Annual Financial Report 2007

in accordance with section 82(4) Stock Exchange Act (BörseG)

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Hypo Group Alpe Adria

Hypo Alpe-Adria-Bank International AG

Group Management Report

1. General economic environment

Overall, the development of the global economy in 2007 was robust, thanks to the dynamic growth of emerging economies in Asia, most notably China, although trends varied significantly from region to region. Economic growth in the eurozone of 3 % was largely a consequence of high levels of investment and exports. Despite the slowing of the US economy in the second half of 2007 as a result of the subprime crisis, forecasts suggest that the damper on global economy growth will be only temporary, thanks to the sustained healthy growth of the Asian, Latin American and Eastern European markets. Economic growth of 2.4 % is forecast for the eurozone in 2008.

The Austrian economy was flying high in 2007, with growth of 3.4 %. The positive performance of global markets, booming exports and the strong standing of Austrian companies in the rapidly growing markets of Southern and Eastern Europe made a significant contribution to this outcome. The Italian economy grew by 1.9 % in 2007, holding its previous year's level but well below the EU average. Growth was chiefly attributable to strong domestic demand, which was driven by the increased household spending unleashed by tax cuts. A combination of high levels of investment, strong exports and healthy domestic demand saw the Slovenian economy continue the trend of recent years with growth of some 6 % in 2007. At 6 % Croatia also recorded extremely vigorous growth on the back of climbing industrial production and a rise in household spending. Tourism also grew steadily, and has emerged as one of the most important sectors of the economy, attracting investment and generating jobs. The programme of reforms in Bosnia and Herzegovina introduced in recent years continued to yield results, with inflation held at low levels and the national budget balanced. With annual growth of 5.5 %, Bosnia and Herzegovina joined the European Free Trade Association (EFTA) in September 2007. A series of privatisations, mostly in the energy sector provided the economic backdrop in Serbia during last year. Economic growth of 7.5 % was chiefly attributable to investment in local infrastructure. In Germany, the preliminary figures released by the Federal Statistical Office indicate real GDP growth of 2.5 % in 2007. Significant gains were recorded particularly by industry, trade, tourism, transport and financial services. The Montenegrin economy made good progress in the country's first year of independence, against the backdrop of a rigorous program of political and economic reforms. On 18 January 2007 Montenegro joined the World Bank and the International Monetary Fund. Tourism is the key to the future development of the nation's economy, which grew some 6 % in 2007. Bulgaria also clearly outperformed the EU average in 2007, with a rise of 6.3 %. This positive development is linked to increased household spending and accelerated investment activity. In Hungary economic growth declined from 3.9 % in 2006 to 2 % in 2007 – this development chiefly reflects the impact of the government's restrictive fiscal and monetary policy. Forecasts, however, point towards rapid recovery of domestic demand, which has traditionally been a mainspring of the Hungarian economy.

On the international stock markets, the financial year was shaped by sustained advances throughout the first half of the year and collapses in July and November.

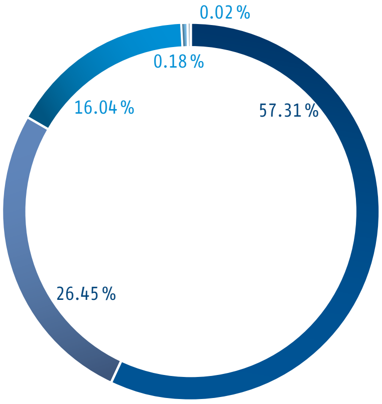
2. Overview

Hypo Group Alpe Adria's two main businesses, banking and leasing, today operate transnationally through its over 350 locations in the extended Alps to Adriatic region made up of Austria, Northern Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Germany, Hungary, Bulgaria, Macedonia and Ukraine. The Group ranks among the leading financial service providers in this high-growth region.

With over 1.2 million customers, the Group's standing in the markets of the region is extremely strong, with some 7,000 highly-motivated employees on the ground providing customer-tailored services.

As part of its Alps to Adriatic strategy, Hypo Group Alpe Adria will concentrate more intensively than ever before on high-volume banking and leasing activities for retail, public and corporate customers in the extended Alps to Adriatic region. In line with this policy, the Group expanded its network in 2007 by setting up a leasing company in Ukraine. For strategic reasons, too, the Executive Board of Hypo Group Alpe Adria took the decision in the second half of the 2007 to sell its shares in Hypo Alpe-Adria-Bank (Liechtenstein) AG; and a 51 % interest has been so far disposed of. In 2008 steps have also been taken to dispose of the remaining 49 % interest. As a result of this reduction in the Group's interest and the increased focus on the extended Alps to Adriatic region, Liechtenstein is no longer reported separately in the annual report.

A capital increase of EUR 125 m was subscribed for by Berlin & Co Capital S.à.r.l. in December 2006. This was followed by a second tranche in March 2007, worth an additional EUR 125 m. In May 2007 the contract was signed for Munich-headquartered Bayerische Landesbank's (BayernLB) acquisition of a majority interest in the Group – of 50.0 % plus one share. After a second major capital increase in the second half of the year of EUR 600 m and further changes in the equity holdings of existing shareholders, the Group's ownership structure at 31 December 2007 was as follows: BayernLB 57.31 %, Kärntner Landes- und Hypothekenbank-Holding 16.04 %, Hypo-Bank Burgenland AG, a subsidiary of Grazer Wechselseitige Versicherung AG, 26.45 %. Berlin & Co Capital S.à.r.l. held 0.18 % and Hypo Alpe Adria staff foundation 0.02 %.



- 57.31 % BayernLB
- 26.45 % GRAWE-Group
- 16.04 % Kärntner Landes- und Hypothekenbank-Holding
- 0.18 % Berlin & Co Capital S.à.r.l.
- 0.02 % Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation)

Hypo Group Alpe Adria's new core shareholder, BayernLB, is a strategic partner whose all-round experience and financial muscle is the perfect complement to the Group's above average growth. The security provided by a strong, long-term owner, an even wider variety of products and services and BayernLB's global network opens up fresh international opportunities to Hypo Group Alpe Adria's customers.

With effect from 1 June 2007, Tilo Berlin was appointed Chairman of the Executive Board of Hypo Group Alpe Adria, and Siegfried Grigg returned to Grazer Wechselseite Versicherung AG as Deputy Chairman of that company's Executive Board. The arrival of BayernLB, and the capital increases between December 2006 and December 2007 which raised a total of EUR 850 m, puts Hypo Group Alpe Adria in the best possible position for future growth in its core markets.

BayernLB's majority interest was positively received by Moody's rating agency and is reflected in its favourable Bank Financial Strength Rating (BFSR). At balance sheet date the Group had a non-guaranteed long-term rating of A2 and a guaranteed long-term rating of Aa2, both with stable outlook. The BFSR was D- and the mortgage bond rating was Aaa.

3. Analysis of financial key indicators

Until 2006 the consolidated financial statements of Hypo Group Alpe Adria were drawn up in accordance with the provisions of the Austrian Enterprise Code (UGB), as amended, and the Austrian Banking Act (BWG). These consolidated financial statements – for the year ended 31 December 2007 – have been draw up for the first time in accordance with International Financial Reporting Standards (IFRS). The comparative figures for 2006 have been prepared to comply with the same accounting principles. Due to the changeover to IFRS, assets and earnings indicators published in the past are only to a limited extent comparable.

At the end of 2007 the IFRS scope of consolidation including the Austrian Group holding company and 119 companies. Of this total, 33 were based in Austria, and 86 elsewhere.

3.1 Balance sheet growth

Hypo Group Alpe Adria continued its uninterrupted growth in 2007, playing a pioneering role in the development of the dynamic economies in the region it serves. The Group's total assets have increased over the past years with its expansion across the region. The majority of this growth has been organic, with 90 % of assets coming from newly formed banks and leasing companies and less than 10 % coming from acquisitions. Consistent application of the strategy of organic growth, and strong growth in lending by the individual Hypo Group Alpe Adria companies, is once again reflected in a significant increase in total assets in 2007.

At EUR 37.9 bn, the total assets of Hypo Group Alpe Adria at 31 December 2007 were 22.4 % up on the previous year (2006: EUR 31.0 bn).

The growth in assets consisted of increased loans and advances to customers, which were up 24.7 % from EUR 20.0 bn to EUR 24.9 bn (net of risk provisions on loans and advances). The risk-averse approach introduced by new majority shareholder BayernLB led to a thorough reappraisal of the Group's lending portfolio, and is reflected in a sharp increase in risk provisions on loans and advances, which in 2007 amounted to EUR 0.7 bn, an increase of 44.5 %.

Total assets
in bn EUR

Loans and advances to customers (net)
in bn EUR

The growth on the liabilities side primarily related to higher liabilities to customers of EUR 8.5 bn (up 27.9 %), increased liabilities to credit institutions of EUR 4.5 bn (up 21.4 %) and an increase in liabilities evidenced by securities to EUR 20.3 bn (up 15.2 %).

In anticipation of the ending of the Province of Carinthia's statutory guarantee for liabilities incurred after 1 April 2007, virtually all the capital markets financing activities were carried out in the first quarter of 2007. Taking advantage of the guarantee, prefunding amounting to about EUR 5 bn was taken up in the capital markets, with the funds being used loans and advances throughout the year. The remaining surplus liquidity was invested in short-term money market paper (loans and advance to credit institutions).

Two capital increases worth a total of EUR 725 m (nominal amount before deduction of directly attributable costs) improved the Group's capital and reserves while ensuring adequate liquidity.

Assets in m EUR

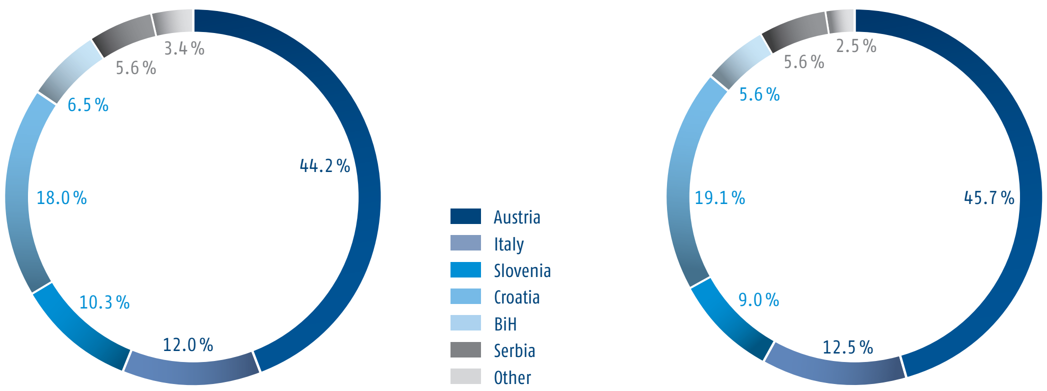
	2007	2006
Cash and balances with central banks	998	931
Loans and advances to credit institutions	3,933	3,075
Loans and advances to customers	24,945	20,007
Trading assets and other securities	4,354	4,176
Participations and investments in affiliated companies	115	86
Investment properties and assets held under operate leases	960	701
Tangible and intangible assets	700	611
Other assets	1,934	1,420
Total assets	**37,939**	**31,007**

Liabilities and equity in m EUR

	2007	2006
Liabilities to credit institutions	4,457	3,672
Liabilities to customers	8,474	6,626
Liabilities evidenced by certificates	20,282	17,605
Subordinated capital	1,334	1,099
Other liabilities	1,733	1,129
Equity	1,659	876
Total equity and liabilities	**37,939**	**31,007**

All country subsidiaries significantly increased total assets in 2007, albeit at differing speeds. At 31 December 2007 subsidiaries in Hypo Group Alpe Adria's longest established markets – Austria, Croatia and Italy – accounted for about 74.2 % (2006: 77.3 %) of total assets.

Total assets by country

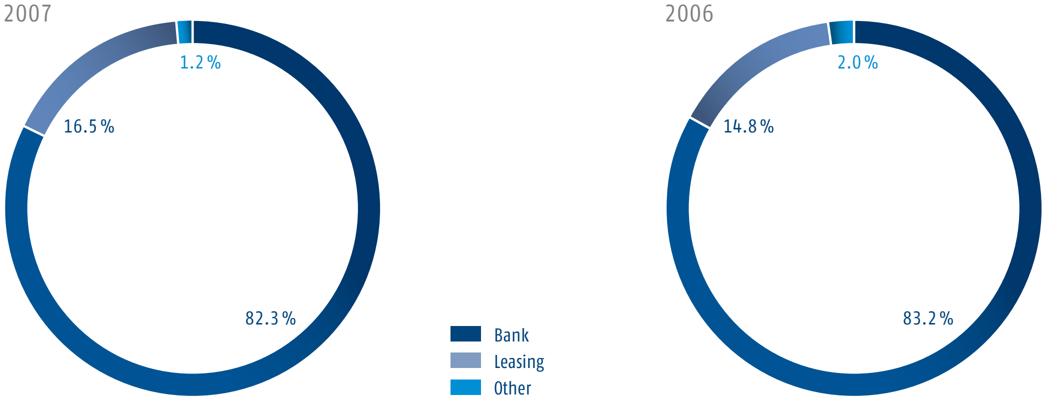


2007

2006

Broken down by business type, the banking segment accounted for 82.3 % of total assets, and the leasing segment for about 16.5 %. These ratios are almost unchanged compared with last year.

Total assets by business



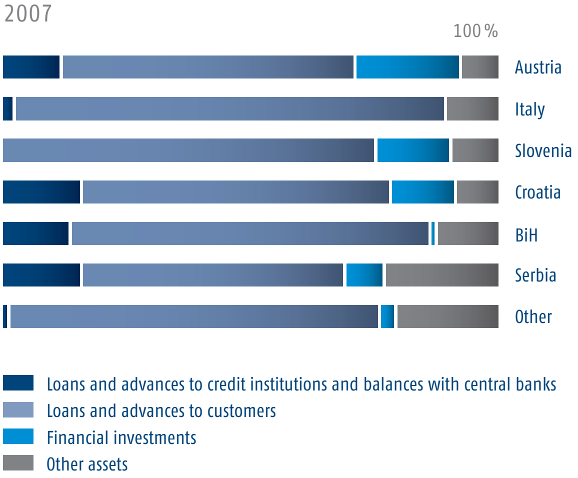
2007

2006

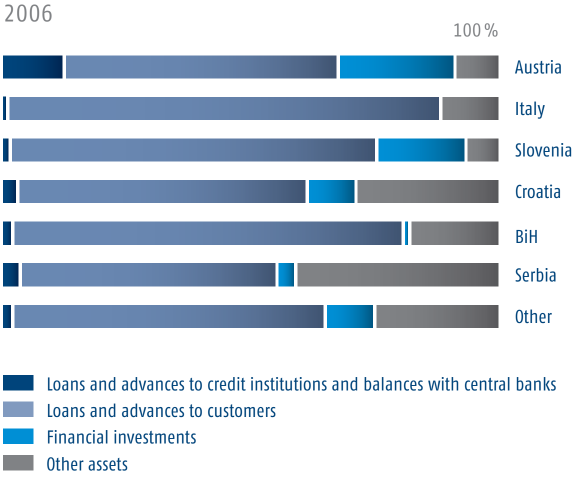
On the assets side, loans and advances to customers increased significantly (up 25 %) compared with last year, with most of the growth coming from Slovenia, Bosnia and Herzegovina and countries aggregated as Other.

Assets by country

2007



2006



3.2 Own capital funds

A capital increase in the first quarter of 2007 amounting to EUR 125 m and another larger increase of EUR 600 m in the fourth quarter of 2007 together with capital introduced by a minority shareholder in a Group company increased the Group's Tier 1 capital, while the 2007 risk provisions on loans and advances reduced Tier 1 capital.

Own capital funds for the purposes of the Austrian Banking Act (BWG) increased significantly in 2007 to EUR 2,872.2 m at the year end (2006: EUR 1,989.8 m). Required own capital funds was EUR 2,295.6 m (2006: EUR 1,785.6 m), resulting in surplus coverage of EUR 576.6 m (2006: EUR 204.2 m), equivalent to a coverage ratio 125.1 % (2006: 111.4 %).

In relation to the banking book (credit risk), the own capital funds ratio at 31 December 2007 was 10.2 % (2006: 9.0 %). The Tier 1 ratio advanced from 5.4 % to 6.3 %.

In relation to the total capital base (including market risk), the own capital funds ratio (solvency ratio) at balance sheet date was 10.0 % (2006: 8.9 %), which was well in excess of the 8 % minimum requirement prescribed under Austrian law.

3.3 Effects of the financial markets crisis

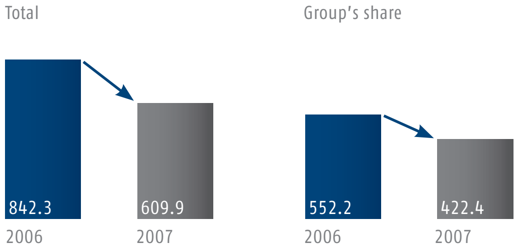
In mid-2007, dislocations in the market for US collateralised securities began to appear. These market uncertainties developed into a full-blown crisis in bond and stock markets internationally, which of necessity affected Hypo Group Alpe Adria.

Our portfolio of asset backed securities (ABS) in particular was affected: these securities are largely managed by a foreign investment company in which the Group has a 51 % interest, with another investor controlling the remaining 49 %. As a consequence, losses on valuation of investments in US mortgage backed securities reduced Hypo Group Alpe Adria's consolidated net profit by the amount of EUR -98.1 m.

The following tables show the carrying amounts of the entire portfolio of asset backed securities (ABS) together the corresponding proportion of US mortgage backed securities. The effects of revaluation relate both to the part held by Hypo Group Alpe Adria and to the minority shareholder's part:

ABS – total portfolio
(m EUR)

Carrying amount:

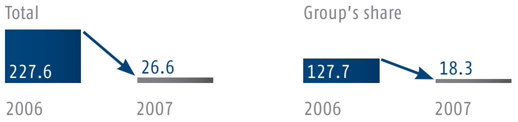


Valuation losses 2007:

	Group's share	Minority shareholder
Against equity (AFS reserve)	-18.8	0.0
Through profit or loss	-111.0	-102.6

US mortgage backed securities
(m EUR)

Carrying amount:



Valuation losses 2007:

	Group's share	Minority shareholder
Against equity (AFS reserve)	-11.3	0.0
Through profit or loss	-98.1	-91.6

The investments in the US mortgage market consist almost exclusively of investments which at the time were given high credit ratings (AAA/AA-) by international rating agencies. To date there have been no defaults on any of the securities held by Hypo Group Alpe Adria.

The ABS securities, which were particularly hard hit by the US mortgage market crisis, were almost entirely accounted for under the fair value option (designated at fair value through profit or loss) and disclosed in the financial statements at fair value. The reference prices used in valuing the illiquid securities as at 31 December 2007 were prices quoted by counterparties. Internal calculations based on valuation models published since then have enabled Hypo Group Alpe Adria to confirm that these prices are plausible. A small proportion of US mortgage securities are carried as available for sale or disclosed under loans and receivables. The amount of the provision for impairment required is calculated using a model which takes into account predicted rating migrations.

At Group level the balance of the interest in US mortgage backed securities as at 31 December 2007 amounted to EUR 18.3 m, and the associated carrying amount risk is therefore limited.

3.4 Earnings

Financial 2007 was a time of change and new beginnings for Hypo Group Alpe Adria, with the banking group taking stock and making crucial decisions for the future in order to ensure a solid foundation for continued growth. These decisions are reflected in Hypo Group Alpe Adria's earnings, which were significantly affected by the more risk-averse approach introduced by new majority shareholder, BayernLB, and the subsequent revaluations of securities. The effects of these non-recurring items apart, Hypo Group Alpe Adria reported positive developments in all areas, which are reflected in a small consolidated net profit for the year (after minorities).

Operating activities in 2007 developed in a highly encouraging way, as evidenced by the 18.3 % increase in net interest income and the 33.9 % rise in net fee and commission income.

Interest and similar income grew by EUR 581 m (up 41.0 %). This is chiefly attributable to leasing income, which increased by an above average 45.6 % to EUR 366.4 m. Interest and similar expense advanced by only EUR 488.5 m to EUR 1,399.8 m, so that net interest income came out at EUR 599.2 m, a year-on-year increase of EUR 92.9 m.

Net interest income
in m EUR

Hypo Group Alpe Adria recorded a significant improvement in net fee and commission income, the difference between fee and commission income of EUR 156.7 m and fee and commission expenses of EUR 35.4 m. The net amount for the year was up 33.9 %, from EUR 90.6 m to EUR 121.3 m.

Net fee and commission income
in m EUR

The EUR 30.7 m improvement is chiefly attributable to the increased income from commissions from lending business, and from significant increases in securities and depository business.

Result from trading, which in addition to income from trading activities includes exchange gains and losses and changes in valuations of banking and trading book derivatives, improved from a loss of EUR -0.5 m in 2006 to a profit of EUR 22.4 m in 2007.

Result from financial investments designated at fair value through profit or loss in 2007 was significantly influenced by the negative performance of US mortgage loans. The investments were made between 2005 and 2007 based on the recommendations of an international financial house, acting as asset proposer. However, at 31 December 2007 there were no actual defaults on the debts underlying the securities to report. For reasons of caution, however, the relevant securities have been measured almost entirely at their lower counterpart value. This result also includes a positive contribution of EUR 17.8 m, which arose from the recognition at fair value of subordinated liabilities relating to associates of a leasing company. The value of the liability was reduced to match the loss in value of the leasing object, as repayment of this liability is no longer considered likely.

Result from other financial investments of EUR 10.8 m is chiefly attributable to profit on the sale of the Hoto Business Tower in Zagreb.

As a result of the negative valuation effects discussed above, operating income for the year of EUR 651.3 m fell short of last year's EUR 687.5 m.

In line with its new, significantly more risk-averse approach, Hypo Group Alpe Adria undertook a thorough reappraisal of its loan portfolio in 2007. Overall, this is resulted in a charge against income of EUR 274.1 m, more than double the amount of the risk provision in 2006.

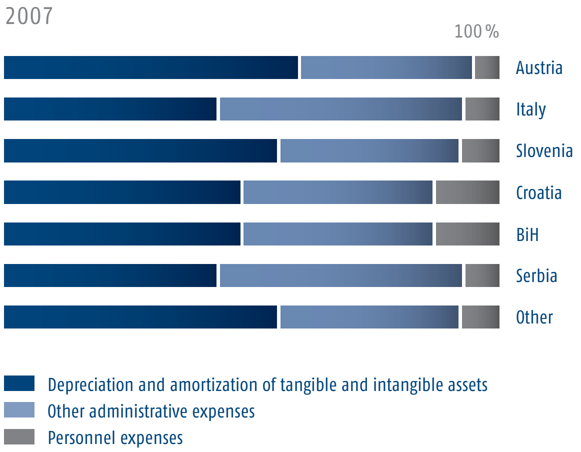
The number of employees rose in line with extensions to the branch network in the extended Alps to Adriatic region, taking personnel expenses from EUR 206.4 m to EUR 240.9 m (up 16.7 %). Other administrative expenses advanced from EUR 174.5 m to EUR 201.4 m. The increase was chiefly attributable to higher rental and property occupancy expenses, as well as higher legal and consultancy fees. Depreciation and amortization of tangible and intangible assets used by the Group was up EUR 11.1 m in 2007 to EUR 48.9 m, largely as a result of taking the new headquarters in Zagreb into service.

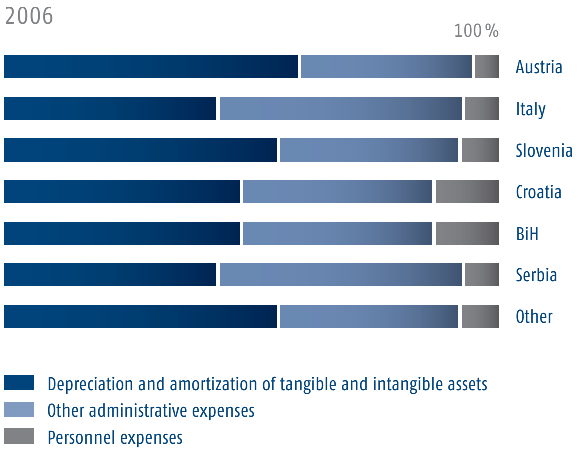
Total operating expenses for the year increased from EUR 418.6 m to EUR 491.1 m (up 17.3 %).

Operating result as the difference between operating income after risk provisions (EUR 377.2 m) and operating expenses (EUR 491.2 m) was EUR -114.0 m.

The first half of 2007 saw the successful sale of the consulting business, which contributed EUR 57.2 m to earnings for the year.

Operating expenses by country





Adding in the EUR 1.0 m earnings of the companies consolidated at equity, the pre-tax loss came to EUR -56.1 m.

After charging the effective tax expense of EUR -62.8 m and adding back deferred tax credits of EUR 48.6 m the post tax loss was EUR -70.3 m.

The consolidated net profit came out at EUR 3.1 m, after transferring the proportionate share of the valuation loss on financial securities to the minority shareholder and taking the EUR 73.5 m of dividend distributions to minority shareholders into account.

Despite developments in the international financial markets that could not have been foreseen and the effects of the more restrictive risk policies, Hypo Group Alpe Adria was able – on the basis of the healthy and sustainable earnings of its core businesses – to bring a difficult year to a positive close.

3.5 Earnings ratios

The cost/income ratio in 2007 was significantly affected by the fall in security prices and was 75.4 %, compared with 60.9 % a year earlier. As a result of posting a loss for the year, meaningful return on equity (ROE) and return on assets (ROA) ratios can not be calculated.

4. Analysis of non-financial key indicators

4.1 Employees

Hypo Group Alpe Adria places great emphasis on job satisfaction and training, because highly motivated employees are the key to success. Hypo Group Alpe Adria‘s business depends on their competence and expertise and their ability to apply a cross-border, networked approach. Rapid growth in 2007 brought with it the need to hire more staff. At balance sheet date the Group headcount had increased to 6,963 people, an increase of 825, or 13.4 %, on the previous year. With an average age of 33.8, the Group has a young and dynamic team that is best prepared to meet the challenges of the future.

As a highly customer oriented international financial services provider, the Group sees recruitment of new staff – mainly graduates – as a major priority. Intensive on-the-job training and comprehensive in-house staff development courses ensure that newcomers are quickly integrated and acquire the necessary skill sets. Cross-border training and education for all employees continued to receive special emphasis in 2007, and there was also special focus again on the training of potential next generation managers at the Management Academy. Specialised training for individual employees is increasingly becoming a core preoccupation, as the Group endeavours to ensure the application of uniform standards across the region. Beginning with Treasury, Hypo Group Alpe Adria has launched the *Laufbahnstufenkonzept*, a career progression pilot project.

In order to be able to adapt to constantly changing market conditions and to support Hypo Group Alpe Adria’s retail banking focus, the Group in 2007 launched a broad-based international personnel development scheme. The project continues in 2008, and its aim is to ensure that all personal banking advisers in the Alps to Adriatic region provide their customers with the best all-round support. The comprehensive staff training program also includes special-purpose sales seminars with a focus on professional customer care and customer relations management.

In 2007 Hypo Group Alpe Adria invested some EUR 3.5 m in a total of 1,954 training and education events for its employees.

Employees
2004–2007

4.2 Customers

In the markets of the extended Alps to Adriatic region, served transnationally by Hypo Group Alpe Adria, an intimate knowledge of the markets – and a profound understanding of customers’ needs on an emotional plane as well – are critical factors for success. In this context, Hypo Group Alpe Adria consistently sees itself in a long-term partnership role with its customers, a relationship that extends far beyond mere financial transactions: its work with its customers is shaped by face-to-face communication and mutual respect. This is based on an unwavering commitment to delivering customer-driven services, especially as embodied in ease of access to banking facilities and rapid attainment of personal goals. With distinctive, reliable and easy-to-understand products in both financing and investment, Hypo Group Alpe-Adria makes an impressive contribution to the prosperity of its customers. Our absolute nearness to customers, which is what enables us to develop specially tailored solutions, will continue to be our overriding concern in the future. Hypo Group Alpe Adria’s involvement in each country is shaped by its long-term strategy and corporate philosophy. In 2007, the Group was banking partner of choice for more than 1.2 million customers. It owes its success to its flexibility, a solutions-oriented approach and rapid response times, coupled with respect for customers and commitment to their wellbeing.

4.3 Corporate Social Responsibility (CSR)

Hypo Group Alpe Adria is aware of its special responsibilities to the environment and to society. Recognising and acting on these responsibilities is a central element in the Group's strategic alignment and its operating activities. Hypo Group Alpe Adria's commitment to environmental protection, economical use of resources, and sustainable development was once again one of its central concerns in 2007. It sees sustainability as an integral part of its corporate activity and as a way to add lasting value. The Group continues to attach particular importance to the promotion of alternative energy sources, and in doing so is opening up a whole new area of business opportunities. The Munich branch plays a pioneering role in financing renewable energy projects. The branch's special expertise and close ties to agriculture have allowed it to establish an excellent position for itself and act as a competence centre for the whole Group in this area. Hypo Group Alpe Adria has an established reputation as a promoter of energy companies. Constant information exchange and contacts to experts in science and industry allows the Group to makes a positive contribution to supporting sustainable energy policies. These responsibilities towards the environment and society are reflected in the day-to-day work of all the Group's employees, and are enshrined in the management code. Sustainability and social commitment are among the key factors in working with customers, business partners and shareholders.

In the Annual Report there is a separate section outside the group management report dedicated to CSR.

5. Risk report

As an international financial enterprise serving a very wide range of customers and markets, Hypo Group Alpe Adria is exposed to a great variety of industry-specific risks. A groupwide, uniform, pro-active risk management system has therefore been introduced, with the principal objective of identifying risks in their early phases, so as to be able to apply appropriate countermeasures rapidly. Risk management evolves all the time, and its evolution is driven by the characteristics of the Bank's regional markets.

5.1 Risk strategy, management and monitoring

The Hypo Group Alpe Adria manages and monitors the risks across its business areas with the aim of optimising its risk/returns profile for all the various types of risk involved. The Hypo Group Alpe Adria applies the following key principles to overall risk management:

- The Board of Management establishes the risk strategy in line with business strategy and defines it precisely for the different types of risk by means of policies and business objectives. The Board is also responsible for, and monitors, risk strategy implementation.
- There are clearly defined processes and organisational structures in place for all types of risk with clear requirements in terms of the tasks, competencies and responsibilities incumbent on all those involved.
- Sales/trading activities and back office/settlement activities are functionally separated in order to avoid conflicts of interest.
- Compatible procedures are defined and implemented for the identification, measurement, aggregation and monitoring of the various types of risk.
- Appropriate limits are set and monitored effectively for all key types of risk.

The Board of Management takes important and strategic risk-related decisions itself. All operational decisions are delegated within the framework of defined tasks, competencies and responsibilities.

5.2 Organisation, reporting, internal auditing

As a Member of the Hypo Group Alpe Adria Board of Management, the Chief Risk Officer (CRO) is responsible for the adequate structural and procedural organisation of risk management and monitoring. In view of the demands made by MaRisk, he/she acts independently of the market and trading units.

The main management tasks are the management of individual counterparty risks, risk controlling and the monitoring of counterparty, market, liquidity and operational risks at portfolio level. The CRO is also responsible for monitoring risk-bearing capacity and the risk capital required for management according to economic perspectives. Within the Management Board, the Chief Financial Officer (CFO) has the task of monitoring adherence to the regulatory restrictions relating to equity requirements. In the Hypo Group Alpe Adria one person fulfils the functions of the CFO and the CRO.

Decision-makers are assured of timely and objective reports that take adequate account of risks. Ad hoc reporting requirements are met at all times.

As a permanent unit, the Auditing Department monitors all Hypo Group Alpe Adria business and reports directly to the Chairman of the Board of Management. On the basis of a risk-oriented approach, its auditing activities extend to all Hypo Group Alpe Adria activities and processes, even when these are outsourced. Irrespective of the activities, procedures and functions to be audited, the Department carries out the tasks allotted to it in line with the respective, current statutory and regulatory requirements. In addition, auditing is also active within the subsidiaries of the HGAA Banking Group as Group auditing, which supplements internal auditing.

5.3 Capital management

Within the scope of overall management, Hypo Group Alpe Adria capital management is based on a multi-dimensional planning process, which concentrates strategies, risk-oriented and regulatory factors within the framework of operative planning extending over several years.

In an initial pre-planning process, Hypo Group Alpe Adria strategy is adjusted at intervals and where needed, strategic confirmation or adjustments are undertaken by the Board of Management.

On the basis of the agreed strategic orientation, risk limits are prepared for the Hypo Group Alpe Adria by risk management and then transferred to individual bank market units in co-operation with the business areas. The risk limits consist largely of general conditions for business area strategy and the desired target rating of the bank.

Using the general conditions, the business areas and divisions then complete operative planning, which merges into long-term planning with a time horizon of three years.

5.3.1 Regulatory capital adequacy (solvency)

Hypo Group Alpe Adria has defined the following targets, methods and processes, in order to determine the sufficient supply of the business areas with balance sheet equity.

Equity planning forms the starting-point for the allocation of balance sheet equity. Own capital funds are regarded as consisting of liable capital, comprised of core and supplementary capital, plus third rate funds. In general, core capital is formed by subscribed capital, plus reserves and silent deposits. Supplementary capital derives from outstanding profit-sharing rights and long-term subordinated liabilities. Third rate funding is understood as meaning current, subordinated liabilities.

Own capital funds planning is largely based on the internal core capital ratio target (ratio between core capital and risk assets) and an internally established target quota for the overall Hypo Group Alpe Adria Group key indicator (ratio of own capital funds to risk items). This defines the maximum risk assets and market risk items generated from business activities for the planning horizon. An in-house developed simulation tool permits the calculation of this key indicator subject to various general conditions and stress scenarios.

5.3.2 Economic capital (risk-bearing capacity)

In addition to the hedging of regulatory capital requirements, the hedging of economic risk-bearing capacity represents a central element in Hypo Group Alpe Adria management.

The bank manages its risks within the framework of an overall bank management process, which furnishes risk capital for the various types of risks involved in the implementation of its strategy and sets limits.

The risk capital requirement are uniformly defined for the whole Group in a tiered concept and provide the basis for the extrapolation of the upper loss limit. The risk capital provided for the coverage of this upper loss limit is subsequently allocated at risk type level in accordance with the strategic and operative targets of the Management Board.

The risk capital requirement provide an insight into the sum to which unexpected losses from assumed risks might amount in an emergency. They follow a tiered concept, in line with the balance sheet and income statement, using which the capital components are classified in accordance with their availability (realisability) and the external effects of their change (capital market effects).

Within the scope of economic risk capital management, Hypo Group Alpe Adria monitors the risk profile and secures its risk-bearing capacity through the counterbalance of risk capital and risk capital requirements. The upper loss limit and hence the available risk capital is established through the sum of the capital components in Tiers I-IV. Tier V of the risk capital requirement serves as additional investor protection and priority creditors should bankruptcy occur (worst case) and are therefore not allocated to the business activities of the bank.

Consistent risk scrutiny is employed for the determination of the risk capital requirements, not only at the Hypo Group Alpe Adria, but also the strategic subsidiaries. Risks are collated both at Sub-group and Group level for a total estimate of existing risk. In general the value at risk (VaR) method is used in this connection with a confidence level based on the minimum rating 2B (99.8685 %, in the case of one-year holing).

The Hypo Group Alpe Adria's strategic investments (subsidiary banks and leasing subsidiaries in the Hypo Group Alpe Adria's core countries) dispose over independent risk management and risk-bearing capacity calculation. As the superordinated Group institute, the Hypo Group Alpe Adria fulfils its directive competence especially with regard to processes and procedures. These take the needs, background conditions and business strategies of the subsidiaries into reasonable account.

Within the scope of economic risk capital management, risk capital is monitored independently by the subsidiaries and at Group level by Hypo Group Alpe Adria. Risk-bearing capacity is secured by the comparison of risk capital and the risk capital requirement.

5.4 Credit risk (counterparty default risk)

5.4.1 Definition

Credit risks (or counterparty default risks) arise when business partners default on the contractual payment obligations relating to a financial instrument. The bank suffers a loss to the amount that outstanding sums are not covered by collateral, less any amounts that it may be able to recover as part of its problem loan process. Counterparty default risks can be categorised as credit business, issuer and debtor risks derived from securities transactions, as well as counterparty and settlement risks derived from retail business.

Hypo Group Alpe Adria manages and quantifies country risk separately with limit need planning taking place in co-ordination with the Group Treasury. The limit is approved within the ALCO Group and then assigned to the business areas.

5.4.2 General targets

By virtue of its scale and risk contribution, credit business constitutes the bank's core business. The Hypo Group Alpe Adria conducts its credit business through direct customer relationships as a member in syndicated loans. It supports both its shareholders and customers as a strategic business partner.

Via the credit risk strategy, as part of the comprehensive risk strategy covering all types of risk, parameters are formulated by the Management Board for the handling of credit business on the basis of the initial, business policy situation and risk-bearing capacity.

The credit policy lends substance to the formulated requirements. In this connection it relies in particular on the standards defined for the organisational structure of the bank and the risk management process. The standards emanating from overall management form an important platform for this policy. These requirements are supplemented within the scope of further policies.

5.4.3 Risk measurement

For risk measurement at portfolio level, the Hypo Group Alpe Adria currently uses the Basel II requirements for the IRB (Internal Ratings Based) approach.

In addition to the calculation of expected loss, above all, this serves the calculation of unexpected loss and risk capital within the scope of the risk-bearing capacity calculation.

In addition to a modern balance analysis system, the Hypo Group Alpe Adria uses a 25-tier (20 active and five default tiers) (partly) statistically-based rating process for the individual analysis and assessment of the creditworthiness of its debtors.

In the course of the acquisition of a majority holding by the BayernLB, a project was initiated for the restructuring of the Hypo Group Alpe Adria's rating map. This was geared to possible synergies between the BayernLB and Hypo Group Alpe Adria.

5.4.3.1 Internal rating systems

As a rule, the rating systems currently employed by Hypo Group Alpe Adria are available to all subsidiaries. The rating competence is determined in the course of a credit process. The aim is to avoid multiple customer ratings in the Hypo Group Alpe Adria, where this appears to be of advantage.

Uniform processes are employed throughout the Group in the areas of public finance, banks, special financing and structured products. Respective, special regional adjustments were undertaken with regard to private customer and corporate ratings.

Processes for SMEs are now being jointly redesigned with BayernLB. The completeness of the rating process is monitored in the credit risk report by the appropriate examinations and reports are made to the Management Board.

The ratings are released according to the dual control principle, thus ensuring an additional check. Risk Management releases the ratings.

The validation system developed within the Hypo Group Alpe Adria includes an annual audit of rating system performance, where data is available in sufficient quantity.

5.4.4 Risk limitation

The management of the liability of an individual customer or a Group of affiliated customers throughout the Group takes place in accordance with the respective customer segment or business area.

For financial institutions (primarily banks) limits are determined at individual customer level and are binding unless the Management Board permits a higher total liability than the determined limit.

Limit management in all other segments takes place via a superordinated Group empowerment directive, which transfers all liabilities that exceed a certain limit to the decision-making competence of the Group Management Board.

At portfolio level, structural limits restrict risk through rating categories, branches, country, customer segments and foreign currencies. These limits are risk-oriented, soft limits, the use of which is made known to the Management Board within the framework of reporting.

Another important Hypo Group Alpe Adria risk limitation instrument is the receipt and eligibility of standard bank collateral. Processing and evaluation take place using the collateral policy, which in particular, determines the process of evaluation and the evaluation deductions and frequency of the individual types of surety. As a rule, during derivatives trading, general agreements are concluded regarding closeout netting. With certain business parties, hedging agreements exist, which limit the default risk with individual trading partners to an agreed maximum amount and in the case of a breach of this limit, provide an entitlement to a demand for additional collateral.

The collateral receipt process (form requirements, preconditions) is regulated for every individual type of collateral within the internal processing guidelines.

