpe Adria have a total volume of approximately EUR 2.3 billion. Moreover, Hypo Alpe-Adria-Bank International AG has also made repayments and interest rate payments also totalling approximately EUR 2.3 billion on the loans granted by BayernLB since 2008. Hypo Alpe-Adria-Bank International AG has lodged a statement of defence against the declaratory action of BayernLB. Existing reclaims (pursuant to section 14 EKEG) of EUR 1 were included in the consolidated financial statements in light of the pending proceedings.

At the end of June 2011 Hypo Alpe-Adria-Bank International AG filed an application at the Commercial Court in Vienna for a declaratory judgement on BayernLB, with a total claim value of EUR 0.5 million. Specifically it is about the interpretation of two provisions in the agreement to sell its shareholding, concluded between BayernLB, the Republic of Austria and Hypo Alpe-Adria-Bank International AG. Clarification is sought on whether BayernLB may continue to charge Hypo Alpe-Adria-Bank International AG higher interest rates for loans and advances as a result of Hypo Alpe Adria ceasing to be part of the BayernLB group of credit institutions, and whether lines of credit according to the shareholding sales agreement are covered by BayernLB's waiver. At the end of April 2012, BayernLB filed a lawsuit against Hypo Alpe-Adria-Bank International AG for the payment of consulting fees. The background to this is the commissioning by BayernLB at the end of 2008 of a consulting company to deliver consultancy and support services as part of a restructuring project for Hypo Alpe-Adria-Bank International AG. Both cases were settled in August 2012.

BayernLB filed a claim in July 2011 against the HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS) calling for the reversal of share purchase agreements made in 2007 and concerning the acquisition of a total of 175,316 shares in Hypo Alpe-Adria-Bank International AG on the grounds of intent to mislead in conjunction with the eligibility to count as equity the preference shares that had been issued by Hypo Alpe-Adria-Leasing Holding AG (now HETA Asset Resolution GmbH). The sum in dispute, originally set at EUR 50.0 million, was reduced to EUR 10.0 million by BayernLB in a hearing on 14 March 2012. MAPS has served a third-party notice on Hypo Alpe-Adria-Bank International AG on the grounds that the actions of supporting the due diligence process and drawing up the consolidated financial statements as at 31 December 2006, in which the preference shares were shown as equity, could, as the actions of employees and executive bodies of Hypo Alpe-Adria-Bank International AG, be attributed to the same. Hypo Alpe-Adria-Bank International AG has joined these proceedings as a third-party intervener. Subsequently, Hypo Alpe-Adria-Bank International AG served third-party notices on potential recourse parties, so as not to rule out claims to recourse by Hypo Alpe-Adria-Bank International AG in the event that MAPS should make a claim. The court did not allow these and many of the other third-party interveners, who had also stated that they intend to intervene. Negotiations regarding the extensive taking of evidence in the main proceedings are expected to be completed by the end of summer 2013.

162.3. Other proceedings

a) Proceedings relating to the State of Carinthia

In a judgement by the Regional Court in Klagenfurt dated 27 April 2012, the claim by the State of Carinthia for the payment of guarantee commission for 2010 totalling EUR 6.2 million plus interest was admitted. This judgement has in the meantime become final; the amount of guarantee commission in dispute – including interest and court costs – has already been paid. Please refer to note (30) Guarantee by the State of Carinthia for details on the guarantee commission for 2011.

In December 2011 an application for a declaratory judgement against the bank was made by the State of Carinthia as a participant in connection with the capital reduction resolution passed at the general shareholders' meeting on 30 May 2011. Essentially the plaintiff claims that the loss allocated to the participation capital is invalid and the entitlement of the participant involved to future interest payments should be on the basis of the nominal value of the capital prior to the reduction. The claim submitted has no effect in terms of company law on the capital reduction which has already been registered and is legally valid; nor on the capital increase which took place on 30 June 2011. The application for a declaratory judgement was upheld in the first instance by the Commercial Court in Vienna in a judgement dated 16 July 2012. Hypo Alpe-Adria-Bank International AG appealed against this judgement of the first instance with due notice. The matter now rests with the court of appeal.

b) Proceedings relating to loans and participations

At the end of 2010, a borrower filed a lawsuit against Hypo Alpe-Adria-Bank d.d., Zagreb, and against Hypo Alpe-Adria-Bank International AG. The action was only formally brought against Hypo Alpe-Adria-Bank International AG in November 2012: 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 million.

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. The complaint was answered in due time. A committee of creditors for one of the joint plaintiffs, which has since become insolvent, has withdrawn this complaint. The cases against the other joint plaintiffs continue.

Hypo Alpe-Adria-Bank International AG had previously held a 49% share in the Liechtenstein bank Alpe Adria Privatbank AG i.L.; the remaining 51% of the shares were held by AAP Holding AG, a company based in Liechtenstein. The 51% share previous held by AAP Holding AG was acquired by Hypo Alpe-Adria-Bank International AG in 2012; this transaction was concluded on 19 September 2012. The liquidation of Alpe Adria Privatbank AG i.L. resolved at the general shareholders' meeting in April 2009 is at an advanced stage. Investigations are being conducted, involving the authorities in Liechtenstein and Austria, into various facts and suspicions which show a connection to Liechtenstein, in order to make it possible for Hypo Alpe Adria to examine and pursue any further claims for damages. After consulting with the Liechtenstein FMA and the liquidator, an interface between Hypo Alpe-Adria-Bank International AG and AAP in liquidation is currently under development. Investigations relating to the processing of past cases in Liechtenstein are likely to last for the whole of 2013.

