HYPO ALPE ADRIA
SUPPORTIVE. FRIENDLY. FAIR.

Interim Financial Report 2011

Hypo Alpe Adria

Key data based on the interim consolidated financial statements prepared in accordance with IFRS

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

	2011	2010	2009
Income statement	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**
Net interest income	389.5	446.7	389.8
Net fee and commission income	37.7	55.7	60.2
Risk provisions on loans and advances	–134.9	–667.1	–349.1
Operating expenses (administrative expenses)	–267.9	–270.5	–266.2
Operating result - prior to risk provision on loans and advances	225.7	212.9	277.4
Operating result - after risk provisions on loans and advances	90.8	–454.2	–71.7
Result before tax	90.7	–449.4	–83.9
Result after tax	77.3	–502.9	–147.7
Consolidated result (attributable to equity holders of parent)	71.6	–498.9	–162.1
Statement of financial position	**30.6.**	**31.12.**	**31.12.**
Loans and advances to customers	27,522.9	28,217.5	30,116.6
Liabilities to customers	8,150.7	8,120.4	7,649.8
Debt securities in issue and subordinated capital	19,639.4	21,329.6	21,968.1
Equity (including non-controlling interests)	1,553.7	1,450.4	1,990.1
Total assets	36,564.0	38,753.2	41,078.7
Risk-weighted assets (banking book)	24,294.7	24,611.1	27,907.9
Key figures	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**
Cost/income ratio	54.3%	56.0%	49.0%
Net interest income/Ø risk-weighted assets (banking book)	1.6%	1.4%	2.6%
Risk/earnings ratio	34.6%	149.4%	89.6%
Risk/Ø risk-weighted assets (banking book)	0.6%	2.1%	2.3%
Bank-specific figures	**30.6.**	**31.12.**	**31.12.**
Own capital funds	2,748.1	2,777.5	2,999.8
Own capital funds requirement according to BWG	2,146.7	2,167.4	2,425.8
Surplus capital	601.4	610.1	574.0
Core capital (Tier 1)	1,778.6	1,794.7	2,018.4
Tier 1 ratio - banking book	7.3%	7.3%	7.2%
Tier 1 ratio - including market and operational risk	6.6%	6.6%	6.6%
Own capital funds ratio - total (solvency ratio)	10.2%	10.3%	9.9%
Moody's rating	**30.6.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	Baa3	Baa3	Baa2
Long-term (liabilities covered by statutory guarantee)	Aa3	Aa3	Aa2
Short-term	P–3	P–3	P–2
Bank Financial Strength Rating (BFSR)	E	E	E
Employees and locations	**30.6.**	**31.12.**	**31.12.**
Employees at closing date	8,455	8,220	7,733
thereof in finance and finance-related areas	7,115	6,978	7,195
thereof in other areas (tourism and industry)	1,340	1,242	538
Employees average	8,338	7,927	7,969
thereof in finance and finance-related areas	7,047	7,069	7,409
thereof in other areas (tourism and industry)	1,291	858	560
Number of locations	324	328	354

Interim Financial Report 2011

Letter from the Chairman of the Executive Board

Dear Customers and Business Partners,
Dear Shareholders and Taxpayers,
Dear Employees,

In my letter for this report a year ago I outlined the path that could be taken to bring Hypo Alpe Adria to a break-even result in 2011 and a clear stabilisation of its position. With the new Executive Board team having taken up its functions and in the midst of a stock-take of the problems and charges arising from the past and the challenges to be faced in the future, we acknowledged then, as we do today, the job entrusted to us by the Republic of Austria and all its taxpayers, and the need to push for positive results.

The current interim report is evidence of the ability of Hypo Alpe Adria to reach the milestones it has set out for itself and underlines the irreversibility of the processes which have been initiated since April 2010.

There is a positive interim result again for the first time since 2007. It amounts to EUR 72 m and contains EUR 66 m of positive one-time effects from fair value measurements. Even after allowing for these effects there is a positive consolidated result of EUR 5 m stemming from positive operating results in the majority of the institutions in the core SEE country markets, but also from positive contributions from the banks in Austria and Italy. The guarantee considerations, commissions and banking taxes totalling EUR 37 m that have been paid in the first half of the year should also be mentioned at this juncture.