5.4.4.1 Strategy and procedure for the evaluation and management of the admissible collateral employed

The collateral policy regulates the collateral evaluation and processing guidelines. In order to secure constant legal enforceability, as a rule contractual standardisation and ongoing legal monitoring, especially of foreign legal statutes, are undertaken in co-operation with other institutes.

The calculation and definition of the established collateral values are documented in an understandable and plausible manner in line with defined targets. Where expertises exist, it must be ensured that statements regarding marketability are available for an estimate of the liquidity value.

Collateral management systems, which document all the evaluation criteria, are available to all subsidiaries. The system landscape is standardised in line with the available possibilities and expediency, e.g. a uniform collateral solution is employed in the CEE region.

A description of all standard bank sureties is contained in the collateral policy.

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

5.4.5 Risk management and monitoring

All commitments are monitored on the basis of defined early warning indicators and ratings. The use of early warning criteria is at the discretion of the respective subsidiary and can be adjusted according to local requirements.

The basic aim of all activities is to minimise or entirely avoid possible Hypo Group Alpe Adria losses through the timely initiation of suitable measures within the scope of intensive support or problem loan handling and wherever possible, to lead a business partner back to normal support.

The formation of provisions for specific debts (time and amount) is regulated in the credit manual. The calculation of the impairment using IFRS is regulated in the Group Accounting manual.

Risk Management supervises limit use, the portfolio structure, as well as risk-bearing capacity. It reports regularly within the scope of credit risk reports. Reporting in the Group takes place at quarterly intervals.

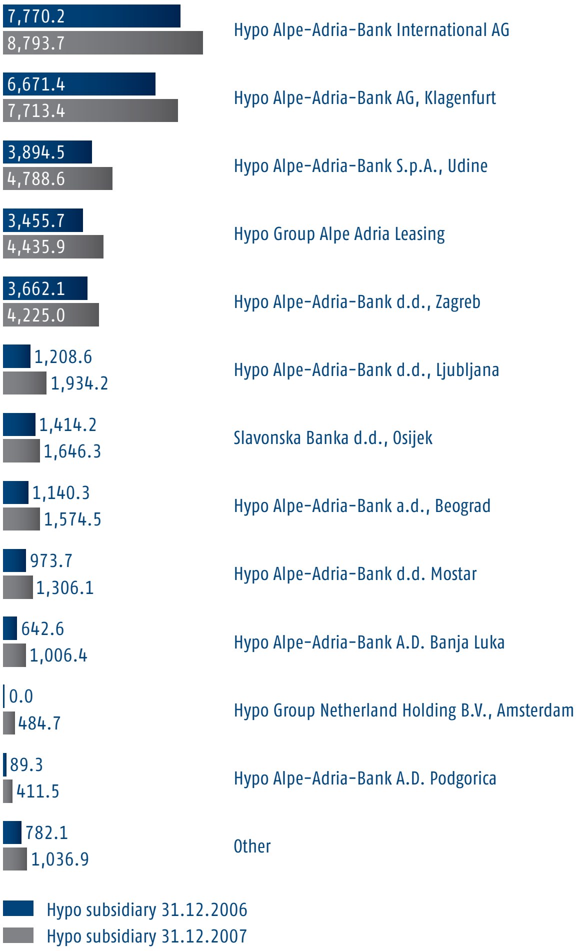
Improvements to the actuality of the information are constantly being undertaken.

5.4.6 Credit risk portfolio overview

5.4.6.1 Gross exposure distribution within the Group

During the period under report, gross loan exposure[*)] with the Group rose by EUR 7,652,431 thousand or 24.1 %. The current gross exposure among the Hypo Group Alpe Adria subsidiaries is shown below:

in m EUR



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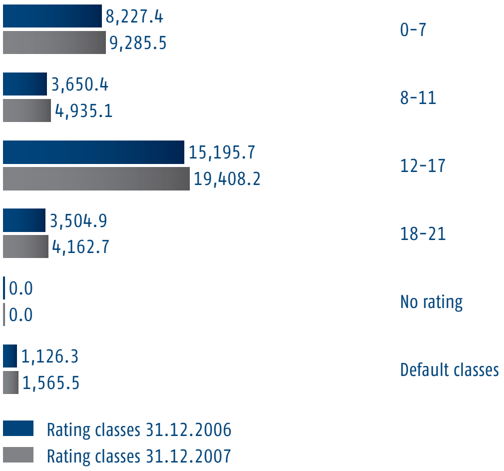
*) Carrying amount of loans and advances and securities, fair value of derivatives, loan commitments and other contingent liabilities.

5.4.6.2 Gross Group exposure by rating classes

Around 36 % of the gross exposure continues to remain in the investment grade area (rating classes 1A–2E).

in m EUR

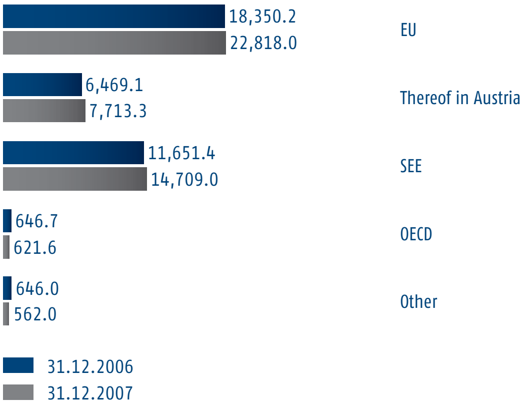


*)The non-rated share of around 14.4 % (e.g. existing positions) is transferred to an average rating using a flat rate process.

5.4.6.3 Gross Group exposure by region

The Hypo Group Alpe Adria country portfolio is focused on the EU and the SEE region. Above all, the strategic expansion of the portfolio is taking place in Serbia and Croatia, which have high growth rates.

in m EUR

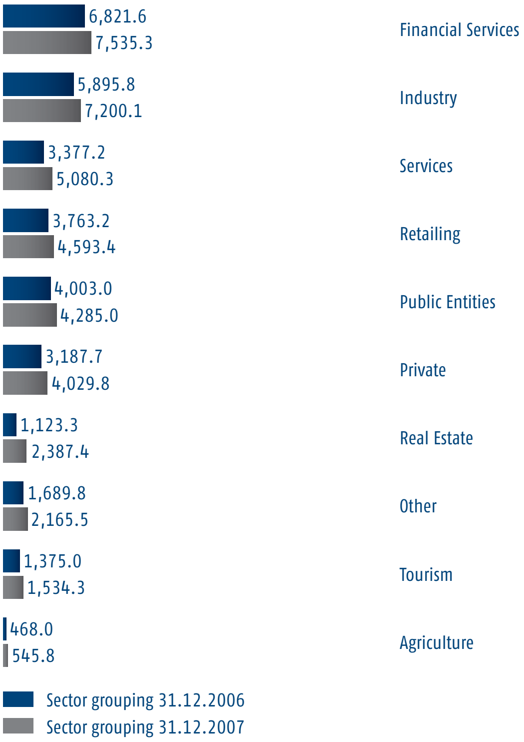


5.4.6.4 Gross Group exposure by sector groupings

For the economic management and strategic orientation of the sector exposure, the Hypo Group Alpe Adria uses a uniform grouping key, which structures the exposure in 21 sector groups. The low-risk sector groups comprised by banking institutes and the public entities constitute a 27.5 % share of this exposure. The highly diversified private sector constitutes a 10.2 % share of the exposure.

The gross exposure by sector groupings is distributed as follows:

in m EUR



The Hypo Group Alpe Adria Group sector portfolio in general, and the corporate portfolio in particular, are highly diversified. There is no risk of sector-induced concentration risks.

Above all, the expansion of the portfolio takes place primarily in the diversified services and industry sectors.

5.4.6.5 Maximum credit risk for loans and advances to customers by sector and region

The risk driver in the Hypo Group Alpe Adria credit portfolio is formed by customer loans (private, corporate, public sector, etc.). These are structured according to sectors and regions as follows:

Maximum credit risks for loans and advances to customers

in m EUR

Sector groups	EU	Thereof in Austria	SEE	OECD	Other	Sum
Financial services (excluding banks)	94.6	0	0	0	9.5	104.1
Industry	3,801.6	1,319.9	3,144.7	0.7	16.1	6,963.0
Services	3,005.9	1,415.7	1,795.7	54.7	144.2	5,000.4
Retailing	1,719.6	321.3	2,668.3	11.4	23.1	4,422.3
Public Entities	3,463.0	2,136.0	536.7	270.2	12.8	4,282.7
Private	1,439.1	464.6	2,529.8	8.0	4.1	3,981.0
Real Estate	1,957.7	210.1	420.2	0	0	2,377.9
Other	1,426.6	611.2	507.0	37.5	173.1	2,144.2
Tourism	562.5	288.8	917.0	9.7	0.1	1,489.3
Agriculture	146.1	76.6	374.0	0	0	520.1
Total exposure	**17,616.5**	**6,844.0**	**12,893.3**	**392.1**	**383.1**	**31,285.0**

The SEE portfolio contains a sizeable share from the highly diversified industry, retailing and private sectors. The expansion of low-risk retail business is a major aspect of Hypo Group Alpe Adria business strategy.

5.4.6.6 Maximum credit risk for loans and advances to customers by size classes

Maximum credit risk for loans and advances to customers

in m EUR

Size classes	31.12.2007	30.6.2007	31.12.2006
Up to 5 m	17,460.1	16,320.8	14,073.6
> 5 m - 50 m	9,641.4	7,705.0	7,031.2
> 50 m - 100 m	2,002.7	1,838.2	1,334.3
> 100 m - 250 m	1,720.4	1,730.6	1,539.5
> 250 m - 500 m	460.4	271.8	534.4
> 500 m - 1 bn	0	0	0
> 1 bn - 2.5 bn	0	0	0
> 2.5 bn	0	0	0
Total exposure	**31,285.0**	**27,866.4**	**24,513.1**

Around 56 % of the gross exposures are in the low-volume area (≤ EUR 5 m).
Growth in this class is also the largest.

5.4.7 Impairment of financial assets

Financial assets, which are neither overdue, nor impaired:

in m EUR

Rating classes	Maximum credit risk 31.12.2007	31.12.2006
0-7	9,093.3	8,123.4
8-11	4,536.2	3,453.4
12-17	14,898.9	12,118.8
18-21	3,289.2	2,710.4
No rating	0	0
Total	**31,817.6**	**26,405.9**

Financial assets, which are overdue, but not impaired:

in m EUR

	31.12.2007		31.12.2006	
Overdue, but not impaired	Maximum credit risk	Fair value collateral	Maximum credit risk	Fair value collateral
Loans to credit institutions	**0.3**	**0**	**130.9**	**94.2**
- Overdue by up to 30 days	0	0	51.0	35.9
- Overdue by 30 days to 3 months	0.3	0	28.7	26.9
- Overdue by 3 months to 1 year	0	0	50.6	31.1
- Overdue by more than 1 year	0	0	0.6	0.2
Loans to customers	**3,319.1**	**2,513.8**	**1,757.9**	**1,246.6**
- Overdue by up to 30 days	1,400.5	1,097.9	286.6	171.9
- Overdue by 30 days to 3 months	938.7	670.2	781.6	574.1
- Overdue by 3 months to 1 year	941.0	716.5	648.1	470.2
- Overdue by more than 1 year	38.9	29.3	41.6	30.4
Trading assets	**0**	**0**	**0**	**0**
- Overdue by up to 30 days	0	0	0	0
- Overdue by 30 days to 3 months	0	0	0	0
- Overdue by 3 months to 1 year	0	0	0	0
- Overdue by more than 1 year	0	0	0	0
Total	**3,319.5**	**2,513.8**	**1,888.8**	**1,340.8**

Impaired financial assets:

in m EUR

	31.12.2007		31.12.2006	
Impaired financial assets	Maximum credit risk	Fair value collateral	Maximum credit risk	Fair value collateral
Loans to credit institutions	7.9	0.1	78.9	47.0
Loans to customers	4,083.5	2,435.4	2,920.8	1,536.5
Total	**4,091.4**	**2,435.6**	**2,999.7**	**1,583.5**

5.4.7.1 Re-negotiations

Within the scope of re-negotiations, in 2007 financial assets with a total carrying amount of EUR 56.1 m were conducted to a change in terms relating to creditworthiness, otherwise a specific risk provision of EUR 20.7 m would have resulted.

5.4.7.2 Realised collateral

There were no (material) realisations of collateral during the 2007 financial year.

5.5 Participation risk

5.5.1 Definition

In addition to counterparty default risks, risks from participations can occur (shareholder risks). These are potential risks derived from equity employed, liability risks (e.g. letters of comfort) and risks from profit and loss pooling agreements (assumption of losses).

5.5.2 General specifications

The Hypo Group Alpe Adria (or a subsidiary) makes targeted investments in order to achieve its corporate goals. These investments are focused on broadening the business portfolio and providing services for the bank, or serve purely as a financial investment.

The Hypo Group Alpe Adria influences the business and risk policy of companies in which it has an investment through representatives in the owner or supervisory bodies. In the case of participations in line with Group strategy, compatible risk management processes, strategies and processes are implemented on the basis of Hypo Group Alpe Adria risk policy. These participations are integrated into the Hypo Group Alpe Adria management process via the counterparty default, market price, liquidity and operational risks. The aim is to standardise risk management and monitoring methods, where this is necessary due to the importance of the participation to the Group.

In addition, all participations are subject to ongoing performance and risk monitoring. In this regard, the Hypo Group Alpe Adria pursues the target of obtaining reasonable and sustained profitability following the taking into account of risk provisions. Via the centrally prescribed risk management principles, each strategic subsidiary in the Hypo Group Alpe Adria is individually responsible for the implementation of risk controlling within the framework of the fulfilment of statutory requirements.

5.5.3 Risk measurement

The simple PD/LGD risk measurement model method according to Basel II is employed for risk quantification.

At present, risk-bearing capacity calculations on a standardised basis are in the roll-out phase at all the Group's strategic subsidiaries (initially banks). The results of these calculations will be integrated into Hypo Group Alpe Adria's consolidated risk-bearing capacity.

5.5.4 Risk management and monitoring

Hypo Group Alpe Adria disposes over an independent, central unit with directive competence for all investment risk controlling methods and processes. The operative realisation of risk management instruments lies within the responsibility of the answerable business units.

At present, external capital ratings are employed for participations, but in the course of the integration process with BayernLB the employment of a classification process for participation risk weighting and monitoring is under discussion. The main aspects in this regard are the maximum loss potential, as well as the estimation of the participation risk.

5.6 Country risk

5.6.1 Definition

Country risk is the risk relating to the inability of a business partner in the respective country, or the country itself, to meet its obligations, or meet them in due time, owing to measures adopted at national level or macro-economic/political problems.

Country risk can for instance emanate from

- A possible deterioration in macro-economic conditions.
- Political or social upheaval.
- The nationalisation or expropriation of assets.
- The non-recognition of cross-border liabilities by governments.
- Currency control measures.
- Depreciation or devaluation of the national currency.
- Payment or delivery bans, moratoria, embargos, a war, revolution or putsch in the country involved.

5.6.2 General specifications

In particular, the country risk policy regulates the need for each transaction to be assigned a country rating, the measurement of the country risk and risk limitation, including escalation limits when steps are exceeded.

5.6.3 Risk measurement

Country ratings are a key tool in measuring individual country risks. Should a country not have been assessed by a rating agency (Moody’s, S&P or Fitch), it is calculated an internal rating. This internal rating is prepared by means of an analysis of the economic and political situation in a country and in particular, its ability to service its debt, using both quantitative an qualitative data.

5.6.4 Risk limitation

Country risks are restricted by means of limits, which are calculated on the basis of ratings and risk-oriented country correlations. Group cross-border transactions are the object of such restrictions, whereby direct subsidiary financing (refinancing, capital) is subject to direct management on the part of the Management Board.

5.6.5 Risk management and monitoring

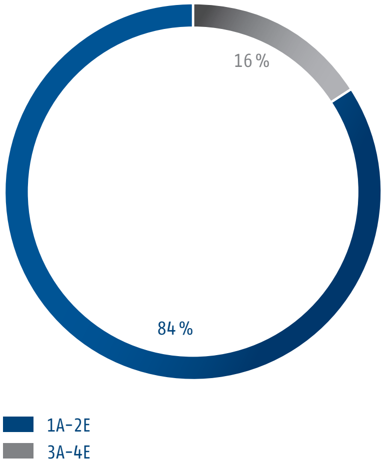
Group Credit Risk Management constantly monitors adherence to the approved country limits and reports directly in the Group ALCO concerning infringements in the course of regular country risk reporting. Changes in country risk/country rating will be also reported in Group ALCO.

5.6.6 Country risk portfolio overview

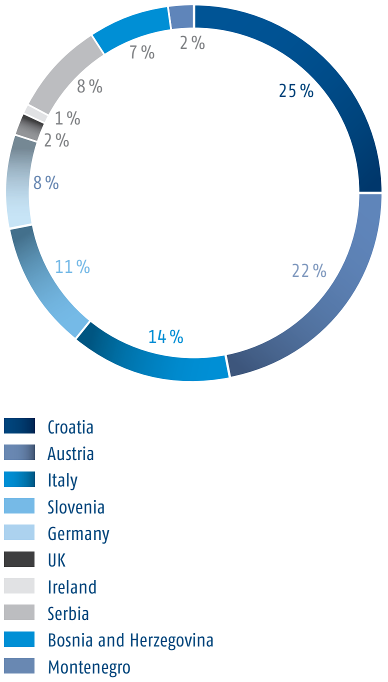
The share of the gross exposure in countries with 1A–2E rating classes amounts to 84 %. At the end of 2007, around EUR 6.3 bn of the gross exposure was allocated to countries with a rating below 2E.

The share of the top 10 countries in total volume amounts to 91.4 %. The largest volume relates to Croatia and Austria.

Gross country rating exposure distribution



Top 10 gross exposure countries



5.7 Market price risk

5.7.1 Definition

Market price risk is defined as the potential loss resulting from changes in market prices. Hypo Group Alpe Adria subdivides market price risks according to their risk factors in interest rate, credit spread, currency and share price risks, as well as risks from alternative investments.

Market price risks may emanate from securities (or similar products) money market or foreign exchange products, derivatives, currency or performance hedging, quasi-equity funds or asset/liability management.

In addition to market price risks, market liquidity risks can occur when for reasons of low market demand, the bank cannot undertake the short-term sale of trading positions in cases of liquidity bottlenecks (or risk-related close-out requirements). In the case of existing positions, these risks are taken into account within the scope of market price risk limitation.

5.7.2 General specifications

The bank prepares its market risk strategy on the basis of strategy discussions on the part of the responsible Treasury units. The results are debated within the Group Executive Committee (GREC) on the basis of Group Market Risk Management analyses. Finally, resolutions concerning the combined business and risk strategy at Group level are agreed exclusively in the Group Asset Liability Committee (Group ALCO).

The value at risk figures for trading business are presented to the Management Board in the course of daily reporting. In this procedure, the value at risk at unit level is compared with the established limits. In the case of limit infringements, escalation processes are defined up to Management Board level.

Hypo Group Alpe Adria subsidiaries establish risk according to Hypo Group Alpe Adria's stipulations for the respective portfolios. The results are presented to the Group Management Board within ongoing Hypo Group Alpe Adria reporting.

5.7.3 Risk measurement

Hypo Group Alpe Adria determines its market risks on a daily basis with a value at risk process using a one-day or 30-day holding period and a confidence level of 99 percent. In addition, the Monte Carlo simulation is generally employed with an exponential weighted history of 250 days. In order to determine the risk capital requirement for the risk bearing capacity calculation, the figures are input at a uniform confidence level based on the minimum rating 2B of 99.895 percent, assuming a liquidation period of 90 days.

The models calculate potential losses from market price risks taking into account historic market fluctuations (volatility) and market correlations. In the year under review, specific interest rates were subjected to further fine tuning. This took place against the background of the increased importance of interest risks in the current market situation.

The reliability of market risk measurement is reviewed regularly with a view to assessing the quality of the individual risk procedures. Backtesting is used to compare the risk forecast with the actual result (profit or loss). The forecasting quality of the risk model is measured using the Basel traffic light approach.

While the VaR established for monitoring requirements is a tool for the forecasting of potential risks under normal market conditions, forward-looking analyses are performed on the basis of extreme assumptions. In the course of stress tests, market positions are subjected to exceptional market price fluctuations, crisis situations and worst case scenarios. The simulated results are then analysed with a view to identifying any risk potential, which could jeopardise the bank. The stress scenarios are monitored as to their reasonableness and adjusted where required.

At present, the Hypo Group Alpe Adria does not employ any internal risk models for regulatory purposes. Instead standard methods are utilised.

Like all market risks in the Hypo Group Alpe Adria, the interest fluctuation in the investment book is determined as a present value risk. In the main, the interest fluctuation risk in the investment book is integrated into market risk controlling according to value at risk.

Both contractual and statutory cancellation rights are modelled as an option and flow into the risk calculation. All stochastic positions are taken into account in line with internal modelling.

In line with Basel II requirements, a 200 basis point, interest rate shock scenario is calculated for interest rate fluctuations in the investment book. The calculated changes in cash value in relation to liable capital are significantly below the outlier criterion. In addition, a diversity of possible market fluctuations are calculated and presented through the calculation of standard, forward, historical and extreme scenarios.

5.7.4 Risk limitation

The maximum loss derived from the assumption of market risks is limited by the definition of market risk capital. The market risk capital is spread via the determination of risk factor limits on the various market risk factors (interest, currency, share and alternative investments). The risk factor limits are additional differentiated according to defined sub-portfolios. Furthermore, a limit system supports defined warning levels, which show early warnings of negative developments.

5.7.5 Risk management and monitoring

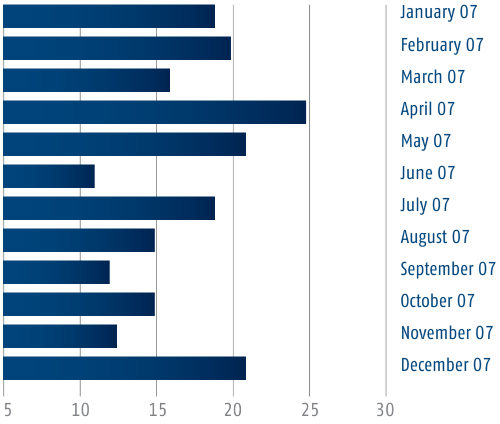
The Group Market Risk Management unit centrally monitors all market risks, which is independent from trading. In addition to regulatory requirements, this unit also secures risk transparency and regular reporting to the responsible member of the Management Board. Furthermore, the entire Management Board receives a separate monthly report concerning the current market risk situations, as well as backtesting and stress test results with pointers to possible special developments.

The management of the interest risk takes place on an institutionalised basis subject to the regulatory requirements of interest risk statistics. The asset liability committee, which is formed by members of the Group Management Board and leading employees from the Treasury, Risk Management and Financial Controlling units, completes analyses and within the scope of regular meetings, takes decisions concerning balance structure and liquidity management measures.

5.7.6 Market risk overview

The following diagram presents the Hypo Group Alpe Adria interest fluctuation trend in 2007. Hypo Group Alpe Adria's interest rate sensitivity gap balance contains all on- and off-balance positions with the next interest rate determination date. The stochastic cash flows are presented by means of uniform Group standards and in the case of specific country transactions, with local models. All interest rate sensitivity gap balances from local banks are consolidated at Group level and combine to form the Group interest rate sensitivity gap balance.

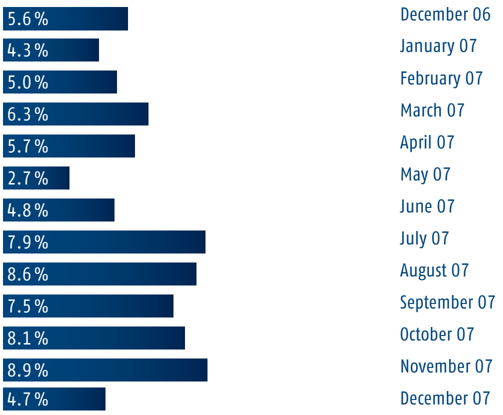
Interest rate risk – VaR (30 days, 99 %)
in m EUR



The interest risk calculation is based on the directives of the Austrian National Bank for the calculation on interest risk statistics. Initially, the interest risks per defined currency are established on the basis of the Group interest rate sensitivity gap balance and in a second step, the risk equity ratio is calculated as a percentage of equity.

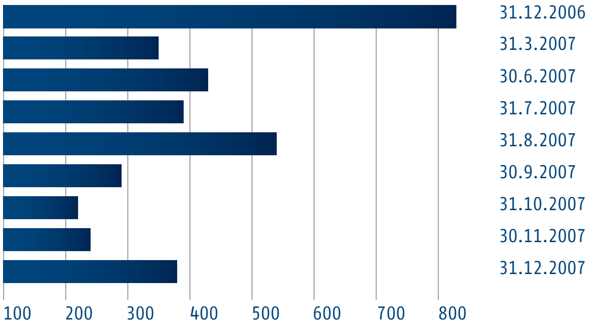
At no point during 2007 was there the slightest possibility of the regulatory limit of 20 % and the internal limit of 15 % being reached or exceeded.

Interest risk equity ratio
in percent



The data for the determination of the value at risk for the open currency positions at overall bank level of the Hypo Group Alpe Adria is based on the figures of the Austrian National Bank report and contains operative business. The value at risk for this FX risk as December 31, 2007 with a confidence interval of 99 %, stood at approximately EUR 0.27 m per day.

FX-Risk – VaR (1 day, 99 %)
in thousand EUR



The value at risk for the share risk in the Hypo Group Alpe Adria as at December 31, 2007 amounted to EUR 1.47 m with a holding period of one day and a confidence level of 99 %. The alternative investment risk within the Hypo Group Alpe Adria as at year-end 2007 with a 1-day value at risk and 99 % confidence level amounted to EUR 1.35 m.

5.8 Liquidity risk

5.8.1 Definition

Hypo Group Alpe Adria defines liquidity risk as the risk of an inability to pay due obligations either in full or on time. Liquidity risk also encompasses the risk that, in the event of a liquidity crisis, funding is only available at higher market rates than anticipated, or that assets can only be sold below market rates.

5.8.2 General specifications

The strategic principles of liquidity risk management and controlling in the Hypo Group Alpe Adria are laid down in the risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank has the ability to meet its payment and funding obligations at all times. A Group liquidity manual regulates the content and organisational framework of liquidity risk controlling and management.

From a Group perspective, liquidity risk management and controlling in the Hypo Group Alpe Adria are the responsibility of Group Treasury. This handles the management of both ad hoc and structural liquidity, as well as the co-ordination of funding potential at Group level. Local treasury units are responsible for operative liquidity management and liquidity imbalances. In the Hypo Group Alpe Adria, liquidity risk controlling from a Group standpoint is the responsibility of Group Market Risk Management, and at local level, that of the respective risk controlling units. These departments deal with risk measurement and limitation, as well as near-time and consistent reporting.

The Hypo Group Alpe Adria disposes over binding, written liquidity emergency planning. This regulates the process, management and hedging instruments needed for the avoidance of impending difficulties and the mastery of acute crises. In the case of a liquidity crisis, the main specifications of the bank are the strict retention of solvency and the avoidance of reputational damage.

5.8.3 Risk measurement

The most important methodological instrument for the measurement, analysis, monitoring and reporting of liquidity risk in the Hypo Group Alpe Adria is the liquidity overview. This compares the liquidity gaps from deterministic and modelled future payments slows and the realisable liquidity coverage potential in clearly defined periodic bands.

The liquidity cover potential quantifies the ability of the bank in amounts and dates to procure liquid funds at the earliest possible point in time subject to economic conditions. It shows the possibilities for the coverage of the liquidity gap and thus all the liquidity risks emanating from payment flows. The most important elements in the liquidity cover potential are free access to Central and interbank funds, other available collateral eligible as security for Central bank borrowings, as well as the issue potential in the register of mortgages serving as cover for mortgage bond issues and senior bond issues.

In addition to the standard scenario, the range of risk measurements is supplemented by other scenario analyses under stress situations, e.g. name crises (rating deterioration, reputation crises), as well as market risks (restricted funding possibilities in the capital market, increased cash flow outflow and transfer limitations).

On the basis of liquidity overviews, key indicators are determined for the various scenarios, which facilitate a brief assessment of the liquidity situation. The maximum use of liquidity cover potential for up to one year is employed for the evaluation of the liquidity situation, whereby special weight is attached to the burden during the first four weeks. In addition, regular liquidity ratios are calculated for management purposes, which show the ratio of the liquidity reserves and liquid funds to short-term, payment obligations available for call for certain areas of the Group.

In order to limit structural liquidity, the cash value loss caused by an increase in the funding spread due to a rating deterioration in the risk bearing capacity calculation is counterbalanced by economic equity.

5.8.4 Risk management

The securing of Hypo Group Alpe Adria solvency at all times, including in crisis situations, is achieved by a package of various liquidity reserves. These are subjected to a diversity of stresses, in order to achieve a positive picture of the liquid resources available to the various units even in crisis situations.

In standard situations, in addition to customer deposits, the focus of generation lies in the interbank depots, Commercial Papers and issues. Bonds eligible as a security for European Central Bank borrowings and suitable for rapid realisation are retained for emergencies.

Group liquidity management is completed both at local level especially in Croatian Kuna (HRK) and Serbian Dinar (RSD) as well as centrally via the Group holding.

The focus is on short-term management over a period of 30 days and a medium-term view for a period of 12 months.

A cash flow balance serves as a platform, which combines deterministic, stochastic and forecast data. The latter is employed for short-term management and is directly determined in the market units on the basis of customer business, while the planned budget data is used for medium-term management.

Any gaps are offset against counterbalancing capacity, which consists of a well-diversified bundle of liquidity reserves that are available for liquidity management. The liquidity reserves are subjected to regular reviews and as mentioned above subjected to stresses in line with the market situation.

In addition to structural management, compliance with the regulatory framework in the various Group countries is monitored. In Austria, this includes the maintenance of the minimum reserve and the Grade I and II liquidity reserves.

5.8.5 Risk monitoring

On the one hand, liquidity risk monitoring takes place on the basis of the key indicators for the maximum use of liquidity cover potential under normal and stress conditions (see 5.8.3) and on the other via the integration of the structural liquidity risk in overall bank management (risk bearing capacity). In addition to the static view of cash flow, a simulation of new business (5-year business plan) is also taken into account.

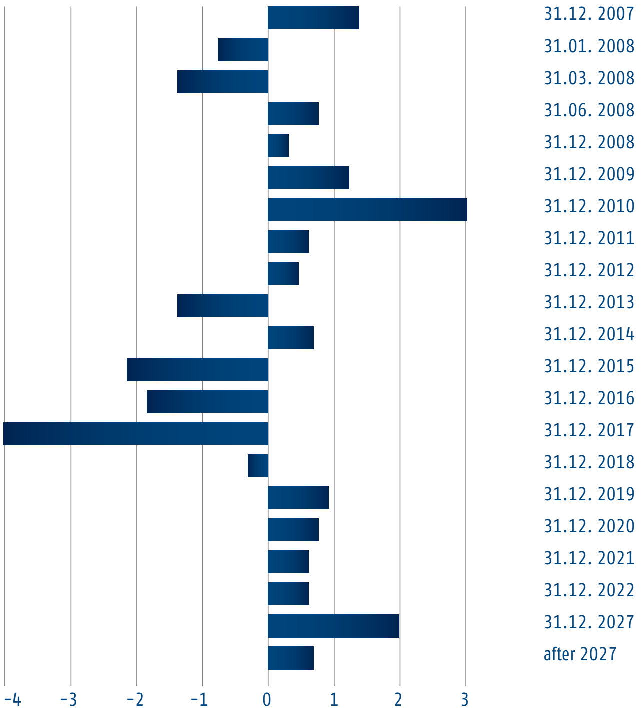
In order to ensure that existing liquidity gaps can be closed at any time when required by means of the mobilisation of liquidity coverage potential, the degree of use in all scenario analyses adjudged as being of relevance, amount to below 100 % at all times. Once certain limits are reached, measures are initiated for the reduction of the identified liquidity risks.

Overviews of liquidity and other key indicators of relevance are part of the regular risk reports to the Management Board and the responsible management areas. During the period under review, the liquidity cover potential for all scenarios adjudged to be relevant was sufficient at all times to meet liquidity needs.

5.8.6 Liquidity situation overview

The subsequent diagram shows the Hypo Group Alpe Adria liquidity profile as at 31 December 2007, for which the liquidity gaps derived from balance sheet positions were partly calculated on the basis of their contractual due ate (deterministic cash flow) and on the basis of uniform modelled assumptions (stochastic cash flow).

Total liquidity GAP balance per time bucket (incl. NIS)
in bn EUR

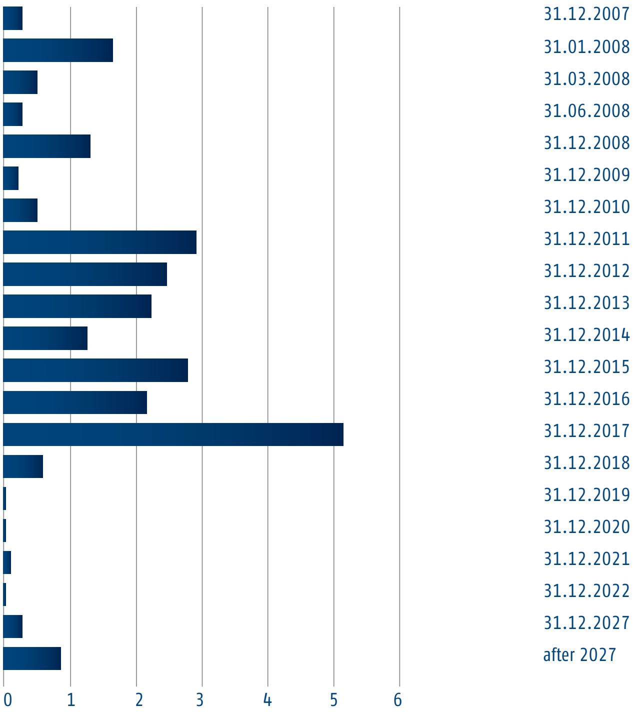


As the diagram shows, the funding structure is designed on a long-term basis with the majority of issue due dates occurring in the period from 2015 to 2017. The main currencies employed in the Group are euros, Swiss francs and the local currencies in the SEE states.

The liquidity crisis in the money and capital markets had only limited consequences for the Hypo Group Alpe Adria, as in the first quarter of 2007 sufficient pre-funding was run on the basis of the guarantor's liability of the Carinthian government.

The diagram below shows the due dates of the financial liabilities of Hypo Alpe-Adria-Bank International, which is responsible for the Group's world-wide funding activities in the capital markets:

Due dates of the financial liabilities of Hypo Alpe-Adria-Bank International AG
in bn EUR



Hypo Group Alpe Adria liquidity management was reviewed in co-operation with an external partner, in order to ensure appropriate reactions to shifts in general conditions. Special importance is also attached to the diversification of liquidity resources and measures were prepared and the framework conditions established in order to maintain the solvency of the Group at all times in years to come in a changed environment. In this connection, greater reliance was placed on the new retail strategy, whereby customer deposits have been tangibly increased.

5.9 Operational risk

5.9.1 Definition

Hypo Group Alpe Adria defines operational risks (OpRisk) in a manner analogous to the regulatory definition, as the risk of losses due to the inappropriateness or failure of internal processes and systems, human error, or external factors. This definition also includes legal risks. These are loss risks that arise due to a failure to comply with the mandatory framework created by legal statutes and rulings as the result of ignorance (which may be innocent or unavoidable), a lack of diligence in applying a law or a delay in responding to changes in the legal framework.

5.9.2 General specifications

The Hypo Group Alpe Adria is committed to the efficient management of operational risks, in order to protect the bank, its employees and customers against financial losses, a loss of confidence and damage to its public image.

The handling of operational risk is brought to the attention of the Management Board in a series of policies (loss data collection, capital charge calculation).

5.9.3 Risk measurement

From 1 January 2008 on, Hypo Group Alpe Adria uses the Basic Indicator Approach (BIA) for reporting according to the Solva-edict for calculation of the equity requirement for the operational risk on Group and individual institute level.

For the internal/economic quantification of operational risk, the Hypo Group Alpe Adria uses a value at risk model, which is calibrated via the equity requirement in accordance with BIA. This permits the calculation of "expected" and "unexpected" losses at business area and the bank at the given confidence level.

5.9.4 Risk limitation

Hypo Group Alpe Adria understands Business Continuity Management (BCM) as meaning all measures and processes that serve the maintenance of relevant business activities. The primary objective of BCM is to protect the bank against existential damage. BCM incorporates preventive protective measures, as well the resumption of business operations following an emergency.

Threat scenarios are taken into account, which could lead e.g. to the unavailability of employees, the unsuitability of buildings for use or the failure of support systems. For the guarantee of the maintenance of orderly business operations in an emergency (business continuity), relevant failure scenarios are prepared for social critical processes and suitable hedging measures defined.

As a result of its close links to the so-called PQR assignments (Process, Quality and Operational Risk assignments), BCM is allocated to operational risk.

5.9.5 Risk management and monitoring

An OpRisk controlling unit, which is integrated into bank risk management, disposes over directive competence for all OpRisk controlling methods, processes and systems.

The companies belonging to the regulated Group are included in the OpRisk damage reporting process. It is planned that regular, supplementary risk inventories will be completed at companies of potential risk relevance. The strategic subsidiaries manage their operational risk via separate OpRisk controlling.

The topic of "operational risk" is currently in the rollout phase. In an initial step, rollout will take place in the Group's large banking and leasing subsidiaries. Leasing companies and smaller banking subsidiaries will follow at a later date.

5.10 Summary and outlook

In the period under report, the Hypo Group Alpe Adria has further augmented its risk controlling and management instruments. Significant progress was achieved in numerous areas. Of decisive importance are the requirements resulting from the new equity agreement pursuant to Basel II and the internal demands made on the bank management system.

The Hypo Group Alpe Adria disposes over an efficient risk management and controlling system, which is continually adjusted to internal and external requirements on a forward-looking basis. During the further development of the applied processes for risk visualisation and management, care is taken that not only the regulatory, but also modern demands are fulfilled.

The Hypo Group Alpe Adria organisation is matched to its risk profile and accommodates the complex market environment in which the bank operates. The central task of risk management is the management and monitoring of all types of risks and the requirements relating to reporting to the Hypo Group Alpe Adria Management Board.

In the year under report, the Hypo Group Alpe Adria placed an emphasis on procedures and processes for risk visualisation and management among its strategic subsidiaries. As a result of the focus on the systematic implementation of requirements and the further development of risk instruments that also extends to the Group, Hypo Group Alpe Adria risk management makes a considerable contribution to a value-oriented overall management.

The Hypo Group Alpe Adria regards these activities as constituting a major success factor and thus a competitive advantage of the Group in the securing of sustained values both for shareholders and investors.

6. Other information

Information about events after balance sheet date, as required under Section 267 UGB, together with the explanations concerning the use of financial instruments, is included in the Notes to the consolidated financial statements, since they are mandatory notes disclosures according to IFRS.

7. Outlook

Hypo Group Alpe Adria will continue to follow its consistent policy of organic growth in 2008. It will continue to bring together its streamlined structures, centralised management functions and local expertise in order to achieve further across-the-board growth in all its countries and businesses, and first and foremost to leverage the enormous potential of its existing markets.

Both banking and leasing operations will be opening new branches and actively encouraging direct marketing activities. Hypo Group Alpe Adria has a clear commitment to organic growth without acquisitions, and to retaining its tried and tested regional strategy.

While Hypo Group Alpe Adria's banking activities clearly focus on existing markets and on exploiting synergies from cross-selling activities, the option of extending its leasing activities into new markets is one that is under constant review.