c) Proceedings relating to investors and experts

At the beginning of April 2012 UniCredit Bank AG filed a claim at the Regional Court in Klagenfurt against Hypo Alpe-Adria-Bank International AG. In this claim he asserted for damages and warranty and an application is made for a declaratory judgement. Specifically, the plaintiff calls for the repayment of the nominal value (including statutory interest on arrears) of a supplementary capital bond issued by Hypo Alpe-Adria-Bank International AG and redeemed in April 2011 at no value due to the statute on loss allocation contained in section 23 (7) (3) BWG. The plaintiff also calls for the payment of interest due on the bond from April 2009 to April 2011, including statutory interest on arrears. Hypo Alpe-Adria-Bank International AG takes the view that the redemption of the bond at no value upon reaching final maturity was correct (see also note (12) Servicing of subordinated capital).

The former consultant who had filed a lawsuit against Hypo Alpe-Adria-Bank International AG based on a consulting contract in October 2009 for payment of unpaid fees totalling EUR 65 thousand, has, based on the same consulting contract, filed a further lawsuit seeking payment of unpaid fees totalling EUR 576 thousand and seeking a declaratory judgement confirming entitlement to additional fees. Hypo Alpe-Adria-Bank International AG assumes that the claims have no basis in law. The second of the proceedings relating to EUR 576 thousand has been interrupted until a legally binding decision has been reached in the first case.

d) Proceedings regarding the involvement of former shareholders

On 21 March 2012, Hypo Alpe-Adria-Bank International AG filed a suit against original shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, Kärntner Landes- und Hypothekenbank-Holding and B & Co BeteiligungsgmbH as well as a total of nine former Executive and Supervisory Board members (so-called "consultants" civil suit). The sum in dispute is EUR 50.1 million, of which EUR 50 million is for demands for performance of obligations and EUR 100 thousand for declaratory relief. The claims made relate to what Hypo Alpe-Adria-Bank International AG considers the undue distribution of a disproportionate special dividend to the above-mentioned shareholders in 2008 for the 2007 financial year. In a submission dated November 2012, one of the joint defendants, B & Co BeteiligungsgmbH, filed a counterclaim during the proceedings for EUR 250.0 million due to assumed deception when acquiring shares relating to a Hypo Alpe-Adria-Bank International AG capital increase in 2006 to be offset against the claim (and up to that amount); the company also addressed this purported claim out of court. Hypo Alpe-Adria-Bank International AG does not believe this counterclaim to be valid. The first hearings regarding the oral hearings are expected to be held in April 2013.

(163) Guarantee by the State of Carinthia

The legal guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as commitments entered into between 3. April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The State will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) provides for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid. Availing themselves of the contractually agreed rights to termination, notice was given by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) to terminate the guarantee commission agreement as at 31 December 2011, whereby the contractual obligation to pay guarantee commission would cease. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at Hypo Alpe-Adria-Bank International AG.

Divergent legal positions exist on the guarantee commission for 2011. It can be assumed that the legal dispute between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) regarding the guarantee commission will continue.

As at 31 December 2012, the State of Carinthia must extend guarantees for fixed-term and non-fixed-term commitments from Hypo Alpe-Adria-Bank International AG with a total value of EUR 13.9 billion (2011: EUR 16.2 billion).

(164) Material agreements

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG, with the Republic taking on liability as a statutory guarantor pursuant to section 1356 of the Austrian Civil Code (ABGB). The liability of the Republic of Austria 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 million ("maximum guaranteed sum"). 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, based on the nominal value of the part of the receivables for which liability is assumed. 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 by the end of 2014. The utilisation of the guarantee will be ensured with the statutory guarantor prior to expiration.

In return for the guarantee agreement, the bank has undertaken to reduce the guarantee liability of the Republic of Austria by buying back government guaranteed bonds (GGB). The bank met this obligation through buying back issues totalling EUR 751.7 million in February 2011. The volume of open guaranteed issues now stands at EUR 583.6 million. The EU Commission provisionally approved the guarantee agreement as additional state aid on 19 July 2011 because it is consistent with the requirement to recapitalise financial institutions following the financial crisis. The approval was made subject to the Commission approving the bank's restructuring plan based on the state aid provided through the nationalisation in 2009.

A claim on the guarantee given by the Republic of Austria was made for the first time in the second half of 2012 for two loans for which the relevant legal consequences apply. The guarantee agreement concluded with the Republic of Austria provides for current liability commission for claims for which the guarantee was utilised only in the event that certain financial key figures (including covering the guarantee fees with profit) are met. As these conditions were not met in 2012, no payments were made for the claims on the guarantee and these were not shown as expenses. In the event of such a claim on the guarantee, the Republic of Austria is entitled to regress from Hypo Alpe-Adria-Bank International AG, dependent on certain key financial figures (including covering the distributable net income for the year). Hypo Alpe-Adria-Bank International AG is currently in talks regarding measures designed to increase the operationalisation of the guarantee. The bank aims to clarify the reasons and the terms and conditions of the drawdown in order to maintain and secure the recoverability and therefore also the effectiveness of own capital funds in the best possible way in the future. The position taken by both contractual partners provides for, among other things, a limited extension of the guarantee of at least twelve months and an extension of the drawdown period, the substitution of the statutory guarantee by a guarantee pursuant to section 1346 of the Austrian Civil Code (ABGB) (subsidiary guarantee), a revision of drawdown conditions and a revision of the process to assess the drawdown conditions.