At EUR 135 m, the costs of risk provisions for loans and advances have reached a level that is once more in line with benchmarks for the sector. The figures are evidence of the comprehensive analysis conducted of credit risks in 2010 and first successes in the workout of problem loans. Despite the far from ordinary position in which the bank finds itself, operating expenses have remained at the level of the previous year.

From today’s standpoint, the Executive Board can in good conscience assert that Hypo Alpe Adria is on the way to turnaround, with a new and controlled strategic direction, structured risk management and rigorous controlling.

It must also be stated, however, that the framework conditions in those markets in which Hypo Alpe Adria is investing its efforts have been and continue to be hard. The most visible evidence of this is in the sluggish recovery of the economies of South-Eastern Europe; in addition, the market for mergers and acquisition for the banking and real estate sectors has practically come to a standstill. Against this background, and taking into account the starting point, the results for the first half of 2011 can be viewed as the first signs of a trend reversal for the bank and the first confident signs of life.

The objective defined at the beginning of the year – to make Hypo Alpe Adria smaller, simpler and more customer-oriented in every respect – is clearly taking shape:

By focussing on the healthy core business in banking and leasing and by systematically winding down areas of the business not defined as core, there has been a reduction of EUR 2.2 bn in total assets since year-end 2010, to EUR 36.6 bn. Federal and State-backed issues totalling more than EUR 1.5 bn were bought back in the same period, significantly more than had been specified for the first six months. The capital measures (decapitalisation and conversion of part of the participation capital) that had been planned at the time of nationalisation by the current sole shareholder, the Republic of Austria, were implemented in two stages and have strengthened the equity structure.

The completely overhauled marketing approach, by means of which we are seeking out business as a service-oriented bank through engagement with customers at the service counter and exploiting previously untapped potential, is paying off, with a new credit volume of over one billion euros and EUR 360 m in new retail deposits. More than 1.2 million customers are again entrusting their money to Hypo Alpe Adria, 14,000 more than last year.

On behalf of the Executive Board, I would like to thank our customers, business partners, shareholders, taxpayers and employees for the trust they have shown. This is our most valuable asset, which we aspire to build on every day. Not least for this reason the bank's role in dealing with the past is, alongside managing operations, one of the most important projects it has to work on: the focus in terms of time period, subject matter and geography that had been agreed upon with the Republic of Austria for the "CSI Hypo" project has, up until now, produced more than 1,000 cases to be investigated, which require the bank to provide supplementary information independently when new suspected cases come to light. More than half of the 50 top-priority cases, which alone account for an impairment volume of EUR 1.5 bn, are now at an advanced stage of in-depth investigation into their origins and a detailed forensic investigation. The legal processing of the facts already supplied by the bank will, of course, take many years.

There have been two main objectives for the employees and management of Hypo Alpe Adria in the past months: firstly, to restructure and turn the bank into a financial institution for the Alps-to-Adriatic region that is both capable of being reprivatised and a sustainable going concern in such a way that the costs incurred to the Austrian taxpayer are reduced as much as is possible. Secondly, to ensure that the financial and human resource made available by the bank to deal with the past, as commissioned by the Republic, are deployed in such a way that there is a viable basis for the judiciary to carry out its work; that the commercial claims the bank may have are safeguarded in the best possible way; and that a culture of ethics and acknowledgement of responsibility is created both as a shield and a basis for a new business understanding.

The Executive Board and the more than 8,000 employees of Hypo Alpe Adria will continue to work to these objectives in the future.

Yours sincerely

Gottwald Kranebitter
Chairman of the Executive Board
Hypo Alpe-Adria-Bank International AG

Interim Management Report

1.1. Events of importance in the first half of 2011

The emphasis in the first half of 2011 has been on continuing to work systematically on the realignment and concentration of the group on its core markets in South-Eastern Europe as initiated in 2010. The complete realignment of the organisation and of the methods and processes deployed in the area of credit risk management which was essential for responsible banking operations is for the most part complete. The realignment which had been signalled for the marketing and image of the banks in the core country markets is already clearly bearing fruit in the areas of lending, deposits and financial services. Significant progress has been made in winding down non-core business areas while at the same time preserving value, with the objective of achieving the target structure in the medium term.