The drive to generate new retail business launched in 2007 will be extended to all markets and segments in 2008. The aim is to be able to offer the expanding middle classes in individual markets served by the Group high quality investment and financing solutions, and to maximise the benefits of this burgeoning potential. In addition to increasing the high level of market penetration in private customer business, Hypo Group Alpe Adria also plans to increase corporate customer numbers with targeted custom products and an increased presence on the ground.

In 2008 additional attention will also be paid to further improving the Group's internal organisation and reducing risk exposure. The Bank's declared goal is to go on growing its total assets, and to increase its profitability incrementally.

Income Statement

EUR '000

	Notes	1.1.- 31.12.2007	1.1.- 31.12.2006
Interest and similar income	(38)	1,999,021	1,417,651
Interest and similar expense	(39)	-1,399,828	-911,350
Net interest income		**599,193**	**506,301**
Fee and commission income	(40)	156,694	118,890
Fee and commission expenses	(41)	-35,361	-28,263
Net fee and commission income		**121,333**	**90,627**
Result from trading	(42)	22,366	-473
Result from hedge accounting	(43)	-1,481	-1,529
Result from fin. investments – designated at fair value through profit or loss	(44)	-152,451	24,625
Result from fin. investments – available for sale	(45)	5,801	16,970
Result from fin. investments – held to maturity	(46)	6	379
Result from other financial investments	(47)	10,758	20,230
Other operating result	(48)	45,804	30,330
Operating income		**651,328**	**687,460**
Risk provisions on loans and advances	(49)	-274,140	-127,105
Operating income after risk provisions		**377,188**	**560,356**
Personnel expenses	(50)	-240,905	-206,383
Other administrative expenses	(51)	-201,373	-174,454
Depreciation and amortization of tangible and intangible assets	(52)	-48,862	-37,766
Operating expenses		**-491,141**	**-418,602**
Operating result		**-113,953**	**141,753**
Result from the disposal of group companies	(5),(53)	56,786	0
Result from companies accounted for at equity	(54)	1,034	-184
Result before tax		**-56,132**	**141,569**
Taxes on income	(55)	-14,205	-40,624
Result after tax		**-70,337**	**100,945**
Minority interests	(56)	73,474	-17,448
Consolidated net income (after minority interests)		**3,137**	**83,497**

Consolidated net income (after minority interests)	EUR '000	3,137	83,497
Average number of shares outstanding	Number	4,822,296	4,412,180
Earnings per share	(in EUR)	**0.65**	**18.92**

Earnings per share are calculated by dividing the consolidated net income (after minority interests) of EUR 3,137 thousand (2006: 83,497 thousand) by the weighted average number of ordinary shares outstanding during the fiscal year, namely 4,822,296 shares (2006: 4,412,180 shares).

Neither convertible bonds nor options with a diluting effect were outstanding during the period under review.

Balance Sheet

EUR '000

	Notes	31.12.2007	31.12.2006
ASSETS			
Cash and balances with central banks	(57)	997,864	931,447
Loans and advances to credit institutions	(58)	3,932,772	3,074,580
Loans and advances to customers	(59)	25,650,736	20,495,852
Risk provisions on loans and advances	(60)	-705,266	-488,235
Trading assets	(61)	127,163	162,574
Positive fair value from hedge accounting derivatives	(62)	156,621	161,182
Financial investments – designated at fair value through profit or loss	(63)	1,384,468	1,537,651
Financial investments – available for sale	(64)	2,735,469	2,378,217
Financial investments – held to maturity	(65)	42,570	64,147
Investments in companies accounted for at equity	(66)	21,948	4,597
Other financial investments	(67)	960,064	653,786
Intangible assets	(69)	64,343	35,191
Tangible assets	(70)	636,063	575,907
Tax assets	(72)	536,220	220,360
Assets held for disposal	(73)	0	207,234
Other assets	(74)	1,397,467	992,503
Total assets		**37,938,501**	**31,006,993**
LIABILITIES & EQUITY			
Liabilities to credit institutions	(75)	4,456,962	3,671,941
Liabilities to customers	(76)	8,473,574	6,626,498
Liabilities evidenced by certificates	(77)	20,282,581	17,604,691
Trading liabilities	(78)	8,444	8,571
Negative fair value from hedge accounting derivatives	(79)	392,596	149,497
Provisions	(80)	64,965	61,598
Tax liabilities	(81)	376,094	126,624
Liabilities in asset groups held for disposal	(82)	0	51,591
Other liabilities	(83)	890,873	730,351
Subordinated capital	(84)	1,333,342	1,099,716
Equity	(85)	1,659,071	875,916
thereof shareholders' equity		1,154,484	475,477
thereof minority interests		504,588	400,439
Total liabilities & equity		**37,938,501**	**31,006,993**

Statement of Changes in Equity

	Issued capital	Additional paid-in capital	Available for sale-reserve	Foreign currency translation
Equity on 01.01.2007	**37,026**	**239,769**	**23,406**	**-3,480**
Capital increases	11,341	700,568	0	0
Dividends paid	0	0	0	0
Consolidated profit	0	0	0	191
Change in available for sale-reserve	0	0	-28,250	0
Other changes	0	0	-128	3,648
Equity on 31.12.2007	**48,367**	**940,337**	**-4,972**	**359**

As of 31 December 2007, the additional paid-in capital in the separate accounts of Hypo Alpe-Adria-Bank International AG amounts to EUR 959,883 thousand (2006: EUR 246,225 thousand).

	Issued capital	Additional paid-in capital	Available for sale-reserve	Foreign currency translation
Equity on 01.01.2006	**35,263**	**122,313**	**19,363**	**0**
Capital increases	1,763	117,456	0	0
Dividends paid	0	0	0	0
Consolidated profit	0	0	0	1,046
Change in available for sale-reserve	0	0	4,043	0
Other changes	0	0	0	-4,526
Equity on 31.12.2006	**37,026**	**239,769**	**23,406**	**-3,480**

The transfer of the equity according to the previous accounting principles (Austrian Enterprise Code) as per 1 January 2006 and 31 December 2006 to IFRS is explained in note (36).

Revenues and expenses directly recognised in equity are shown below:

	1.1.-31.12.2007	1.1.-31.12.2006
Recognised directly in equity	**-29,195**	**5,096**
Gains / losses on available for sale-reserve	-38,370	4,769
Foreign exchange differences (change in foreign currency reserve)	200	1,047
Taxes on items directly recognised in equity	8,975	-719
Profit after tax	**-70,337**	**100,945**
Total income and expenses recognised in the reporting year	**-99,532**	**106,042**
thereof shareholders' equity	-25,050	88,586
thereof minority interests	-74,482	17,456

EUR '000

Retained earnings	Net consolidated profit	Shareholders' equity	Minority interests	Total
169,128	**9,627**	**475,477**	**400,439**	**875,916**
0	0	711,909	212,365	924,274
0	-9,627	-9,627	-26,000	-35,627
0	3,137	3,328	-73,465	-70,137
0	0	-28,250	-1,018	-29,268
-48,736	46,863	1,647	-7,734	-6,087
120,392	**50,000**	**1,154,484**	**504,588**	**1,659,071**

EUR '000

Retained earnings	Net consolidated profit	Shareholders' equity	Minority interests	Total
97,982	**7,758**	**282,679**	**325,505**	**608,184**
0	0	119,219	74,499	193,718
0	-7,758	-7,758	-13,047	-20,805
0	83,497	84,543	17,448	101,991
0	0	4,043	7	4,050
71,146	-73,870	-7,249	-3,973	-11,222
169,128	**9,627**	**475,477**	**400,439**	**875,916**

Cash Flow Statement

EUR '000

	31.12.2007	31.12.2006
Profit after tax	**-70,337**	**100,945**
Non-cash items included in profit and adjustments to reconcile profit to net cash flow from operating activities:		
Depreciation and amortisation of tangible fixed assets and financial investments	**101,327**	**46,313**
Financial investments	52,465	8,397
Tangible and intangible assets	48,862	37,916
Change in risk provisions	267,641	127,992
Change in provision	9,886	13,617
Gains (losses) from disposals of tangible fixed assets and financial investments	**-19,575**	**-25,360**
Financial investments	-12,422	-21,026
Tangible and Intangible assets	-7,154	-4,334
Subtotal	**288,941**	**263,507**
Change in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	-6,059,360	-5,514,300
Financial investments - current investments	-192,674	-312,428
Trading assets	35,411	-64,044
Other assets	-276,812	-74,251
Liabilities to credit institutions and customers	2,598,266	1,995,054
Liabilities evidenced by certificates	2,677,890	3,581,915
Trading liabilities	-127	7,478
Provisions	-6,749	-5,979
Other liabilities	387,125	-162,570
Tax assets/liabilities	-64,862	-10,487
Net cash from operating activities	**-612,951**	**-296,104**
Proceeds from sales of:	**352,012**	**90,727**
Financial investments and participations	275,863	69,451
Tangible and intangible fixed assets	76,149	21,276
Payments for purchases of:	**-788,165**	**-450,595**
Financial investments and participations	-612,949	-220,956
Tangible and intangible fixed assets	-175,217	-229,639
Proceeds from sale of subsidiaries (less cash disposed of)	8,385	23,888
Payments for acquisitions of subsidiaries (less cash acquired)	-13,280	-2,061
Other changes	-1,074	286
Net cash from investing activities	**-442,122**	**-337,755**
Capital contributions / disbursements	924,274	193,718
Subordinated capital and other financing activities	224,018	315,254
Dividends paid	**-35,627**	**-20,803**
thereof dividends paid to shareholders of the parent company	-9,627	-7,758
thereof dividends paid to minority shareholders	-26,000	-13,045
Net cash from financing activities	**1,112,665**	**488,169**

EUR '000

	31.12.2007	31.12.2006
Cash and cash equivalents at the end of previous period	**931,447**	**1,088,121**
Net cash from operating activities	-612,951	-296,104
Net cash from investing activities	-442,122	-337,755
Net cash from financing activities	1,112,665	488,169
Effect of exchange rate changes	8,824	-10,984
Cash and cash equivalents at the end of period	**997,864**	**931,447**

The cash flow statement according to IAS 7 shows the change of cash and cash equivalents of Hypo Group Alpe Adria through payment flows from operations, investing activities and financing activities.

Cash and cash equivalents includes the balance sheet item cash and balances with central banks, also referred to as cash reserve.

Compared with the Austrian Enterprise Code, no significant changes have occurred.

For banks, the meaningfulness of a cash flow statement is considered to be limited. Therefore, Hypo Group Alpe Adria does not use it as a controlling instrument.

Notes to the Consolidated Financial Statements

Group and Activities

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

Hypo Group Alpe Adria is one of the leading banking groups in the Alpe Adria Region, where it operates 10 banks and 12 leasing companies. The Banking Division encompasses a comprehensive line of services that includes financing, payment transactions, documentary transaction, savings, deposit taking as well as complex investment advice and asset management services. The Leasing Division sells a complete range of financial and operating leasing products for cars, real estate, ships and movable assets and cross-border leasing. Hypo Group Alpe Adria positions itself as a provider of banking as well as other services and is committed to promoting development in the Alpe Adria region. It is this close proximity to the customer that allows Hypo Group Alpe Adria to develop customised products. It also implies a clear commitment for the future. Consequently, the actions of Hypo Group Alpe Adria in each country are based on a long-term strategy and follow a clearly defined philosophy: Hypo Group Alpe Adria is a partner with a long-term vision that provides tailored, solid and transparent products. The well established cooperation across language barriers and national borders is as important for the success as the knowledge of the cultural and economical variety of the region because it creates a solid foundation for the further dynamic growth of the Group.

The Hypo Group Alpe Adria currently operates in 12 countries or regions, namely Austria, Northern Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Southern Germany, Hungary, Bulgaria, Macedonia and the Ukraine. In banking and leasing, Hypo Group Alpe Adria now has approximately 7,000 employees at more than 350 sites, who serve over 1.2 million customers.

Since Bayerische Landesbank (BayernLB) acquired a majority stake, Hypo Group Alpe Adria has not only enjoyed the backing of a powerful partner with a long-term orientation, but also strengthened its capital base for the further joint expansion in East and South East Europe through a EUR 125 m capital increase in the first quarter of 2007 and a further capital increase of EUR 600 m in the fourth quarter of 2007.

At the end of 2007, the ownership situation of Hypo Alpe-Adria-Bank International AG was as follows:

57.31 %	Bayerische Landesbank (BayernLB)
26.45 %	Hypo-Bank Burgenland AG (member of GRAWE Group)
16.04 %	Kärntner Landes- und Hypothekenbank-Holding
0.18 %	Berlin & Co Capital S.à.r.l.
0.02 %	Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation)

As from 9 October 2007, Hypo Alpe-Adria-Bank International AG is included as a subsidiary in the consolidated financial statements according to IFRS of BayernLB Group.

The consolidated financial statements of BayernLB are published at www.bayernlb.de. Disclosure is made to the address of Bayerische Landesbank, Brienner Straße 18, 80333 Munich (Germany) and in the electronic federal gazette (www.ebundesanzeiger.de).

Significant Accounting Policies

(1) General / IFRSs, IASs, IFRICs and SICs applied

Until 2006, Hypo Alpe-Adria-Bank International AG prepared its consolidated financial statements according to the rules of the Austrian Enterprise Code (UGB) as amended and in conformity with the provisions of the Austrian Banking Act (BWG). For the financial year ended 31 December 2007, Hypo Group Alpe Adria prepared its first consolidated financial statements according to the International Financial Reporting Standards (IFRS). These financial statements feature comparative figures for 2006 that have been prepared according to the same accounting principles.

The consolidated financial statements consist of the income statement, the balance sheet, the changes in shareholders' equity, the cash flow statement and the notes. As a general rule, segment reporting is implemented in the notes, and further explanations are found in the management report. The group management report according to Section 267 of the Austrian Enterprise Code includes the risk report and is published on pages 31 to 59 of the Annual Report.

The consolidated financial statements are based on separate or partially consolidated financial statements of all fully consolidated companies for the period ended 31 December 2007, prepared in accordance with IFRS. As required by IAS 27, Hypo Group Alpe Adria applies uniform accounting principles throughout the group. The consolidated financial statements are prepared on a going concern basis.

All figures in the consolidated financial statements are expressed in thousands of Euros (EUR '000). The following tables may contain rounding differences.

The consolidated financial statements of Hypo Group Alpe Adria as of 31 December 2007 were prepared in conformity with Section 245a of the Austrian Enterprise Code (UGB) and Section 59a of the Austrian Banking Act (BWG) according to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002, on the basis of the International Financial Reporting Standards (IFRS) and 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 2007 are approved by the Supervisory Board on 30 April 2008.

Significant Accounting Policies

The consolidated financial statements for the financial year 2007 are based exclusively on IFRSs/IASs and their interpretations that have been approved for application and published by the European Union as per 31 December 2007.

Apart from the IASB framework, the following IFRSs/IASs are relevant for the Hypo Group Alpe Adria:

Standard	Description
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosure
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

The application of IFRS 7 is compulsory for the first time in financial year 2007. IFRS 7 sets forth all reporting requirements concerning financial instruments. The disclosure of the classes required pursuant to IFRS 7.6 is effected on the basis of the items of the balance sheet and the income statement. The required information concerning the type and extent of the risks arising from the financial instruments is shown in the risk report, which is a part of the group management report.

The following IFRIC and SIC interpretations with relevance for the Hypo Group Alpe Adria were considered:

Standard	Description
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
SIC 12	Consolidation – Special Purpose Entities
SIC 15	Operating Leases – Incentives
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

Important standards that have already been issued, but whose application is not yet compulsory:

Standard	Description	compulsory as of
IFRS 8	Operating Segments	01 January 2009
IAS 1	Amendment of IAS 1 – Presentation of Financial Statements	01 January 2009
IAS 23	Amendment of IAS 23 – Borrowing Costs	01 January 2009

As from financial year 2009, IFRS 8 (Operating Segments) shall replace the previously applied standard IAS 14 (Segment Reporting). Operating segments are components of a company for which separate financial information is available that is regularly checked by the chief executive of the relevant operating segment (management approach) for the purpose of deciding the allocation of resources and assessing performance. Hypo Group Alpe Adria has elected not to apply IFRS 8 ahead of time. Consequently, there shall be reporting changes in external reporting as from 2009.
As is permitted, the amended IAS 1 has not been applied early.

The amendments of IAS 23 (Borrowing Costs) have eliminated the possibility of recording borrowing costs assigned to a qualified asset (tangible assets, investment properties, intangible assets, etc.) as an expense. In future, the only permissible measurement method will be the capitalisation requirement. Hypo Group Alpe Adria does apply the IAS 23 amendment prematurely.

(2) Use of estimates and assumptions

To a certain extent, the recognition of assets and liabilities requires estimates and assumptions. The consolidated financial statements are partly based on forecasts of future events and expectations.

Important uncertainties concern primarily the establishment of fair values, the risk provisions on loans and advances and the use of tax losses.

The fair value of financial instruments not traded on active markets is established by means of various valuation models. The assumptions used are based – whenever available – on observable market data.

On each balance sheet date, Hypo Group Alpe Adria assesses the recoverability of its problem loans and allows for loan losses by accruing risk provisions on loans and advances. To assess the recoverability, the amount and probability of payment is assessed. For this purpose, various assumptions are made. Actual future losses may therefore differ from risk provisions.

Deferred tax assets are recorded when it is probable that future taxable profits will be made and that tax losses carried forward can therefore be set against these profits. The tax loss currently available to Hypo Alpe-Adria-Bank International AG does not expire and can be offset against the group's income in future years under the group taxation regime in Austria.

(3) Subsidiaries included in the consolidated financial statements (scope of consolidation)

All entities that are directly or indirectly controlled by Hypo Alpe-Adria-Bank International AG and that are material for the presentation of the financial situation and earnings position of the group are included in the consolidated financial statements.

The full list of included subsidiaries is found in note (110).

These consolidated financial statements comprise 33 Austrian companies (2006: 29) – including Hypo Alpe-Adria-Bank International AG – and 86 (2006: 88) foreign subsidiaries.

	2007		2006	
	Fully consolidated	Equity method	Fully consolidated	Equity method
On 01.01.	**110**	**7**	**95**	**7**
Included for the first time in the period under review	22	-	15	-
Merged in the period under review	-3	-	-	-
Excluded in the period under review	-14	-3	-	-
Reclassified	-1	1	-	-
On 31.12.	**114**	**5**	**110**	**7**
thereof Austrian enterprises	31	2	28	1
thereof foreign enterprises	83	3	82	6

According to the Austrian Banking Act, the fully consolidated entities are 9 banks, 40 financial services providers, 22 providers of banking-related services, 2 investment firms and 40 other enterprises.

In the financial year 2007, the following 22 fully consolidated subsidiaries were included for the first time:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Foundation or acquisition
Hypo Group Netherland Holding B.V.	Amsterdam	100 %	100 %	fully consolidated	Foundation
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100 %	100 %	fully consolidated	Foundation
Hypo Group Netherlands Finance B.V.	Amsterdam	100 %	100 %	fully consolidated	Foundation
MM SIGMA d.o.o.	Ljubljana	100 %	68.25 %	fully consolidated	Acquisition
NAGELE NEPREMICNINE d.o.o.	Ljubljana	100 %	68.25 %	fully consolidated	Acquisition
MM THETA d.o.o	Ljubljana	100 %	68.25 %	fully consolidated	Acquisition
MM ZETA d.o.o	Ljubljana	100 %	68.25 %	fully consolidated	Acquisition
NIVA GRADNJA d.o.o.	Zagreb	100 %	68.25 %	fully consolidated	Acquisition
BETA NEKRETNINE d.o.o.	Zagreb	100 %	68.25 %	fully consolidated	Foundation
ALFA NEKRETNINE d.o.o.	Zagreb	100 %	68.25 %	fully consolidated	Foundation
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100 %	68.25 %	fully consolidated	Foundation
HYPO INGATLAN Kft.	Budapest	100 %	68.25 %	fully consolidated	Foundation
ORGOVANYI IMMO Ingatlanforgalmazo Kft.	Budapest	100 %	68.25 %	fully consolidated	Foundation
HYPO ALFA DOO BEOGRAD	Belgrade	100 %	68.25 %	fully consolidated	Foundation
HYPO BETA DOO BEOGRAD	Belgrade	100 %	68.25 %	fully consolidated	Foundation
HYPO GAMA DOO BEOGRAD	Belgrade	100 %	68.25 %	fully consolidated	Foundation
HYPO DELTA DOO BEOGRAD	Belgrade	100 %	68.25 %	fully consolidated	Foundation
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100 %	68.25 %	fully consolidated	Foundation
Lamplhof Betriebs GmbH	Klagenfurt	95 %	95 %	fully consolidated	Foundation
HYPO Facility Services GmbH	Klagenfurt	70 %	100 %	fully consolidated	Foundation
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100 %	100 %	fully consolidated	Foundation
ZAJEDNICKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100 %	100 %	fully consolidated	Foundation

In the financial year 2006, the following 15 fully consolidated subsidiaries were included for the first time:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Foundation or acquisition
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	100 %	100 %	fully consolidated	Foundation
HYPO ALPE-ADRIA-LEASING EOOD	Sofia	100 %	73.17 %	fully consolidated	Foundation
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	100 %	73.17 %	fully consolidated	Foundation
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100 %	73.17 %	fully consolidated	Foundation
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100 %	73.17 %	fully consolidated	Foundation
HYPO AC ADA DOO BEOGRAD	Belgrade	100 %	73.17 %	fully consolidated	Foundation
HYPO RK ALEKSANDAR DOO BEOGRAD	Belgrade	100 %	73.17 %	fully consolidated	Foundation
HYPO PP CENTAR DOO BEOGRAD	Belgrade	100 %	73.17 %	fully consolidated	Foundation
PROJEKT NEKRETNINE d.o.o.	Zagreb	100 %	73.17 %	fully consolidated	Foundation
ALFA CAR PROJEKT d.o.o.	Zagreb	100 %	73.17 %	fully consolidated	Foundation
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100 %	73.17 %	fully consolidated	Foundation
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	0 % (VR 51 %)	0 % (VR 51 %)	fully consolidated	Foundation
Trp Projektentwicklungs GmbH	Klagenfurt	100 %	100 %	fully consolidated	Foundation
Ws Liegenschaftsverwaltungs GmbH	Klagenfurt	100 %	100 %	fully consolidated	Foundation
ZAJEDNICKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	100 %	100 %	fully consolidated	Acquisition

VR: voting rights

Because of their minor importance, 65 subsidiaries in total are not included in the consolidated financial statements. Essentially, these are real estate companies and other companies operating outside the core business segments. Outside the scope of consolidation, Hypo Group Alpe Adria does not maintain any special purpose vehicles within the meaning of Structured Investment Vehicles (SIV's for short; these are special purpose vehicles engaging in off-balance sheet credit arbitrage).

In 2006, the cumulated result after tax of non-consolidated entities amounted to EUR -4.0 m. For the purposes of inclusion or non-inclusion, the criterion of the balance sheet total is of no relevance to us because these companies are almost entirely financed by the Group.

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

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

If the shares are only held in the short term because of the nature of the business, they are reported in other assets. This includes almost exclusively shares in property development companies from the AAI-Group (direct and indirect subsidiaries of Hypo Alpe-Adria-Immobilien AG, Klagenfurt).

(4) Business combinations

In financial year 2007, five companies were acquired which fall, in principle, within the scope of application of IFRS 3. All of these companies are real estate companies. From the purchase price allocation, the following overview is obtained:

in m EUR

	MM SIGMA d.o.o.	NAGELE NEPREMICNINE d.o.o.	MM THETA d.o.o.	MM ZETA d.o.o.	NIVA GRADNJA d.o.o.
Date of acquisition	15.03.2007	29.03.2007	05.12.2007	05.12.2007	29.06.2007
Acquired share (dir.)	100 %	100 %	100 %	100 %	100 %
Assets	35.6	-	-	2.4	4.5
Fair value adjustment	6.3	10.9	8.5	1.6	-
Revalued assets	**41.9**	**10.9**	**8.5**	**4**	**4.5**
Liabilities	35.6	-	-	2.4	2.9
Fair value adjustment	1.2	2.2	1.7	0.3	-
Revalued liabilities	**36.8**	**2.2**	**1.7**	**2.7**	**2.9**
Net assets	**5.1**	**8.7**	**6.8**	**1.3**	**1.6**
Acquisition costs	5.1	8.7	6.8	1.3	1.3
Remaining badwill	**-**	**-**	**-**	**-**	**0.3**

The fair value adjustment concerning the first four companies results from the acquired letting rights to third parties, which are capitalised in other intangible assets and written off gradually during the useful life of 5 to 10 years. Deferred tax liabilities were recorded. No amortization was applied during the fiscal year 2007 because the relevant buildings were under construction.

With regard to Niva Gradnja d.o.o., the following applies: after a renewed valuation according to IFRS 3.56 (b), the excess of the net assets over the costs of acquisition was incorporated as lucky buy (badwill). The revenue of EUR 266 thousand is reported in other operating result.

Because of the insignificance of the impact on the consolidated financial statements, no further information pursuant to IFRS 3 is provided.

(5) Disposal of group companies or majority shares

(5.1) Disposal of Consultants Group

By agreements dated 23 March and 11 April 2007 (signing), Hypo Group Alpe Adria sold the companies of the Consultants Group. i.e. Hypo Alpe-Adria Consultants GmbH, Klagenfurt, Hypo Alpe-Adria Consultants d.o.o., Zagreb, Hypo Alpe-Adria Consultants d.o.o., Sarajevo and Hypo Alpe-Adria Consultants d.o.o., Belgrade, to Croatian group Auctor d.o.o., Zagreb. In the sales agreements, a customary business guarantee of seller was included, but in any event this guarantee is limited to 10 percent of the sales price. So far, no events have occurred that would lead to the assertion of a claim under this guarantee. After deduction of the expenses incurred in 2007 and directly associated with the transaction, the net sales price amounts to EUR 56.8 m.

This transaction was closed (closing) on 29 June 2007. The capital gain from the disposal amounts to EUR 57.2 m and is computed as follows:

Balance Sheet Consultants Group

EUR '000

	On date of disposal
Cash and balances with central banks	90
Loans and advances to credit institutions	20.171
Loans and advances to customers	7.002
Risk provisions on loans and advances	-2.018
Financial investments – available for sale	8.536
Investments in companies accounted for at equity	3.399
Other financial investments	27.387
Intangible assets	578
Tangible assets	34.582
Tax assets	2.652
Other assets	120.891
Total assets	**223.270**
Liabilities to credit institutions	205.162
Liabilities to customers	2.414
Provisions	364
Tax liabilities	919
Other liabilities	11.558
Total liabilities	**220.417**
Equity	**2.852**
Minority interests	3.266
Own equity after minority interests	**-414**
Net sales price	56.794
Result from disposal	**57.208**

The sold subsidiaries are included in the income statement of Hypo Group Alpe Adria until the closing date. The income statement of these four companies (including their fully consolidated subsidiaries) of the Consultants Group from 1 January to disposal date is as follows:

Income Statement Consultants Group

EUR '000

	1.1.2007 until disposal date
Interest and similar income	796
Interest and similar expense	-2,193
Net interest income	**-1,397**
Fee and commission income	48
Fee and commission expenses	-30
Net fee and commission income	**18**
Result from trading	-476
Result from fin. investments – available for sale	55
Other operating result	2,926
Operating income	**1,126**
Risk provisions on loans and advances	7
Operating income after risk provisions	**1,133**
Personnel expenses	-893
Other administrative expenses	-1,615
Depreciation and amortization of tangible and intangible assets	-524
Operating expenses	**-3,032**
Operating result	**-1,899**
Taxes on income	-208
Profit after tax	**-2,107**
Minority interests	9
Net income (after minority interests)	**-2,098**

(5.2) Sale of 51 % in Hypo Alpe-Adria-Bank (Liechtenstein) AG

In December 2007, Hypo Alpe-Adria-Bank International AG disposed of the majority shareholding in Hypo Alpe-Adria-Bank (Liechtenstein) AG, Schaan. The agreements concerning the sale of the 51 % stake were signed in December 2007 (signing). The transaction was finally closed on 21 December 2007, after the authorities had issued the necessary permits and approvals. When the proportional net assets of EUR 18.6 m are compared with the sales price of EUR 18.3 m, a negative result from disposal in an amount of EUR -0.4 m is obtained. The carrying amount of the remaining 49 % stake is now accounted for at equity in the consolidated financial statements.

Balance Sheet Hypo Alpe-Adria-Bank (Liechtenstein) AG

EUR '000

	On date of disposal
Cash and balances with central banks	10,125
Loans and advances to credit institutions	182,150
Loans and advances to customers	68,316
Risk provisions on loans and advances	-4,516
Trading assets	486
Financial investments – available for sale	17
Financial investments – held to maturity	1,038
Intangible assets	457
Tangible assets	684
Tax assets	14
Other assets	413
Total assets	**259,183**
Liabilities to credit institutions	10,784
Liabilities to customers	199,340
Trading liabilities	442
Provisions	284
Tax liabilities	192
Other liabilities	1,937
Subordinated capital	9,428
Total liabilities	**222,407**
Equity	**36,777**
Proportional own equity	**18,756**
Net sales price	18,334
Result from disposal	**-422**

Until the date of disposal at the end of December 2007, Hypo Alpe-Adria-Bank (Liechtenstein) AG, Schaan with its expenses and revenues is included in the income statement of the Group. It is as follows:

Income Statement Hypo Alpe-Adria-Bank (Liechtenstein) AG EUR '000

	1.1.2007 until disposal date
Interest and similar income	12,150
Interest and similar expense	-7,408
Net interest income	**4,741**
Fee and commission income	10,024
Fee and commission expenses	-4,066
Net fee and commission income	**5,958**
Result from trading	499
Result from fin. investments – available for sale	154
Other operating result	83
Operating income	**11,436**
Risk provisions on loans and advances	-3,201
Operating income after risk provisions	**8,235**
Personnel expenses	-2,757
Other administrative expenses	-2,408
Depreciation and amortization of tangible and intangible assets	-296
Operating expenses	**-5,462**
Operating result	**2,773**
Taxes on income	-201
Profit after tax	**2,572**

(6) Consolidation methods

Business combinations are accounted for in accordance to IFRS 3 (Business Combinations) using the purchase method of accounting. All identifiable assets and liabilities of the respective subsidiary are recognized at their fair values on the acquisition date. Any difference between the cost of acquisition and the fair value of identifiable assets and liabilities is recognized as goodwill, which is reported in intangible assets. An excess of the fair values over cost (badwill) is recognized directly in profit. The carrying amount of goodwill is subjected to an impairment test at least once per year.

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

According to IFRS 1, the Hypo Group Alpe Adria, as first-time adopter, elected not to apply IFRS 3 to past business combinations. Consequently, the carrying amounts of assets and liabilities arising from consolidation procedures in previous consolidated financial statements have been retained. Cost was then compared with the Group's interest in the net assets and any difference is recognized directly in shareholders' equity. Asset-side differences from the consolidation were set off against liabilities-side differences, and the balance was set off against the revenue reserves.

Joint Ventures are accounted for using the equity method and their carrying amounts are disclosed separately in the balance sheet.

The 50 % interest in HYPO-BA Leasing Süd GmbH (joint venture) is included at equity in the consolidated financial statements. Hypo Group Alpe Adria does not apply proportional consolidation.

Intragroup balances are eliminated. Any remaining temporary differences are reported in the consolidated accounts in other assets or other liabilities. Moreover, intragroup transactions, including income, expenses and dividends are eliminated in full. Profit and loss resulting from intragroup transactions, when material, are also eliminated.

Minority interests in equity and in profit or loss of included subsidiaries are recognized separately in the item minorities in equity, respectively in the income statement in the item minority interests.

(7) Effects of changes in foreign exchange rates

The Hypo Group Alpe Adria applies IAS 21 to foreign currency conversion. All foreign currency monetary assets and liabilities are translated applying closing rates. Resulting exchange differences are generally recognized in result from trading, unless they refer to net investment in a foreign entity.

Open forward transactions are translated at forward rates.

The financial statements in foreign currency of fully consolidated subsidiaries are translated into euros as follows by means of the modified exchange rate on the closing date: income statement items are translated applying average rates of exchange in the period, while all other assets and liabilities as well as the information contained in the notes are translated at the average foreign currency exchange rate on the balance sheet date.

Differences from the conversion of the net investment at the rate on the closing date are shown in the equity in the foreign currency reserve without impact on the result. Likewise, foreign currency differences between the average rates in the income statement and the exchange rate on the closing date are offset against equity without impact on the result. Foreign currency differences relating to minorities are recognized in equity in minority interests.

For three subsidiaries in Serbia, one bank and two leasing companies, the following applies: the Euro and not the local currency is the functional currency because the Euro is the predominant currency in the field of their activities.

IAS 29 Financial Reporting in Hyperinflationary Economies is not applied as no subsidiary was affected by hyperinflation.

The following rates announced by the ECB and Austrian National Bank are used for currency translation of the foreign financial statements:

Rates in units per EUR	Closing Date 31.12.2007	Average 1-12/2007	Closing Date 31.12.2006	Average 1-12/2006
Bosnian mark (BAM)	1,95583	1,95583	1,95583	1,95583
Croatian kuna (HRK)	7,33400	7,33080	7,35040	7,32470
Swiss franc (CHF)	1,65470	1,64590	1,60690	1,57310
Serbian dinar (RSD)	79,23620	80,08580	79,00000	84,07700
Hungarian forint (HUF)	253,73000	251,37420	251,77000	264,13250
Bulgarian lev (BGN)	1,95580	1,95580	1,95580	1,95580
Ukrainian hrywnja (UAH)	7,41950	6,95900	–	–
Macedonian denar (MKD)	61,20160	61,19100	61,19400	61,19690

(8) Financial instruments: recognition and measurement

According to IAS 39, all financial assets and liabilities must be shown in the balance sheet. Recognition and derecognition of derivatives and regular way purchases and sales of financial assets takes place using trade date accounting.

Financial assets are derecognized when the contractual rights to the cash flows expire or when the transfer qualifies for de-recognition under IAS 39. Financial liabilities are derecognized when they are extinguished, which means that the obligation has been discharged, has been cancelled or has expired.

In general, the fair value of a financial asset is determined by reference to stock exchange quotations. If no market quote exists, valuation techniques are used such as, for example, the discounted cash flow model. When measuring options, option price models are used that take into account actual market parameters. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortized cost.

Financial instruments are initially recognized at their fair value (usually the purchasing costs).

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

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

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

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

Financial assets at fair value through profit and loss

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

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

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

Designation in accordance with conditions (2) and (3) gives a better reflection of the financial situation and earnings position.

Financial investments held to maturity

This category includes financial assets with fixed or determinable payments and fixed maturity which the Group had intended and was able to hold to maturity. They are measured at amortized cost, with premiums and discounts being spread in the accounts over the respective term by means of the effective interest method. Impairment losses are recognized immediately in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost using the effective interest method. Impairments (risk provisions) are recorded as a separate line item on the balance sheet.

Financial investments available for sale

This category includes all non-derivative financial assets that are not assigned to any of the foregoing categories. Subsequent measurement is at fair value, gains and losses and related deferred taxes being recognized directly in equity (available for sale-reserve). Upon disposal, the differential amounts recorded in the available for sale-reserve are recycled to the profit or loss. Premiums and discounts are spread in the accounts over the respective term by means of the effective interest method. Impairment losses are recognized immediately in profit or loss.

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 those evidenced by certificates, for which the fair value option was not used. As a general rule, they were recognised at the net carrying amount. Premiums and discounts are spread in the accounts over the respective term at amortized cost, using the effective interest method, and considered in interest expenses.

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the hybrid instrument is not measured at fair value through 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 recognized in profit or loss. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

(9) Hedging / hedge accounting

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

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

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

In the case of 100 percent effectiveness, changes in the measurement of hedged items are fully offset in the profit or loss account. In case of ineffectiveness within the accepted range, such ineffectiveness is recognized in hedging profit or loss (hedge accounting).

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

(10) Leasing

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

Most of the lease contracts entered into by Hypo Group Alpe Adria as lessor are finance leases. On the balance sheet, receivables are stated at the present value of lease payments receivable. The receipts are split into interest income with impact on profit and loss, as well as debt repayments without impact on profit and loss.

Under operating lease agreements, the lessor presents the asset at cost less scheduled depreciation over the useful life of the asset less any impairment loss. Except for leased real estate, leased assets are reported in other financial investments. Lease income less scheduled depreciation is presented in the position interest and similar income. Gains or losses on disposal are reported in result from other financial investments.

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

Assets not yet or no more leased out are included in other assets. Risk provisions on these assets are recognised in other operating result.

(11) Investment properties

Investment properties are land and buildings held to earn rental income or to benefit from expected value increases. 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 recognized as other financial investments.

Investment properties are carried at cost less accumulated depreciation and any impairment losses, adopting one of the options provided for in IAS 40 (cost model). Current rental income and the scheduled depreciations on rented buildings are offset and shown in interest and similar income. Capital gains and impairment losses are recognized in result from other financial investments.

(12) Repos

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

(13) Fiduciary transactions

In accordance with IFRS, fiduciary transactions entered into by Hypo Group Alpe Adria in its own name, but at the account of a third party, are not recognized on the balance sheet. Fees are included in fee and commission income.

(14) Cash and balances with central banks

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

(15) Loans and advances

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

Loans and advances not held for trading and not traded in an active market are recognized at amortized cost, respectively the cash value of the leasing receivables. Premiums and discounts are spread in the accounts over the respective term and also shown in interest results. Loans and advances also include bonds if they are not traded on active markets.

Interest income is presented within the position interest and similar income.

(16) Risk provisions on loans and advances

Specific and portfolio-based risk provisions for loans and advances are recorded for credit risks, and (other) provisions are recorded for losses arising from credit commitments and guarantees.

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

Because specific provisions are based on the net present value, an increase in present value due to the passage of time is recognized as interest income (unwinding).

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

Losses identified after the realization of collateral are charged against an existing provision or written off against income. Recoveries of written-off receivables are recorded as income.

Additions to and releases from risk provisions are recognized in the income statement in risk provisions on loans and advances.

(17) Trading assets

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

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

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

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

(18) Positive or negative fair values from hedge accounting derivatives

Market values of derivatives are reported separately on the asset or liability side, if they meet the criteria for hedge accounting according to IAS 39.

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

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

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

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

In the case of quoted financial instruments, these assets are recognized at their fair value, which is their quoted price. For non-quoted financial instruments, the fair value is established on the basis of present values or by using valuation techniques.

Realized and unrealized gains and losses are recognized in results from financial investments – designated at fair value through profit or loss. Interest income, dividends received and interest paid are included in net interest income.

(20) Financial investments – available for sale

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

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

Unrealized gains and losses net of tax deferrals are recognized in equity, namely in the item available for sale-reserve. Material and permanent impairment losses are recorded in profit or loss. Reversals of impairments of debt instruments are recognized in the item result from financial investments – available for sale; reversals of impairments of equity instruments are recognized only in the item available for sale-reserve. Capital gains and impairment losses are reported in the item result from financial investments – available for sale.

Income from fixed-interest securities, including income from the application of the effective interest method, dividends and income from non-fixed income securities (shares, investments, participations, etc.) are recognized as interest and similar income.

(21) Financial investments – held to maturity

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

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

(22) Investments in companies accounted for at equity

These are shares in associated companies and in joint ventures stated according to the equity method. They are shown in a separate position in the balance sheet.

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 measured at equity.

(23) Other financial investments

These are land and buildings and movable assets let under operating lease agreements.

With regard to the measurement of investment properties and assets serving leasing purposes, reference is made to the detailed information in the notes.

(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 recognized at (acquisition or manufacturing) cost less amortization and impairment losses. Self-developed software is recognized in accordance with the provisions of IAS 38, always providing that the conditions for recognition pursuant to the standard are fulfilled.

Acquired goodwill is recognized at cost on the date of acquisition. The straight-line method of depreciation is not applied to goodwill. Instead, it is subject to annual impairment testing in accordance with IAS 36. More frequent testing is required if events and circumstances indicate that an impairment has occurred. If and when such tests reveal impairments, non-scheduled amortization is applied.