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 for this purpose includes, in addition to the compulsory arrangement on tax reconciliation (invoicing and settlement of tax contributions) in accordance with section 9 (8) KStG (Austrian Corporation Tax Law), the respective rights and duties of the lead company and group members. This covers in particular the procedure for filing the group application, calculation of each of the group members' tax results, rights to receive/duty to provide information, ceasing to be a member of the group, duration and dissolution of the group. The 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.

(165) Own capital funds

The breakdown of own capital funds as defined in the Austrian Banking Act (BWG) and the Solvency Regulations (SolvaV) is as follows:

EUR thousand

	31.12.2012	31.12.2011
Core capital (Tier 1)	**1,309,655**	**889,931**
Paid-in capital	1,308,637	808,637
Reserves	247,165	247,165
Funds for general banking risks	153,000	0
Intangible assets	–3,279	–1,177
Net accumulated losses	–395,868	–164,694
Supplementary elements (Tier 2)	**654,828**	**635,112**
Supplementary capital	0	190,147
Subordinated capital	654,828	444,965
Deductions pursuant to section 23 –13 BWG	**–6,960**	**–6,960**
Tier 3 (reclassified Tier 2 capital)	**9,494**	**10,567**
Own capital funds	**1,967,017**	**1,528,650**
Own capital funds requirement according to BWG	**1,314,781**	**1,346,596**
Surplus capital	**652,236**	**182,054**
Coverage	149.6%	113.5%

EUR thousand

	31.12.2012	31.12.2011
Risk-weighted basis for assessment in acc. with section 22 of the BWG (banking book)	**15,948,857**	**16,370,047**
thereof 8% minimum own funds requirements	1,275,909	1,309,604
own funds requirement in acc. with section 22 (o) BWG (securities trading book)	31	0
own funds requirement in acc. with section 22 (o) BWG (open foreign exchange position)	9,463	10,567
Own funds requirement – operational risk	29,378	26,426
Total own capital funds requirement	**1,314,781**	**1,346,597**

EUR thousand

	31.12.2012	31.12.2011
Assessment basis banking book (risk-weighted)	**15,948,857**	**16,370,047**
Tier 1 ratio	8.2%	5.4%
Own capital funds ratio	12.3%	9.3%
Assessment basis including market and operational risk	**16,434,757**	**16,832,456**
Tier 1 ratio	7.9%	5.3%
Own capital funds ratio	12.0%	9.1%

The buyback of hybrid capital in April 2012, which has already been detailed in note (25.), after deduction of all expenses connected to the transaction, led to income attributable to the group's own funds of approximately EUR 154.4 million, of which EUR 153.0 million was allocated to the fund for general banking risks. The allocation to the fund for general banking risks first took effect on 30 April 2012.

The resulting gain under UGB/BWG on the supplementary capital – which is no longer eligible following the buyback in December 2012 – amounted to EUR 10.7 million as at the reporting date and is allocated to Tier 1 capital.
Measurement effects from still outstanding supplementary capital resulted in a special effect of EUR 68.0 million recognised in profit or loss in the 2012 financial year.

Tier 2 supplementary capital was converted into Tier 1 capital of highest quality through the active capital management measures stated above, which the company can use on a permanent basis and which strengthens its capital in the long term.

(166) Group structure/owners

Hypo Alpe-Adria-Bank International AG is wholly owned by the Republic of Austria.

Hypo Alpe-Adria-Bank International AG is the ultimate parent company of the whole Hypo Alpe Adria group of companies. 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). Hypo Alpe-Adria-Bank International AG complies with the disclosure obligation pursuant to section 26 BWG on the basis of its consolidated financial position. 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.

(167) Audit expenses

The costs for the services of the audit company Ernst & Young, by area of activity, were as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
Audit fees for the annual financial statements	**497**	**457**
Expenses for current year	497	430
Expenses relating to prior year	0	27
Fees for other services	**178**	**642**
Other assurance services	71	187
Tax consultancy	0	0
Other services	107	455
Total	**675**	**1,099**

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna) was appointed to audit the financial statements for the 2012 financial year. The total audit expenses for the 2012 financial year amount to EUR 675 thousand (2011: EUR 1,099 thousand), of which EUR 671 thousand (2011: EUR 1,042 thousand) are for fees (excluding VAT) and EUR 4 thousand (2011: EUR 57 thousand) are for cash outlays. In addition to the services invoiced by the appointed auditors, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna), invoices for services rendered directly by other companies within the Ernst & Young network to Hypo Alpe-Adria-Bank International AG have been included in the total sum.

The expenses for the audit of the financial statements do not include those expenses which are clearly separable from the costs for the audit of the consolidated financial statements. Where there is a flat-rate fee, the costs are all allocated to the expenses for the audit of the financial statements.

(168) Other supplementary information

Liabilities to customers do not include any trustee savings accounts.

Participations in the leasing business within the meaning of section 64 (1) (1) BWG relate to the interests in Hypo Leasing d.o.o. (Ljubljana) as well as Hypo Alpe-Adria-Leasing OOD (Sofia) and Hypo Alpe-Adria-Autoleasing OOD (Sofia) and amount to EUR 14,640 thousand (2011: EUR 28,080 thousand).

Deferred tax assets not disclosed separately in the balance sheet and whose capitalisation is required according to section 198 (10) UGB amount to EUR 0 thousand (2011: EUR 0 thousand).