Positive consolidated result

The main factors behind the consolidated net profit were the reduction in risk provisions for loans and advances and the improvement in operations in our core SEE markets over the previous year. By focussing on the retail business and by pushing cross-selling activities both the number of customers and deposits were increased. The volume of credit was reduced in line with budget; there was, however, a significant increase in new business with solid margins in SEE over the second half of 2010. A consolidated net profit of EUR +5.2 m was achieved prior to the positive one-time effects of fair value measurement of EUR +66.4 m; the risk provisions for loans and advances came to EUR -134.9 m.

Charges arising from the crisis in Greece

Impairment write-downs totalling EUR -21.5 m on the group’s EUR 93.0 m exposure to Greece impacted on the result. Through selling a EUR 50.0 m exposure (without any further effect on the result) in July 2011, the remaining exposure has reduced to EUR 43.0 m and the carrying amount in the statement of financial position to EUR 26.6 m, which equates to an average devaluation of some 38.0 %.

Status of the EU proceedings/restructuring measures

The outcome of the EU state aid proceedings is still pending. The draft of a restructuring plan was submitted by Hypo Alpe Adria to the EU Commission in April 2010. An updated restructuring plan was sent to the EU Commission on 15 April 2011; work is being done on the detailed plan.

CSI

Management and all employees continue to strive to ensure the bank contributes to as complete an investigation of events prior to the emergency nationalisation as possible. The focus of the investigations in terms of time period, location and topic has brought more than 1,000 potential cases from the period 2003 to 2009 to be investigated to light. For the 50 top-priority cases, which account for an impairment volume of EUR 1.5 bn, the transfer of data to the data room is now almost 100% complete. Half of the cases are now subject to detailed forensic and legal investigation. Several additional summaries of the facts or proceedings are being prepared, in order to reduce the costs incurred to the taxpayer through recovery of funds via the courts as well.

Capital adjustments

A resolution was passed in May 2011 to reduce nominal capital in the ultimate holding company Hypo Alpe-Adria-Bank International AG to cover the net loss reported in the financial statements as at 31 December 2010, as a result of which share capital was reduced from some EUR 62.5 m to EUR 19.1 m and the participation capital issued in 2008 and 2009 was reduced from a total of EUR 1,110.8 m to EUR 339.5 m. On 30 June 2011 a resolution was passed to increase share capital from EUR 19.1 m to EUR 469.1 m through converting participation capital issued by the bank. The increase in share capital became effective on 20 July 2011.

European Banking Authority stress test

In the spring of 2011, Hypo Alpe Adria took part in a stress test as defined by the European Banking Authority (EBA), as part of an analysis initiated by the Austrian regulatory authorities. As expected, the group did not fulfil the stress resistance requirements laid down in the “CEE/SEE Adverse Scenario”.

A validation of the EBA results based on the Internal Capital Adequacy Assessment Process (ICAAP) is currently taking place. When interpreting the results, however, it must be borne in mind that the group will be reducing its own capital requirement over the next few years as it reduces its volumes of business and risk-weighted assets in line with plan.

Invitation to bid for the Italian and Austrian subsidiary banks published

In May and June 2011 the process of selling Hypo Alpe-Adria-Bank AG, Klagenfurt, and Hypo Alpe-Adria-Bank S.p.A., Udine, in an open and transparent bidding process commenced. The sales process is at a very early stage. In view of the current banking environment it is not envisaged that the entities will be sold in the short term. The sale of the two units should expedite the reprivatisation process and comply with expected restrictions connected to the EU restructuring process.

Improvements to risk management

The leap in non-performing loans (NPL) in recent years and the accompanying requirement for Hypo Alpe Adria to make loan loss provisions made the realignment and refocusing of the front office, back office and rehabilitation functions necessary. Accordingly the risk office initiated the measures to enable it to meet the increased requirements with the comprehensive reorganisation of its credit management, rehabilitation and liquidation functions in April 2010. The focus of activities up until the beginning of 2011 was on completing the comprehensive analysis of the credit portfolio; in the first half of 2011 it has been on introducing further measures, e.g. in the areas of collateral valuation and bringing ratings up-to-date. Please refer to the risk report in the notes from note (30) onwards for further details.

Guarantee agreement with the federal authorities

In accordance with the terms of the agreement on guarantees dated 28 December 2010, the bank was able to reduce the liability of the Republic of Austria further by buying back Government Guaranteed Bonds (GGB) in February 2011. The addendum to the agreement settled in April 2011 set out in further detail the rules on payment of the consideration agreed for providing the guarantees. Expenses relating to the agreement on guarantees amounted to EUR -10.0 m in the first half of 2011.