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

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

Depreciation / amortization rate

	in percent	in years
for immovable property	2–4 %	25–50 years
for movable assets	5–33 %	3–20 years
for software	20–33 %	3–5 years

In the case of events and circumstances that indicate impairment, non-scheduled depreciation is applied. Depreciation and impairment losses are recognized separately in the income statement, whereas gains or losses on disposals are reported in other operating result.

(25) Taxes on income

Current and deferred tax assets and liabilities are recognized jointly in the balance sheet as tax assets or liabilities, respectively. Current taxes are calculated in accordance with local legislation.

Deferred taxes are computed using the liability method, which compares the tax base of the balance sheet items with the carrying amounts pursuant to IFRS. In the case of temporary differences, taxes are deferred. For temporary differences associated with shares in domestic subsidiaries, no tax debt is entered on the liabilities side in accordance with IAS 12.39 (b) because no reversal of the temporary difference in the foreseeable future is expected. Deferred tax liabilities are recognized in respect of future tax payments relating to temporary differences; deferred tax assets are recognized in respect of recoverable taxes. As a general rule, deferred tax assets and liabilities are not set off against each other.

Changes of 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. No discounts are made for long-term deferred taxes according to IAS 12.

Deferred tax assets are also recorded in respect of unused tax losses if it is probable that future taxable profits will be available. This assessment is based on business plans approved by the Executive Board. The carrying amount of a deferred tax asset is reviewed on each balance sheet date to determine whether it is still probable that sufficient taxable profits will be available to allow the benefit to be utilized.

The accrual or release of deferred tax assets or liabilities is either recognized with impact on the result in the item taxes on income, or in equity – without impact on the result – if the balance sheet item itself is treated as being without impact on the result (e.g. available for sale-reserve).

From 1 January 2005, Hypo Alpe-Adria-Bank International AG opted for so-called group taxation (*Gruppenbesteuerung*). As of 31 December 2007, the group comprises 20 domestic members. This means that the taxable income of all Austrian entities forming part of the tax group is added to that of the parent, Hypo Alpe-Adria-Bank International AG, permitting profits to be set against losses, within the Group.

(26) Assets held for disposal

According to IFRS 5, a disposal group is defined as a group of assets whose disposal is planned in a single transaction. Other important prerequisites leading to such a classification would be:

1. direct availability for sale
2. high probability of disposal
3. concrete intention to sell
4. disposal within twelve months

If the prerequisites are fulfilled, the disposal group shall be assessed on the balance sheet date according to the special rules of IFRS 5 and depreciated to the lower of carrying amount and fair value less costs of disposal.

In the balance sheet, the assets put up for sale and the liabilities associated therewith shall be shown in a separate main item each.

In the income statement, it is not compulsory to report the associated expenses and income separately.

(27) Other assets

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

Receivables other than those arising from banking activities arise mainly from other sales or services or comprise receivables from tax authorities relating to taxes other than income taxes. Deferred items and other receivables arising from non-banking activities are recognized at their nominal values.

Other assets also shows real estate projects of the AAI-Group that are not of a long-term nature. These assets are shares in project companies not included in the scope of consolidation as they are deemed immaterial. They are recognized at cost less impairment losses, if any.

Together with completed real-estate projects, other assets also include buildings under construction as well as buildings in the preparatory phases of construction whose sale is planned after completion. These assets are recognized at cost (cost of acquisition or manufacture) in consideration of the lower of cost or market rule. A depreciation is made if the carrying amount on the balance sheet date exceeds the net selling value, or if a restriction of the utilization possibilities has resulted in an impairment. In accordance with IAS 23, borrowing costs are included in cost of acquisition. Net income from disposals and unrealized gains as well as valuation losses are included in other operating result.

Other assets also include leased assets under construction and therefore assets not yet leased out (leases to go), as well as assets not leased out any more until a new contract is signed or pending sale (remarketing). They are measured at amortized cost less non-scheduled depreciation to reflect an identified impairment.

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

Gains and losses are reported in result from trading.

(28) Liabilities

Liabilities to credit institutions and customers, including those evidenced by certificates, are recognized at amortized cost unless they are designated as 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 recognized in income statement.

(29) Trading liabilities

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

(30) Long-term employee provisions

The Hypo Group Alpe Adria has defined contribution and defined benefit plans.

In the former case, a fixed contribution is paid to an external entity. Except for the aforesaid, 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 payment. These schemes are unfunded, i.e. all of the funds required for coverage remain with the company.

Provisions for long-term employee benefits are measured in accordance with IAS 19 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 balance sheet is stated as the cash value of the defined benefit obligation. Actuarial gains and losses are recognized immediately in profit or loss.

The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate, as of 31 December 2007, of 5.5 % (2006: 4.7 %) as well as the consideration of wage and salary increases – unchanged compared to the previous year – of the active employees at a rate of 3.0 % p.a. respectively wage and salary increases of already retired former employees at a rate of 2.0 % p.a. Fluctuation deductions are considered individually, the maximum deduction being 6 %. The basic biometric data are taken from the Generations Life Expectancy Tables of the AVÖ (Austrian Actuarial Society) 1999 P for employees.

Provisions for long-term employee benefits are calculated on the basis of the legal retirement age. For employees from Austria, it is 65 years for men and 60 for women. Local rules are applied in the case of employees working abroad.

Expenses to be recognized in profit and loss break down into term-of-service costs (which are reported in personnel expenses), as well as interest costs (which are reported in interest and similar expenses).

(31) 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.

No provisions are recorded for restructuring.

Additions to and releases from other provisions are reported in other operating result. The changes in the item provisions for credit commitments and guarantees are recognized in the income statement in risk provisions on loans and advances.

(32) Other liabilities

This item includes among others deferred income and other accruals and deferrals. Deferred income is stated at cost and liabilities at amortized cost.

(33) Subordinated capital

Subordinated capital includes subordinated liabilities and supplementary capital as defined by the Austrian Banking Act, as well as hybrid capital.

Subordinated liabilities may or may not be evidenced by certificates, and in the event of liquidation or insolvency, creditors are only satisfied after all other creditors.

Supplementary capital is contractually furnished for at least eight years. Any right of ordinary or extraordinary termination is waived. The remaining maturity must be at least three years. Interest is only paid to the extent it is covered by annual profits as shown in the separate financial statements (according to Austrian Enterprise Code/Banking Act).

As a general rule, hybrid capital is provided for the entire term of the enterprise and subordinated to all other liabilities. It is subordinated in rank to subordinated capital. Because of the contractually agreed dividend (interest) obligation, hybrid capital is classified as a debt according to IFRS.

(34) Equity (shareholders' equity and minorities)

Equity evidences the residual interest in the assets of an entity after deducting all liabilities. There is no possibility of termination by the investor.

Issued capital represents the amounts paid in by shareholders in accordance with the by-laws (Memorandum and Articles of Association). Additional paid-in capital contains the premiums achieved when shares are issued for more than their nominal value. The directly related external costs of share offerings are deducted from additional paid-in capital.

Retained earnings include the cumulated profits made by the group with the exception of profit shares external parties are entitled to.

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

Minority interests in accordance with IAS 1 are presented as a separate item within equity.

Explanations to Transition to IFRS

(35) Material differences between UGB and IFRS

Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) differ from those prepared in accordance with the Austrian Enterprise Code (UGB) already in that each of the two has a fundamentally different objective. Financial statements prepared in accordance with IFRS have to provide information about the financial position, performance and changes in the financial position of an entity that is suitable for making economic decisions. The Austrian Enterprise Code only provides limited information about the financial position and credit risk policy of an entity.

The material differences of the accounting and assessment as well as reporting practices (listing may be incomplete) between the Austrian Enterprise Code/Banking Act (UGB/BWG) and IFRS that are of relevance to the Hypo Group Alpe Adria are explained below:

Scope of consolidation

Under IFRS, there are no restrictions on consolidation on the grounds of the dissimilarity of the business activities of the subsidiary.

By contrast, under the Austrian accounting principles applicable to banks, the Enterprise Code and the Banking Act, other subsidiaries whose activities are not those of credit institutions or other financial institutions or of enterprises rendering ancillary services are excluded from consolidation.

Leasing

If substantially all risks and rewards incidental to ownership of an asset are transferred to lessee, the leasing relationship is a finance lease according to IAS 17, all other leases are operating leases. Due to the special rule of the Austrian Banking Act, the fixed assets subject to leasing shall be reported at the cash value of the discounted leasing debt, while pure hire agreements concluded in the form of leasing agreements (operating leasing) shall be reported at the carrying amount of the fixed asset in other financial investments.

However, there are differences between IFRS and previous financial statements in the treatment of initial direct costs. While according to IAS 17, they are spread (if material) over the term of the lease, they were recognized immediately as an expenditure under the Austrian Enterprise Code.

Fiduciary assets

Under IFRS, fiduciary assets are not recognized on the balance sheet. If they are significant, they are disclosed in the notes.

According to the Banking Act, it is a general rule that the trustee must treat them as assets. However, if there is a segregation right in favour of trustor in the event of a bankruptcy of trustee, it is possible to recognize the relevant fiduciary asset on the balance sheet.

Loans and receivables

Loans and receivables are recognized at amortized cost less impairments plus accrued interest. Under IFRS, fees charged to the customer upon conclusion of the contract are spread using the effective interest method. Under the Austrian Enterprise Code, these fees are recognized as fee income. Whereas the Austrian Enterprise Code recognizes this income in fee and commission income, in the income statement under IFRS they are reported in interest income.

Risk provisions
According to IFRS, risk provisions for loans and advances are shown in a separate item with negative sign on the assets side of the balance sheet (to the extent that it concerns value adjustments with respect to receivables recognized in the accounts). Additions and reversals are disclosed separately in the notes. As a result, IFRS offers a better insight into risk provisions than the Austrian Enterprise Code.

Where the determination of the itemized allowance for bad debts is concerned, under IAS 39 the expected value of collateral must be discounted over the presumable period of realization at the original effective interest rate of the receivables. Consequently, eligible collateral is lower than under UGB, which in turn tends to increase the additions to itemized allowance for bad debts under IFRS when compared with additions according to the previous accounting rules.

In addition, IAS 39 contains specific rules for portfolio-based assessments with respect to impairments of loans that have already occurred, but not yet been reported on the balance sheet date. Receivables are grouped together in homogeneous portfolios with comparable risk, and historical loss experiences are used. Under the Austrian Enterprise Code, it was not required to record such portfolio risk provisions.

According to the Austrian Enterprise Code, the principle of uniform assessment is disregarded to the extent that amounts stated on the basis of special rules and regulations for banks must generally be maintained. At the Hypo Group Alpe Adria, in 2006 the determination of the risk provisions for the banks was carried out in consideration of the rules and regulations of the local National Banks (where applicable).

Premiums and discounts
Under IFRS, premiums and discounts are included directly in the corresponding balance sheet item in loans and advances or liabilities. Under the Austrian Enterprise Code, these items are generally presented as accruals and deferrals.

Hedge accounting
IAS 39 adopts a restrictive approach with regard to the recognition of hedge relationships in the balance sheet. Important prerequisites for the application of the hedge accounting rules are the documentation of the hedging connection and the effectiveness of the hedging measure.

Under the Austrian Enterprise Code, recognition in the balance sheet is less restrictive. Here, the host contract and the derivative are combined into a single assessment unit. While the host contract is generally shown in the balance sheet at amortized cost, the hedging derivative is not carried in the balance sheet. According to the Austrian Enterprise Code, the assessment of the hedge usually does not produce an assessment result in income statement.

Securities and derivatives

Under IFRS, securities belonging to the category financial assets – available for sale are recorded at fair value. The result of the measurement, after due consideration of deferred taxes, is shown in equity in the item available for sale-reserve. In the previous accounts prepared according to the Austrian Enterprise Code, the option of valuation at market value was taken advantage of for current asset securities (liquidity reserve) listed on the stock exchange, and value changes were recognized in profit and loss. Current asset securities not listed on the stock exchange are included in the accounts according to the strict lower of cost and market principle.

Derivatives not forming part of a hedge relationship are always reported at market value in the balance sheet, while under the Austrian Enterprise Code, they were off-balance unless held for trading.

Fair value option

Upon first-time recognition, financial assets and liabilities may be designated at fair value through profit and loss if certain prerequisites are satisfied.

Such a fair value option (FVO) does not exist under the Austrian Enterprise Code.

Goodwill

Under the Austrian Enterprise Code, goodwill arising on capital consolidation can be deducted directly from equity upon inception or amortized through scheduled amortization. Under IFRS 3, a goodwill resulting from the acquisition must always be carried as an asset and subjected to an annual impairment test, which may result, if applicable, in the need to carry out non-scheduled amortization. A scheduled amortization of the goodwill is not permissible.

Other intangible assets

According to IAS 38, self-developed intangible assets, for instance software, can be capitalized if the criteria are met.

Under the Austrian Enterprise Code, only acquired intangibles may be capitalized.

Deferred taxes

According to IAS 12, deferred taxes are reported for all temporary differences between the tax base of the assets or liabilities and their carrying amount in the IFRS consolidated financial statements (liability method). For tax losses carried forward, IAS 12.34 imposes a capitalization requirement if their future utilization is probable, otherwise an adequate value adjustment is required.

In the consolidated financial statements under the Austrian Enterprise Code, deferred taxes are only recognized on differences between the corporate law and tax law result which are subsequently balanced out during the following years (timing concept). A capitalization of deferred taxes from tax losses carried forward is not allowed under the Austrian Enterprise Code.

Provisions for long-term employee benefits

Under IAS 19, the provisions for long-term employee benefits (pensions, severance pay, anniversary bonuses, etc.) are determined according to the vested right cash value method, hence in consideration of the expected future salary development and other dynamic factors.

The Austrian Enterprise Code offers an option for the determination of these obligations that is based on IAS 19. During financial year 2006, Hypo Group Alpe Adria applied this option almost consistently throughout the Group.

Other provisions

Contrary to the Austrian Enterprise Code, IAS 37 differentiates between provisions and accruals. The difference between accruals and provisions is that accruals have a higher probability of occurrence of the underlying obligation.

Holiday provisions to be reported according to the Austrian Enterprise Code fulfil, under IFRS, the criteria for accruals and are shown in the item other liabilities.

Shareholders' equity

Under IFRS, the fund for general banking risks shall be shown in equity as part of retained earnings. In the consolidated financial statements as of 31 December 2006, prepared according to the Austrian Enterprise Code, the fund for general banking risks was reported as an indeterminate value between borrowed capital and equity in line with the given structure for bank balance sheets.

Under IFRS the available for sale-reserve, which considers valuation changes of the available for sale investments not shown through profit and loss, is shown separately in equity. The Austrian Enterprise Code does not provide for such reserves.

According to IFRS, directly assignable external costs accruing in connection with the issue or acquisition of equity certificates (transaction costs) are set against the additional paid-in capital, while the Austrian Enterprise Code generally recognizes them as an (extraordinary) expense of the period in profit or loss when incurred.

In the past, Hypo Group Alpe Adria carried out two issues of hybrid capital in an amount of EUR 75 m, respectively EUR 150 m, of which the outstanding nominal value on 31 December 2007 was EUR 222.1 m (31 December 2006: EUR 222.2 m). In the event of a liquidation, bankruptcy, composition proceedings or another measure to avoid bankruptcy, the receivables and interest entitlements of all creditors of Hypo Group Alpe Adria based on these issues are subordinated in rank unless they in turn are subordinated. Due to the design of the hybrid capital and the circumstance that only the issuer is entitled to a termination, the Austrian Enterprise Code consolidated financial statements recognized them in equity in minority interests. Regular servicing of the hybrid capital was shown in the income statement in minority interests.

In the consolidated financial statements according to IFRS, the hybrid capital issues are classified as debt within the meaning of IAS 32 because of the obligatory coupon, and they are therefore shown in the item subordinated capital. Equally, regular servicing of the hybrid capital is reported in interest expenses. This is without prejudice to the eligibility as regulatory own capital funds in the form of core capital (Tier 1) according to the Austrian Banking Act.

(36) Transfer calculations for equity and income statement

The opening balance sheet was prepared as of 1 January 2006 (date of transition) in consideration of IFRS 1. The opening balance sheet as well as the comparative figures as per 31 December 2006 are based on the rules applicable at the time of preparation of the consolidated financial statements.

In the opening balance sheet, the reconciliation effects resulting from the change-over of the accounting principles to IFRS were offset against other revenue reserves. The effects on equity and profits are as follows*):

Equity reconciliation from UGB to IFRS – 01.01.2006

EUR '000

	Standard		
Total equity according to UGB as of 01.01.2006			**982,546**
Reclassification of hybrid capital to liabilities	IAS 32		**-227,395**
Reclassification funds for general banking risks	IAS 32		**1,034**
Adjustments for:			
Risk provisions on loans and advances	IAS 39	-52,870	
Market values from standalone derivatives	IAS 39	-76,743	
Fair value designated financial instruments	IAS 39	-18,426	
Securities and issues: distribution of premiums/discounts according to effective interest method and other valuation measures	IAS 39	-10,883	
Deferral of loan origination fee and deferred initial direct costs	IAS 17/18	-58,494	
Deferred taxes	IAS 12	108,024	
Long-term employee benefits	IAS 19	-2,659	
Amortization of goodwill	IAS 36	0	
Other adjustments	-	-38	**-112,089**
Effects from consolidation:			
Enlarged scope of consolidation	IAS 27	-36,177	
Foreign exchange differences	-	265	**-35,912**
Total equity according to IFRS as of 01.01.2006			**608,184**

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*) The adjustments of foreign currency denoted balance sheet items were converted at the exchange rate prevailing on the relevant closing date. The adjustments shown in the transfer of the result are converted at the mean exchange rate of financial year 2006. These differences are shown jointly with other foreign currency related effects in the "foreign exchange differences" item.

Equity reconciliation from UGB to IFRS – 31.12.2006

EUR '000

	Standard		
Total equity according to UGB as of 31.12.2006			**1,247,743**
Reclassification of hybrid capital to liabilities	IAS 32		**-227,634**
Reclassification funds for general banking risks	IAS 32		**700**
Adjustments for:			
Risk provisions on loans and advances	IAS 39	-66,502	
Market values of standalone derivatives	IAS 39	-115,804	
Fair value designated financial instruments	IAS 39	-5,841	
Securities and issues: distribution of premiums/discounts according to effective interest method and other valuation measures	IAS 39	11,281	
Deferral of loan origination fee and deferred initial direct costs	IAS 17/18	-75,632	
Deferred taxes	IAS 12	134,960	
Long-term employee benefits	IAS 19	316	
Amortization of goodwill	IAS 36	700	
Other adjustments	-	9,047	**-107,475**
Effects from consolidation:			
Enlarged scope of consolidation	IAS 27	-37,271	
Foreign exchange differences	-	-147	**-37,418**
Total equity according to IFRS as of 31.12.2006			**875,916**

Reconciliation of profit from UGB to IFRS – 2006

EUR '000

	Standard		
Result after tax (before minorities) according to UGB – 2006			**100,836**
Service of hybrid capital as interest expenses	IAS 32		**-11,293**
Valuation adjustments of fund for general bank risks	IAS 32		**-334**
Adjustments for:			
Risk provisions on loans and advances	IAS 39	-13,632	
Market values from standalone derivatives	IAS 39	-39,061	
Fair value designated financial instruments	IAS 39	12,585	
Securities and issues: distribution of premiums/discounts according to effective interest method and other valuation measures	IAS 39	16,081	
Deferral of loan origination fee and deferred initial direct costs	IAS 17/18	-17,137	
Deferred taxes	IAS 12	26,782	
Long-term employee benefits	IAS 19	2,975	
Amortization of goodwill	IAS 36	700	
Direct costs referring to capital increases (after deferred taxes)	–	5,781	
Other adjustments	–	1,104	**-3,822**
Effects from consolidation:			
Enlarged scope of consolidation	IAS 27	7,763	
Foreign exchange differences	–	7,795	**15,558**
Result after tax (before minorities) according to IFRS – 2006			**100,945**

Notes to the Income Statement

(37) Segment reporting

Segment reporting is adopted in accordance with IAS 14 and provides an overview of the relevant business segments and activities in the geographical markets of the Hypo Group Alpe Adria. It is the aim of segment reporting to explain how business results are generated from the segments.

Segments are formed by distinguishable geographical markets and business segments. The analysis of the segment results enables the user of financial statements to:

- better understand the entity's past performance;
- better assess the entity's risks and returns; and
- make more informed judgements about the entity as a whole.

The business segments as defined by the Group's Executive Board provide the basis of the segmentation. Hypo Group Alpe Adria differentiates is activities by regional aspects (primary segment) and also by business lines such as banking, leasing and other (secondary segment).

Refinancing costs of participations in the parent company are allocated to the related segments. The interest rate used is that of long-term debt capital (roll-over estimation) and amounted, in the first half of financial year 2007, to 4.52 % (2006: 4.38 %).

The Group overheads, directly attributable to the group companies, is allocated to the segments on the basis of average risk-weighted assets (RWA).

Segment results are determined by operating profits (before taxes) of the related business segment. Furthermore, the return on equity ratios (ROE and ROA) and the cost/income ratio are used to measure the result. Return on equity is calculated by relating segment results to average allocated equity. The cost/income ratio is operating expenses divided by operating income.

Primary Segment

Primary segments are geographical because material risks and rewards come from the countries where the Group is active. Group Executive Board defined the following markets:

- Austria
- Italy
- Slovenia
- Croatia
- Bosnia and Herzegovina (BiH)
- Serbia
- Other Regions

The allocation was made mainly based on the registered office of the entities. Some entities, whose business activities are directly dependent on and controlled by a group company, were allocated to the segment to which the steering entity belongs.

The segment denominated as Austria comprises all income and expenses of entities located in Austria, of which Hypo Alpe-Adria-Bank International AG, the parent of Hypo Group Alpe Adria, which is particularly engaged in the cross-border loan business with customers in SEE (South and Eastern Europe), is an important part. Apart from the traditional Austrian business in which the second bank, Hypo Alpe-Adria-Bank AG, engages, there are also several leasing companies. Hypo Alpe-Adria-Immobilien AG (AAI) and Carinthian tourism entities (in particular Kärntner Holding Beteiligungs-AG and Schlosshotel Velden GmbH) also contribute considerably to this segment. The entity HBInt. Credit Management Limited, Jersey, was also included in the Austrian segment due to the direct connection of its activities with the parent company.

The negative result of the segment Austria is primarily attributable to negative valuation results concerning long-term investments in securities. At EUR –210 m, these are almost entirely attributable to HBInt. Credit Management Limited, in which Hypo Alpe-Adria-Bank International AG holds a 51 % stake. Due to full consolidation, 100 % of the results of this company show up in the segment result, whereas the negative result portion attributable to the 49 % minority shareholder only shows up in minority interests and therefore cannot be reported in the segment.

Italy refers geographically to Northern Italy, where the Group is represented by a bank and a leasing company. The latter is specialised in financing ships. The bank, which has a considerable leasing business (mainly real estate), performed very well in the first part of the year, contributing considerably to the results of the Group.

Slovenia contributes significantly to the Group profits and consists mainly of two subsidiaries: Hypo Alpe-Adria-Bank d.d. Ljubljana and die Hypo Leasing d.o.o. Ljubljana.

Croatia is one of the key segments for the Group. There, the Group operates two banks, one in Zagreb and one in Osijek, as well as two further subsidiaries, one of them the successful Hypo Leasing Kroatien d.o.o. Before its disposal this segment also included Hypo Consultants d.o.o., a real estate developer and the largest entity of the Consultants Group. The segment result for Croatia has been affected considerably by the more restrictive regulatory in 2007.

In Bosnia and Herzegovina, the Hypo Group Alpe Adria has a very high market share. It operates two banks, namely in Mostar and Banja Luka, as well as a leasing entity in Sarajevo.

Serbia consists of the business segments banking, leasing and other, all based in Belgrade. The operating and finance lease activities are handled by two separate entities, respectively.

The Other regions segment includes Germany, Hungary, Montenegro, Bulgaria, Macedonia, and the Ukraine and – until the time of disposal of Hypo Alpe-Adria-Bank (Liechtenstein) AG as of the end of December 2007 – Liechtenstein, because none of the aforesaid countries exceeds, by itself, the 10 % limit as established in IAS 14.35.

Secondary Segment

Operations with identical core activities are grouped together. Thus the secondary segments of the Hypo Group Alpe Adria are:

- Banking
- Leasing
- Other

Banking comprises the holding company, Hypo Alpe-Adria-Bank International AG, and nine subsidiaries. Subsidiaries directly involved in banking activities and steered by the parent bank are also included. This comprises investment companies, valuation services and insurance brokers as well as other providers of banking-related services.

Banking also covers HBInt. Credit Management Limited, Jersey, a subsidiary directly reporting to the parent which makes long-term investments jointly with co-investors, who hold 49 % shares, because it is also steered by Hypo Alpe-Adria-Bank International AG.

In 2007, the result of the banking segment was influenced primarily by the risk policies, which was adapted when BayernLB became the new majority shareholder and led to a comprehensive risk adjustment in the loan portfolio. Furthermore, the entire impact of the negative securities valuation result for 2007 is also reported in this segment. With regard to the negative valuation result of HBInt. Credit Management Limited and its impact on the banking segment, reference is made to the information provided about the primary segment, i.e. Austria.

Leasing covers all leasing entities including their fully consolidated special purpose companies. Main activities refer to real estate, movables, cross-border and ship leasing. Although Hypo Alpe-Adria-Bank S.p.A., Udine also engages in the leasing business, it is not shown here but in the banking segment. In 2007, the result of the leasing business suffered from a slight decrease of the interest margin, higher risk provisions on loans to customers and reclassification effects referred to operating leasing assets.

The segment denominated as Other comprises the entities that belong neither to banking nor to leasing. In particular, these are tourism entities (e.g. Kärntner Holding Beteiligungs-AG), real estate companies (especially those of the AAI-Group), the Croatian packaging enterprise Aluflexpack d.o.o. and other group companies. While the real estate companies of the AAI-Group developed very positively in 2007, start-up losses of major tourism projects and the negative performance of non-core companies were a clear burden on the segment result.

Notes to the Income Statement

Segment reporting by geographical markets

Financial period 2007

	Austria	Italy	Slovenia
Net interest income	238,787	101,507	53,049
Net fee and commission income	32,903	8,972	7,838
Result from trading	-6,521	589	5,358
Result from hedge accounting	-1,509	28	0
Result from fin. investments – afvtpl	-175,208	143	0
Result from fin. investments – afs	-2,842	0	2,424
Result from fin. investments – htm	0	0	6
Result from other financial investments	10,902	41	5,073
Other operating result	63,720	-5,478	1,902
Operating income	**160,232**	**105,802**	**75,649**
Risk provisions on loans and advances	-216,098	-13,196	-7,110
Operating income after risk provisions	**-55,867**	**92,606**	**68,539**
Personnel expenses	-87,492	-27,914	-19,194
Other administrative expenses	-66,180	-26,214	-12,611
Depreciation and amortization of tangible and intangible assets	-10,111	-5,158	-3,010
Operating expenses	**-163,777**	**-59,285**	**-34,815**
Segment result (Operating result)	**-219,649**	**33,321**	**33,723**
Unallocated corporate income/expenses			
Result before tax			
Taxes on income			
Result after tax			
Minority interests			
Consolidated net income (after minority interests)			
Average assets	15,473,457	4,205,084	3,343,207
Loans and advances to credit institutions	1,971,512	102,689	17,394
Loans and advances to customers	10,350,155	3,974,899	2,984,872
Risk provisions on loans and advances	-347,702	-36,073	-29,628
Sum financial investments	3,494,375	3,290	562,013
Liabilities to customers	3,973,352	749,403	332,383
Average risk-weighted assets (RWA)	9,220,643	3,910,642	3,086,313
Allocated average equity	460,346	195,241	154,086
Return on equity (ROE) before tax	n.a.	17.1 %	21.9 %
Cost/income ratio	102.2 %	56.0 %	46.0 %
Risk/earnings ratio	90.5 %	13.0 %	13.4 %
Return on assets (ROA) before tax	n.a.	0.79 %	1.01 %
Average number of employees (capacity)	1,128	455	466

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

EUR '000

Croatia	BiH	Serbia	Other regions	Consolidation	Total
90,172	59,016	43,170	13,475	18	599,193
41,070	11,840	11,512	6,837	360	121,333
16,970	2,968	14,082	772	-11,851	22,365
0	0	0	0	0	-1,481
0	4,826	0	17,766	23	-152,451
2,761	135	155	-416	3,585	5,801
0	0	0	0	0	6
-5,259	0	0	-12	13	10,758
3,414	1,202	4,030	-10,645	-12,340	45,804
149,127	**79,988**	**72,948**	**27,776**	**-20,194**	**651,328**
-4,251	-16,260	-8,636	-8,589	0	-274,140
144,876	**63,728**	**64,312**	**19,187**	**-20,194**	**377,188**
-60,561	-18,204	-18,442	-9,100	0	-240,905
-54,908	-20,109	-21,478	-12,726	12,854	-201,373
-19,360	-4,278	-5,294	-1,652	0	-48,862
-134,828	**-42,591**	**-45,214**	**-23,478**	**12,854**	**-491,141**
10,048	**21,137**	**19,098**	**-4,291**	**-7,340**	**-113,953**
					57,821
					-56,132
					-14,205
					-70,338
					73,474
					3,137
6,373,415	2,082,400	1,928,746	1,066,117	321	34,472,747
1,147,166	334,773	344,038	15,199	0	3,932,772
4,322,151	1,857,879	1,154,792	1,005,988	0	25,650,736
-164,378	-90,466	-31,224	-5,795	0	-705,266
863,462	23,273	157,028	41,076	0	5,144,519
1,885,620	923,140	493,684	115,993	0	8,473,574
4,716,571	1,452,755	1,522,314	1,484,125	-5,697	25,387,666
235,478	72,530	76,002	74,096	-284	1,267,493
4.3 %	29.1 %	25.1 %	n.a.		n.a.
90.4 %	53.2 %	62.0 %	84.5 %		75.4 %
4.7 %	27.6 %	20.0 %	63.7 %		45.8 %
0.16 %	1.02 %	0.99 %	n.a.		n.a.
2,615	1,048	958	272		6,942

Segment reporting by geographical markets

Financial period 2006

	Austria	Italy	Slovenia
Net interest income	156,449	78,905	53,648
Net fee and commission income	22,936	5,605	4,270
Result from trading	-34,913	-239	4,378
Result from hedge accounting	-1,503	-26	0
Result from fin. investments – afvtpl	19,595	180	0
Result from fin. investments – afs	5,605	0	1,537
Result from fin. investments – htm	0	0	1
Result from other financial investments	952	11,562	4,911
Other operating result	16,875	-551	12,087
Operating income	**185,995**	**95,437**	**80,833**
Risk provisions on loans and advances	-60,588	-14,748	-7,903
Operating income after risk provisions	**125,407**	**80,689**	**72,930**
Personnel expenses	-75,170	-23,970	-15,172
Other administrative expenses	-56,449	-24,697	-12,107
Depreciation and amortization of tangible and intangible assets	-7,733	-3,449	-2,726
Operating expenses	**-139,352**	**-52,117**	**-30,005**
Segment result (Operating result)	**-13,945**	**28,572**	**42,925**
Unallocated corporate income/expenses			
Result before tax			
Taxes on income			
Result after tax			
Minority interests			
Consolidated net income (after minority interests)			
Average assets	13,034,098	3,610,776	2,443,578
Loans and advances to credit institutions	1,822,206	30,708	36,106
Loans and advances to customers	8,225,050	3,394,146	2,095,614
Risk provisions on loans and advances	-151,018	-30,885	-25,429
Sum financial investments	3,377,997	5,858	490,299
Liabilities to customers	3,082,584	725,118	212,344
Average risk-weighted assets (RWA)	7,395,976	3,264,641	2,187,336
Allocated average equity	278,969	123,139	82,504
Return on equity (ROE) before tax	n.a.	23.2 %	52.0 %
Cost/income ratio	59.6 %	54.6 %	37.1 %
Risk/earnings ratio	38.7 %	18.7 %	14.7 %
Return on assets (ROA) before tax	n.a.	0.79 %	1.76 %
Average number of employees (capacity)	1,005	412	404

Explanations:

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

afs: available for sale

htm: held to maturity

EUR '000

Croatia	BiH	Serbia	Other regions	Consolidation	Total
123,238	48,534	36,915	5,784	2,827	506,301
34,069	9,441	6,266	5,536	2,504	90,627
15,766	3,083	13,106	1,721	-3,375	-473
0	0	0	0	0	-1,529
0	4,813	37	0	0	24,625
-660	913	550	9,025	0	16,970
0	0	0	379	0	379
3,261	-207	-82	-166	0	20,230
21,285	-1,621	2,258	527	-20,530	30,330
196,959	**64,956**	**59,049**	**22,806**	**-18,575**	**687,460**
-29,720	-11,573	-45	-2,528	0	-127,105
167,238	**53,383**	**59,004**	**20,278**	**-18,575**	**560,355**
-54,268	-16,367	-15,233	-6,203	0	-206,383
-51,111	-17,472	-19,869	-7,779	15,030	-174,454
-15,476	-3,939	-3,588	-854	0	-37,766
-120,854	**-37,778**	**-38,691**	**-14,836**	**15,030**	**-418,602**
46,384	**15,605**	**20,313**	**5,442**	**-3,545**	**141,753**
					-184
					141,569
					-40,624
					100,945
					-17,448
					83,497
5,352,621	1,530,906	1,358,141	579,208	442	27,909,772
800,884	34,919	332,039	17,718	0	3,074,580
3,949,169	1,422,220	935,003	474,650	0	20,495,852
-174,475	-74,756	-28,710	-2,962	0	-488,235
624,750	15,259	51,722	77,820	0	4,643,704
1,498,370	568,580	279,974	259,528	0	6,626,498
4,007,883	1,045,142	1,191,489	557,067	3,171	19,652,704
151,173	39,422	44,942	21,012	120	741,280
30.7 %	39.6 %	45.2 %	25.9 %		19.1 %
61.4 %	58.2 %	65.5 %	65.1 %		56.9 %
24.1 %	23.8 %	0.1 %	43.7 %		25.1 %
0.87 %	1.02 %	1.50 %	0.94 %		0.51 %
2,377	943	818	149		6,108

Segment reporting by business

Financial period 2007

EUR '000

	Bank	Leasing	Other	Consolidation	Total
Net interest income	515,891	100,211	-18,006	1,097	599,193
Net fee and commission income	120,023	3,821	-363	-2,148	121,333
Result from trading	13,517	8,791	1,895	-1,837	22,366
Result from hedge accounting	-1,481	0	0	0	-1,481
Result from fin. investments – afvtpl	-170,216	17,766	0	0	-152,451
Result from fin. investments – afs	10,086	-1,158	-1,733	-1,395	5,801
Result from fin. investments – htm	6	0	0	0	6
Result from other financial investments	26	849	6,140	3,743	10,758
Other operating result	45,562	-10,215	48,923	-38,466	45,804
Operating income	**533,414**	**120,064**	**36,857**	**-39,007**	**651,328**
Risk provisions on loans and advances	-244,095	-29,738	-307	0	-274,140
Operating income after risk provisions	**289,320**	**90,326**	**36,549**	**-39,007**	**377,188**
Personnel expenses	-186,759	-32,465	-21,680	0	-240,905
Other administrative expenses	-184,357	-31,427	-23,907	38,319	-201,373
Depreciation and amortization of tangible and intangible assets	-27,365	-11,319	-10,179	0	-48,862
Operating expenses	**-398,481**	**-75,212**	**-55,767**	**38,319**	**-491,141**
Segment result (Operating result)	**-109,162**	**15,114**	**-19,217**	**-688**	**-113,953**
Unallocated corporate income/expenses					57,821
Result before tax					**-56,132**
Taxes on income					-14,205
Result after tax					**-70,338**
Minority interests					73,474
Consolidated net income (after minority interests)					**3,137**

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

Segment reporting by business

Financial period 2006

EUR '000

	Bank	Leasing	Other	Consolidation	Total
Net interest income	399,532	113,460	-13,179	6,488	506,301
Net fee and commission income	88,736	4,915	-1,562	-1,462	90,627
Result from trading	-9,129	4,006	6,083	-1,433	-473
Result from hedge accounting	-1,529	0	0	0	-1,529
Result from fin. investments – afvtpl	24,625	0	0	0	24,625
Result from fin. investments – afs	4,482	4	12,484	0	16,970
Result from fin. investments – htm	379	0	0	0	379
Result from other financial investments	12,308	7,931	-9	0	20,230
Other operating result	-1,184	14,355	42,075	-24,916	30,330
Operating income	**518,219**	**144,671**	**45,893**	**-21,322**	**687,460**
Risk provisions on loans and advances	-105,827	-20,262	-1,016	0	-127,105
Operating income after risk provisions	**412,393**	**124,409**	**44,877**	**-21,322**	**560,356**
Personnel expenses	-169,053	-22,427	-14,902	0	-206,383
Other administrative expenses	-150,771	-24,151	-20,348	20,817	-174,454
Depreciation and amortization of tangible and intangible assets	-21,992	-9,837	-5,937	0	-37,766
Operating expenses	**-341,817**	**-56,416**	**-41,187**	**20,817**	**-418,602**
Segment result (Operating result)	**70,576**	**67,993**	**3,690**	**-506**	**141,753**
Unallocated corporate income/expenses					-184
Result before tax					**141,569**
Taxes on income					-40,624
Result after tax					**100,945**
Minority interests					-17,448
Consolidated net income (after minority interests)					**83,497**

Explanations:

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 '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Interest income	**1,598,870**	**1,137,939**
from loans and advances to credit institutions	209,914	67,880
from loans and advances to customers	1,167,972	895,195
from bonds, treasury bills and other fixed-interest securities	149,813	106,056
from derivative financial instruments, net	26,087	43,363
other interest income	45,084	25,445
Current income	**400,151**	**279,712**
from shares and other not fixed income securities	5,278	10,298
from leasing business	366,421	251,562
from investment properties	28,451	17,852
Total	**1,999,021**	**1,417,651**

Interest income also includes unwinding revenue of EUR 10,912 thousand (2006: EUR 16,643 thousand) as well as income with distinctive interest character, for instance interest-like fees and commissions. A significant part of the other interest income is the interest on the minimum reserve. In 2007, this also includes interest income relating to other periods in an amount of EUR 11,606 thousand. Income from the leasing business includes interest income from finance leases and the results from operating leases, consisting of hire payments less scheduled depreciation.

The revenue from investment properties also represents the balance of rental income and scheduled depreciation on property for future sale.

Interest and similar income breaks down as follows according to IAS 39 categories:

EUR '000

	IAS 39 Measurement category	1.1. - 31.12.2007	1.1. - 31.12.2006
Interest income		**1,604,149**	**1,148,237**
from loans and advances to credit institutions and customers	LAR	1,366,599	944,520
from trading assets	HFT	4,773	1,124
from derivative fin. instruments	HFT / Fair Value Hedges	26,087	43,363
from fin. investments - designated at fair value through profit or loss	FVO	62,779	48,376
from fin. investments - available for sale	AFS	112,931	84,804
from fin. investments - held to maturity	HTM	1,735	3,869
from balances at central banks	Fin. Assets At Cost	17,639	22,181
other interest income	-	11,606	0
Current income		**394,872**	**269,414**
from leasing business	LAR / -	366,421	251,562
from investment properties	-	28,451	17,852
Total		**1,999,021**	**1,417,651**

(39) Interest and similar expenses

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Interest expenses	**-1,376,049**	**-890,515**
for liabilities to credit institutions	-173,233	-148,728
for liabilities to customers	-289,433	-181,705
for liabilities evidenced by certificates	-836,971	-515,112
for subordinated capital	-63,193	-43,663
for other liabilities	-13,219	-1,306
Other interest expenses	**-23,779**	**-20,835**
commissions for statutory guarantee	-23,779	-20,835
Total	**-1,399,828**	**-911,350**

Other interest-like expenses include commissions due to the Province of Carinthia for the statutory guarantee. This commission is calculated on the actual amounts for which Carinthia is the unlimited deficiency guarantor.