Income taxes of around EUR 10.1 million impacted the extraordinary result of Hypo Alpe-Adria-Bank International AG, whereas the recognised result from ordinary activities generated tax losses. The actually recognised tax expenses also include the tax contributions to group members pursuant to section 9 KStG.

Mortgage bond activities pursuant to PfandG were as follows:

EUR thousand

	Debt evidenced by certificates		Covering loans		Surplus/shortfall in cover	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Public sector mortgage bonds	279,009	277,292	477,347	592,764	206,279	324,209

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

EUR thousand

	31.12.2012	31.12.2011
Assets	3,550,907	4,843,786
Equity and Liabilities	3,339,101	4,616,442

The greater part of the EUR 211,805 thousand (2011: EUR 227,344 thousand) difference is hedged through currency swaps, cross-currency swaps and forward rate transactions.

There were no transactions concluded with related parties within the meaning of IAS 24, at conditions which were not typical for this sector.

Within the scope of market risk-related analyses, the respective subsidiary banks investigated the so-called "UFN" (until further notice) assets and liabilities with regard to their true nature and thus with regard to associated fixed interest rates. The banks' responses showed that the way they are currently portrayed in the gap analysis is too short-term. As a result of this discovery, existing swaps within Hypo Alpe-Adria-Bank International AG, which are used to turn the fixed interest rate for emissions into variable rates, were liquidated. In addition, Hypo Alpe-Adria-Bank International AG's own issues, which are in a hedging relationship with a swap, were bought back. The related swaps were also terminated as a result. By offsetting these derivative positions, income of EUR 32.3 million (2011: 11.2 million) was achieved.

(169) Employees

The average number of employees (full-time equivalent) during the year for the purposes of section 239 (1) (1) UGB was as follows:

	2012	2011
Salaried employees	587	586
Hourly-paid employees	0	0
Total	**587**	**586**

(170) Expenses for severance payments and pensions

These expenses as defined in section 239 (1) (3) UGB break down as follows:

EUR thousand

		1.1.-31.12.2012		1.1.-31-12-2011
	Severance pay	Pensions	Severance pay	Pensions
Members of Executive Board	35	0	36	0
Key management personnel	596	0	181	0
Other employees	1,412	92	1,273	0
Total	**2,043**	**92**	**1,490**	**0**

The expenses for severance payments and payments into the company's employee benefits fund break down into EUR 1,493 thousand (2011: EUR 800 thousand) for severance payments and EUR 550 thousand (2011: EUR 508 thousand) for payments into the company's employee benefits fund.

(171) Information about members of the management bodies

The management bodies in the year under review are shown in Schedule 2 to the notes.

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

As at year-end as well as in the previous year, the members of the Executive Board had not received any advances, loans or guarantees from Hypo Alpe-Adria-Bank International AG.

As at year-end, the members of the Supervisory Board had received, either for themselves or on behalf of the companies for which they are personally liable, loans from Hypo Alpe-Adria-Bank International AG in the amount of EUR 20 thousand (2011: EUR 335 thousand).

All transactions relating to members of the Executive and Supervisory Boards are carried out through the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, Klagenfurt.

171.2. Remuneration of members of the Executive and Supervisory Boards

The breakdown of sums paid out to members of the Executive and Supervisory Boards during the financial year is as follows:

EUR thousand

	1.1-31.12.2012	1.1-31.12.2011
Executive Board	**2,474**	**2,549**
of which on-going payments	2,474	2,549
Supervisory Board	**128**	**182**
Remuneration paid to former members of the Executive and Supervisory Board and their surviving dependants	**464**	**458**
thereof payments after termination	464	458
thereof related to termination	0	0
Total	**3,066**	**3,189**

Remuneration of members of the Supervisory Board for 2012 and 2011 did not include any variable elements.

Klagenfurt am Wörthersee, 6 March 2013
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Dr. Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Fixes assets movement schedule Annex 1 to the notes to the financial statements

Asset		Acquisition costs 01.01.2012	Addition 2012	Disposals 2012	Reclassifications 2012
2.	**Treasury bills**				
	Financial investments	227,314,451.94	7,523.49	–321,975.04	–15,416,520.00
3.	**Loans and advances to credit institutions**				
	Financial investments	0.00	0.00	0.00	0.05
4.	**Loans and advances to customers**				
	Financial investments	57,847,353.16	240,389,164.01	–15,690,616.93	0.00
5.	**Bonds and other fixed income securities**				
	Financial investments	356,687,434.50	41,924,929.66	–88,105,412.90	15,416,519.95
7.	**Shares in associated companies**	20,289,506.34	0.00	–22,498.69	–17,374,701.48
8.	**Shares in affiliated companies**	4,709,313,969.16	103,219,920.84	–90,513,612.74	17,374,701.48
9.	**Intangible fixed assets**	8,907,099.34	2,703,456.34	–7,560.00	0.00
10.	**Tangible fixed assets**	2,562,830.15	897,990.83	–317,506.63	5,293,367.41
	Total	**5,382,922,644.59**	**389,142,985.17**	**–194,979,182.93**	**5,293,367.41**

	Acquisition costs 31.12.2012	Accumulated depreciation	Accumulated write-ups	Carrying amount 31.12.2012	Carrying amount 31.12.2011	Write-ups 2012	Depreciation 2012
	211,583,480.39	–20,369,590.16	0.00	191,213,890.23	206,944,861.78	0.00	0.00
	0.05	0.00	0.00	0.05	0.00	0.00	0.00
	282,545,900.24	–30,563,573.41	0.00	251,982,326.83	30,267,860.68	0.00	–2,984,080.93
	325,923,471.21	–87,962,914.57	0.00	237,960,556.64	269,700,355.06	0.00	–975,835.13
	2,892,306.17	–2,119,608.55	0.00	772,697.62	8,174,286.79	0.00	–422,000.00
	4,739,394,978.74	–2,535,178,318.32	267,646,641.72	2,471,863,302.14	2,626,076,537.44	96,689.41	–264,242,935.03
	11,602,995.68	–8,324,148.96	0.00	3,278,846.72	1,177,744.28	0.00	–596,683.90
	8,436,681.76	–1,644,013.96	0.00	6,792,667.80	1,671,349.73	0.00	–490,159.87
	5,582,379,814.24	**–2,686,162,167.93**	**267,646,641.72**	**3,163,864,288.03**	**3,144,012,995.76**	**96,689.41**	**–269,711,694.86**

Management bodies Annex 2 to the notes to the financial statements

1 January 2012 to 31 December 2012

Members of the Supervisory Board

Chairman of the Supervisory Board
Johannes DITZ

Deputy Chairman of the supervisory Board
Rudolf SCHOLTEN

Members of the Supervisory Board
Helmut DRAXLER
Alois STEINBICHLER

Delegated by the Works Council
Gerhard PLIESCHNIG, Chairman of the Works Council
Gernot BAIER, until 29 February 2012
Alexandra DOHR, from 1 March 2012 until 16 May 2012
Richard JOHAM, from 17 May 2012

Federal Supervisory Authorities

State Commissioner
Angelika SCHLÖGEL, until 30 June 2012
Alexander PESCHETZ, from 1 July 2012

Depute State Commissioner
Monika HUTTER

Trustees

Alexander PESCHETZ, Federal Ministry of Finance

Deputy
Jakob KÖHLER, Federal Ministry of Finance

Executive Board

Gottwald KRANEBITTER, Chairman
Wolfgang EDELMÜLLER, Deputy Chairman
Johannes PROKSCH, Member
Rainer SICHERT, Member

List of shareholdings Annex 3 to the notes to the financial statements

pursuant to section 238 of the Austrian Enterprise Code

1. Direct equity investments of Hypo Alpe-Adria-Bank International AG

The following list shows the direct equity investments held by Hypo Alpe-Adria-Bank International AG (more than 20%) pursuant to section 238 (2) UGB:

Name of enterprise	Registered office	Capital share	Equity in EUR thousand	Profit/Loss in EUR thousand	Date of closing	Line of business
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.000	147,457	–4,548	31.12.2012	Credit institutes
HYPO ALPE-ADRIA-BANK d.d. (sub-group)	Mostar	99.998	149,804	–4,280	31.12.2012	Credit institutes
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100.000	790,746	18,374	31.12.2012	Credit institutes
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	4,256	1,423	31.12.2012	Services
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.000	9,809	146	31.12.2012	Services
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.000	0	0	31.12.2011	Other
Alpe Adria Privatbank AG in liquidation	Schaan	100.000	9,569	116	31.12.2011	Credit institutes
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Beograd	99.999	298,283	15,652	31.12.2012	Credit institutes
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.729	119,317	–2,614	31.12.2012	Credit institutes
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	–3,276	–4,371	31.12.2012	Services
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH in liquidation	Klagenfurt am Wörthersee	100.000	368	0	31.12.2011	Services
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt am Wörthersee	100.000	–33	–114	31.12.2011	Other
Alpe-Adria-Projekt GmbH	Munich	100.000	–2,527	–2,846	31.12.2012	Financial services
HBInt Credit Management Limited (sub-group)	St. Helier - Jersey	51.000	552,640	9,131	31.12.2012	Financial services
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	100.000	2,770	–1,551	31.12.2012	Services
TCK d.o.o.	Ljubljana	100.000	–23,791	–23,623	31.12.2012	Services
GRAND HOTEL LAV d.o.o.	Podstrana	100.000	743	–4,083	31.12.2011	Other
GRAND MARINA LAV d.o.o.	Podstrana	100.000	347	103	31.12.2011	Other
TCV d.o.o.	Ljubljana	100.000	–8,722	–8,219	31.12.2012	Services
Hypo Group Netherland Holding B.V. in liquidatie (sub-group)	Amsterdam Zuidoost	100.000	1,465	–286	31.12.2012	Financial services
Hypo Group Netherlands Corporate Finance B.V.[5]	Amsterdam Zuidoost	100.000	-	-	31.12.2012	Financial services