Interest and similar expenses break down as follows according to IAS 39 categories:

EUR '000

	IAS 39 Measurement category	1.1. - 31.12.2007	1.1. - 31.12.2006
Interest expenses		**-1,376,049**	**-890,515**
for trading liabilities	HFT	0	-25
for fin. liabilities - designated at fair value through profit or loss	FVO	-78,633	-39,550
for fin. liabilities - at cost	Fin. Liabilities At Cost	-1,295,488	-850,737
for fin. liabilities to central banks	Fin. Liabilities At Cost	-1,921	-203
other	-	-7	0
Other interest expenses		**-23,779**	**-20,835**
commissions for statutory guarantee	-	-23,779	-20,835
Total		**-1,399,828**	**-911,350**

(40) Fee and commission income

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Credit business	44,260	30,459
Securities and custodian business	50,352	29,651
Bank transfers incl. payment transactions	37,972	31,296
Other financial service business	24,110	27,483
Total	**156,694**	**118,890**

(41) Fee and commission expenses

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Credit business	-3,114	-2,307
Securities and custodian business	-17,571	-7,072
Bank transfers incl. payment transactions	-9,441	-10,193
Other financial service business	-5,235	-8,691
Total	**-35,361**	**-28,263**

(42) Result from trading

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Interest related transactions	-202	-37,950
Shares and index related transactions	1,192	7,050
Foreign exchange transactions	16,708	34,942
Other trading result (credit derivatives, commodities, etc.)	4,667	-4,515
Total	**22,366**	**-473**

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

(43) Result from hedge accounting

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Valuation result from secured underlying transactions	251,106	119,242
Valuation result from hedging derivatives	-252,587	-120,770
Total	**-1,481**	**-1,529**

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

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

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Loans and advances (to customers and credit institutions)	-19,028	-26,089
Equity instruments	4,826	4,891
Debt instruments	-137,490	-10,146
Liabilities (incl. subordinated capital)	70,203	54,588
Fair value option (FVO) derivatives	-70,962	1,381
Total	**-152,451**	**24,625**

The fair value option (FVO) covers financial assets and liabilities that include embedded derivates. By designating the entire instrument in the category at fair value through profit or loss, the compulsory segregation 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.

Furthermore, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

(45) Result from financial investments – available for sale

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Income from financial investments available for sale	**24,118**	**31,252**
Capital gains	24,027	30,805
Income from write-up	91	447
Expenses from financial investments available for sale	**-18,317**	**-14,282**
Losses from disposal	-11,637	-10,139
Expenses from impairment	-6,680	-4,144
Total	**5,801**	**16,970**

(46) Result from financial investments – held to maturity

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Income from financial investments held to maturity	6	386
Expenses from financial investments held to maturity	0	-7
Total	**6**	**379**

(47) Result from other financial investments

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Result from investment properties (IP)	**10,327**	**3,100**
Other income	18,811	3,267
Other expenses	-8,484	-167
Result from operating leasing assets	**405**	**16,384**
Other income	4,968	18,381
Other expenses	-4,564	-1,997
Remaining result from financial investments	**26**	**746**
Total	**10,758**	**20,230**

Other revenue from investment properties and operating leasing assets primarily relate to profit on disposal, but also to income from the appreciation in value of previously effected unscheduled depreciations and other one-off revenues in connection with these assets.

EUR 8,472 thousand of other expenses from investment properties in 2007 relate to impairment. EUR 4,564 thousand of other expenses from operating leasing relate to impairment on assets used for operating leases. The remaining other expenses in connection with these assets relate to losses from the disposal as well as other one-off expenses.

(48) Other operating result

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Other rental income	**1,418**	**1,237**
Net capital gains/losses from	**9,260**	**20,200**
Sale of tangible and intangible assets	-2,293	137
Sale of real estate projects (assets)	9,446	4,197
Sale of property development companies	2,106	15,865
Result from allocation/release of other provisions	**-357**	**514**
Other tax expenses (except corporate income tax)	**-9,967**	**-5,725**
Impairment loss for vacant assets	**-41,614**	**0**
Revenue from the utilization of guarantees	**22,710**	**0**
Compensation DAB law case	**33,283**	**0**
Remaining other result	**31,071**	**14,104**
Remaining other income	131,776	97,495
Remaining other expenses	-100,705	-83,391
Total	**45,804**	**30,330**

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

The sales result from the disposal of real estate projects and project companies is attributable primarily to the AAI-Group and the companies of the Consultants Group, whose results are included here up until the date of disposal.

Expenses from the impairment of unrented leasing assets result from the required devaluation of the Snow Funpark Wittenburg leasing facility to the lower fair value. This compares with income from compensation in an amount of EUR 22,710 thousand from state guarantees exercised in 2007. As a repayment of a subordinated shareholders' loan to a minority shareholder is not to be expected, due to the devaluation of this leasing asset, the amount recognized on the balance sheet for the liabilities dedicated to this fair value option is 0, the return from the devaluation in an amount of EUR 17,766 thousand is shown in the result from financial investments – designated at fair value through profit or loss. With regard to explanations concerning compensation in connections with DAB procedure, reference is made to note (104).

The remaining entries in other result primarily refer to other income and expenses from non-banking activities. The income includes the sales revenue of production enterprise Aluflexpack d.o.o. of EUR 86,536 thousand (2006: EUR 66,806 thousand); expenses include the related cost of manufacture in an amount of EUR -73,194 thousand (2006: EUR -57,237 thousand). Furthermore, the sales, respectively the direct other expenses of Schlosshotel Velden are also reported in this item.

(49) Risk provisions on loans and advances

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

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Allocation to	**-421,963**	**-237,886**
Risk provisions for loans and advances	-412,990	-228,667
Provisions for commitments and guarantees	-8,973	-9,218
Releases from	**154,087**	**109,891**
Risk provisions for loans and advances	142,131	104,384
Provisions for commitments and guarantees	11,955	5,507
Recoveries of loans and advances previously written-off	**3,431**	**6,881**
Direct write-offs	**-9,695**	**-5,991**
Total	**-274,140**	**-127,105**

Details on risk provisions can be found in note (60).

(50) Personnel expenses

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Personnel cost from core business	-229,083	-200,305
Personnel cost from non-core business	-11,822	-6,078
Total	**-240,905**	**-206,383**

(51) Other administrative expenses

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Premises expenses	-30,917	-24,047
IT expenses	-24,139	-21,602
Office costs	-9,563	-10,744
Advertising costs	-33,257	-29,852
Communication expenses	-10,383	-9,023
Legal and advisory costs	-43,833	-35,942
Other general administration expenses	-49,281	-43,244
Total	**-201,373**	**-174,454**

Other administrative expenses also include non-banking insurance premiums, motor vehicle and car fleet expenses, costs of staff training courses and miscellaneous administrative expense items.

(52) Depreciation and amortization of tangible and intangible assets

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Buildings	-11,826	-7,346
Plant and equipment	-28,128	-23,461
Intangible assets	-8,909	-6,959
Total	**-48,862**	**-37,766**

In financial year 2007, there were impairments of EUR 389 thousand (2006: EUR 0 thousand).

(53) Result from the disposal of group companies

EUR '000

	Shares sold	Date of disposal	Result on sale
Consultants Group	100 %	29.06.2007	57,208
Hypo Alpe-Adria-Bank (Liechtenstein) AG	51 %	21.12.2007	-422
Total			**56,786**

For further information, reference is made to note (5).

(54) Result from companies accounted for at equity

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Share of profits	1,203	479
Share of losses	-169	-663
Total	**1,034**	**-184**

(55) Taxes on income

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Current tax	-62,762	-61,298
Deferred tax	48,556	20,674
Total	**-14,205**	**-40,624**

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

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
Result before tax	-59,859	141,570
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 %	14,965	-35,393
Tax effects arising from:		
divergent foreign tax rates	-38,157	8,565
previous years	-281	-5,060
tax-exempt income from equity participations and other tax-exempt income	20,254	5,405
investment incentives	5,134	8,577
non-tax-deductible expenses and withholding taxes	-26,724	-17,684
other	10,604	-5,034
Effective tax burden	**-14,205**	**-40,624**
Effective tax rate	**23.7 %**	**28.7 %**

In 2006, the tax effects from the previous years relate primarily to the findings of the Austrian tax inspection, which was concluded in 2006. The tax rate in 2007 is significantly influenced by the other shareholders' disposal profits from the sale of the Consultants Group, which was exempt from tax.

(56) Minority interests

In the income statement, minority interests in the result of the relevant group companies are included as follows:

EUR '000

	1.1. - 31.12.2007	1.1. - 31.12.2006
HBInt. Credit Management Limited	**86,281**	**-6,908**
Share in interest income	-16,577	-7,003
Share in measurement gains / losses	102,859	95
Hypo Alpe-Adria-Leasing Holding AG	**-12,250**	**-10,390**
Dividends preference shares 1st tranche (2004)	-6,000	-6,000
Dividends preference shares 2nd tranche (2006)	-6,250	-4,390
Minority interests of other co-owners	**-557**	**-150**
Total	**73,474**	**-17,448**

At HBInt. Credit Management Limited, the entire result from the valuation of asset-backed securities and other investments amounted to EUR -209,916 thousand. In the consolidated financial statements, EUR 102,859 thousand thereof is assigned to the 49 % minority shareholder as a loss covered by the equity contribution.

Notes to the Balance Sheet

(57) Cash and balances with central banks

EUR '000

	31.12.2007	31.12.2006
Cash on hand	107,011	81,607
Balances with central banks (daily due)	890,852	849,840
Total	**997,864**	**931,447**

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

Balances with central banks also serve to satisfy the minimum reserve requirements. On the balance sheet date, the daily due minimum reserve held amounted to EUR 619,047 thousand (2006: EUR 571,257 thousand).

The debt certificates of public entities that qualify for refinancing at central banks are not shown in this item, but instead under financial investments – depending on their assessment category.

(58) Loans and advances to credit institutions

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

EUR '000

	31.12.2007	31.12.2006
Minimum reserve (not daily due)	832,774	867,446
Giro and clearing business	202,856	193,922
Money market placements	2,020,692	1,561,411
Loans	514,996	442,583
Finance lease receivables	1,149	1,541
Other receivables	360,304	7,676
Total	**3,932,772**	**3,074,580**

(58.2) Loans and advances to credit institutions – breakdown by regions

EUR '000

	31.12.2007	31.12.2006
Austria	471,744	81,538
Central and Eastern Europe (CEE)	1,437,791	1,045,422
Other countries	2,023,238	1,947,620
Total	**3,932,772**	**3,074,580**

(59) Loans and advances to customers

(59.1) Loans and advances to customers – by products

EUR '000

	31.12.2007	31.12.2006
Current account credits	1,844,584	1,366,800
Bank loans	9,024,581	7,558,948
Mortage loan	4,573,665	3,198,990
Municipal loan	2,403,017	2,278,280
Finance lease receivables	5,422,512	4,289,084
Other receivables	2,382,378	1,803,750
Total	**25,650,736**	**20,495,852**

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

EUR '000

	31.12.2007	31.12.2006
Public sector	4,471,118	2,423,869
Corporate clients	15,708,441	13,132,696
Retail clients	5,471,176	4,939,288
Total	**25,650,736**	**20,495,852**

(59.3) Loans and advances to customers – breakdown by regions

EUR '000

	31.12.2007	31.12.2006
Austria	4,766,102	4,220,659
Central and Eastern Europe (CEE)	14,874,486	11,206,839
Other countries	6,010,148	5,068,354
Total	**25,650,736**	**20,495,852**

(60) Risk provisions

(60.1) Risk provisions – movement during the year

EUR '000

	On 01.01.2007	Exchange differences	Allocation	Release	Use	Other changes	On 31.12.2007
Specific risk provisions	**-405,537**	**-279**	**-366,318**	**87,305**	**37,435**	**11,892**	**-635,502**
Loans and advances to credit institutions	-1,819	-1	-1	1	0	0	-1,820
Loans and advances to custumers	-400,183	-271	-362,740	86,247	35,965	11,892	-629,090
to public sector	-1,285	-3	-215	337	0	0	-1,167
to corporate clients	-346,646	-287	-334,253	70,322	33,302	10,755	-566,807
to retail clients	-52,252	20	-28,272	15,588	2,663	1,137	-61,117
Other financial assets	-3,534	-8	-3,578	1,058	1,470	0	-4,592
Portfolio-based risk provisions	**-82,699**	**-72**	**-43,453**	**54,826**	**1,263**	**371**	**-69,764**
Subtotal	**-488,235**	**-351**	**-409,772**	**142,131**	**38,698**	**12,263**	**-705,266**
Provisions for credit commitments and guarantees	**-17,981**	**-29**	**-8,973**	**11,955**	**2,015**	**0**	**-13,013**
Total	**-506,216**	**-381**	**-418,745**	**154,087**	**40,713**	**12,263**	**-718,279**

(60.2) Risk provisions – by regions

EUR '000

	31.12.2007	31.12.2006
Austria	-128,378	-96,455
Central and Eastern Europe (CEE)	-449,041	-347,231
Other countries	-127,847	-44,549
Total	**-705,266**	**-488,235**

(61) Trading assets

EUR '000

	31.12.2007	31.12.2006
Bonds and other fixed-interest securities	53,189	114,655
Shares and other non-fixed interest securities	68,912	44,219
Positive market value of derivative financial instruments (trading)	5,062	3,701
Total	**127,163**	**162,574**

(62) Positive fair value from hedge accounting derivatives

EUR '000

	31.12.2007	31.12.2006
Positive market values of fair value hedge instruments	156,621	161,182
Total	**156,621**	**161,182**

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

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

EUR '000

	31.12.2007	31.12.2006
Loans and advances to customers and credit institutions	629,009	697,288
Bonds and other fixed interest securities	527,914	596,365
Shares and other non fixed-interest securities	52,364	24,666
Positive market value of derivative financial instruments at fair value option (FVO)	175,181	219,332
Total	**1,384,468**	**1,537,651**

(64) Financial investments – available for sale

EUR '000

	31.12.2007	31.12.2006
Bonds and other fixed-interest securities	2,261,744	1,976,496
Shares and other non fixed-interest securities	380,942	320,744
Participations without intention for sale (< 20 %)	9,794	
Other participations (associated companies 20 % – 50 %)	42,910	34,101
Shares in affiliated, non-consolidated companies (> 50 %)	40,079	46,875
Total	**2,735,469**	**2,378,217**

(65) Financial investments – held to maturity

EUR '000

	31.12.2007	31.12.2006
Bonds and other fixed-interest securities	42,570	64,147
Total	**42,570**	**64,147**

(66) Investments in companies accounted for at equity

EUR '000

	31.12.2007	31.12.2006
Shares in credit institutions	17,944	0
Shares in other associated companies	4,004	4,597
Total	**21,948**	**4,597**

The associated companies included at equity are listed in note (110).

(67) Other financial investments

EUR '000

	31.12.2007	31.12.2006
Investment properties	576,697	495,527
Assets used for operating leases (moveable assets)	383,367	158,258
Total	**960,064**	**653,786**

Investment properties include mainly land and buildings let under operating lease agreements.

Notes to the Balance Sheet

(68) Development of financial assets and other financial investments

	Costs of acquisition 01.01.2007	Foreign exchange – differences	Additions
Financial investments – held to maturity	**64,153**	**0**	**3,526**
Bonds, treasury bills and other fixed-interest securities	64,153	0	3,526
Financial investments – available for sale	**89,701**	**33**	**26,113**
Participations without intension for sale (< 20 %)	8,066	0	1,800
Other participations in associated companies (20 % - 50 %)	35,298	5	11,033
Shares in affiliated, non-consolidated companies (> 50 %)	46,337	28	13,280
Companies accounted for under the equity method	**6,404**	**0**	**0**
Investment properties	**521,424**	**-6,172**	**196,544**
Operating lease assets	**265,658**	**1,012**	**306,307**
Total	**947,339**	**-5,126**	**532,490**

(69) Intangible assets

EUR '000

	31.12.2007	31.12.2006
Goodwill	3,502	3,502
Software	23,724	16,992
Other intangible assets	37,117	14,698
Total	**64,343**	**35,191**

The reported goodwill of EUR 3,502 thousand (2006: EUR 3,502 thousand) still refers to the take-over of the "RBB Bank Aktiengesellschaft Wolfsberg" business by Hypo Alpe-Adria-Bank AG, Klagenfurt in 2001. The entire goodwill was allocated to the branch office in Wolfsberg as the cash generating unit. Hypo Group Alpe Adria makes an impairment test at least once per year and whenever indicated. The annual impairment test did not result in any permanent impairment for this goodwill.

(70) Tangible assets

EUR '000

	31.12.2007	31.12.2006
Land and buildings	498,119	457,946
Plant and equipment	137,944	117,961
Total	**636,063**	**575,907**

EUR '000

Disposals	Other changes	Costs of acquisition 31.12.2007	Cumulative depreciation 31.12.2007	Carrying amount 31.12.2007	Carrying amount 31.12.2006
-24,070	**-1,039**	**42,570**	**0**	**42,570**	**64,147**
-24,070	-1,039	42,570	0	42,570	64,147
-8,642	**-11,079**	**96,126**	**-3,343**	**92,783**	**89,042**
-35	2	9,832	-38	9,794	8,066
-221	-82	46,033	-3,123	42,910	34,101
-8,385	-10,999	40,261	-182	40,079	46,875
-1,511	**17,944**	**22,837**	**-889**	**21,948**	**4,597**
-142,624	**38,380**	**607,552**	**-30,856**	**576,697**	**495,527**
-158,699	**54,433**	**468,710**	**-85,343**	**383,367**	**158,258**
-335,546	**98,639**	**1,237,795**	**-120,430**	**1,117,365**	**811,571**

(71) Fixed assets table

(71.1) Development of fixed assets

	Costs of acquisition 01.01.2007	Exchange differences	Additions
Intangible Assets	**66,585**	**86**	**49,825**
Goodwill	7,545	0	0
Software	32,614	48	13,156
Other Intangible Assets	26,425	39	36,669
Tangible Assets	**707,066**	**621**	**112,988**
Land and buildings	**492,431**	**454**	**73,248**
- Land	47,584	35	1,495
- Buildings	261,132	161	13,947
- Assets under construction	183,716	259	57,806
Plant and equipment	**214,634**	**167**	**39,740**
Total	**773,650**	**707**	**162,813**

(71.2) Development of fixed assets depreciation

	Cumulative depreciation 01.01.2007	Exchange differences	Disposals
Intangible Assets	**-31,394**	**-42**	**1,335**
Goodwill	-4,044	0	0
Software	-15,622	-23	1,225
Other Intangible Assets	-11,728	-19	109
Tangible Assets	**-131,159**	**-188**	**12,516**
Land and buildings	**-34,485**	**-33**	**731**
- Land	0	0	0
- Buildings	-34,485	-33	731
- Assets under construction	0	0	0
Plant and equipment	**-96,673**	**-156**	**11,785**
Total	**-162,552**	**-230**	**13,851**

EUR '000

Disposals	Other changes	Costs of acquisition 31.12.2007	Cumulative depreciation 31.12.2007	Carrying amount 31.12.2007	Carrying amount 31.12.2006
-13,788	**-176**	**102,532**	**-38,188**	**64,343**	**35,191**
0	0	7,545	-4,044	3,502	3,502
-7,348	5,717	44,186	-20,462	23,724	16,992
-6,440	-5,893	50,800	-13,683	37,117	14,698
-34,460	**7,663**	**793,877**	**-157,814**	**636,063**	**575,907**
-15,876	**-6,584**	**543,674**	**-45,555**	**498,119**	**457,946**
-845	11,187	59,456	-322	59,134	47,584
-4,763	178,413	448,890	-45,233	403,657	226,647
-10,268	-196,184	35,328	0	35,328	183,716
-18,584	**14,246**	**250,203**	**-112,259**	**137,944**	**117,961**
-48,248	**7,487**	**896,409**	**-196,003**	**700,406**	**611,098**

EUR '000

Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2007
-8,909	**0**	**821**	**0**	**-38,188**
0	0	0	0	-4,044
-6,861	0	820	0	-20,462
-2,048	0	1	0	-13,683
-39,564	**-389**	**970**	**0**	**-157,814**
-11,436	**-389**	**58**	**0**	**-45,555**
0	-322,352	0	0	-322
-11,436	-66,96	58	0	-45,233
0	0	0	0	0
-28,128	**0**	**912**	**0**	**-112,259**
-48,473	**-389**	**1,791**	**0**	**-196,003**

(72) Tax assets

EUR '000

	31.12.2007	31.12.2006
Current tax assets	32,659	19,178
Deferred tax assets	503,561	201,183
Total	**536,220**	**220,360**

Of the indicated carrying amount for deferred tax assets, EUR 190 m (25 % of EUR 760 m) refer to tax losses carried forward of Hypo Alpe-Adria-Bank International AG including its Austrian taxation group members (2006: EUR 83 m; 25 % of EUR 333 m). Compared with the actual tax loss (incl. pending capitalizable valuation differences) carried forward of approximately EUR 800 m, however, only that amount was recognised as a deferred tax asset because its utilisation in accordance with the fiscal regulations is expected to be possible over the next 9–10 years. The assessment of the ability to utilise the tax losses carried forward is performed on the basis of the current business plans, which are prepared once a year in autumn. In this respect, reference is made to note (2). For the years until 2003, Hypo Alpe-Adria-Bank International AG has already received the legally valid tax assessment notices. The assessment for corporation tax 2004 pursuant to Section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature, the returns for 2005 and 2006 have not been assessed yet.

(73) Assets held for disposal

EUR '000

	31.12.2007	31.12.2006
Cash and balances with central banks		25
Loans and advances to credit institutions		8
Loans and advances to customers		6,330
Risk provisions on loans and advances		-2,013
Financial investments – available for sale		12,825
Investments in companies measured at equity		3,361
Other financial investments (investment properties)		25,947
Intangible assets		514
Tangible assets		34,085
Tax assets		2,561
Other assets		123,592
thereof Shares in property development companies, short term		511
thereof Assets under construction (project development), short term		97,258
thereof Finished property projects held as inventories		19,550
Total		**207,234**

The assets reported in this item as per 31 December 2006 relate to the assets of Hypo Alpe-Adria Consultants Austria GmbH, Hypo Alpe-Adria Consultants Croatia d.o.o., Hypo Alpe-Adria Consultants Serbia d.o.o. and Hypo Alpe-Adria Consultants Bosnia and Herzegovina d.o.o.

These assets are reported as disposal groups because the Executive Board, following the mandate given to it by the shareholders' meeting, offered the stated companies and their real estate portfolio for sale to potential investors in December 2006 and because the other prerequisites of IFRS 5 are satisfied (see note (26)).
The liabilities associated with the disposal group are shown in a separate main item on the liabilities side of the balance sheet. The result of the affected companies was shown in Other business segments.

(74) Other assets

EUR '000

	31.12.2007	31.12.2006
Prepaid expenses	**94,212**	**63,321**
Other assets	**1,267,660**	**903,573**
Shares in property development companies, short term	8,984	13,420
Assets under construction (project development), short term	113,369	88,046
Finished property projects held as current assets	21,189	0
Leases to go (lease assets not yet leased out)	604,453	480,201
Remaining receivables and other assets, not specific to banking	117,869	69,607
Other assets	278,187	162,139
Value added taxes and other tax assets	123,609	90,160
Positive market values of hedging instruments of economic hedges (banking book)	**35,596**	**25,608**
Total	**1,397,467**	**992,503**

(75) Liabilities to credit institutions

(75.1) Liabilities to credit institutions – by type

EUR '000

	31.12.2007	31.12.2006
To central banks	**66,745**	**162,191**
To credit institutions	**4,390,216**	**3,509,750**
Daily due	243,140	175,195
Time deposits	941,633	604,382
Loans from banks	2,113,629	1,407,670
Money market liabilities	247,634	1,282,558
Other liabilities	844,181	39,945
Total	**4,456,962**	**3,671,941**

(75.2) Liabilities to credit institutions – by region

EUR '000

	31.12.2007	31.12.2006
Austria	1,240,079	414,239
Central and Eastern Europe (CEE)	1,789,160	1,110,566
Other countries	1,427,723	2,147,135
Total	**4,456,962**	**3,671,941**

(76) Liabilities to customers

(76.1) Liabilities to customers – by customer type

EUR '000

	31.12.2007	31.12.2006
Saving deposits	**1,563,033**	**1,570,795**
Sight and time deposits	**6,910,540**	**5,055,703**
from public sector	1,021,534	467,848
from corporate clients	3,545,620	3,246,625
from retail clients	2,343,387	1,341,230
Total	**8,473,574**	**6,626,498**

(76.2) Liabilities to customers – by region

EUR '000

	31.12.2007	31.12.2006
Austria	2,211,328	1,985,071
Central and Eastern Europe (CEE)	3,728,495	2,539,935
Other countries	2,533,751	2,101,492
Total	**8,473,574**	**6,626,498**

Liabilities to customers include liabilities designated at fair value through profit or loss in an amount of EUR 40,647 thousand (2006: EUR 42,498 thousand) (see also note (97)).

(77) Liabilities evidenced by certificates

EUR '000

	31.12.2007	31.12.2006
Issued bonds	**17,821,530**	**16,174,186**
Mortgage-linked bonds	201,367	36,508
Municipal bonds	881,132	1,140,565
Bonds	16,042,187	14,996,254
Other certificates of deposit and money market papers	696,844	859
Liabilities issued via "Pfandbriefstelle"	**2,410,692**	**1,384,494**
Other liabilities evidenced by certificates	**50,359**	**46,011**
Total	**20,282,581**	**17,604,691**

Liabilities to customers include liabilities designated at fair value through profit or loss in an amount of EUR 1,691,581 thousand (2006: EUR 1,887,000 thousand) (see also note (97)).

(78) Trading liabilities

EUR '000

	31.12.2007	31.12.2006
Negative market value of derivative financial instruments (trading)	8,444	8,571
Total	**8,444**	**8,571**

(79) Negative fair value from hedge accounting derivatives

EUR '000

	31.12.2007	31.12.2006
Negative market values of fair value hedge instruments	392,596	149,497
Total	**392,596**	**149,497**

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

(80) Provisions

(80.1) Provisions – Detail

EUR '000

	31.12.2007	31.12.2006
Pensions	9,916	10,752
Severance pay	15,009	14,186
Provisions for anniversary payment	1,351	1,323
Provisions for credit commitments and guarantees	13,013	17,981
Other provisions	25,676	17,356
Total	**64,965**	**61,598**

As of 31 December 2007, EUR 5,477 thousand (2006: EUR 7,000 thousand) out of other provisions relate to provisions for penalty interest according to Section 97 of the Austrian Banking Act in connection with the shortfall of the Group's own capital funds due to the swap losses in 2004. The change compared with 2006 results from the recalculation of the obligation.

Furthermore, this item reports provisions for pending fiscal proceedings, legal costs and miscellaneous other provisions.

Provisions for retirement benefits and severance pay during the year under review developed as follows:

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

EUR '000

	31.12.2007	31.12.2006
Provisions at end of previous period	**24,931**	**24,166**
+ Current service costs	1,154	2,028
+ Interest costs	855	999
+/- Actuarial gains/losses	-588	-633
- Payments in reporting year	-1,407	-1,661
+ past service cost	0	141
+/- Other changes	-21	-102
Provisions as at the end of period	**24,925**	**24,938**

Other provisions during the year under review developed as follows:

(80.3) Provisions – Development of other provisions

EUR '000

	On 01.01.2007	Exchange differences	Additions	Utilization	Releases	Other changes	Carrying amount 31.12.2007
Anniversary provisions	1,323	0	255	-177	-48	-1	1,351
Provisions for credit commitments and guarantees	17,981	29	8,973	-2,015	-11,955	0	13,013
Remaining provisions	17,356	2	15,948	-3,371	-4,016	-243	25,676
Total	**36,660**	**31**	**25,177**	**-5,563**	**-16,020**	**-244**	**40,041**

(81) Tax liabilities

EUR '000

	31.12.2007	31.12.2006
Current tax liabilities	35,336	37,934
Deferred tax liabilities	340,758	88,690
Total	**376,094**	**126,624**

(82) Liabilities in asset groups held for disposal

EUR '000

	31.12.2007	31.12.2006
Liabilities to credit institutions		31,054
Liabilities to customers		2,777
Provisions		231
Tax liabilities		1,033
Other liabilities		16,496
Total		**51,591**

(83) Other liabilities

EUR '000

	31.12.2007	31.12.2006
Deferred income	**375,273**	**138,660**
Accruals and other obligations	**368,044**	**348,182**
Negative market values of hedging instruments	**147,556**	**243,509**
of economic hedges (banking book)	46,816	167,243
of derivatives which were designated at fair value option (FVO)	100,740	76,266
Total	**890,873**	**730,351**

(84) Subordinated capital

EUR '000

	31.12.2007	31.12.2006
Subordinated liabilities	854,334	686,382
Supplementary capital	272,265	207,724
Hybrid capital	206,743	205,610
Total	**1,333,342**	**1,099,716**

Subordinated liabilities, respectively supplemental capital, includes liabilities designated at fair value through profit or loss in an amount of EUR 223,339 thousand (2006: EUR 222,938 thousand) (see also note (97)).

(85) Equity

EUR '000

	31.12.2007	31.12.2006
Shareholders' equity	**1,154,484**	**475,477**
Issued capital	48,367	37,026
Additional paid-in capital	940,337	239,769
Available for sale-reserves	-4,972	23,406
Foreign currency translation	359	-3,480
Retained earnings (incl. net consolidated income)	170,392	178,756
Minority interests	**504,588**	**400,439**
Total	**1,659,071**	**875,916**

The subscribed capital as of 31 December 2007 in an amount of EUR 48,367 thousand (2006: EUR 37,026 thousand) represents the equity capital of Hypo Alpe-Adria-Bank International AG. It is divided into 6,045,891 (2006: 4,628,290) bearer shares with voting rights.

The capital authorized by the shareholders' meeting consisting of 220,395 bearer shares with voting rights was subscribed by Berlin & Co Capital S.à.r.l. in the course of the capital increase in an extent of EUR 125,000 thousand (nominal) with effect as of 2 March 2007.

With effect as of 29 December 2007, a large-scale capital increase in an extent of EUR 600,000 thousand (nominal) (thereof EUR 9,578 thousand on the issued capital and EUR 590,422 thousand on additional paid-in capital) took place. The newly issued shares were fully subscribed by Bayerische Landesbank and Hypo-Bank Burgenland Aktiengesellschaft.

In the first half of 2007, Hypo Alpe-Adria-Bank International AG distributed a dividend of EUR 9,627 thousand for the fiscal year 2006 to its shareholders, i.e. EUR 2.08 per share. In 2008, the original shareholders of Hypo Alpe-Adria-Bank International AG will receive a dividend of EUR 50,000 thousand, i.e. EUR 10.31 per share, per 31 March 2007, following the approval of the shareholders' meeting.

Minority interests are: EUR 289 m or a 49 % minority stake in HBInt. Credit Management Limited, Jersey (held by an institutional investor), and EUR 200 m or a 31.75 % stake (2006: 26.83 %) of the preference shareholders in Hypo Alpe-Adria-Leasing Holding AG, Klagenfurt. Other third-party held minorities result from minority interests in certain group subsidiaries.

HBInt. Credit Management Limited, Jersey, Channel Islands was established in December 2005 and has been included by Hypo Group Alpe Adria in the consolidated financial statements by means of full consolidation since the beginning. Hypo Alpe-Adria-Bank International AG owns 51 % of the shares in this company, 49 % of the shares are held by an external financial investor. Initially, the company was endowed with equity in an amount of EUR 400 m, and in the reporting year 2007 it was again endowed with equity of EUR 400 m. With this capital, the wholly equity-financed company engages in long-term investments in high quality assets, which are handled by its two 100 % subsidiaries, Carinthia 1 and Carinthia 2. The income from the investments go to the shareholders of HBInt. Credit Management Limited in the proportion of their respective stakes.

Negative valuation results due to a downturn in the capital market for U.S. mortgage securities reduced the equity of the minority shareholders by EUR -103.9 m in total during financial year 2007. Thereof, EUR -102.9 m were passed through the income statement, and in the item minority interests in the result they were allocated to them accordingly. The 49 % share in the negative available for sale reserve of this company amounts to EUR -1.0 m.

In financial year 2004, Hypo Alpe-Adria-Leasing Holding AG, Klagenfurt issued 100,000 preference shares with a par value of EUR 1,000 each, therefore in total EUR 100 m. These were subscribed by outside investors (1st tranche/2004). In financial year 2006, there was a further issue of 100,000 preference shares with a total amount of EUR 100 m. These were entirely placed by September 2007 (2nd tranche/2006). The said preference shares feature a dividend certificate of 6 % (1st tranche/2004) resp. 6.25 % (2nd tranche/2006), to be disbursed by 30 April of the following year. The domestic Group holding company, Hypo Alpe-Adria-Bank International AG, has the unilateral right to announce the termination of these preference shares in the period 2009–2015.

Supplementary Information

(86) Breakdown of remaining contractual maturities

Breakdown of remaining terms to maturity as per 31.12.2007

	Daily due or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	458,242	2,150,643
Loans and advances to customers	1,532,930	1,307,999
Trading assets	84,373	9,921
Positive fair value from hedge accounting derivatives	0	0
Financial investments – designated at fair value through profit or loss	52,364	13,543
Financial investments – available for sale	855,764	148,622
Financial investments – held to maturity	0	0
Other assets	461,390	368,223
Liabilities to credit institutions	274,186	1,233,881
Liabilities to customers	3,021,516	1,170,826
Liabilities evidenced by certificates	811	862,905
Trading liabilities	267	7,751
Negative fair value from hedge accounting derivatives	0	0
Other liabilities	81,493	219,509
Subordinated capital	0	0

Breakdown of remaining terms to maturity as per 31.12.2006

	Daily due or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	1,839,604	776,406
Loans and advances to customers	1,159,341	1,341,091
Trading assets	48,433	84,925
Financial investments – designated at fair value through profit or loss	87,009	14,450
Financial investments – available for sale	367,855	74,949
Financial investments – held to maturity	0	21,446
Other assets	441,690	100,444
Liabilities to credit institutions	223,285	973,633
Liabilities to customers	1,852,544	897,665
Liabilities evidenced by certificates	33,415	391,553
Liabilities in asset groups held for disposal	0	0
Other liabilities	174,527	193,277
Subordinated capital	10,060	2,634

The remaining term to maturity is the period between the balance sheet date and the time of the contractually defined maturity of the loan or liability. Where loans or liabilities fall due in partial amounts, the remaining term to maturity is reported separately for each partial amount.

EUR '000

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	Total
158,219	1,110,815	54,854	**3,932,772**
3,317,951	9,575,447	9,916,409	**25,650,736**
3,355	16,985	12,529	**127,163**
3,368	67,568	85,685	**156,621**
21,131	118,351	1,179,078	**1,384,468**
363,908	821,266	545,910	**2,735,469**
793	5,904	35,873	**42,570**
174,096	355,534	38,225	**1,397,467**
199,700	1,359,786	1,389,409	**4,456,962**
1,248,460	1,076,998	1,955,775	**8,473,574**
451,759	6,878,860	12,088,245	**20,282,581**
426	1	0	**8,444**
1,211	106,971	284,414	**392,596**
195,224	114,216	280,432	**890,873**
0	262,498	1,070,843	**1,333,341**

EUR '000

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	Total
387,520	24,648	46,402	**3,074,580**
2,229,123	8,231,555	7,534,742	**20,495,852**
2,335	21,872	5,008	**162,574**
36,975	128,794	1,270,423	**1,537,651**
292,367	917,128	725,918	**2,378,217**
420	1,831	40,449	**64,147**
101,303	298,134	50,932	**992,503**
440,191	698,504	1,336,326	**3,671,941**
1,142,469	1,124,757	1,609,063	**6,626,498**
714,477	4,496,434	11,968,812	**17,604,691**
51,591	0	0	**51,591**
112,102	42,409	208,036	**730,351**
0	42,477	1,044,546	**1,099,714**

(87) Deferred taxes

For the following items, deferred tax assets (tax receivable), respectively deferred tax liabilities (tax payable), are recorded on differences between the carrying amount for tax purposes and the IFRS valuation:

(87.1) Deferred tax assets – tax amount

EUR '000

	31.12.2007	31.12.2006
Loans and advances to credit institutions	6,908	7,661
Loans and advances to customers	8,805	2,111
Risk provisions on loans and advances	10,005	11,330
Trading assets	97	52
Financial investments	36,801	6,718
Tangible assets	874	373
Intangible assets	118	644
Other assets	96,372	1,703
Tax losses carried forward	196,639	86,888
Liabilities to credit institutions	0	596
Liabilities to customers	0	12
Trading liabilities	133	129
Provisions	1,066	1,410
Other liabilities	145,743	81,359
Subordinated capital	0	197
Total	**503,561**	**201,183**

Of the reported deferred taxes, EUR 196,639 thousand (2006: EUR 86,888 thousand) result from the capitalization of tax claims due to utilizable tax losses carried forward. Deferred tax assets of EUR 20,378 thousand (2006: EUR 8,917 thousand) from tax losses carried forward and valuation differences (in each case tax amount) were not capitalized as there is no possibility of utilization by the respective group companies.

In the year under review, deferred taxes on valuation results of available for sale financial instruments that do not affect net income were reported directly in the equity. In financial year 2007, the change of equity-included deferred taxes not affecting net income amounts to EUR 8,975 thousand (2006: EUR -719 thousand).

The deferred tax resulting from the initial consolidation of the subsidiaries listed in note (4) was also considered in the consolidated financial statements without affecting net income.

(87.2) Deferred tax liabilities – tax amount

EUR '000

	31.12.2007	31.12.2006
Loans and advances to credit institutions	11	438
Loans and advances to customers	9,261	15,958
Risk provisions on loans and advances	17,373	7,929
Trading assets	129	210
Financial investments	50,436	18,220
Tangible assets	7,001	2
Intangible assets	3,882	1,533
Other assets	61,383	7,090
Liabilities to credit institutions	13,993	2,616
Liabilities to customers	2,331	14
Liabilities evidenced by certificates	122,590	27,659
Provisions	1,556	89
Other liabilities	46,490	2,057
Subordinated capital	14,322	4,875
Total	**340,758**	**88,690**

(88) Finance leases

Receivables under finance leases are included in loans and advances to credit institutions respectively to customers. They break down as follows:

EUR '000

	31.12.2007	31.12.2006
Gross investment in the lease	**7,195,679**	**5,384,987**
Minimum lease payments	7,195,679	5,368,129
up to 1 year	1,243,348	911,285
from 1 year up to 5 years	3,033,182	2,459,110
over 5 years	2,919,149	1,997,734
Unguaranteed Residual Value	0	16,859
Unrealized financial income	**1,772,018**	**1,094,362**
up to 1 year	278,222	192,355
from 1 year up to 5 years	712,961	515,839
over 5 years	780,836	386,169
Net investment in the lease	**5,423,661**	**4,290,625**

The cumulated risk provision for uncollectible outstanding minimum leasing payments for 2007 is EUR -32,138 thousand (2006: EUR -37,273 thousand).

Assets let under finance leases broke down as follows:

EUR '000

	31.12.2007	31.12.2006
Real estate leasing	3,152,891	2,557,966
Motorcar leasing	1,210,833	951,207
Ship leasing	132,245	95,442
Other moveables leasing	927,691	686,010
Total	**5,423,661**	**4,290,625**

(89) Operating leases

The future minimum lease payments from operating leasing relationships without termination possibility are as follows for each of the following years:

EUR '000

	31.12.2007	31.12.2006
up to 1 year	113,672	98,748
from 1 year to 5 years	298,026	254,201
more than 5 years	166,361	212,284
Total	**578,059**	**565,233**

The breakdown by let assets of minimum lease payments from operating leasing relationships without early cancellation rights is as follows:

EUR '000

	31.12.2007	31.12.2006
Real estate leasing	334,428	319,507
Motorcar leasing	223,332	219,619
Ship and other moveables leasing	20,298	26,106
Total	**578,058**	**565,232**

(90) Borrowing costs

Hypo Group Alpe Adria capitalises borrowing costs for qualified assets according to IAS 23. Essentially, qualified assets comprise of third-party used buildings under construction held as investment properties that are subsequently let within the scope of an operating lease.

The following overview presents the interest expenses capitalised during the years under review as well as the applied financing cost rates.

EUR '000

	31.12.2007	31.12.2006
Borrowing costs capitalized during the period	7,960	5,395
Financing cost rate	4.10 %	3.50 %

(91) Assets / liabilities in foreign currency

The balance sheet total includes the following amounts in foreign currency:

EUR '000

	31.12.2007	31.12.2006
Assets	12,769,112	10,270,610
Liabilities	8,926,071	7,233,438

(92) Fiduciary transactions

On the reporting date, the following off-balance fiduciary transactions with the following amounts had been concluded:

EUR '000

	31.12.2007	31.12.2006
Loans and advances to credit institutions	0	41,439
Loans and advances to customers	172,900	67,687
Fiduciary assets	**172,900**	**109,126**
Liabilities to credit institutions	172,900	67,687
Liabilities to customers	0	41,439
Fiduciary liabilities	**172,900**	**109,126**

(93) Repurchase agreements

At the end of the year, the following repurchase respectively reverse repurchase commitments from repurchase operations existed:

EUR '000

	31.12.2007	31.12.2006
Liabilities to credit institutions	239,624	269,984
Liabilities to customers	129,417	31,825
Repurchase agreements	**369,041**	**301,809**

EUR '000

	31.12.2007	31.12.2006
Loans and advances to credit institutions	16,189	0
Loans and advances to customers	6,936	11,972
Reverse repurchase agreements	**23,125**	**11,972**

(94) Assets given as collateral

Assets in an amount of EUR 145 thousand (2006: EUR 170 thousand) were transferred to third parties as collateral for own debts. These assets continue to be shown in the balance sheet of Hypo Group Alpe Adria.

(95) Subordinated assets

The following assets shown in the balance sheet are subordinated:

EUR '000

	31.12.2007	31.12.2006
Loans and advances to credit institutions	121,165	200,958
Loans and advances to customers	12,661	4,016
Financial investments – designated at fair value through profit or loss	6,533	6,560
Financial investments – available for sale	33,486	49,497
Total	**173,844**	**261,031**

(96) Contingent liabilities and other off-balance sheet items

The following contingent liabilities and off-balance sheet items existed on the balance sheet date:

EUR '000

	31.12.2007	31.12.2006
Contingent liabilities	**1.715.015**	**1.246.885**
Credit guarantees	1.111.423	750.907
Letters of credit	39.579	77.848
Other guarantees	283.955	292.790
Other contingent liabilities	280.058	125.340
Other commitments	**2.917.752**	**2.200.431**
Irrevocable credit commitments	2.443.608	2.030.427
Other obligations	474.144	170.005
Total	**4.632.767**	**3.447.316**

Other obligations include obligations from the acquisition respectively construction of investment properties and tangible assets in an amount of EUR 386,529 thousand (2006: EUR 170,005 thousand).

(97) Balance sheet according to IAS 39 – measurement categories

On 31 December 2007 the breakdown of the balance sheet according to the measurement categories of IAS 39 is as follows:

EUR '000

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedges	financial assets / liabilities at (amortised) cost	31.12.2007
Cash and balances with central banks							997,864	**997,864**
Loans and advances to credit institutions	3,099,998						832,774	**3,932,772**
Loans and advances to customers	25,650,736							**25,650,736**
Risk provisions on loans and advances	-705,266							**-705,266**
Trading assets		127,163						**127,163**
Positive fair value from hedge accounting derivatives						156,621		**156,621**
Financial investments – afvtpl			1,384,468					**1,384,468**
Financial investments – afs				2,735,469				**2,735,469**
Financial investments – htm					42,570			**42,570**
Investments in companies accounted for at equity							21,948	**21,948**
Other assets / banking book derivatives		35,596						**35,596**
Other financial assets				8,984			211,676	**220,660**
Total financial assets	**28,045,468**	**162,759**	**1,384,468**	**2,744,453**	**42,570**	**156,621**	**2,064,262**	**34,600,601**
Liabilities to credit institutions	4,456,962							**4,456,962**
Liabilities to customers	8,432,927		40,647					**8,473,574**
Liabilities evidenced by certificates	18,591,000		1,691,581					**20,282,581**
Trading liabilities		8,444						**8,444**
Negative fair value from hedge accounting derivatives						392,596		**392,596**
Subordinated capital	1,110,003		223,339					**1,333,342**
Other liabilities / banking book derivatives		46,816						**46,816**
Other liabilities / FVO derivatives			100,740					**100,740**
Other financial liabilities							743,317	**743,317**
Total financial liabilities	**32,590,892**	**55,260**	**2,056,307**	**0**	**0**	**392,596**	**743,317**	**35,838,372**

Explanations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit or loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

On 31 December 2006 the breakdown of the balance sheet according to the measurement categories of IAS 39 is as follows:

EUR '000

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedges	financial assets / liabilities at (amortised) cost	31.12.2007
Cash and balances with central banks							931,447	**931,447**
Loans and advances to credit institutions	2,207,134						867,446	**3,074,580**
Loans and advances to customers	20,495,852							**20,495,852**
Risk provisions on loans and advances	-488,235							**-488,235**
Trading assets		162,574						**162,574**
Positive fair value from hedge accounting derivatives						161,182		**161,182**
Financial investments – afvtpl			1,537,651					**1,537,651**
Financial investments – afs				2,331,419				**2,331,419**
Financial investments – htm					64,147			**64,147**
Investments in companies							4,597	**4,597**
accounted for at equity	4,325			13,336			9,659	**27,320**
Other assets / banking book derivatives		35,596						**35,596**
Other financial assets				13,420			132,928	**146,348**
Total financial assets	22,219,076	198,170	1,537,651	2,358,175	64,147	161,182	1,946,077	**28,484,478**
Liabilities to credit institutions	3,671,941							**3,671,941**
Liabilities to customers	6,584,000		42,498					**6,626,498**
Liabilities evidenced by certificates	15,717,691		1,887,000					**17,604,691**
Trading liabilities		8,571						**8,571**
Negative fair value from						149,497		**149,497**
hedge accounting derivatives	33,831						16,496	**50,327**
Subordinated capital	876,778		222,938					**1,099,716**
Other liabilities / banking book derivatives		167,243						**167,243**
Other liabilities / FVO derivatives			76,266					**76,266**
Other financial liabilities							486,842	**486,842**
Total financial liabilities	**26,884,241**	**175,814**	**2,228,702**	**0**	**0**	**149,497**	**503,338**	**29,941,592**

Explanations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit or loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

(98) Loans and advances as well as financial liabilities designated at fair value

As of 31 December 2007, the maximum potential default risk for loans and advances designated at fair value affecting income statement is EUR 629,009 thousand (2006: EUR 697,288 thousand). The change in the fair value that ist attributable to changes in the credit risk is EUR -686 thousand in financial year 2007 (2006: EUR 863 thousand), since the designation the cumulated change amounts to EUR 177 thousand.

The solvency-induced fair value changes were estimated by calculating differences, compared with 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.

Solvency-induced fair value changes concerning financial liabilities accounted at fair value did not occur either in the year under review or during the previous year as the issues debt are covered by the Statutory guarantee of the Province of Carinthia.

There is a difference of EUR 86,922 thousand (EUR 107,537 thousand) between the carrying amount of the financial liabilities accounted for at fair value and the repayment amount at maturity.

(99) Fair value information

The fair value is the amount at which an asset could change hands if knowledgeable and independent parties, each willing to conclude a contract, decided to conclude a transaction.

The following compares the carrying amounts with the fair values of the reported financial instruments.

EUR '000

	31.12.2007			31.12.2006		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	3,932,772	3,932,772	0	2,207,132	2,207,135	-3
Loans and advances to customers	25,632,992	25,650,736	-17,744	20,522,072	20,495,852	26,220
Financial investments – held to maturity	41,314	42,570	-1,256	64,835	64,147	688
Other financial investments (investment properties)	1,003,188	960,064	43,125	740,761	705,890	34,871
Total	**30,610,266**	**30,586,141**	**24,125**	**23,534,800**	**23,473,024**	**61,776**
Liabilities						
Liabilities to credit institutions	4,458,765	4,456,962	1,803	3,671,941	3,671,941	0
Liabilities to customers	8,469,504	8,473,574	-4,070	6,629,775	6,626,498	3,277
Liabilities evidenced by certificates	20,282,914	20,282,581	334	17,635,519	17,604,691	30,828
Subordinated capital	1,131,325	1,126,599	4,726	1,103,901	1,099,716	4,185
Total	**34,342,509**	**34,339,715**	**2,794**	**29,041,136**	**29,002,845**	**38,291**

Where available, quotations or prices on other representative markets (Reuters, Bloomberg, etc.) for the corresponding financial instruments were 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 cash value models.

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 variable interest rate is required. As the carrying amount of the loans and advances already takes into account market changes within the meaning of market interest rate changes, the difference between the carrying amount and the fair value is not substantial, and the fair values were not estimated separately.

Within the scope of hedge accounting, Hypo Group 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 balance sheet in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value assignable to the hedged part of the loan. The hedge is to minimize above all the market value risk caused by interest rate changes.

With regard to change-of-interest-rate risk hedging, 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 Group Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

(100) Derivative financial instruments

As of the balance sheet date, the following business had not been transacted yet:

EUR '000

	31.12.2007			31.12.2006		
	Nominal amounts	Fair values		Nominal amounts	Fair values	
		Positive	Negative		Positive	Negative
a) Interest-related business						
OTC products:						
Interest rate swaps	16,886,978	299,705	469,159	16,193,752	362,092	**364,622**
Forward rate agreements (FRAs)	166,077	0	153	895,208	839	**514**
Interest options	10,000	0	0	258,781	91	**803**
Caps, floors	5,000	101	0	0	0	0
Other interest derivatives	48,723	2,469	2,281	0	0	**0**
b) Currency-related business						
Exchange traded products:						
Foreign exchange futures	151,847	329	335	0	0	**0**
OTC products:						
Currency swaps	2,793,452	50,931	58,239	851,110	35,740	17,975
Cross currency swaps	1,888,348	3,479	8,815	2,032,455	6,267	13,169
Forward exchange contracts – purchase contracts	292,407	1,672	945	56,264	211	186
Forward exchange contracts – sales contracts	189,606	161	2,975	56,264	95	96
Currency swaptions	132,903	514	484	14,077	0	0
c) Transactions linked to share prices & other indices						
Exchange traded products:						
Share / index linked options	54,259	2,863	4,414	32,492	542	4,185
d) Credit linked derivatives						
OTC products:						
Credit default swaps	104,632	49	796	145,310	271	26
Total return swaps	254,000	10,186	0	254,000	3,674	0

Most derivative transactions serve the purpose of hedging interest rate, foreign currency rate or market price fluctuations. In most cases, microhedges were relied upon to hedge individual transactions on the assets and liabilities side directly. With regard to the statement and measurement of the derivatives, reference is made to note (8) and (9).

(101) Related party disclosures

The business relations with related parties as of the cut-off date are disclosed for the balance sheet as follows:

EUR '000

Balance as of 31.12.2007	Parent company	Companies with substantial influence	Affiliated companies	Associated companies	Joint Ventures	Key management personnel
Total assets	**15,076**	**34,069**	**103,664**	**208,634**	**100,154**	**4,916**
Loans and advances to credit institutions	15,066	17,192	0	17,865	0	0
Loans and advances to customers	0		129,698	215,740	102,309	4,916
Risk provisions	0		-26,101	-25,000	-2,161	0
Other assets	10	16,877	68	30	5	0
Total liabilities	**169,844**	**75,169**	**13,534**	**203,150**	**14**	**2,217**
Liabilities to credit institutions	169,844	17,576	0	196,746	0	0
Liabilities to customers	0	44,364	13,529	6,404	14	2,217
Other financial liablilities	0	13,229	5	0	0	0

EUR '000

Balance as of 31.12.2006	Companies with substantial influence	Affiliated companies	Associated companies	Joint Ventures	Key management personnel
Total assets	**74,488**	**148,497**	**231,974**	**9,004**	**1,797**
Loans and advances to credit institutions	18,093	0	0	0	0
Loans and advances to customers	30,174	168,111	233,393	9,004	1,797
Risk provisions	0	-19,713	-1,442	0	0
Other assets	26,221	99	23	0	0
Total liabilities	**26,577**	**1,609**	**3,426**	**0**	**1,087**
Liabilities to credit institutions	20,289	0	0	0	0
Liabilities to customers	35	1,609	3,426	0	1,087
Other financial liablilities	9,835	0	0	0	0

Since 9 October 2007 (closing date), Bayerische Landesbank (BayernLB) has had a controlling influence over Hypo Group Alpe Adria. Consequently, business relations with the companies of the BayernLB Group are reported in 2007 as transactions with the parent company.

Companies with substantial influence in 2007 and 2006 are Hypo-Bank Burgenland AG (respectively its parent company, Grazer Wechselseitige Versicherung AG), Kärntner Landes- und Hypothekenbank-Holding, Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation) as well as Berlin & Co Capital S.à.r.l.

Affiliated companies are understood to be those direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG that are not consolidated in the consolidated financial statements because their importance is negligible.

Key management personnel are defined as Executive Board members of subsidiary banks and the Executive Board members of significant leasing companies as well as the division managers of Hypo Alpe-Adria-Bank International AG.

During financial year 2007, the allocations to the risk provisions on loans and advances (with impact on the income statement) concerning loans to affiliated but not consolidated subsidiaries amount to EUR -3,371 thousand (2006: EUR -15,681 thousand). In financial year 2007, the expenses associated with the provision on loans to affiliated companies amount to EUR -25,000 thousand (2006: EUR -1,437 thousand).

The Province of Carinthia is guarantor for certain commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) entered into prior to 1 April 2007. In return for the statutory guarantee and with respect to the commitments covered by it, the Province of Carinthia is paid a guarantee commission in an amount of 1 per mille p.a. of the outstanding amount. In the years 2004 and 2005, the Province of Carinthia was paid guarantee commission advances for the periods 2004 to 2007 respectively 2005 to 2010, namely EUR 52,233 thousand in total, the relevant amounts having been estimated on discounted basis applying the then applicable interest curves. As of 31 December 2007, the amount of the capitalized advance payments was EUR 16,877 thousand (2006: EUR 26,221 thousand) and is shown in the balance sheet in the item other assets.

Loans and advances to companies accounted for at equity are shown in the following table in loans and advances to associated companies and joint ventures.

The relationships to members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (107).

(102) Statutory guarantee

The guarantee of the Province of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and the Hypo Alpe-Adria Bank AG (Austria) is a statutory guarantee pursuant to Section 1356 of the Austrian Civil Code.

The European Commission considered that the original guarantee of the Province, which had been unlimited with regard to its term of validity and/or amount, constituted a governmental subsidy within the meaning of Article 88 of the ECC. Consequently, the Carinthian State Holding Law (K-LHG) had to be amended. At present, the Province of Carinthia continues to act as the guarantor for the commitments of the two domestic issuers entered into prior to 3 April 2003. With regard to these commitments, the statutory guarantee according to Section 1356 of the Civil Code is still extended without any restriction.

For commitments entered into by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) from 3 April 2003 until 1 April 2007, the Province of Carinthia provides a statutory guarantee to the extent that the term of the commitment does not exceed 30 September 2017. The Province does not offer any guarantee for liabilities entered into after 1 April 2007.

(103) Own capital funds according to the Banking Act

The group's own capital funds was determined according to the provisions of the Austrian Banking Act (BWG). It is composed as follows:

EUR '000

	31.12.2007	31.12.2006
Core capital (TIER 1)	**1,769,361**	**1,178,210**
Paid-in capital	48,367	37,026
Reserves (incl. minority interests in equity and hybrid capital)	1,753,659	1,173,084
Funds for general banking risks	700	700
Intangible assets	-33,365	-32,600
Supplementary elements (TIER 2)	**1,106,653**	**803,460**
Supplementary capital	203,179	186,355
Revaluation reserve for real estate (weighted with 45 %)	18,793	28,000
Subordinated liabilities	884,681	589,105
Deductions pursuant to Section 23 (13) of the Banking Act	**-39,696**	**-16,698**
TIER 3 (reclassified TIER 2 capital)	**35,900**	**24,814**
Own capital funds acc. to BWG	**2,872,218**	**1,989,786**
Own capital funds requirement acc. to BWG	**2,295,630**	**1,785,606**
Surplus capital	**576,588**	**204,180**
Coverage	125.1 %	111.4 %

EUR '000

	31.12.2007	31.12.2006
Assessment basis banking book (risk-weighted):	**28,246,620**	**22,009,904**
Core capital ratio (TIER 1 ratio)	6,3 %	5,4 %
Own capital funds ratio	10,2 %	9,0 %
Assessment basis incl. market risk:	**28,695,370**	**22,320,079**
Core capital ratio (TIER 1 ratio)	6.2 %	5.3 %
Own capital funds ratio (solvency ratio)	10.0 %	8.9 %

EUR '000

	31.12.2007	31.12.2006
Risk-weighted assessment basis pursuant to Section 22 of the Banking Act (banking book)	**28,246,620**	**22,009,904**
thereof 8 % capital requirement	2,259,730	1,760,792
Capital requirement pursuant to Section 22b of the Banking Act (securities trading book)	104	2,486
Capital requirement pursuant to Section 26 of the Banking Act (open foreign exchange position)	35,796	22,328
Total own capital funds requirement	**2,295,630**	**1,785,606**

In the financial year under review 2007 Hypo Group Alpe Adria was in compliance with the minimum capital requirements according to the Austrian Banking Act.

(104) Important law cases

The "DAB" case

In connection with the purchase of shares in Slavonska Banka d.d. Osijek (SBO) in 1998/99, in September 2003 Hypo Alpe-Adria-Bank International AG brought an action in the London Court of International Arbitration (LCIA) against the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) after its attempts to find an understanding and the corresponding negotiations with the Croatian authorities had failed. The complaint is based on the violation of the share purchase agreement concluded by and between the claimant and DAB, as the National Bank of Croatia found subsequently that the allocations to the risk provisions for bad and doubtful debts had been insufficient. As a consequence, Hypo Alpe-Adria-Bank International AG suffered a loss, requiring the injection of additional capital to comply with the local capital adequacy regulations.

Corresponding with the complaint filed by Hypo-Alpe-Adria International AG, DAB in turn initiated a redress procedure against Slavonska Banka d.d. Osijek at the LCIA to gain compensation from the relevant group company of Hypo Group Alpe Adria for all payments to be made by it. At present, this procedure is dormant.

As of 27 December 2007, the LCIA delivered its final non-appealable verdict in the first-mentioned proceedings, awarding claimant Hypo Alpe-Adria-Bank International AG damages in an amount of EUR 30.6 m. In addition, the claimant was awarded interest on this amount from March 1999 and the replacement of a part of the costs incurred by it, which was also reported in the consolidated financial statements 2007, affecting net income.

The Board of Hypo Group Alpe Adria is confident that it will be able to bring about a final and consensual solution with the Republic of Croatia in 2008.

(105) Employees

The number of employees at closing date (headcount) and as an annual average (in full-time equivalents) amounted to:

	31.12.2007	31.12.2006
Employees at closing date	**7,447**	**6,468**
thereof in Austria	1,272	1,078
thereof abroad	6,175	5,390
Employees average	**7,135**	**6,108**
thereof in Austria	1,168	995
thereof abroad	5,967	5,113

Without apprentices and employees on unpaid leave

(106) Severance pay, pension payments

The outlay of the parent company for severance pay and pension payments in 2007 is indicated in the following table:

EUR '000

	2007	2006
Senior employees	52	-33
Other employees	695	345
Total	**747**	**312**

(107) Relationship with members of management bodies

(107.1) Advances, loans and guarantees in respect of members of management bodies

At balance sheet date, the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG had not received any advances, loans and guarantees from this bank.

The account relationships between the management bodies of the Austrian Group holding company and Hypo Alpe-Adria-Bank AG (Austria) are common. As of 31 December 2007, the loans and advances to members of the Executive Board amounted to EUR 283 thousand, respectively from members of the Supervisory Board to EUR 426 thousand. The liabilities to members of the Executive Board amounted to EUR 404 thousand, respectively to members of the Supervisory Board to EUR 371 thousand.

Furthermore, two members of the Executive Board have valid finance lease contracts with a group leasing company; the total accounts receivable under these leases as of 31 December 2007 is EUR 101 thousand.

(107.2) List of compensations of members of management bodies of the parent company

The compensations of the members of the Executive Board respectively Supervisory Board of Hypo Alpe-Adria-Bank International AG received in their capacities from the latter or from another group company are as follows:

EUR '000

	2007	2006
Executive Board	**2,562**	**2,513**
fixed	1,502	1,708
variable	1,060	805
Supervisory Board	**369**	**157**
Remuneration of former members of the Executive and Supervisory Board and their surviving dependants	**617**	**3,135**
Total	**3,548**	**5,805**

The members of the Executive Board and the Supervisory Board acting in this capacity during the year under review are stated in note (108).

(108) Management bodies 1 January to 31 December 2007

Supervisory Board

Chairman:
Wolfgang KULTERER, St. Veit, until 09 Oct 2007
Werner SCHMIDT, Munich, since 09 Oct 2007 *)

1st Deputy Chairman:
Othmar EDERER, Graz

2nd Deputy Chairman:
Hans-Jörg MEGYMOREZ,
Klagenfurt-Wölfnitz, since 31 May 2007

Members:
Karl-Heinz MOSER, Vienna, until 31 May 2007
Gerd PENKNER, Klagenfurt, until 31 May 2007
Günther PUCHTLER, Graz, until 31 May 2007
Veit SCHALLE, Vienna, until 31 May 2007
Christoph SCHASCHÉ, Klagenfurt, until 09 Oct 2007
Siegfried GRIGG, Graz, since 01 June 2007
Mathias HINK, London, from 01 June until 09 Oct 2007
Gert XANDER, Klagenfurt, since 01 June 2007
Siegfried NASER, since 09 Oct 2007
Kurt FALTLHAUSER, Munich, since 09 Oct 2007
Rudolf HANISCH, Munich, since 09 Oct 2007

Appointed by the Works Council:
Erich CLIMA, Chairman, Klagenfurt
Edith ENENGEL, Klagenfurt
Mag. Mario ZOLLE, Klagenfurt
Birgit GRASCHER, Pischeldorf, until 15 Nov 2007
Markus RUSSLING, Klagenfurt, since 16 Nov 2007

Federal Supervisory Authorities

State commissioner:
Sabine KANDUTH-KRISTEN, Klagenfurt, until 30 April 2007
Angelika SCHLÖGEL, Vienna, since 01 July 2007

Deputy state commissioner:
Monika HUTTER, Vienna

Province – Supervisory function

Jörg HAIDER, Governor of the Province of Carinthia, Klagenfurt
Horst FELSNER, Klagenfurt

Trustee:
Herbert PÖTZ,
Judge of the Provincial Court, Klagenfurt

Deputy trustee:
Helmut ARBEITER,
Judge of the Provincial Court, Klagenfurt

Executive Board

Tilo BERLIN, Chairman of the Executive Board, Maria Saal, since 01 June 2007
Siegfried GRIGG, Chairman of the Executive Board, Graz, until 31 May 2007
Thomas MORGL, MBA, Member of the Executive Board, Viktring
Josef KIRCHER, Member of the Executive Board, Liebenfels
Paul A. KOCHER, Member of the Executive Board, Vienna
Wolfgang PETER, Member of the Executive Board, Breitenbrunn

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*) Resigned from his function as Chairman of the Supervisory Board as per 1 March 2008. At the Supervisory Board meeting on 30 April 2008, a new Supervisory Board Chairman of Hypo Alpe-Adria-Bank International AG will be elected.

(109) Material group companies as of 31 December 2007

Hypo Alpe-Adria-Bank International AG

- HYPO ALPE-ADRIA-BANK AG
Klagenfurt
- HYPO ALPE-ADRIA-BANK S.p.A.
Udine
- HYPO ALPE-ADRIA-BANK d.d.
Ljubljana
- HYPO ALPE-ADRIA-BANK d.d.
Zagreb
- SLAVONSKA banka d.d.
Osijek
- HYPO ALPE-ADRIA-BANK A.D.
Banja Luka
- HYPO ALPE-ADRIA-BANK d.d.
Mostar
- HYPO ALPE-ADRIA-BANK A.D.
Beograd
- HYPO ALPE-ADRIA-BANK A.D.
Podgorica

- HYPO ALPE-ADRIA-LEASING HOLDING AG
Klagenfurt
  - HYPO ALPE-ADRIA-LEASING GMBH
Klagenfurt
  - HYPO ALPE-ADRIA-LEASING S.R.L.
Udine
  - HYPO LEASING d.o.o.
Ljubljana
  - HYPO-LEASING KROATIEN d.o.o.
Zagreb
  - HYPO-ALPE-ADRIA-LEASING d.o.o.
Sarajevo
  - HYPO ALPE-ADRIA-LEASING DOO
Beograd
  - HYPO ALPE-ADRIA-LEASING D.O.O.
Podgorica
  - HYPO ALPE-ADRIA-LEASING GmbH
München
  - HYPO ALPE-ADRIA LEASING EOOD
Sofia
  - HYPO ALPE-ADRIA-LEASING Zrt.
Budapest
  - HYPO ALPE-ADRIA-LEASING DOOEL
Skopje
  - HYPO ALPE-ADRIA-RENT DOO
Beograd
  - HYPO ALPE-ADRIA-LEASING TOV
Kiev
  - HYPO ULAGANJA d.o.o.
Zagreb

- HYPO VERMÖGENSVERWALTUNG GmbH
Klagenfurt (100 %*) → HYPO ALPE-ADRIA-LEASING HOLDING AG)
  - HYPO ALPE-ADRIA-BETEILIGUNGEN GmbH
Klagenfurt
- HYPO ALPE-ADRIA IMMOBILIEN AG
Klagenfurt
  - HYPO FACILITY SERVICES GmbH
Klagenfurt **)
- KÄRNTNER HOLDING BETEILIGUNGS-AG
Klagenfurt
- HYPO ALPE ADRIA IT Holding GmbH
Klagenfurt

*) 100 % of voting rights; 68.25 % directly or indirectly owned by the Group. Remaining interest: non-voting preference shares

**) 70 % owned by AAI; 15 % each owned by the two Austrian group banks

(110) Scope of consolidation as of 31 December 2007

The consolidated financial statements according to IFRS as per 31 December 2007 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG according to the full consolidation method:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	100 %	100 %	31.12.2007	KI
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100 %	100 %	31.12.2007	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100 %	100 %	31.12.2007	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100 %	100 %	31.12.2007	KI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
MAGUS d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
ALPE ADRIA CENTAR d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100 %	100 %	31.12.2007	FI
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	100 %	100 %	31.12.2007	FI
PROJEKT NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
Slavonska banka d.d. Osijek	Osijek	100 %	100 %	31.12.2007	KI
HYPO ALPE-ADRIA-BANK d.d.	Mostar	99.998 %	99.998 %	31.12.2007	KI
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	100 %	99.998 %	31.12.2007	FI
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice doo Sarajevo	Sarajevo	100 %	99.998 %	31.12.2007	WP
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	99.600 %	31.12.2007	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	99.903 %	99.903 %	31.12.2007	KI
BROKERSKO-DILERSKO DRUSTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	100 %	99.903 %	31.12.2007	WP
Hypo Alpe-Adria Jersey Ltd.	St.Helier	100 %	100 %	31.12.2007	FI
Hypo Alpe-Adria (Jersey) II Ltd.	St.Helier	100 %	100 %	31.12.2007	FI
HBInt. Credit Management Limited	St.Helier	51 %	51 %	31.12.2007	FI
Carinthia I Limited	St.Helier	100 %	51 %	31.12.2007	FI
Carinthia II Limited	St.Helier	100 %	51 %	31.12.2007	FI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.60 %	99.873 %	31.12.2007	KI
Hypo Group Netherland Holding B.V.	Amsterdam	100 %	100 %	31.12.2007	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100 %	100 %	31.12.2007	FI
Hypo Group Netherlands Finance B.V.	Amsterdam	100 %	100 %	31.12.2007	FI
HYPO ALPE-ADRIA-LEASING HOLDING AG	Klagenfurt	68.25 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	100 %	68.25 %	31.12.2007	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	100 %	68.25 %	31.12.2007	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt	100 %	68.25 %	31.12.2007	FI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	100 %	68.25 %	31.12.2007	FI
HYPO Wohnbau GmbH	Klagenfurt	100 %	68.25 %	31.12.2007	FI
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	100 %	68.25 %	31.12.2007	FI
HYPO Projektentwicklungs GmbH	Klagenfurt	100 %	68.25 %	31.12.2007	HI
HYPO ALPE-ADRIA-LEASING S.R.L.	Udine	100 %	68.25 %	31.12.2007	FI
HYPO LEASING d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	FI

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type
HYPO CENTER - 3 d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	SU
DOSOR d.o.o. (vormals Hypo Rozna d.o.o.)	Radenci	50 %	34.13 %	31.12.2007	SU
MM SIGMA d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	SU
NAGELE NEPREMICNINE d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	SU
HYPO CENTER - 2 d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	SU
VIVATINVEST d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	SU
HYPO PC d.o.o.	Ljubljana	100 %	68.25 %	31.12.2007	SU
S.P.C. 03 d.o.o.	Ljubljana	67 %	45.73 %	31.12.2007	SU
MM THETA d.o.o	Ljubljana	100 %	68.25 %	31.12.2007	SU
MM ZETA d.o.o	Ljubljana	100 %	68.25 %	31.12.2007	SU
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	FI
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	HI
JADRAN JAHTE d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	FI
HYPO CENTAR SIBENIK d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	SU
ALFA CAR PROJEKT d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	SU
NIVA GRADNJA d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	SU
BETA NEKRETNINE d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100 %	68.25 %	31.12.2007	SU
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	100 %	68.25 %	31.12.2007	FI
HYPO HOUSE D.O.O. - PODGORICA	Podgorica	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	100 %	68.25 %	31.12.2007	HI
HYPO ALPE-ADRIA-LEASING GmbH	Munich	100 %	68.25 %	31.12.2007	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	100 %	68.25 %	31.12.2007	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	100 %	68.25 %	31.12.2007	FI
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100 %	68.25 %	31.12.2007	FI
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6 %	4 %	31.12.2007	FI
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100 %	68.25 %	31.12.2007	FI
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Munich	0 % (VR 51 %)	0 % (VR 51 %)	31.12.2007	FI
HYPO Alpe-Adria Leasing Zrt.	Budapest	100 %	68.25 %	31.12.2007	FI
HYPO Alpe-Adria Leasing Kft.	Budapest	100 %	68.25 %	31.12.2007	FI
HYPO INGATLAN Kft.	Budapest	100 %	68.25 %	31.12.2007	SU
ORGOVANYI IMMO Ingatlanforgalmazo Kft.	Budapest	100 %	68.25 %	31.12.2007	SU
HYPO ALPE-ADRIA-LEASING EOOD	Sofia	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100 %	68.25 %	31.12.2007	FI
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO AC ADA DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type
HYPO RK ALEKSANDAR DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO PP CENTAR DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO ALFA DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO BETA DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO GAMA DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO DELTA DOO BEOGRAD	Belgrade	100 %	68.25 %	31.12.2007	SU
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100 %	68.25 %	31.12.2007	FI
HYPO Consultants Holding GmbH	Klagenfurt	100 %	100 %	31.12.2007	HI
HYPO Alpe-Adria-Consultants AG	Schaan	100 %	100 %	31.12.2007	HI
HYPO ALPE-ADRIA CONSULTANTS S.R.L.	Udine	100 %	100 %	31.12.2007	HI
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	99.21 %	99.21 %	31.12.2007	HI
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100 %	100 %	31.12.2007	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	100 %	100 %	31.12.2007	HI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	100 %	100 %	31.12.2007	HI
SINGULUS d.o.o.	Umag	100 %	100 %	31.12.2007	SU
HILLTOP Holding Anstalt	Vaduz	100 %	100 %	31.12.2007	SU
PIPER d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
D.S. car d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
ALUFLEXPACK d.o.o.	Zadar	82.31 %	82.31 %	31.12.2007	SU
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	100 %	100 %	31.12.2007	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100 %	100 %	31.12.2007	HI
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100 %	100 %	31.12.2007	HI
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100 %	100 %	31.12.2007	HI
Schlosshotel Velden GmbH	Klagenfurt	100 %	100 %	31.12.2007	SU
Schloss Velden Appartementerrichtungs GmbH	Klagenfurt	100 %	100 %	31.12.2007	SU
Lamplhof Betriebs GmbH	Klagenfurt	95 %	95 %	31.12.2007	SU
TRP Projektentwicklungs GmbH	Klagenfurt	98 %	100 %	31.12.2007	SU
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	100 %	100 %	31.12.2007	HI
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.2007	HI
CASTELLUM d.o.o.	Zagreb	100 %	100 %	31.12.2007	SU
HYPO Facility Services GmbH	Klagenfurt	70 %	100 %	31.12.2007	HI
Alpe-Adria Investments d.o.o.	Zagreb	100 %	100 %	31.12.2007	HI
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100 %	100 %	31.12.2007	HI
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	100 %	100 %	31.12.2007	HI
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100 %	100 %	31.12.2007	HI
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.2007	HI
WS Liegenschaftsverwaltungs GmbH	Klagenfurt	100 %	100 %	31.12.2007	SU

[1] Type (according to the Austrian Banking Act): KI: Credit institutions HI: Services SU: Other FI: Financial services WP: Securities companies

The following companies are included with their respective financial statements as per 31 December 2007 in the consolidated financial statements using the equity method:

EUR '000

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Carrying amount of the participation as of 31.12.2007	Profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.5	29.5	3,367	-391
HYPO-BA Leasing Süd GmbH	Klagenfurt	50.0	34.1	637	58
HYPO-ALPE-ADRIA-BANK (Liechtenstein) AG	Schaan	49.0	49.0	17,486	1,167
Pramollo S.p.A.	Udine	47.6	47.6	0	-137
REZIDENCIJA SKIPER d.o.o.*	Umag	25.0	25.0	0	725

* The current results of Rezidencija Skiper d.o.o. are not recorded any more. As of 31 December 2007, the aliquot share in the (negative) equity of the company amounted to EUR -1,856 thousand (2006: EUR -2,572 thousand).

(111) Events after the balance sheet date

The Chairman of the Executive Board of Bayerische Landesbank, Werner Schmidt, resigned from his function as the Chairman of the Executive Board of BayernLB on 1 March 2008 and also from his function as Chairman of the Supervisory Board of Hypo Alpe-Adria-Bank International AG. The integration of Hypo Group Alpe Adria and the co-operation projects launched with BayernLB are entirely unaffected by this and will be pursued with the same zeal and vigour as before. Michael Kemmer, his successor as Chairman of the Executive Board of BayernLB, was elected as a member of the Supervisory Board of Hypo Alpe-Adria-Bank International AG at the extraordinary shareholders' meeting on 18 March 2008. It is planned to elect a new Chairman of the Supervisory Board at the Supervisory Board Meeting scheduled for 30 April 2008.

Also in March 2008, the Supervisory Board of Hypo Alpe Adria-Bank International AG approved the proposal of the Executive Board to entirely sell the 49 % share in Hypo Alpe-Adria-Bank (Liechtenstein) AG still held by the bank following the partial sale in 2007. Hypo Group Alpe Adria will now take the relevant steps for the sale.

As of 1 May 2008, Andreas Dörhöfer will join the Executive Board of Hypo Group Alpe Adria as Chief Risk Officer. So far, he had been in charge of the Risk Office Corporates and Financial Institutions division at BayernLB. The appointment as a member of the Executive Board is planned for 30 April 2008.

As a consequence of the difficult situation on the capital markets, Hypo Alpe-Adria-Bank AG (Austria) suffered disturbances concerning the settlement of customer business in the field of securities transactions at the beginning of the fiscal year 2008. It is expected that the resulting risk will not exceed an amount of EUR 20 m. Under the given circumstances, the Executive Board is confident that a risk provision, if required, can be kept as small as possible.

(112) Declaration of the legal representatives

“To the best of our knowledge, and in accordance with the applicable accounting standards, we declare that the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that the group management report portrays the course of business including the result and the situation of the Group in a manner that conveys a true and fair view and describes the significant opportunities and risks of the presumable development of the Group.”

Klagenfurt am Wörthersee, 1 April 2008
Hypo Alpe-Adria-Bank International AG

The Executive Board

Tilo Berlin

Josef Kircher

Thomas Morgl

Wolfgang Peter

Paul A. Kocher

Auditors' Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG for the financial year from January 1, 2007 to December 31, 2007. These consolidated financial statements comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control 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 policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and 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 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 basis for our audit opinion.

Auditors' Report

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the financial year from 1 January 2007 to 31 December 2007 in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Laws and regulations applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the Group.

In our opinion, the group management report for the Group is consistent with the consolidated financial statements.

Vienna, on 7 April 2008

Deloitte
Wirtschaftsprüfungs GmbH

Mag. Thomas Becker
Dr. Peter Bitzyk
Certified Public Accountants

The publication or transfer of the consolidated financial statements in a form different from the one we have audited is only permitted after our consent if in the course of doing so reference is made to our audit opinion or our audit.

Management Report 2007 Hypo Alpe-Adria-Bank International AG

1. General economic environment

Overall, the development of the global economy in 2007 was robust, thanks to the dynamic growth of emerging economies in Asia, most notably China, although trends varied significantly from region to region. Economic growth in the eurozone of 3 % was largely a consequence of high levels of investment and exports. Despite the slowing of the US economy in the second half of 2007 as a result of the subprime crisis, forecasts suggest that the damper on global economy growth will be only temporary, thanks to the sustained healthy growth of the Asian, Latin American and Eastern European markets. Economic growth of 2.4 % is forecast for the eurozone in 2008.

The Austrian economy was flying high in 2007, with growth of 3.4 %. The positive performance of global markets, booming exports and the strong standing of Austrian companies in the rapidly growing markets of Southern and Eastern Europe made a significant contribution to this outcome. The Italian economy grew by 1.9 % in 2007, holding its previous year's level but well below the EU average. Growth was chiefly attributable to strong domestic demand, which was driven by the increased household spending unleashed by tax cuts. A combination of high levels of investment, strong exports and healthy domestic demand saw the Slovenian economy continue the trend of recent years with growth of some 6 % in 2007. At 6 % Croatia also recorded extremely vigorous growth on the back of climbing industrial production and a rise in household spending. Tourism also grew steadily, and has emerged as one of the most important sectors of the economy, attracting investment and generating jobs. The programme of reforms in Bosnia and Herzegovina introduced in recent years continued to yield results, with inflation held at low levels and the national budget balanced. With annual growth of 5.5 %, Bosnia and Herzegovina joined the European Free Trade Association (EFTA) in September 2007. A series of privatisations, mostly in the energy sector provided the economic backdrop in Serbia during last year. Economic growth of 7.5 % was chiefly attributable to investment in local infrastructure. In Germany, the preliminary figures released by the Federal Statistical Office indicate real GDP growth of 2.5 % in 2007. Significant gains were recorded particularly by industry, trade, tourism, transport and financial services. The Montenegrin economy made good progress in the country's first year of independence, against the backdrop of a rigorous program of political and economic reforms. On 18 January 2007 Montenegro joined the World Bank and the International Monetary Fund. Tourism is the key to the future development of the nation's economy, which grew some 6 % in 2007. Bulgaria also clearly outperformed the EU average in 2007, with a rise of 6.3 %. This positive development is linked to increased household spending and accelerated investment activity. In Hungary economic growth declined from 3.9 % in 2006 to 2 % in 2007 – this development chiefly reflects the impact of the government's restrictive fiscal and monetary policy. Forecasts, however, point towards rapid recovery of domestic demand, which has traditionally been a mainspring of the Hungarian economy.