Name of enterprise	Registered office	Capital share	Equity in EUR thousand	Profit/Loss in EUR thousand	Date of closing	Line of business
Hypo Phoenix Absicherungs GmbH	Klagenfurt am Wörthersee	100.000	24	–7	31.12.2011	Other
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.000	4,210	4	31.12.2012	Services
HYPO ALPE-ADRIA-LEASING OOD (sub-group)	Sofia	100.000	–4,385	–6,943	31.12.2012	Financial services
HYPO ALPE-ADRIA-AUTOLEASING OOD [4]	Sofia	100.000	-	-	31.12.2012	Financial services
Puris Verwaltungs- und Beteiligungs GmbH in liquidation	Klagenfurt am Wörthersee	100.000	–1,095	2	31.12.2011	Other
HYPO LEASING d.o.o.	Ljubljana	100.000	–3,812	–33,802	31.12.2012	Financial services
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.000	325,333	1,587	31.12.2012	Credit institutes
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.000	0	0	31.12.2011	Other
HYPO ALPE-ADRIA-BANK AG	Klagenfurt am Wörthersee	100.000	197,950	48,106	31.12.2012	Credit institutes
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	100.000	53,631	–9,435	31.12.2012	Credit institutes
Hypo Alpe Adria IT Holding GmbH	Klagenfurt am Wörthersee	100.000	67	–5	31.12.2012	Services
Norica Investments Limited	St. Helier - Jersey	51.000	520,051	17,534	31.12.2012	Financial services
Hypo-Haftungs-Gesellschaft m.b.H.	Vienna	22.138	33	5	31.12.2011	Financial services
HYPO Facility Services GmbH in liquidation	Klagenfurt am Wörthersee	100.000	79	5	31.12.2011	Services
REZIDENCIJA SKIPER d.o.o.	Savudrija	100.000	–23,103	–2,031	31.12.2011	Other
IMPREGNACIJA - HOLZ d.o.o. Vitez	Vitez	93.380	-	-	-	Other
KONJUSKA d.o.o.	Primosten	100.000	–1,117	–77	31.12.2011	Other
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	106,532	–14,398	31.12.2012	Services

The equity and profit/loss values shown above were calculated uniformly in accordance with the provisions of UGB/BWG for consolidated companies and could therefore differ from the values shown in published separate financial statements, which were drawn up in each case in accordance with the national laws prevailing. The information is based on data prior to consolidation.

Sub-groups: The values for equity and the result from the financial statements take into account the consolidated subsidiary companies

1) Calculated percentage share from the point of view of Hypo Alpe-Adria-Bank International AG; minority shareholders with a holding smaller than 0.001% are not shown

2) Equity = total equity for the company within the meaning of section 229 UGB plus untaxed reserves; proportional equity has not been shown

3) Result = net profit/loss prior to reserves and non-controlling interests; pro-rata results have not been shown

4) The equity and results for HYPO ALPE-ADRIA-AUTOLEASING OOD are included in the figures for the direct holding company HYPO ALPE-ADRIA-LEASING OOD

5) The equity and profit/loss values shown for Hypo Group Netherlands Corporate Finance B.V. are included in the direct holding company Hypo Group Netherland Holding B.V. in liquidatie

6) IMPREGANCIJA - HOLZ d.o.o. is inactive and does not prepare a balance sheet

2. Scope of consolidation pursuant to UGB/BWG

Hypo Alpe-Adria-Bank International AG prepares its official consolidated financial statements as at 31 December 2012 according to the International Financial Reporting Standards (IFRS). The published consolidated financial statements are based on the scope of consolidation according to IFRS and are disclosed separately.

For regulatory purposes, Hypo Alpe-Adria-Bank International AG is the superordinate credit institution, within the meaning of section 30 of the Banking Act (BWG), of the domestic group of credit institutions. The scope of consolidation for regulatory purposes is based on the provisions in UGB/BWG and has the following composition as at 31 December 2012:

Name of associated enterprise	Registered office	C	Capital share [1] indirect	Line of business
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	F	100.000	Credit institutes
HYPO ALPE-ADRIA-BANK d.d.	Mostar	F	99.998	Credit institutes
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	F	99.998	Financial services
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	F	100.000	Credit institutes
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	F	100.000	Financial services
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	F	100.000	Services
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	F	100.000	Financial services
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	F	100.000	Services
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	F	100.000	Services
Alpe Adria Privatbank AG in liquidation	Schaan	AE	100.000	Credit institutes
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Beograd	F	99.999	Credit institutes
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	F	99.729	Credit institutes
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	F	99.729	Financial services
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	F	100.000	Services
Alpe-Adria-Projekt GmbH	Munich	F	100.000	Financial services
Verwaltungsgesellschaft HLG Achilles mbH	Munich	F	100.000	Financial services
HBInt Credit Management Limited	St. Helier - Jersey	F	51.000	Financial services
Carinthia I Limited	St. Helier - Jersey	F	51.000	Financial services
Carinthia II Limited	St. Helier - Jersey	F	51.000	Financial services
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	F	100.000	Services
TCK d.o.o.	Ljubljana	F	100.000	Services
TCV d.o.o.	Ljubljana	F	100.000	Services
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam Zuidoost	F	100.000	Financial services
Hypo Group Netherland Holding B.V. in liquidatie	Amsterdam Zuidoost	F	100.000	Financial services
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	F	100.000	Services
HYPO ALPE-ADRIA-LEASING OOD	Sofia	F	100.000	Financial services
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	F	100.000	Financial services
HYPO LEASING d.o.o.	Ljubljana	F	100.000	Financial services
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	F	100.000	Credit institutes
HYPO SERVICE S.R.L.	Tavagnacco	F	100.000	Services
HYPO ALPE-ADRIA-BANK AG	Klagenfurt am Wörthersee	F	100.000	Credit institutes
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt am Wörthersee	F	100.000	Services
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	F	100.000	Credit institutes
Hypo Alpe Adria IT Holding GmbH	Klagenfurt am Wörthersee	F	100.000	Services