On the international stock markets, the financial year was shaped by sustained advances throughout the first half of the year and collapses in July and November.

2. Overview

Until 2006, the consolidated financial statements of Hypo Alpe-Adria-Bank International AG were drawn up in accordance with the Austrian Enterprise Code (UGB), and the provisions of the Austrian Banking Act (BWG). The consolidated financial statements for the year ended 31 December 2007 have been draw up for the first time in accordance with International Financial Reporting Standards (IFRS) and are published on the internet (www.hypo-alpe-adria.com).

These separate financial statements of Hypo Alpe-Adria-Bank International AG have been prepared in accordance with Austrian law.

Hypo Alpe-Adria-Bank International AG is the management holding company for all the Hypo Group Alpe Adria companies, including nine banks and the Hypo Alpe Adria-Leasing Holding AG, which in turn is responsible for 11 leasing companies.

3. Analysis of financial key indicators

With over 7,000 staff and more than 350 branches, in 2007 Hypo Alpe-Adria-Bank International AG and its subsidiaries were once again one of the leading financial service providers in the extended Alps to Adriatic region.

3.1 Balance sheet growth

Hypo Group Alpe Adria's continued growth in lending is directly reflected in the increase of Hypo Alpe-Adria-Bank International AG's total assets and in the capital market borrowings with which they are mainly financed.

Total assets of Hypo Alpe-Adria-Bank International AG rose by a further 22.6 %, reaching EUR 24.5 bn at 31 December 2007. The comparable figure a year earlier was EUR 20.0 bn.

Total assets
(bn EUR)

Customer deposits and the Bank's own issues of debt evidenced by certificates contributed EUR 19.7 bn to total liabilities (2006: EUR 16.1 bn), an increase of about 22.4 % year-on-year. With the Province of Carinthia's statutory guarantee lapsing at the end of March 2007, Hypo Alpe-Adria-Bank International AG turned to international capital markets to finance its lending in the period after 1 April 2007.

By the end of 2007 lending was up to about EUR 9.6 bn, an impressive 39.1 % higher than the EUR 6.9 bn on its books at the end of the previous year. This increase was chiefly attributable to the growth of the Group's leasing companies, which refinance their lending via Hypo Alpe-Adria-Bank International AG.

Interests in associated companies in 2007 rose from EUR 2.2 bn to EUR 2.9 bn, an increase of 31.8 %. The rise is largely the result of increases in Group companies' capitalisation. Thus, the two Croatian banking subsidiaries alone accounted for capital increases of EUR 400 m, attributable to a combination of growth in business and more exacting requirements imposed by the Croatian National Bank.

The sale of a 51 % interest in Hypo Alpe-Adria-Bank (Liechtenstein) AG reduced interests in associated companies by EUR 35.7 m; the remaining 49 % share is now disclosed under investments in associated companies. Turbulence in US mortgage loans market also impacted the annual financial statements. However, as at 31 December 2007 there were no actual defaults to report, although in the interests of commercial prudence a number of writedowns have already been made.

3.2 Own capital funds

At balance sheet date total eligible own capital funds under the Austrian Banking Act (BWG) was EUR 2,100.0 m. The Bank's minimum own capital funds requirement amounted to EUR 1,000.4 m, resulting in surplus coverage of 209.9 %.

A capital increase of EUR 125 m in the first quarter of 2007, followed by another increase of EUR 600 m in the fourth quarter boosted the Bank's statutory Tier 1 capital. After allowing for the loss for 2007 and providing as required for the planned dividend payment, Tier 1 capital ratio was 9.6 % at balance sheet date. At 16.8 %, Hypo Alpe-Adria-Bank International AG's solvency ratio at 31 December 2007 was significantly higher than the Austrian legally required minimum of 8 %.

Management Report 2007

Assets

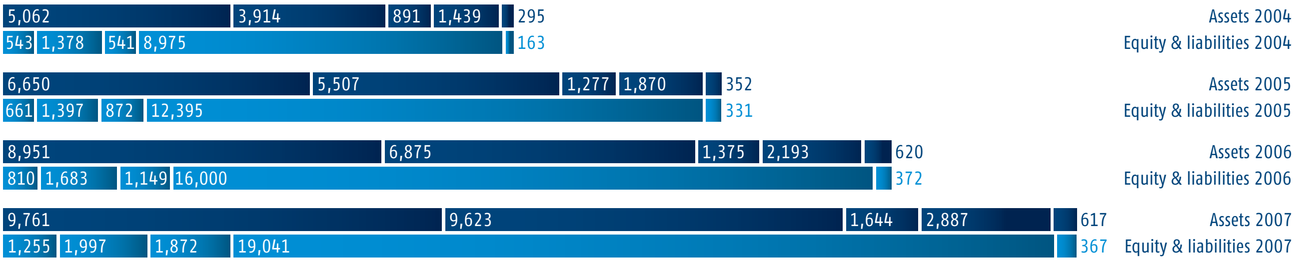
m EUR

	2004	2005	2006	2007
Loans and advances to credit institutions	5,062	6,650	8,951	9,761
Loans and advances to customers	3,914	5,507	6,875	9,623
Fixed income securities, shares and investment funds	891	1,277	1,375	1,644
Investments in affiliated and associated companies	1,439	1,870	2,193	2,887
Other assets	295	352	620	617
Total assets	11,600	15,656	20,014	24,532

Equity and liabilities

	2004	2005	2006	2007
Equity	543	661	810	1,255
Liabilities to credit institutions	1,378	1,397	1,683	1,997
Liabilities to customers	541	872	1,149	1,872
Debt evidenced by certificates and subordinated capital	8,975	12,395	16,000	19,041
Other liabilities	163	331	372	367
Total equity and liabilities	11,600	15,656	20,014	24,532

Balance sheet structure
(m EUR)



3.3 Earnings

Hypo Alpe-Adria-Bank International AG's earnings in 2007 were significantly affected by the more risk averse approach to lending adopted by new majority shareholder, BayernLB, and by the writedowns of securities and investments.

Net interest income in 2007 was up EUR 13.8 m on the previous year. This result was influenced by capital increases and shareholder contributions by subsidiaries amounting to EUR 838 m, which had to be financed during the year with borrowings. While the resulting refinancing costs formed part of interest expense, the dividend income was recognised as a separate item disclosed separately below net interest income. Overall, operating income from securities and investments was up EUR 60.8 m on the previous year, to EUR 170.0 m, of which EUR 168.8 m was accounted for by dividends for the period from Group companies.

Net income from commissions, the difference between fee and commission income (EUR 25.9 m) and fee and commission expenses (EUR 6.9 m) came to EUR 19.0 m in 2007, up EUR 7.2 m, or 61 %, on the previous financial year (EUR 11.8 m). This was chiefly attributable to higher commissions on lending business and the activities of Group Investment Banking and Group Treasury.

Other operating income of EUR 12.6 m was at the same level as in 2006.

Operating income for 2007 rose by an impressive EUR 80.0 m to EUR 233.4 m, a healthy improvement of some 52.2 % on 2006's EUR 153.4 m.

Under operating expenses, personnel costs were only slightly down on the previous year despite the increased headcount. The increase in administrative expenses of EUR 9.9 m are chiefly a consequence of higher legal and consultancy expenditure and the increase in the commission payable on the statutory guarantee by the Province of Carinthia. Total operating costs increased by a mere 13.4 %, to EUR 97.4 m, compared with the 52.2 % jump in operating income.

In 2007, Hypo Alpe-Adria-Bank International AG's operating profit more than doubled, from EUR 67.6 m to EUR 135.9 m.

Operating profit
(m EUR)

The EUR 299.9 m loss on the valuation and disposal of receivables, contingent liabilities, credit risks and securities held as current assets chiefly reflects provisions of around EUR 267 m against risks on derivatives business and the lending portfolio.

This adjustment was undertaken following the arrival of BayernLB as new majority shareholder in Hypo Alpe-Adria-Bank International AG and reflects the conservative risk assessment for which the capital increases provided the necessary basis. This sets a fundamentally positive signal for future development.

Our own securities portfolio was also affected by the negative developments in international capital markets in the second half of 2007. Virtually all of these securities were classified as current assets and are therefore recognised at market values, as required by the prudence principle. The loss on the valuation and disposal of securities held as financial investments and of investments in associated and affiliated companies, and taking into account the charge to expense of support provided to two Group companies, was EUR 82.2 m. These developments resulted in a loss from ordinary activities of EUR 246.2 m.

Deduction of extraordinary expenses of EUR 17.5 m incurred in connection with the two capital increases during the year and of tax expense mainly consisting of foreign withholding taxes brought the loss for the year to EUR 269.9 m.

After provision for the transfer to the liability reserve and release of the free revenue reserves, the retained profit for the year was EUR 64.5 m. The Management Board will propose to the Annual General Meeting a distribution to the shareholders of Hypo Alpe-Adria-Bank International AG of a dividend for the financial year 2007 amounting to EUR 50.0 m.

3.4 Earnings ratios

The cost/income-ratio is the ratio of operating costs to operating income. For the year ended 31 December 2007 it was 41.8 %, significantly better than in the previous year (56.0 %). As a result of posting a loss for the year, meaningful return on equity (ROE) and return on assets (ROA) ratios can not be calculated for financial 2007.

4. Analysis of non-financial key indicators

4.1 Employees

At 31 December 2007 Hypo Alpe-Adria-Bank International AG employed 303 people, 6 more than a year earlier.

Staff training and education across the region continued to receive special emphasis in 2007. As a highly customer oriented international financial services provider, the Bank sees recruitment of new staff as a major factor, and attaches great importance to the continuing professional education and job satisfaction of its employees. One focus last year was again on the training of potential next generation managers from across the Group at the Management Academy. Training and further education activities for high school graduates are provided in the form of special trainee programs, on the job training and staff development events.

Employees
at balance sheet date

4.2 Customers

In the markets of South Eastern Europe, served transnationally by Hypo Alpe-Adria-Bank International AG's subsidiaries, an intimate knowledge of the markets and a profound understanding of customers' needs also on an emotional level are critical factors for success. Against this background, the Bank sees itself in a long-term partnership role that extends far beyond mere financial transactions: its work with its customers is shaped by face-to-face communication and mutual respect. This is based on an unwavering commitment to delivering customer-driven services, especially reflected in ease of access to banking facilities and rapid attainment of personal goals. With distinctive, reliable and easy-to-understand products on both financing and investment sides, Hypo Group Alpe Adria makes an impressive contribution to the prosperity of its more than 1.2 million customers.

4.3. Environment and corporate social responsibility

Hypo Alpe-Adria-Bank International AG is aware of its special responsibility towards the environment and society. Recognising and acting on this responsibility is a central element in the Group's strategic alignment and its operating activities. During the past year Hypo Group Alpe Adria companies once again made a significant contribution to sustainable energy policies by focusing on promoting the use of alternative energy resources. Environmental protection and conservation of natural resources play a major role in looking after the world we live in. Ongoing information exchange and contacts with experts from science and industry ensure that economical use of natural resources remain one of the Bank's core concerns. These responsibilities are reflected in the day-to-day work of all the Group's employees and are enshrined in the management code. Sustainability and social commitment are among the key factors in working with customers, business partners and shareholders.

5. Risk report

5.1 Overall bank management

5.1.1 Risk policy

Hypo Alpe-Adria-Bank International AG's risk management is determined by the strategy formulated at overall bank level and the objectives prescribed by the Group Executive Board. It is within this predetermined framework that the implementation of risk management standards in the parent company, Hypo Alpe-Adria-Bank International AG, and all Group subsidiaries occurs.

Logically, final responsibility for all assumed risks lies with the Group Executive Board, while partial responsibility at all levels of the managerial process is borne in line with answerability for earnings.

The risk management process is described and regulated by a series of manuals, which clearly define procedures, roles and responsibilities. All documents are subject to regular modification and approval by the Group Executive Board and the boards of the subsidiaries.

The central principles of risk policy are laid down as follows in the Group risk policy:

5.1.2 Basic risk management process principles

1. The Group Executive Board and the Group Risk Executive Committee are responsible for Group risk strategy
2. Clear definition of both the organisation and the risk management process
3. Complete separation of responsibilities
4. Economic capital as the central control parameter
5. Group-wide standards for risk measurement and evaluation
6. Adequate limit systems
7. Near-term, consistent risk monitoring
8. Near-term, consistent risk reporting and communication
9. Clear and comprehensive documentation
10. Harmonisation with the regulatory requirements

The identification and management of all assumed risks is a major Hypo Alpe-Adria-Bank International AG priority and an integral part of Group strategy. Increasingly stringent demands in the bank's business environment are also reflected by its personnel policy, which attaches great importance to the adequate training and further training of the existing workforce and the recruitment of persons possessing the appropriate qualifications.

The development of progressive methodology in Risk Controlling and the ongoing further development of risk management processes in the responsible departments are of equal central importance. In this manner, the bank will secure its long-term profitability in line with a balanced relationship between accepted risk and the earnings achieved.

5.2 Strategic bank management

Within the scope of Group management, economic capital represents the main benchmark in bank capital allocations. Measurement takes place on the basis of risk-sensitive, standardised methods. Diverse, sophisticated procedures are employed in line with the degree of maturity of the models involved and the significance of the type of risk under review. Adherence to regulative restrictions is constantly guaranteed. Corresponding preset limits secure the maintenance of the risk-bearing capacity envisaged by the Executive Board, as well as the intended allocation of capital to the appropriate business areas.

The platform for overall bank management in the Hypo Alpe-Adria-Bank International AG is provided by business strategy. This defines business policy objectives on the basis of an analysis of the initial business policy situation of the Hypo Alpe-Adria-Bank International AG and the general conditions relating to the personnel and technical capacity available within the bank. Business strategy implies the planned acceptance of risks. The supplementation of the business strategy with a risk strategy is intended to ensure that Hypo Alpe-Adria-Bank International AG is constantly able to bear the risks assumed.

In operative terms, business and risk strategy represent the combined result of the Hypo Group Alpe Adria planning and management process. On the basis of the business policy guidelines laid down by the Executive Boards of Hypo Alpe-Adria-Bank International AG and the other individual Hypo Group Alpe Adria companies, business strategy derives from short- and medium-term planning, which is prepared within Group Financial Controlling in co-ordination with the financial controllers at the Group companies.

This planning is supplemented with a risk review and collated in the risk strategy. Risk strategy is prepared by Group Credit Risk Management and Group Market Risk Management in consultation with the risk controllers in the individual companies on the basis of business planning. Decisions are then taken in the Group Risk Executive Committee. Resolutions concerning combined business and risk strategy at Group level are formulated exclusively by the Group Asset Liability Committee (ALCO).

5.2.1 Risk categories

Uniform risk definition and standardised risk terminology form the central elements in the Hypo Alpe-Adria-Bank International AG risk management process. In essence, risk is defined as the possibility of an unexpected, negative deviation of a result from its anticipated value.

The risk types of relevance to Hypo Alpe-Adria-Bank International AG are defined by the Group Risk Executive Committee (GREC), initiated by Group Credit Risk Management and Group Market Risk Management and documented by the apposite Group directives. The following descriptions provide an overview of the differing risks of relevance to Hypo Alpe-Adria-Bank International AG.

5.2.2 Market risk

In this category Hypo Alpe-Adria-Bank International AG monitors possible losses deriving from changes in market prices. The market price risk incorporates interest rate risk, stock price and index risk, foreign currency risk and credit spread risk.

5.2.3 Liquidity risk

As far as liquidity risk is concerned, Hypo Alpe-Adria-Bank International AG distinguishes between refinancing and market liquidity risks. Refinancing risks include the forward/call in and roll-over financing risks. Market liquidity risks arise when items can only be liquidated immediately at a loss.

5.2.4 Credit risk

Credit risks arise during traditional lending business from the partial or total losses on agreements emanating from a deterioration in customer creditworthiness. Equally, this risk category also incorporates counterparty, equity and securitisation risks.

5.2.5 Country risk

In particular, country risk is seen as deriving from the possibility of losses emanating from the unwillingness of a state (central bank) to provide foreign exchange for the settling of interest and repayments. In addition, economic and political risks, which have an effect on customer creditworthiness, are also to be subsumed under this category.

Country risks are a special type of credit risk and are of particular relevance with regard to the supply of refinancing and equity to the subsidiaries in south-eastern Europe and loan exposures in other countries.

5.2.6 Concentration risk

Due to the fact that sizeable losses in the loan sector can frequently be traced to concentrations (e.g. high single customer or branch-related volumes), this type of risk (as a credit risk sub-category) is allotted special importance and managed by the appropriate limit stipulations.

5.2.7 Business risk

Business risk is understood as meaning the possibility of a negative deviation of bank profits (the operating result) from the anticipated value. The various influences, which have to be considered individually can be summarised as follows:

1. Business volumes
2. Margins and Commission earnings
3. Costs

During the planning of the operating result, forecasts are established for these influences and thus the expected operating result estimated. Disadvantageous deviations of the factors from the anticipated values lead to a reduction in the operating result to below the budgeted value. This unexpected deviation is quantified within the scope of the business risk.

5.2.8 Operational risk

Hypo Alpe-Adria-Bank International AG defines operational risk as involving the risk that ongoing processes will not achieve their given performance objectives. This failure can result from (i) human error, (ii) process or organisational failures, (iii) system and infrastructure failure and (iv) external factors. Legal risk is regarded as part of operational risk and quantified.

5.3 Risk bearing capacity

The risk bearing capacity of the entire Group is calculated on a regular basis taking into account all the relevant risk types and the determination of the extent of economic risk coverage. Risks are established on the basis of (partly simplified) value-at-risk models. The calculation of the risk coverage dimensions depends on the regulatory definition of Tier 1 capital and also contains economic elements, which cannot be reported as regulatory own capital funds (e.g. forecast profit).

5.3.1 Notes concerning methodology

The following types of risk flow into the risk bearing capacity calculation:

1. Business risk: assumption of a normal distribution model for gross bank earnings.
2. Operational risk: use of an exponential distribution model for the losses from operational risk.
3. Market price risk: by means of a value-at-risk model for market price risk.
4. Liquidity risk: employment of a stress scenario for the cost of the closing of the gap in the committed capital balance.
5. Credit risk: on the basis of a modified IRB model, which includes the collateral to the amount of its economic valuation.
6. Investment risk: using the PD/LGD approach from Basel II.

A correlation matrix is employed to provide a combined key risk figure.

5.4 Risk management organisation

5.4.1 Structural organisation

On the basis of the statutory provisions (in particular the Austrian Banking Act), overall responsibility for risk management rests with the full Executive Board. The bank's organisational structure and that of its risk management processes are co-ordinated by means of a precise definition of roles and responsibilities. Conflicts of interest are avoided by the strict separation of market and market monitoring functions. This delineation corresponds with the stipulations of the Austrian minimum standards for lending business (MSK – "minimum standard for the loan business and other business with address loss risks").

As part of the risk management process, Risk Controlling is responsible for the measurement, assessment and reporting of risk at the portfolio and sub-portfolio level. The assessment of risks at individual business level is carried out by market monitoring units, which are located downstream of the respective business areas.

5.4.2 Operative credit function

Two units within Hypo Group Alpe Adria are responsible for lending market monitoring topics. Operative business is dealt with by Group Market Support, while the Group Credit Risk Management unit deals with strategic market monitoring.

The operative market monitoring area covers the following process steps in line with a strict separation from the corresponding market responsibilities:

1. Business management analysis
2. Loan administration
3. Restructuring
4. Monitoring

During lending, market monitoring instruments, methods and processes are implemented, which have been developed by Group Credit Risk Management. The following topics are dealt with by the strategic loan unit:

1. Co-ordination of data quality
2. Market monitoring methods (rating) and processes (e.g. implementation of MSK, Basel II)
3. Credit risk reporting
4. Strategic loan portfolio management

Both units are both allocated to the Bank Risk Executive Board, thus guaranteeing the complete separation of market and market monitoring/risk controlling.

The precise regulation of roles and responsibilities facilitates the responsible management of lending business on an individual transaction basis.

In general, loans pass through the following procedural phases:

1. Initiation/origination (i.e. customer contact) through the market
2. Examination of material creditworthiness
3. Examination of formal creditworthiness
4. Determination of the appropriate decision-making body according to the allocation of authority within the Group
5. Payment

The payment process evolves into continuous customer monitoring:

1. Annual rating
2. Collateral re-evaluation depending on the frequency and size of the commitment and other criteria (e.g. the gravity of the problem case)
3. Checking of the customer margin, data and payment behaviour

On the basis of the loss definition employed in the Group, customers are passed from the market to market monitoring for intensive surveillance or restructuring. The handover occurs in the course of a discussion process between the market and market monitoring during which the amount of the provision is determined according to the principles of the IFRS, taking into account collateral and other returns from the commitment.

5.5 Internal risk reporting

A comprehensive risk reporting system at both individual transaction and portfolio level ensures that the management is provided with the relevant information for its decisions.

Reports are drawn up regularly on the basis of a suitably standardised process, which applies to the entire Group. These reports correspond in scope and frequency to the Austrian minimum standard for lending business.

5.5.1 Internal rating systems

Customer ratings constitute a central element in Hypo Alpe-Adria-Bank International AG risk management process. Highly developed rating systems are available for:

a. Corporate customers (with balances, cash accounting)
b. Special financing (project financing)
c. The public sector (local authorities, provinces)
d. Credit institutions
e. Retail customers

These systems are adapted to the special needs of the countries covered by the Group. The rating systems conform to Basel II requirements and are thus able to build on comprehensive default case histories as a basis for the validation and further development of rating systems.

As a result of the diversified customer mix, fresh challenges continually arise in the rating development area, which are accommodated by appropriate further developments. Suitably trained specialists in Group Credit Risk Management handle these matters for the entire Group.

5.5.2 Collateral management

Hypo Alpe-Adria-Bank International AG has undertaken comprehensive changes for the entire Group in the collateral management sector. These modifications meet the demands of internal risk management and regulatory requirements.

On a conceptual level, a collateral catalogue, which is valid throughout the Group, defines evaluation principles and internally accepted values.

5.6 Loan portfolio

Risk Controlling undertakes the active management of the Hypo Alpe-Adria-Bank International AG loan portfolio by means of a comprehensive package of regular risk reports. The frequency and detail of reporting correspond with both external (e.g. with the minimum requirements for lending business) and internal demands. The reports show the temporal development of the portfolio, rating class distribution, branches, customer segments, currencies, regions and maturities. The separate presentation of new business allows the provision of a virtually current picture of portfolio development.

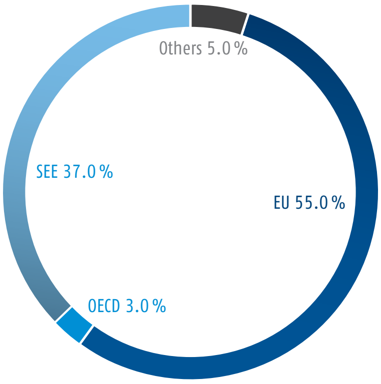
The possible exposure at default is subjected to measurement, which includes both actual outstanding and committed lines, contingent claims and derivative contracts.

5.6.1 Risk provisions

Risk provisions are made in accordance with the statutory regulations.

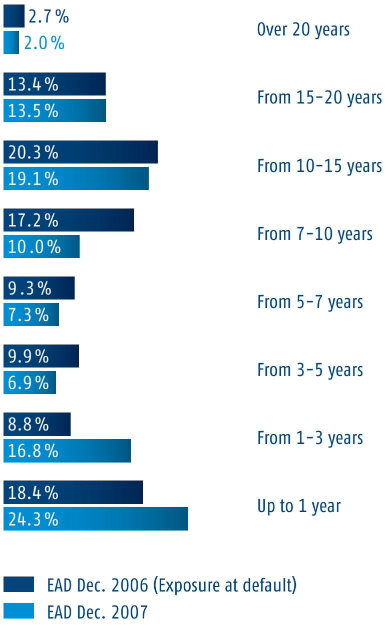
Specific risk provisions are accrued on the basis of the calculated loss expected from default. This calculation accounts for collateral, possible other returns and phased returns (realisation period).

Total exposure by region 2007



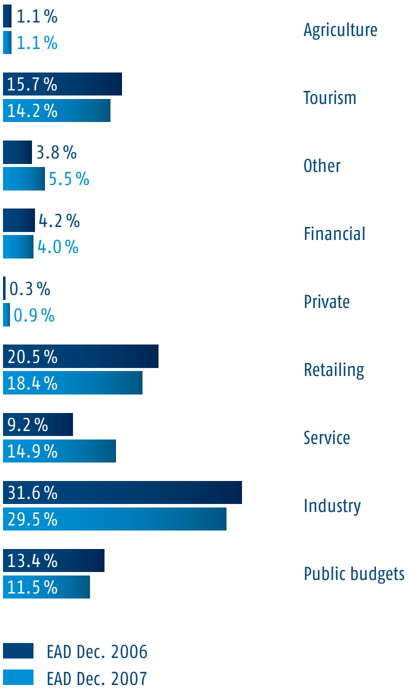
Around half the exposure relates to low-risk countries in the European Union. Some 37 percent is concentrated in the Hypo Group Alpe Adria core states in the SEE region, where we dispose over an excellent market position and extensive market knowledge.

Customer exposure by maturity



The majority of the lending volume relates to short-term financing (up to 1 year). Very long maturities are granted with regard to loans to the Austrian federal government and mortgages.

Customer exposure by branch



Significant concentrations are not apparent. The largest share is to be found in the industrial segment, which in turn is divided into sub-branches, which do not demonstrate an especially high level of correlation.

5.7 Market risk presentation

5.7.1 Internal risk reporting

Comprehensive reporting at individual and portfolio level furnishes a platform for risk management-related decisions on the part of the management. The basis is provided by risk reports on a daily, weekly and monthly basis, which meet both internal and external requirements.

5.7.2 Market price risk methods

In the market risk area Hypo Alpe-Adria-Bank International AG uses a standardised and thus uniform system for risk monitoring and management.

A value-at-risk concept on the basis of a Monte Carlo simulation with a one-day retention period (trading book), a retention period of 30 days (bank book) and 99 percent confidence interval is employed as a statistical process for market risk measurement. The process is subject to ongoing back testing as a check on the model. Value-at-risk calculations are supplemented by stress tests for the monitoring of extreme market fluctuations.

Value-at-risk, item, sensitivity and loss limits are utilised to control the market risk on the basis of the allocation of risk capital.

Market risk surveillance takes place in line with strict adherence to internal and external supervisory right requirements.

5.7.3 Asset liability management

Interest rate risk is managed on an institutionalised basis subject to adherence to the legal supervisory requirements of interest risk statistics. The Asset Liability Committee, which consists of the Group Executive Board, senior employees from the Treasury, Risk Management and Financial Controlling units, completes analyses and takes decisions concerning balance sheet structure and liquidity management measures in the course of regular meetings.

The measurement of the risk of exchange rate changes in the bank book takes place through changes to the market value of the bank book in line with a 200 BP interest shock. The interest change risk is presented in ratio to the weighted equity defined according to Section 23(14)(1-6) and (8) of the Austrian Banking Act. This means that the stipulations of Basel II, which will take effect in the future, have already been accounted for.

In addition to the 200 BP extreme scenario for a change in interest rates, a value-at-risk approach is also applied, which is subject to a retention period of 30 days and a confidence level of 99 %.

5.7.4 Liquidity risk

Liquidity risk measurement take place on the basis of the result of the monthly capital commitment balance prepared at Group level. Incoming and outgoing cash flows in the capital commitment balances are produced by the local risk controlling units using uniform standards comprised of maturity bands, currencies and assumed maturities for stochastic cash flows, and are then reported to Group Market Risk Management (GMRM) for the drawing up of the Group review. Management and planning measures are deduced from the gap distributions by the Group Treasury and the established risk key figures are determined by GMRM. A differentiation is made between short- and medium-term key figures during the measurement of liquidity risk.

The short-term view of the liquidity risk focuses on solvency at all times through the availability of sufficient liquidity reserves. Therefore, the calculated A-D liquidity ratio must constantly be positive. This condition must also be fulfilled even under defined funding source stress scenarios. Should this not be the case, an established escalation process commences, which evolves into an emergency liquidity plan.

The long-term funding risk is seen as a cash risk key figure subject to the assumption of a rating deterioration and higher funding costs due to the shift in our liquidity spread on the market. The funding structure is influenced by the calculation of the key figure and the long-term funding gap is limited. The risk figure also flows into the risk bearing capacity calculation, in order to guarantee coverage through the appropriate equity volume.

5.8 Operational risk

In view of the demands emanating from Basel II and EU CAD, the OpRisk project was launched by Hypo Alpe-Adria-Bank International AG within the scope of an overall bank management project. OpRisk covered the following:

1. The demands contained in Basel II/EU CAD relating to equity calculation and internal risk management were defined
2. A framework for the implementation of Hypo Group Alpe Adria OpRisk management
3. A schedule for the implementation of Hypo Group Alpe Adria OpRisk management
4. The development of standardised instruments and methods for adequate OpRisk reporting, measurement and presentation

The following methods are implemented within the Hypo Alpe-Adria-Bank International AG in the course of the development of internal OpRisk management:

1. The reporting and evaluation of OpRisk losses in a loss database defined according to Basel II standards. In the case of OpRisk events, this collates the date, duration, classification, origin and directly related losses or correction costs. Evaluations from the loss database form a basis for the avoidance of OpRisk occurrences (risk mitigation).
2. The subjective assessment of the OpRisk using a standardised risk assessment process. The primary objective is the establishment of a better understanding and heightened awareness among the organisational units with respect to the various operational risks relating to their business activities. The intention is that this should lead to improvements in the systems and processes area.

5.8.1 Legal risks

Legal risks are modelled and understood as part of OpRisk. Losses derived from the legal risk are collated in the loss database and subjected to an appropriate classification. The established consequences are then use to create standards, which are applied to other OpRisk losses.

5.8.2 Emergency planning

On the basis of local conditions, emergency plans are drawn up and implemented in all Group units. In this regard, the requirements of the Group have to be considered and major support can be supplied by the parent company.

5.8.3 Realisation of regulatory requirements

The comprehensive process of change in Hypo Alpe-Adria-Bank International AG risk management derives from the Basel II realisation project initiated at the beginning of 2000. In 2004, this preparatory process led to an overall bank management project, which involved discussions, decisions and implementation measures relating to the topic of internal management and the fulfilment of regulatory requirements. The following special questions were addressed in the course of the overall bank management project:

1. Assessment of the market price risk on the basis of an adequate and uniform Group risk measurement system.
2. Preparation of sensitivity gap analysis (interest rate risk and liquidity) for the entire Group.
3. The definition and implementation of standards, systems and processes for collateral management, customer rating, the measurement of the total exposure to customers and groups of associated customers and the reporting of defaults and the resulting losses.
4. The definition and implementation of standards, systems and processes relating to operational risk.
5. Measurement of earnings on an individual transaction basis for all business areas and in all subsidiaries.

Completion of the overall bank management project is imminent and will provide specialist areas with all the relevant instruments, systems and models of relevance to the realisation of overall bank management .

Accordingly, the regulatory requirements have largely been met. With the introduction of Basel II, Hypo Alpe-Adria-Bank International AG will employ the simple approaches, especially in less developed countries. The internal standards already either correspond with or exceed the standards prescribed by Basel II. This also applies to the realisation of MSK and MAH.

5.9 Summary and outlook

Against a background of increasing internal and external requirements, in recent years the bank has subjected its risk management to major further development. In order to use the available synergies to the greatest possible extent, Basel II implementation was synchronised with an overall bank management project controlled at Group level. From the perspective of the bank, the implementation of Basel II brings major advantages with regard to internal management and is thus linked to enhanced bank competitiveness.

As a result of the purchase of a majority holding in Hypo Group Alpe Adria by the BayernLB, at present the Hypo Group Alpe Adria risk management system requires harmonisation with that of the BayernLB. In particular, this means that the IRB approach must be implemented in the coming years. In September 2007, a comprehensive integration project commenced for the management and intensification of the required activities. The conclusion of the integration project is planned for the end of 2008.

6. Events after the balance sheet date

The Chairman of the Executive Board of Bayerische Landesbank, Werner Schmidt, resigned from his function as the Chairman of the Executive Board of BayernLB on 1 March 2008 and also from his function as Chairman of the Supervisory Board of Hypo Alpe-Adria-Bank International AG. The integration of Hypo Group Alpe Adria and the co-operation projects launched with BayernLB are entirely unaffected by this and will be pursued with the same zeal and vigour as before.

Michael Kemmer, his successor as Chairman of the Executive Board of BayernLB, was elected as a member of the Supervisory Board of Hypo Alpe-Adria-Bank International AG at the extraordinary shareholders' meeting on 18 March 2008. It is planned to elect a new Chairman of the Supervisory Board at the Supervisory Board Meeting scheduled for 30 April 2008.

Also in March 2008, the Supervisory Board of Hypo Alpe Adria-Bank International AG approved the proposal of the Executive Board to entirely sell the 49 % share in Hypo Alpe-Adria-Bank (Liechtenstein) AG still held by the Bank following the partial sale in 2007. Hypo Alpe-Adria-Bank International AG will now take the relevant steps for the sale.

As of 1 May 2008, Andreas Dörhöfer will join the Executive Board of Hypo Alpe-Adria-Bank International AG as Chief Risk Officer. So far, he had been in charge of the Risk Office Corporates and Financial Institutions division at BayernLB. The appointment as a member of the Executive Board is planned for 30 April 2008.

7. Outlook

In 2008 Hypo Alpe-Adria-Bank International AG will continue to bring together its streamlined structures, centralised management functions and local expertise in order to achieve further across-the-board growth in all its countries and businesses, and first and foremost to leverage the enormous potential of its existing markets in South Eastern Europe. In line with the overarching strategy of improving its strong standing in the marketplace, the Bank plans to continue to optimise its portfolio of products and to offer its customers an extended range of services tailored to their precise requirements. In 2008 additional attention will also be paid to further improving Group structures and reducing risk exposure. The Bank's declared goal is to go on growing its total assets, and to increase its profitability incrementally.

Balance sheet as of 31 December 2007

	EUR	2007 EUR	2006 EUR '000
ASSETS			
1. Cash in hand and balances with central banks		47,738,299.54	95,139
2. Treasury bills and other bills eligible for refinancing with central banks			
Treasury bills and similar securities		244,174,167.20	153,342
3. Loans and advances to credit institutions			
a) Repayable on demand	516,734,192.47		385,500
b) Other loans and advances	9,244,328,052.43		8,565,385
		9,761,062,244.90	8,950,885
4. Loans and advances to customers		9,623,282,029.96	6,874,650
5. Bonds and other fixed income securities			
a) Public sector issuers	98,844,683.08		130,226
b) Other issuers	1,169,865,537.28		994,644
thereof: own debt securities EUR 87,588,346.20		1,268,710,220.36	1,124,870
(previous year: EUR 2,656,000)			
6. Shares and other non-interest-bearing securities		131,368,054.76	97,016
7. Investments in associated companies		22,072,507.97	3,700
thereof: credit institutions EUR 17,485,574.71			
(previous year: EUR 0)			
8. Shares in affiliated companies		2,864,699,215.22	2,189,178
thereof: credit institutions EUR 1,776,324,972.10			
(previous year: EUR 1,217,555,000)			
9. Intangible fixed assets		3,745,085.15	6,736
10. Tangible fixed assets		1,388,676.07	1,432
thereof:			
Land and buildings used by the company for its own activities EUR 614,538.68			
(previous year: EUR 623,000)			
11. Other assets		496,829,063.13	456,732
12. Deferred assets		67,594,717.01	60,431
Total assets		**24,532,664,281.27**	**20,014,111**
Below-the-line-items:			
1. Foreign assets		20,225,355,065.46	16,298,448

		2007	2006
	EUR	EUR	EUR '000
LIABILITIES			
1. Liabilities to credit institutions			
a) Repayable on demand	402,715,616.46		397,638
b) With agreed maturities or periods of notice	1,594,231,192.93		1,284,886
		1,996,946,809.39	1,682,524
2. Liabilities to customers			
a) Savings deposits			
thereof: Repayable on demand	53,406.79		61
b) Other liabilities			
thereof: aa) Repayable on demand	184,253,343.09		164,350
bb) With agreed maturities or periods of notice	1,687,554,286.30		984,741
		1,871,861,036.18	1,149,152
3. Debt evidenced by certificates			
Bonds issued		17,844,026,758.05	14,962,341
4. Other liabilities		177,383,063.66	223,077
5. Deferred liabilities		105,320,656.73	115,934
6. Provisions			
a) Provisions for severance payments	2,206,749.25		2,007
b) Provisions for pensions	5,546,065.00		6,154
c) Tax provisions	2,494,788.02		4,857
d) Other	32,824,557.68		20,500
		43,072,159.95	33,518
7. Subordinated liabilities		914,762,295.44	711,157
8. Supplementary capital		324,044,006.52	326,553
9. Issued capital		48,367,128.00	37,026
10. Capital reserves			
Appropriated		959,883,138.68	246,225
11. Revenue reserves			
a) Statutory reserve	24,264,994.40		24,265
b) Other reserves	5,594,986.85		369,390
		29,859,981.25	393,655
12. Liability reserves under Section 23(6) BWG		152,637,247.42	123,322
13. Retained profit		64,500,000.00	9,627
Total equity and liabilities		**24,532,664,281.27**	**20,014,111**
Below-the-line-items:			
1. Contingent liabilities		1,753,428,598.64	368,134
thereof: Guarantees and other			
collateral securities	1,753,428,598.64		
(previous year: EUR 368,134,000)			
2. Loan exposures		1,423,546,000.00	617,510
3. Eligible own capital funds under Section 23(14) BWG		2,100,048,270.90	1,516,558
thereof: Capital pursuant to Section 23(14)(7) BWG	142,000.00		
(previous year: EUR 8,400,000)			
4. Required own capital funds pursuant to Section 22(1) BWG		1,000,410,814.13	772,748
thereof: Capital pursuant to Section 22(1)(1) and (4) BWG	1,000,268,814.31		
(previous year: EUR 764,000)			
5. Foreign liabilities		2,938,650,343.12	2,203,811

Income statement for the period from 1 January to 31 December 2007

			2007		2006
	EUR		EUR		EUR '000
1. Interest and similar income				1,825,460,183.87	1,222,605
thereof: fixed income securities	EUR 69,506,446.26				
	(previous year: EUR 45,745,000)				
2. Interest and similar expenses				(1,791,660,947.73)	(1,202,663)
I. NET INTEREST INCOME				**33,799,236.14**	**19,942**
3. Income from equity interests and investments					
a) shares, other equity interests and non-interest-bearing securities			614,196.47		340
b) associated companies			2,353,728.97		4,215
c) affiliated companies			167,001,291.53		104,559
				169,969,216.97	109,114
4. Fee and commission income				25,933,650.56	13,670
5. Fee and commission expenses				(6,868,259.05)	(1,938)
6. Net income from trading activities				(2,101,338.09)	22
7. Other operating income				12,635,507.45	12,606
II. OPERATING INCOME				**233,368,013.98**	**153,416**
8. General administrative expenses					
a) Staff costs					
aa) Wages and salaries		(21,317,100.96)			(21,721)
bb) Cost of statutory social security contributions and other pay-related contributions		(4,139,477.41)			(4,100)
cc) Other social welfare expenditures		(677,957.49)			(275)
dd) Expenses for pensions and other retirement benefits		(122,024.64)			(1,025)
ee) Expenses for severance payments and contributions to employee severance funds		(516,971.43)			(312)
			(26,773,531.93)		(27,433)
b) Other administrative expenses			(67,231,265.80)		(57,360)
				(94,004,797.73)	(84,793)
9. Depreciation and amortisation of fixed assets (asset items 9 and 10)				(1,328,627.65)	(988)
10. Other operating expenses				(2,097,575.69)	(72)
III. OPERATING EXPENSES				**(97,431,001.07)**	**(85,853)**

EUR	2007 EUR	2006 EUR '000
IV. OPERATING PROFIT	**135,937,012.91**	**67,563**
11./12. +/– Net gain/loss on disposal or valuation of receivables, contingent liabilities, loan exposures and securities held as current assets	(299,953,333.09)	(16,553)
13./14. +/– Net gain/loss on disposal or valuation of securities held as financial investments and of investments in associated and affiliated companies	(82,214,484.76)	72
V. RESULT FROM ORDINARY ACTIVITIES	**(246,230,804.94)**	**51,082**
15. Extraordinary expenses = extraordinary result	(17,453,678.88)	(7,708)
16. Taxes on income	(6,292,089.61)	(11,530)
17. Other taxes not shown in item 16	(3,707.85)	(25)
VI. RESULT FOR THE YEAR	**(269,980,281.28)**	**31,819**
18. Changes in reserves	334,480,281.28	(22,192)
thereof:		
Allocation to liability reserves EUR 29,315,000.00 (previous year: Allocation EUR 18,616,000)		
Release of revenue reserves EUR 363,795,281.28 (previous year: Allocation EUR 3,577,000)		
VII. RETAINED PROFIT	**64,500,000.00**	**9,627**

Notes to the 2007 financial statements

I. General statutory provisions

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), as amended. The balance sheet and income statement are presented in the form prescribed in Schedule 2 to Section 43 BWG. Except where otherwise stated, all amounts are shown in EUR '000.

II. Accounting and valuation policies

The separate financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present as true and fair a view as possible of the Bank's assets, liabilities, financial position and profit or loss.

The principle of individual valuation is applied to value assets and liabilities, and the going concern principle is applied to value the enterprise as a whole.

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. Premiums and discounts on issue are recognised under accrued assets and liabilities respectively and written back over the life of the security. Recognisable risks in relation to receivables are the subject of specific risk provisions, which in the balance sheet are netted off the relevant receivables.

Securities earmarked for permanent use in the business are shown on the balance sheet as financial investments in accordance with Section 56(1) BWG and valued according to the modified lower of cost or market value principle. Impairment writedowns of financial assets are only made where the loss in value is expected to be permanent. 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 strict at the lower of cost or market value. Securities forming part of the trading book are included at market value as of the balance sheet date. As a general rule, market values of financial instruments requiring to be included in the financial statements are based on stock market prices. Where no stock market price is available, the future cash flows of the instrument are discounted to present value using the applicable interest rate. The calculation applies the standard investment mathematics procedures.

The provisions of Section 56(1) and (2) BWG were applied to securities considered to be financial investments. The alternative treatment permitted provided for in Section 56(3) BWG is not applied.

Investments in associated companies and shares in affiliated companies are recognised at cost of acquisition, provided that there were no permanent losses that would require a writedown.

Intangible fixed assets, together with tangible fixed assets (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost less scheduled depreciation and amortisation and, where necessary, less writedowns for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable property are between 2 and 4 percent, for movable property they range from 5 to 33 percent, and for software they are 25 percent. Low-value items of which the cost of acquisition is less than EUR 400 are written off immediately during the year of acquisition.

Liabilities are shown either at original nominal values or at the amounts repayable. Issue costs, such as premiums and discounts, are written off over the life of the debt.

Provisions for pensions were calculated actuarially using the Unit Credit Method in accordance with the provisions of IAS 19 in the year under review without taking advantage of the distribution of actuarial profits and losses (so-called corridor method). The calculation uses a discount rate of 5.5 percent (2006: 4.7 percent) and assumes, as in the previous year, annual pension increases of 2 percent.

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were calculated actuarially using the Unit Credit Method in accordance with the provisions of IAS 19 in the year under review (without applying the corridor method). The calculation uses a discount rate of 5.5 percent (2006: 4.7 percent) and assumes an unchanged salary increases rate of 3 percent per year, taking into account a deduction of 6 percent to reflect staff 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.

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the bank book or to the trading book, depending on their purpose. As pending transactions, they are as a matter of principle not recognised in the balance sheet. Option premiums paid and received are disclosed under other assets and other liabilities respectively. Options pricing models are used to value options and other financial instruments with similar characteristics.

III. Notes to the balance sheet

1. Relations with affiliated and associated companies

The following balance sheet items include receivables and payables in respect of affiliated and associated companies as follows (EUR '000):

	31.12.2007	31.12.2006
A3. Loans and advances to credit institutions	**7,746,888**	**7,005,597**
Affiliated companies	7,729,568	7,005,597
Associated companies	17,320	0
A4. Loans and advances to customers	**5,629,691**	**3,483,460**
Affiliated companies	5,629,691	3,483,460
Associated companies	0	0
P1. Liabilities to credit institutions	**363,948**	**321,441**
Affiliated companies	167,202	321,441
Associated companies	196,746	0
P2. Liabilities to customers	**142,418**	**70,057**
Affiliated companies	142,418	70,057
Associated companies	0	0
P7. Subordinated liabilities	**76,198**	**76,198**
Affiliated companies	76,198	76,198
Associated companies	0	0

2. Maturities of the balance sheet item

Maturities in accordance with Section 64 (1)(4) BWG were as follows (EUR ’000):

	31.12.2007	31.12.2006
A3. Loans and advances to credit institutions	**9,761,062**	**8,950,885**
– Daily due	516,734	385,500
– Up to three months	1,165,870	962,642
– Three months to one year	188,647	230,129
– One to five years	2,718,236	2,375,124
– Over five years	5,171,575	4,997,190
A4. Loans and advances to customers	**9,623,282**	**6,874,650**
– Daily due	949,573	773,855
– Up to three months	113,284	7,905
– Three months to one year	187,240	128,711
– One to five years	2,050,337	1,244,128
– Over five years	6,322,848	4,720,051
P1. Liabilities to credit institutions	**1,996,947**	**1,682,524**
– Daily due	402,716	397,639
– Up to three months	585,527	353,154
– Three months to one year	331,627	323,826
– One to five years	24,391	0
– Over five years	652,686	607,905
P2. Liabilities to customers	**1,871,861**	**1,149,152**
– Daily due	184,307	164,410
– Up to three months	103,965	37,369
– Three months to one year	60,880	50
– One to five years	24,933	23,540
– Over five years	1,497,776	923,783

3. Securities

(EUR '000)

	31.12.2007	31.12.2006
2. Treasury bills and other bills eligible for refinancing with central banks	**244,174**	**153,342**
thereof: listed	244,174	153,342
thereof: unlisted	0	0
thereof: fixed assets (financial investments)	25,179	25,639
thereof: current assets	218,995	127,703
3. Loans and advances to credit institutions (evidenced by certificates)	**117,791**	**136,527**
thereof: listed	0	0
thereof: unlisted	117,791	136,527
thereof: fixed assets (financial investments)	90,965	98,709
thereof: current assets	26,826	37,818
4. Loans and advances to customers (evidenced by certificates)	**28,479**	**0**
thereof: listed	0	0
thereof: unlisted	28,479	0
thereof: fixed assets (financial investments)	0	0
thereof: current assets	28,479	0
5. Bonds and other fixed income securities	**1,268,710**	**1,124,870**
thereof: listed	1,182,618	1,124,157
thereof: unlisted	86,092	713
thereof: fixed assets (financial investments)	40,061	40,066
thereof: current assets	1,228,649	1,084,804
6. Shares and other non-interest-bearing securities	**131,368**	**97,017**
thereof: listed	41,458	40,160
thereof: unlisted	89,910	56,857
thereof: fixed assets	0	0
thereof: current assets	131,368	97,017
7. Investments in associated companies	**22,073**	**3,701**
thereof: listed	0	0
thereof: unlisted	22,073	3,701
8. Shares in affiliated companies	**2,864,699**	**2,189,178**
thereof: listed	0	0
thereof: unlisted	2,864,699	2,189,178

Additional securities information:

The calculated difference between the higher market value and the balance sheet rate as of 31 December 2007 (Section 56(4) BWG) of securities tradable on the stock exchange (excluding own issues) that are not considered to be financial investments is EUR 8,331,000 (2006: EUR 6,386,000).

The difference between the higher market value at which bank book securities are disclosed (Section 56(5) BWG) and their cost of acquisition is EUR 15,538,000 (2006: EUR 26,527,000*).

In 2008, fixed income securities from the bank's own holdings shall fall due as follows: an amount of EUR 242,573,000 (2007: EUR 78,504,000) from Euro-denominated securities and EUR 0 (2007: EUR 22,880,000) from foreign denominated securities.

As of 31 December 2007, holdings of subordinated securities within the meaning of Section 45(3) BWG amounted to EUR 31,149,000 (2006: EUR 35,718,000).

The securities trading book (Section 64(1)(15) and Section 22(n) BWG) was made up as follows as of 31 December 2007 (EUR '000):

	31.12.2007	31.12.2006
Securities (carrying amount)	0	17,526

4. 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.

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*) prior year figure amended

5. Tangible and intangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Annex 1).

As of 31 December 2007, the value of land included in land and buildings was EUR 74,000 (2006: EUR 74,000).

6. Other assets

Other assets included interest receivable of EUR 230,026,000 (2006: EUR 345,318,000) only falling due after balance sheet date. They also included miscellaneous offsetting receivables of EUR 15,593,000 (2006: EUR 9,320,000), receivables in respect of income from affiliated companies of EUR 157,537,000 (2006: EUR 97,174,000) and trade receivables of EUR 93,673,000 (2006: EUR 6,273,000).

7. Liabilities to credit institutions

Liabilities to credit institutions include the fixed payment streams resulting from off-balance-sheet transactions that were included in the balance sheet at present value in financial 2004.

The present value at 31 December 2007 was EUR 125.9 m (2006: EUR 130.0 m), after discounting at the prevailing market rate for comparable transactions. The change in present value between 31 December 2007 and 31 December 2006 is recognised in the item interest expense.

8. Other liabilities

In addition to clearing account balances of EUR 29,182,000 (2006: EUR 7,640,000), other liabilities included interest expense of EUR 71,778,000 (2006: EUR 202,408,000) falling due after balance sheet date. They also included fees and levies of EUR 1,746,000 (2006: EUR 1,721,000), trade payables of EUR 5,129,000 (2006: EUR 3,311,000), statutory guarantee liabilities of EUR 10,362,000 (2006: EUR 6,253,000) and other liabilities of EUR 59,186,000 (2006: EUR 482,000).

9. Deferred liabilities

This item includes income whose recognition as such requires to be spread over its maturity, consisting predominantly of upfront payments received.

In financial 2007, an amount of EUR 94.6 m was also included here, reflecting the recognition in the income statement of the unwinding of swaps forming part of other transactions.
This accrued liability will also be recognised over the maturity of the issues.

10. Provisions

Other provisions were made up as follows (EUR ’000):

	31.12.2007	31.12.2006
Unconsumed vacation	1,411	1,246
Long-service bonuses	223	265
Employee performance bonuses	3,650	2,000
Legal and consultancy fees	4,398	1,750
Litigation costs according to BWG	5,477	7,000
Consultancy services (HSBC) for capital increase	0	3,750
Capital transactions tax	6.000	1,250
Other	11,665	3,239
Total	**32,824**	**20,500**

11. Supplementary and subordinated capital

The carrying amount of supplementary capital (excluding deferred interest) as of 31 December 2007 was EUR 321,521,000 (2006: EUR 324,294,000). The carrying amount of subordinated capital (excluding deferred interest) was EUR 903,861,000 (2006: EUR 704,451,000), of which EUR 230,000,000 was issued in 2007. Supplementary and subordinated capital has a maturity of one to five years.

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 Hypo Alpe-Adria-Bank International AG.

Interest expense of supplementary and subordinated capital amounted to EUR 47,476,000 (2006: EUR 26,967,000).

12. Equity

The shares of the non-utilised authorised capital, consisting of 220,395 no par value bearer shares with voting right, were subscribed by Berlin & Co Capital S.à.r.l. as part of a capital increase of EUR 125,000,000 with effect as of 2 March 2007. There is no authorised capital in addition to the aforesaid.

With effect as of 29 December 2007, there was another capital increase, namely by EUR 600,000,000 (EUR 9,578,000 on the issued capital and EUR 590,422,000 in the capital reserves). The newly issued shares were subscribed by Bayerische Landesbank and Hypo-Bank Burgenland Aktiengesellschaft.

The issued share capital of Hypo Alpe-Adria-Bank International AG as of the balance sheet date amounted to EUR 48,367,000 (2006: 37,026,000) divided into 6,045,891 (2006: 4,628,290) no par value bearer shares.

As of 31 December 2007, Hypo Alpe-Adria-Bank International AG is owned by Bayerische Landesbank, with an interest of 57.31 percent; by Hypo-Bank Burgenland Aktiengesellschaft, a GRAWE Group subsidiary, with an interest of 26.45 percent; by Kärntner Landes- und Hypothekenbank-Holding, with an interest of 16.04 percent; by Berlin & Co Capital S.à.r.l., with an interest of 0.18 percent, and by Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation), with an interest of 0.02 percent.

13. Reserves

Changes in capital, revenue and liability reserves were as follows (EUR ’000):

	01.01.2007	Additions	Releases	31.12.2007
Capital reserves	246,225	713,658	0	959,883
Revenue reserves	393,655	0	-368,795	29,860
Liability reserve	123,322	29,315	0	152,637

The additions to the capital reserves correspond to the premiums paid in connection with the capital increases in 2007.

IV. Off-balance sheet items

14. Derivative financial instruments

The following transactions were unsettled on 31 December 2007 (EUR ’000):

	Nominal Purchase contracts	Nominal Sales contracts	Fair value positive	Fair value negative
(a) Interest related business				
OTC products:				
– Interest rate swaps	18,650,397	18,650,397	379,474	488,671
– Interest swaptions	0	0	0	0
– Forward rate agreements (FRAs)	98,147	98,147	108	153
Exchange-traded products:	**0**	**0**	**0**	**0**
(b) Currency related business				
OTC products:				
– Currency swaps	1,504,735	1,504,735	55,636	60,772
– Cross currency swaps	1,670,266	1,671,836	9,205	8,827
– Forward exchange contracts	93,364	93,344	876	855
– Currency swaptions	24,715	25,217	217,480	217,480
Exchange-traded products:	**0**	**0**	**0**	**0**
(c) Securities related business				
OTC products:	**0**	**0**	**0**	**0**
(d) Other				
OTC products:				
– Credit default swaps	104,632	104,632	49	796
– Total return swaps	254,000	254,000	10,185	0
Exchange-traded products:	**0**	**0**	**0**	**0**

The comparative values as of 31 December 2006 were (EUR ’000):

	Nominal Purchase contracts	Nominal Sales contracts	Fair value positive	Fair value negative
(a) Interest related business				
OTC products:				
– Interest rate swaps	18,465,642	18,465,642	440,093	388,552
– Interest swaptions	0	200,000	0	803
– Forward rate agreements (FRAs)	895,208	895,208	839	514
Exchange-traded products:	**0**	**0**	**0**	**0**
(b) Currency related business				
OTC products:				
– Currency swaps	909,348	888,937	37,328	18,149
– Cross currency swaps	891,553	893,686	7,409	10,682
– Forward exchange contracts	35,288	35,289	163	162
– Currency swaptions	6,799	7,278	0	0
Exchange-traded products:	**0**	**0**	**0**	**0**
(c) Securities related business				
OTC products:	**0**	**0**	**0**	**0**
(d) Other				
OTC products:				
– Credit default swaps	195,310	195,310	272	26
– Total return swaps	204,000	204,000	3,673	0
Exchange-traded products:	**0**	**0**	**0**	**0**

15. Other off-balance-sheet items

Contingent liabilities consist of EUR 1,649,940,000 (2006: EUR 297,655,000) in guarantees and other collateral securities, EUR 48,856,000 (2006: EUR 70,480,000) in letters of credit and EUR 54,632,000 (2006: EUR 272,397,000) in credit derivatives. Loan exposures comprise unused credit lines of EUR 1,423,546,000 (2006: EUR 617,510,000).

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.

Obligations arising in connection with the use of fixed assets not included in the balance sheet of Hypo Alpe-Adria-Bank International AG (rental and leasing obligations) amounted to EUR 469,000 (2006: EUR 514,000) and to EUR 1,308,000 in total for the years 2008 to 2012.

V. Notes to the income statement

Interest and similar income was as follows (EUR '000):

	31.12.2007	31.12.2006
Loans and advances to credit institutions and customers	**976,931**	**547,591**
Austria	129,748	59,730
International	847,183	487,861
Fixed income securities	**69,506**	**45,745**
Austria	5,068	3,522
International	64,438	42,223
Other assets	**779,023**	**629,268**
Austria	779,023	629,268
International	0	0

Interest and similar expense was as follows (EUR ’000):

	31.12.2007	31.12.2006
Liabilities to credit institutions and customers	**227,326**	**148,026**
Austria	28,050	25,948
International	199,276	122,078
Debt evidenced by certificates	**773,586**	**465,583**
Austria	773,586	465,583
International	0	0
Other liabilities	**790,748**	**589,054**
Austria	790,748	589,054
International	0	0

Income from affiliated companies for the purposes of Section 238(4) UGB was as follows (EUR ’000):

	31.12.2007	31.12.2006
Hypo Alpe-Adria-Bank AG, Klagenfurt	0	4,050
Hypo Vermögensverwaltung GmbH, Klagenfurt	27,000	21,250
Hypo Alpe-Adria-Bank S.p.A., Udine	30,358	20,940
Hypo Alpe-Adria-Bank d.d., Ljubljana	10,731	6,216
Hypo Alpe-Adria-Bank d.d., Zagreb	0	17,100
Hypo Alpe-Adria-Bank d.d., Mostar	6,280	0
Slavonska Banka d.d., Osijek	11,550	5,000
Hypo Alpe-Adria-Bank a.d., Banja Luka	3,565	3,323
Hypo Consultants Holding GmbH, Klagenfurt	55,000	11,396
Hypo Alpe-Adria-Immobilien AG, Klagenfurt	5,000	2,982
Hypo Alpe-Adria-Bank (Liechtenstein) AG, Schaan	0	4,917
Total-Dividends recognised in parent's accounts during the year earned, rather than the year of the resolution of the profit distribution	**149,484**	**97,174**
HBInt. Credit Management Limited, Jersey	17,517	6,493
Hypo Alpe-Adria-Bank d.d., Zagreb	0	891
Other dividends	**17,517**	**7,384**
Total	**167,001**	**104,558**

The income from associated companies of EUR 2,354,000 includes a dividend of EUR 2,330,000, capitalized at the parent-company level during the year when it was generated rather than when the dividend was distributed, from Hypo Alpe-Adria-Bank (Liechtenstein) AG as of 31 December 2007, which is in agreement with the contractually guaranteed dividend.

Expenses included EUR 20,912,000 (2006: EUR 17,253,000) commission payable to the Province of Carinthia in respect of the statutory guarantee.

There were no untaxed reserves in the year under review.

Extraordinary expenses consist exclusively of expenses directly attributable to the capital increase and are mainly legal and consultancy fees and the related capital duties.

VI. Supplementary information

16. Assets pledged as collateral pursuant to Section 64(1)(8) BWG

During the year under review, there were no other current assets pledged as collateral for amounts owed to banks for the purpose of Section 64(1)(8) BWG.

17. Debt securities in issue falling due in the following year

In 2008, debt securities of Hypo Alpe-Adria-Bank International AG in issue amounting to EUR 1,034,423,000 shall fall due (2007: EUR 1,916,398,000) (Section 64(1)(7) BWG).

18. Important law cases

In connection with the purchase of shares in Slavonska Banka d.d. Osijek (SBO) in 1998/99, in September 2003 Hypo Alpe-Adria-Bank International AG brought an action in the London Court of International Arbitration (LCIA) against the Croatian State Agency for Deposit Insurance and Bank Rehabilitation (DAB) after its attempts to find an understanding and the corresponding negotiations with the Croatian Authorities had failed. The complaint is based on the violation of the share purchase agreement concluded by and between plaintiff and DAB, as the National Bank of Croatia found subsequently that the allocations to the risk provisions for bad and doubtful debts had been insufficient. As a consequence, Hypo Alpe-Adria-Bank International AG suffered a loss, requiring the injection of additional capital to comply with the local capital adequacy regulations.

Corresponding with the complaint filed by Hypo Alpe-Adria-Bank International AG, DAB in turn initiated a redress procedure against Slavonska Banka d.d. Osijek at the LCIA to gain compensation from the relevant group company of Hypo Group Alpe Adria for all payments to be made by it. At present, this procedure is dormant.

As of 27 December 2007, the LCIA delivered its final verdict in the first-mentioned proceedings, awarding claimant Hypo Alpe-Adria-Bank International AG damages in an amount of EUR 30.6 m. In addition, the claimant was awarded interest on this amount from March 1999 and the replacement of a part of the costs incurred by it.

The Board of Hypo Alpe-Adria-Bank International AG is confident that it will be able to bring about a final and consensual solution with the Republic of Croatia in 2008.

19. Important long-term agreements

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

Hypo Alpe-Adria-Bank International AG has concluded refinancing agreements with its subsidiaries. These constitute the basis of the group financing activities of Hypo Alpe-Adria-Bank International AG.

The election for group taxation became effective as of 1 January 2005 Hypo Alpe-Adria-Bank International AG is the taxable company for the Group. The taxable profits and losses of all major Austrian subsidiaries are assigned for tax purposes to Hypo Alpe-Adria-Bank International AG.

20. Group Holding Company

Since 9 October 2007, Hypo Alpe-Adria-Bank International AG is included as a subsidiary in the consolidated financial statements of BayernLB Group, prepared according to IFRS.

The consolidated financial statements of BayernLB are published at www.bayernlb.de. Disclosure is effected to the address of Bayerische Landesbank, Brienner Straße 18, 80333 Munich (Germany), as well as in the electronic federal legal gazette (www.ebundesanzeiger.de).

21. Other supplementary information

Liabilities to customers do not include any trustee savings accounts.

There were no interests in leasing business within the meaning of Section 64(1)(1) BWG.

In 2007, deferred tax assets that were not disclosed separately in the balance sheet and whose capitalisation is required according to the Austrian Enterprise Code (UGB) amounted to EUR 0 (2006: EUR 0).

Mortgage bond activities pursuant to the Mortgage Bond Act (PfandBG) were as follows (EUR '000):

	Debt evidenced by certificates		Covering loans		Surplus / shortfall in cover	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Public sector						
Mortgage bonds	171,085	175,579	523,035	467,053	351,950	302,106

The balance sheet contained the following foreign currency amounts (EUR '000):

	31.12.2007	31.12.2006
Assets	5,047,457	3,743,799
Liabilities	4,420,104	3,800,686

The greater part of the difference of EUR 586,180,000 (2006: EUR 56,887,000) was hedged with currency and cross currency swaps and forward rate agreements.

22. Employees

The average number of employees for the purposes of Section 239 UGB was as follows:

	2007	2006
Salaried staff	283	279

23. Expenses for severance payments and pensions

In 2007, the bank paid the following severance pay and pension amounts, respectively provisions for the same (EUR '000):

	2007	2006
Senior employees	52	-33
Other employees	695	345
Total	**747**	**312**

Any termination benefits paid on the occasion of the retirement of members of the Executive Board are shown as remuneration paid to former members.

24. Information about members of management bodies

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

As of the balance sheet date, there were no advances, loans or guarantees by Hypo Alpe-Adria-Bank International AG in respect of members of the Executive Board.

As of the balance sheet date, no members of the Supervisory Board had received any loans or guarantees from Hypo Alpe-Adria-Bank International AG, either for themselves or for enterprises for which they were personally liable.

All transactions relating to members of the Supervisory and Executive Boards are carried out through Hypo Alpe-Adria-Bank AG.

24.2 Compensation for members of the Executive and Supervisory Boards (EUR '000):

	2007	2006
Executive Board		
– fixed	1,502	1,708
– variable	1,060	805
Supervisory Board	180	157
Remuneration of former members of the Executive respectively Supervisory Board and their surviving dependants	617	3,135
Total	**3,359**	**5,805**

Members of the Executive respectively Supervisory Board who served during the year are detailed in Annex 2 to these notes.

25. Declaration of the legal representatives

“To the best of our knowledge, and in accordance with the applicable financial reporting principles, we declare that the separate financial statements as of 31 December 2007 provide a true and fair view of the assets, liabilities, financial position and profit or loss of the company and that the management report portrays the course of business including the result and the situation of the company in a manner that conveys a true and fair view and describes the significant opportunities and risks of the presumable development of the company.”

Klagenfurt am Wörthersee, 28 February 2008
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Tilo Berlin

Josef Kircher

Thomas Morgl

Wolfgang Peter

Paul A. Kocher

Fixed assets movement schedule Annex 1

Asset	Acquisition costs 01.01.2007	Additions 2007	Disposals 2007
Item 2 **Treasury bills** Financial investments	25,639,346.16	10,183,777.87	-10,643,846.16
Item 3 **Loans and advances to credit institutions** Financial investments	98,709,187.56	2,655,880.04	-10,399,969.44
Item 4 **Loans and advances to customers** Financial investments	0	0	0
Item 5 **Bonds and other fixed income securities** Financial investments	40,066,449.10	1,191,049.31	-1,196,714.10
Item 7 **Investments in associated companies**	3,700,622.88	1,437,497.26	-551,186.88
Item 8 **Shares in affiliated companies**	2,157,867,855.79	836,661,534.46	-112,344,600.32
Item 9 **Intangible fixed assets**	8,812,304.97	2,881,930.91	-4,742,175.92
Item 10 **Tangible fixed assets**	2,333,360.03	188,236.84	-104,313.87
Total	**2,337,129,126.49**	**855,199,906.69**	**-139,982,806.69**

Transfers 2007	Acquisition costs 31.12.2007	Accumulated depreciation	Carrying amount 31.12.2007	Carrying amount 31.12.2006	Depreciation 2007
0	25,179,277.87	0	25,179,277.87	25,639,346.16	0
0	90,965,098.16	0	90,965,098.16	98,709,187.56	0
0	0	0	0	0	0
0	40,060,784.31	0	40,060,784.31	40,066,449.10	0
17,485,574.71	22,072,507.97	0	22,072,507.97	3,700,622.00	0
-17,485,574.71	2,864,699,215.22	0	2,864,699,215.22	2,189,177,855.79	0
0	6,952,059.96	-3,206,974.81	3,745,085.15	6,735,804.60	-1,130,646.73
0	2,417,283.00	-1,028,606.93	1,388,676.07	1,431,872.15	-197,980.92
0	**3,052,346,226.49**	**-4,235,581.74**	**3,048,110,644.75**	**2,334,151,137.36**	**-1,328,627.65**

Management bodies Annex 2

1 January 2007 to 31 December 2007

Supervisory Board

Chairman of the Supervisory Board

Wolfgang KULTERER, St. Veit, until 9 October 2007
Werner SCHMIDT, Munich, from 9 October 2007*)

First deputy chairman of the Supervisory Board

Othmar EDERER, Graz

Second deputy chairman of the Supervisory Board

Hans-Jörg MEGYMOREZ, Klagenfurt-Wölfnitz,
from 31 May 2007

Members of the Supervisory Board

Karl-Heinz MOSER, Vienna, until 31 May 2007
Gerd PENKNER, Klagenfurt, until 31 May 2007
Günther PUCHTLER, Graz, until 31 May 2007
Veit SCHALLE, Vienna, until 31 May 2007
Christoph SCHASCHÉ, Klagenfurt, until 9 October 2007
Siegfried GRIGG, Graz, from 1 June 2007
Mathias HINK, London, from 1 June 2007
until 9 October 2007
Gert XANDER, Klagenfurt, from 1 June 2007
Siegfried NASER, Munich, from 9 October 2007
Kurt FALTLHAUSER, Munich, from 9 October 2007
Rudolf HANISCH, Munich, from 9 October 2007

Delegated by the Works Council

Erich CLIMA, Chairman of the Works Council, Klagenfurt
Edith ENENGEL, Klagenfurt
Mario ZOLLE, Klagenfurt
Birgit GRASCHER, Pischeldorf, until 15 November 2007
Markus RUSSLING, Klagenfurt, from 16 November 2007

Federal Supervisory Authorities

State commissioner

Sabine KANDUTH-KRISTEN, Klagenfurt, until 30 April 2007
Angelika SCHLÖGEL, Vienna, from 1 July 2007

Deputy state commissioner

Monika HUTTER, Vienna

Trustee

Herbert PÖTZ
Judge of the Provincial Court, Klagenfurt

Deputy trustee

Helmut ARBEITER
Judge of the Provincial Court, Klagenfurt

Executive Board

Tilo BERLIN, Chairman of the Executive Board,
Maria Saal, from 1 June 2007
Siegfried GRIGG, Chairman of the Executive Board,
Graz, until 31 May 2007
Thomas MORGL, Member of the Executive Board,
Viktring
Josef KIRCHER, Member of the Executive Board,
Liebenfels
Paul A. KOCHER, Member of the Executive Board,
Vienna
Wolfgang PETER, Member of the Executive Board,
Breitenbrunn

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*) Resigned from his function as Chairman of the Supervisory Board as per 1 March 2008. At the Supervisory Board meeting on 30 April 2008, a new Supervisory Board Chairman of Hypo Alpe-Adria-Bank International AG will be elected.

List of shareholdings in associated and affiliated companies Annex 3

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1. Direct participations of Hypo Alpe-Adria-Bank International AG

The following list shows the direct participations of Hypo Alpe-Adria-Bank International AG pursuant to Section 238(2) of the Austrian Enterprise Code (UGB).

Name of the associated enterprise	Registered office	Capital share[1]	Equity in EUR '000[2]	Result in EUR '000[3]	Date of closing	Line of business of the company
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	100.00 %	221,549	-19,707	31.12.2007	Banking
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.00 %	357,107	23,480	31.12.2007	Banking
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.00 %	148,001	10,842	31.12.2007	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Zagreb	100.00 %	671,416	25,562	31.12.2007	Banking
Slavonska Banka d.d. Osijek	Osijek	100.00 %	268,146	9,072	31.12.2007	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Mostar	99.998 %	103,059	5,645	31.12.2007	Banking
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	97,322	27,777	31.12.2007	Banking
HYPO ALPE-ADRIA-BANK AD BEOGRAD (subgroup)	Belgrad	99.903 %	241,340	18,998	31.12.2007	Banking
HYPO ALPE-ADRIA-BANK (Liechtenstein) AG	Schaan	49.00 %	39,380	2,539	31.12.2007	Banking
Hypo Alpe-Adria Jersey Ltd.	St. Helier	100.00 %	-	-	31.12.2007	Financial services
Hypo Alpe-Adria (Jersey) II Ltd.	St. Helier	100.00 %	-	-	31.12.2007	Financial services
HBInt. Credit Management Limited (subgroup)	St. Helier	51.00 %	690,065	-82,238	31.12.2007	Financial services
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.60 %	34,948	1,980	31.12.2007	Banking
Hypo Group Netherland Holding B.V. (subgroup)	Amsterdam	100.00 %	4,471	173	31.12.2007	Financial services
HYPO Consultants Holding GmbH	Klagenfurt	100.00 %	67,460	57,547	31.12.2007	Service
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	99.21 %	11,166	-218	31.12.2007	Service
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100.00 %	75,678	27,527	31.12.2007	Service
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100.00 %	-466	-540	31.12.2007	Service
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100.00 %	322	30	31.12.2007	Service
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100.00 %	68,237	-2,546	31.12.2007	Service
Hypo Alpe-Adria-Immobilien AG (subgroup)	Klagenfurt	100.00 %	70,625	10,287	31.12.2007	Service
HYPO Facility Services GmbH	Klagenfurt	100.00 %	27	-8	31.12.2007	Service
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100.00 %	63	-12	31.12.2007	Service
Alpe-Adria-Projekt AG	Munich	100.00 %	43	2	31.12.2006	Other enterprise
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt	100.00 %	-294	-359	31.12.2006	Other enterprise
IT-INVEST SEE AG	Vaduz	100.00 %	-121	-128	31.12.2006	Other enterprise
Puris Verwaltungs- und Beteiligungs GmbH	Villach	100.00 %	-1,572	-8	31.12.2006	Other enterprise

As a general rule, the stated amounts for equity and the results have been disclosed on the basis of UGB/BWG valuation rules applied consistently throughout the Group. Therefore, they may differ from the figures published in the separate financial statements, which are prepared in accordance with the applicable national laws. The information is based on unconsolidated data.

Subgroups: The amounts shown for equity and the result consider included subsidiaries

[1] Percentage from the point of view of Hypo Alpe-Adria-Bank International AG. Minority shareholders with less than a third-digit interest are disregarded.

[2] Equity = as defined in Section 229 UGB, plus untaxed reserves

[3] Result = profit/loss for the year before reserve movements and minority interests

2. Consolidation scope according to UGB/BWG

Hypo Alpe-Adria-Bank International AG prepares its official consolidated financial statements as of 31 December 2007 according to the International Financial Reporting Standards (IFRS). The published consolidated financial statements are based on the scope of consolidation according to IFRS and is disclosed separately. For regulatory purposes, Hypo Alpe-Adria-Bank International AG is the superordinated credit institution, according to 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 regulations of the Austrian Enterprise Code (UGB) / Austrian Banking Act (BWG). As of 31 December 2007, it is as follows:

Name of the associated enterprise	Registered office	C	Capital share[1)]indirect	Line of business of the company
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	V	100.00 %	Banking
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	V	100.00 %	Banking
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	V	100.00 %	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Zagreb	V	100.00 %	Banking
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	AE	100.00 %	Financial services
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	AE	100.00 %	Financial services
Slavonska banka d.d. Osijek	Osijek	V	100.00 %	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Mostar	V	99.998 %	Banking
HYPO-ALPE-ADRIA-INVEST d.o.o.	Mostar	AE	99.998 %	Financial services
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice d.o.o.	Sarajevo	AE	99.998 %	Securities company
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	V	99.600 %	Banking
HYPO ALPE-ADRIA-BANK AD BEOGRAD (subgroup)	Belgrade	V	99.903 %	Banking
BROKERSKO-DILERSKO DRUSTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	AE	99.903 %	Securities company
HYPO ALPE-ADRIA-BANK (Liechtenstein) AG	Schaan	AE	49.00 %	Banking
Hypo Alpe-Adria Jersey Ltd.	St. Helier	V	100.00 %	Financial services
Hypo Alpe-Adria (Jersey) II Ltd.	St. Helier	V	100.00 %	Financial services
HBInt. Credit Management Limited (subgroup)	St. Helier	V	51.00 %	Financial services
Carinthia I Limited	St. Helier	V	51.00 %	Financial services
Carinthia II Limited	St. Helier	V	51.00 %	Financial services
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	V	99.873 %	Banking
Hypo Group Netherland Holding B.V. (subgroup)	Amsterdam	V	100.00 %	Financial services
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	V	100.00 %	Financial services
Hypo Group Netherlands Finance B.V.	Amsterdam	V	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING HOLDING AG	Klagenfurt	V	68.25 %	Financial services
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	V	68.25 %	Financial services

Name of the associated enterprise	Registered office	C	Capital share[1) indirect	Line of business of the company
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	V	68.25 %	Financial services
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H. (subgroup)	Klagenfurt	V	68.25 %	Financial services
HYPO-BA Leasing Süd GmbH	Klagenfurt	AE	34.13 %	Financial services
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	V	68.25 %	Financial services
HYPO Wohnbau GmbH	Klagenfurt	V	68.25 %	Financial services
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	V	68.25 %	Financial services
HYPO Projektentwicklungs GmbH	Klagenfurt	V	68.25 %	Services
HYPO ALPE-ADRIA-LEASING S.R.L.	Udine	V	68.25 %	Financial services
HYPO LEASING d.o.o.	Ljubljana	V	68.25 %	Financial services
HYPO-LEASING KROATIEN d.o.o. (subgroup)	Zagreb	V	68.25 %	Financial services
Alpe-Adria poslovodstvo d.o.o.	Zagreb	V	68.25 %	Services
JADRAN JAHTE d.o.o.	Zagreb	V	68.25 %	Financial services
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	V	68.25 %	Financial services
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	V	68.25 %	Financial services
HYPO ALP̌E-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	V	68.25 %	Financial services
HYPO HǑUSE D.O.O. - PODGORICA	Podgorica	V	68.25 %	Financial services
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	V	68.25 %	Services
HYPO-ALPE-ADRIA-LEASING GmbH (subgroup)	Munich	V	68.25 %	Financial services
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	V	68.25 %	Financial services
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	V	68.25 %	Financial services
Verwaltungsgesellschaft HLG Achilles mbH	Munich	V	68.25 %	Financial services
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	V	4.10 %	Financial services
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	V	68.25 %	Financial services
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	V	0 % (VR 51 %)	Financial services
HYPO Alpe-Adria Leasing Zrt. (subgroup)	Budapest	V	68.25 %	Financial services
HYPO Alpe-Adria Leasing Kft.	Budapest	V	68.25 %	Financial services
HYPO ALPE-ADRIA-LEASING EOOD (subgroup)	Sofia	V	68.25 %	Financial services
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	V	68.25 %	Financial services
HYPO ALPE-ADRIA-LEASING DOOEL	Skopje	V	68.25 %	Financial services
HYPO ALPE-ADRIA-LEASING TOV	Kiev	V	68.25 %	Financial services

Name of the associated enterprise	Registered office	C	Capital share[1] indirect	Line of business of the company
HYPO Consultants Holding GmbH	Klagenfurt	V	100.00 %	Services
HYPO Alpe-Adria Consultants AG	Schaan	V	100.00 %	Services
HYPO ALPE-ADRIA CONSULTANTS S.R.L.	Udine	V	100.00 %	Services
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	V	99.21 %	Services
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	V	100.00 %	Services
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	V	100.00 %	Services
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	V	100.00 %	Services
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	V	100.00 %	Services
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	V	100.00 %	Services
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	V	100.00 %	Services
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	V	100.00 %	Services
Hypo Alpe-Adria-Immobilien AG (subgroup)	Klagenfurt	V	100.00 %	Services
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	V	100.00 %	Services
HYPO Facility Services GmbH	Klagenfurt	V	100.00 %	Services
Alpe-Adria Investments d.o.o.	Zagreb	V	100.00 %	Services
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	V	100.00 %	Services
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	V	100.00 %	Services
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	V	100.00 %	Services
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	V	100.00 %	Services

C = Consolidation method in the regulatory consolidated financial statements, TC = Total consolidation, AE = At Equity

[1] Calculated percentage from the point of view of Hypo Alpe-Adria-Bank International AG. Minority shareholders with less than a third-digit interest are disregarded.

Auditors' Opinion

»We have audited the financial statements, including the accounting records of **Hypo Alpe-Adria-Bank International AG**, Klagenfurt, for the fiscal year from 1 January 2007 to 31 December 2007. The Company's management is responsible for the preparation and content of the financial statements and the accounting records and the management report in accordance with Austrian regulations as well as with the articles of association. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the management report is in accordance with the financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from misstatement and whether we can state that the management report is in accordance with the financial statements. In determining audit procedures we considered our knowledge of the business, the economic and legal environment of the company and as well as the expected occurrence of errors.

The audit involves procedures to obtain evidence about amounts and disclosures in the financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 are in accordance with legal requirements as well as with the articles of association and present fairly in all material respects, the financial position of the **Hypo Alpe-Adria-Bank International AG** as of 31 December 2007 and of the results of its operations for the fiscal year from 1 January 2007 to 31 December 2007 in accordance with Austrian generally accepted accounting principles. The management report is in accordance with the financial statements.«

Vienna, 7 March 2008

Deloitte
Wirtschaftsprüfungs GmbH

Thomas Becker Peter Bitzyk
Certified Public Accountants

The publication or transfer of the financial statements in a form different from the one we have audited is only permitted after our consent if in the course of doing so reference is made to our audit opinion or our audit.