Name of associated enterprise	Registered office	C	Capital share [1)] indirect	Line of business
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.-u likvidaciji	Zagreb	F	100.000	Services
Norica Investments Limited	St. Helier - Jersey	F	51.000	Financial services
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	F	100.000	Services
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	F	100.000	Services
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	F	100.000	Financial services
PROBUS Real Estate GmbH	Vienna	F	100.000	Services
HETA Asset Resolution GmbH	Klagenfurt am Wörthersee	F	100.000	Financial holding
BORA d.o.o. Banja Luka	Banja Luka	F	100.000	Services
H-ABDUCO d.o.o.	Zagreb	F	100.000	Services
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt am Wörthersee	F	100.000	Financial services
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	F	100.000	Services
HYPO Wohnbau GmbH	Klagenfurt am Wörthersee	F	100.000	Financial services
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt am Wörthersee	F	100.000	Financial services
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	F	100.000	Financial services
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	F	100.000	Financial services
HYPO-BA Leasing Süd GmbH	Klagenfurt am Wörthersee	AE	50.000	Financial services
HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	F	100.000	Financial services
HYPO HOUSE D.O.O. - PODGORICA	Podgorica	F	100.000	Services
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	F	100.000	Financial services
HETA d.o.o. Sarajevo	Sarajevo	F	100.000	Financial services
HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o.	Sarajevo	F	100.000	Services
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Beograd	F	100.000	Financial services
HYPO-LEASING KROATIEN d.o.o.	Zagreb	F	100.000	Financial services
Alpe-Adria poslovodstvo d.o.o.	Zagreb	F	100.000	Financial services
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	F	100.000	Financial services
HYPO Alpe-Adria Leasing Zrt.	Budapest	F	100.000	Financial services
HYPO ALPE-ADRIA-LEASING GmbH	Munich	F	100.000	Financial services
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	F	100.000	Financial services
Grundstücksgesellschaft Kleine Seilerstrasse 1 mbH & Co. KG	Munich	F	100.000	Financial services
Verwaltungsgesellschaft Kleine Seilerstrasse 1 mbH	Munich	F	100.000	Financial services
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	F	6.000	Financial services
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	F	100.000	Financial services
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Beograd	F	100.000	Services
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	F	100.000	Financial services
HYPO ALPE-ADRIA-LEASING TOV	Kiev	F	100.000	Financial services

C = method of consolidation used in the consolidated financial statements for regulatory purposes, F = full consolidation, AE = At Equity

[1)] Percentage from the point of view of HYPO Alpe-Adria-Bank International AG. Minority shareholders with an interest smaller than 0.001% are not shown

Major holdings Annex 4 to the notes to the financial statements

as at 31 December 2012

HYPO ALPE-ADRIA-BANK INTERNATIONAL AG.

SEE NETWORK

Slovenia:
- HYPO ALPE-ADRIA-BANK d.d., Ljubljana
- HYPO LEASING[1] d.o.o., Ljubljana 25/75 %

Croatia:
- HYPO ALPE-ADRIA-BANK d.d., Zagreb
- HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb

Bosnia and Herzegovina:
- Hypo Alpe-Adria-Bank A.D., Banja Luka 99,7291 %
- Hypo Alpe-Adria-Leasing d.o.o., Banja Luka 99,7291 %
- HYPO ALPE-ADRIA-BANK d.d., Mostar 99,9985 %

Serbia:
- HYPO ALPE-ADRIA-BANK AD, Belgrade 99,9990 %

Montenegro:
- HYPO ALPE-ADRIA-BANK[2] A.D., Podgorica 99,88/0,12%

OTHER BANKS

Austria:
- HYPO ALPE-ADRIA-BANK AG, Klagenfurt/WS

Italy:
- HYPO ALPE-ADRIA-BANK S.P.A., Udine 99,9998 %

ASSET RESOLUTION - FINANCIALS

Austria:
- HETA Asset Resolution GmbH, Klagenfurt/WS
- HYPO ALPE-ADRIA-LEASING GmbH, Klagenfurt/WS

Slovenia:
- TCV d.o.o.,[1] Ljubljana 25/75 %
- TCK d.o.o.,[1] Ljubljana 25/75 %

Croatia:
- HYPO-LEASING KROATIEN d.o.o., Zagreb
- HYPO ULAGANJA d.o.o., Zagreb
- H-ABDUCO d.o.o., Zagreb

Bosnia and Herzegovina:
- HETA d.o.o., Sarajevo
- BORA d.o.o., Banja Luka

Serbia:
- HYPO ALPE-ADRIA-LEASING DOO, Belgrade
- HYPO ALPE-ADRIA-RENT DOO, Belgrade
- HYPO DEVELOPMENT DOO, BELGRADE
- HETA REAL ESTATE D.O.O., BELGRADE

Italy:
- HYPO ALPE-ADRIA-LEASING S.r.l., Udine

Bulgaria:
- HYPO ALPE-ADRIA-LEASING[3] OOD, Sofia 99,87/0,13 %
- HYPO ALPE-ADRIA AUTOLEASING[3] OOD, Sofia 99,76/0,24 %

Montenegro:
- HYPO ALPE-ADRIA-LEASING D.O.O., Podgorica
- HYPO ALPE-ADRIA-DEVELOPMENT, D.O.O., PODGORICA

Macedonia:
- HYPO ALPE-ADRIA-LEASING DOOEL, Skopje

Hungary:
- HYPO Alpe-Adria-Leasing Zrt., Budapest

Ukraine:
- HYPO ALPE-ADRIA-LEASING TOV, Kiev

Germany:
- HYPO ALPE-ADRIA-LEASING GmbH, Munich

ASSET RESOLUTION - OTHER

Austria:
- CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS
- HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS
- Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS
- PROBUS Real Estate GmbH, Vienna
- Hypo Alpe Adria IT Holding GmbH, Klagenfurt/WS

Croatia:
- REZIDENCIJA SKIPER d.o.o.,[4] Savudrija
- GRAND HOTEL LAV d.o.o., Podstrana

Serbia:
- ZAJEDNIČKI INFORMACIONI SISTEM, DOO BELGRADE

Participations without additional percentage are direct or indirect 100 % participations of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG (HBInt.)

1) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the minority share of 25 % of HYPO LEASING d.o.o. Ljubljana as well as of TCK d.o.o. and TCV d.o.o.; 75 % is owned by HETA Asset Resolution GmbH.
2) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of 99,88 % of HYPO ALPE-ADRIA-BANK A. D., Podgorica; 0,12 % are owned by HETA Asset Resolution GmbH .
3) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of the two bulgarian leasingcompanies; the small minority share is owned by HETA Asset Resolution GmbH.
4) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of 75 % of REZIDENCIJA SKIPER d.o.o.; the minority share of 25 % is owned by HYPO ALPE-ADRIA-BETEILIGUNGEN GmbH.

Statement of all legal representatives

"We confirm to the best of our knowledge that the separate financial statements for Hypo Alpe-Adria-Bank International AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the business as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the business faces."

Klagenfurt am Wörthersee, 6 March 2013
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Dr. Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Auditors' Report

Report on the financial statements

We have audited the accompanying financial statements, including the accounting system, of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt,** for the fiscal year from 1 January to 31 December 2012. These financial statements comprise the balance sheet as at 31 December 2012, the income statement for the financial year ended on 31 December 2012, and the notes.

Management's responsibility for the financial statements and for the accounting system

The company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles and the provisions of Austrian commercial law. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting and measurement policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria, Austrian Standards on Auditing and Austrian Standards on Auditing of Banks. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence regarding the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 company's preparation and fair presentation of the 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 company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as at 31 December 2012 and of its financial performance for the fiscal year from 1 January to 31 December 2012, in accordance with Austrian Generally Accepted Accounting Principles.

Without qualifying our opinion we draw attention to the following:

- the disclosures provided by the company's management in the notes to the financial statements in section II "Accounting and measurement policies", in which reference is made to the regulatory JRAD (Joint Risk Assessment Decision) process. The Joint Decision in January 2013 uncovered a substantial shortfall between the anticipated regulatory credit risk losses and total risk provisions as at the reporting date in April 2012; the banking regulatory authorities stipulated that the group achieve a quota of minimum own capital funds of 12.4% by 31 December 2013. The company is currently planning to ensure, through appropriate measures, that sufficient own capital funds are in place by 31 December 2013. If the measures planned by the company's management should not lead to the company having the stipulated quota of minimum own capital funds by 31 December 2013, there will then be considerable uncertainty as to the company's ability to continue as a going concern;
- the disclosures provided by the company's management in the notes to the financial statements in section II "Accounting and measurement policies" and in section VI note (29.1) "EU restructuring proceedings". When drawing up the separate financial statements, the company's management assumed a positive ruling by the European Commission in the ongoing state-aid investigation regarding the restructuring plan prepared by the company's management and submitted to the European Commission. The Commission's approval is also a prerequisite for the guarantee agreement concluded on 28 December 2010 between the Republic of Austria and the bank, which runs until 30 June 2013 (see

also the explanations and comments provided by the company's management in section VI note (31) "Material agreements"). The date and content of this European Commission ruling cannot be foreseen, as disclosed by the company's management in the notes. For this reason, material uncertainties exist with regard to the impact the ruling would have on the group's future business activities and the values disclosed in the financial statements;

- the disclosures provided by the company's management in the notes to the financial statements in section VI note (31) "Material agreement", which describes the planned additions/amendments to the guarantee agreement with the Republic of Austria. No legally valid agreement has yet been reached on the content of these additions/amendments – as disclosed by the company's management in the notes. There is, as a result, significant uncertainty regarding the value of the portion of the receivables in the company's loan portfolio covered by this guarantee;
- the disclosures provided by the company's management in the notes to the financial statements in section II "Accounting and measurement policies" regarding the explanation of the risk from the lending business. The quality of the loan portfolio in the SEE region and/or the measurement of loans and advances to customers as well as the appropriateness of related loan loss provisions depend to a very great extent on future macro-economic – but also potential legislative – developments in these markets. In addition, the Executive Board expects that the majority of securities can be realised at market values and in the planned (relatively short) periods. An unfavourable change in economic conditions and/or in the real estate markets – which cannot be excluded – could have a significant influence on the asset values disclosed in the financial statements for loans and advances to customers as well as the risk provisions for loans and advances and thus its equity and own capital funds.
- the disclosures provided by the company's management in the notes to the financial statements in section II "Accounting and measurement policies" regarding the measurement of investments and investments in associated and affiliated companies. The recognised values of investments and investments in associated and affiliated companies are based on income calculations and primarily depend on future macroeconomic as well as possible legislative developments in these markets.
- the disclosures provided by the company's management in the notes to the financial statements in section II "Accounting and measurement policies" as well as in section V note (24) "Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets" regarding the measurement of the supplementary capital.

Comments on the management report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to section 243a (2) UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to section 243a (2) UGB (Austrian Commercial Code) are appropriate.

Vienna, 6 March 2013

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner
Wirtschaftsprüfer

Mag. Friedrich O. Hief
Wirtschaftsprüfer