Ratings

Moody’s, the international ratings agency changed its outlook rating for State-guaranteed bonds on 22 June from “stable” to “negative” and justified this change primarily because of a new rating assessment of the State of Carinthia. At the same time, however – and of great importance to the bank - all the ratings both for the bank and for its liabilities were confirmed unchanged.

Outlook for the second half of the year

The bank continues to strive for a break-even result for the whole of 2011. It must, however, be borne in mind that current market conditions place severe limitations on the reliability of forecasts.

1.2. Development of business in the group

Development of results

The challenge for Hypo Alpe Adria in the first half of 2011 was to push on speedily with implementing the strategy for a redimensioned group and to reach a position of lasting stabilisation.

Despite the difficult macro-economic environment a clearly positive consolidated result after tax and minority interests of EUR +71.6 m (1 January to 30 June 2010: EUR -498.9 m) was achieved. Even after allowing for the positive one-time effects from fair value measurements of EUR +66.4 m in this figure, there was still a positive result of EUR +5.2 m. The result was characterised by a reduction in net interest income due to the high level of the non-performing loan (NPL) portfolio, more or less unchanged operating expenses, charges due to Greek write-downs and a significant reduction in risk provisions for loans and advances.

The consolidated net interest income declined from EUR +446.7 m in the first six months of the previous year to EUR +389.5 m. This equates to a reduction of EUR -57.1 m or -12.8%. This is due in part to the decline in interest income as a result of the decline in loans and advances to customers, as the maturing portfolio has not been compensated to the same extent by new business. The high level of non-performing loans (NPL) - for which, in accordance with IFRS, interest, also known as unwinding, may only be recognised up to the value of the present value of the net exposure (gross exposure less specific risk provisions) – also impacted on the result for net interest income.

Net interest income
in EUR m

Net fee and commission income, which had contributed some EUR +55.7 m to the prior-year first-half result, declined significantly, by EUR -18.0 m to EUR +37.7 m. The reason for this reduction is primarily the increased fee and commission expenses due on the guarantee agreement concluded with the federal authorities at the end of December 2010; but it is also as a result of decreased fee and commission income from the smaller volume of new business as a result of the aforementioned reduction in loans and advances to customers. In terms of country markets, the Croatian, Austrian and Serbian subsidiary banks made the greatest contributions to the net fee and commission income result.

The result from trading, which includes the result from foreign currency transactions, also declined in the first half of 2011, from EUR +15.7 m to EUR +8.7 m. This represents a decline of nearly 50% and was primarily due to the effects of hedging on the Serbian dinar (RSD) and is connected to the increase in value of this currency against the euro (EUR).

The result from hedge accounting, which derives from hedge inefficiencies, was practically unchanged at EUR -0.2 m in the first half of 2011 compared to the prior-year figure (EUR +1.4 m).

The result from financial investments designated at fair value through profit or loss (fair value option) was recognised with an overall effect of EUR +63.3 m in profit and loss; the corresponding figure for the previous year had been EUR +8.2 m. This significant increase resulted primarily from the one-time positive effects from fair value measurements totalling EUR +66.4 m. Charges of EUR -5.5 m resulting from the deterioration in market values relating to the exposure to Greece had a negative effect on the result.

The impairment write-downs totalling EUR -16.0 m which were necessary on the Greek government bonds had a negative effect on the result from financial investments - available for sale as well; this item posted a negative result of EUR -14.7 m (1 January to 30 June 2010: EUR -4.0 m).

The result from other financial investments, which was a negative EUR -10.9 m in the prior-year period, came to EUR +10.3 m in the period under review. The positive result was due mainly to the redemption in line with plan of a supplementary capital bond taking into account the statutory loss allocation (EUR +10.0 m).

The other operating result, which was a clear loss of EUR -29.3 m in the prior-year comparable period, came to EUR -1.0 m in the first half of 2011. The main reasons for the negative result in the prior-year period had been, on the one hand, large impairment writedowns on unleased assets (EUR -12.4 m) and leasing objects held as investments or as forfeited collateral (EUR -10 m), as well as impairment charges on the market value of a participation in a tourism company as a result of its first-time consolidation (EUR -9.0 m), which were not repeated in 2011. For the first time this item also included expenses of some EUR -9.0 m for the banking levy, which was introduced in Austria in 2011.

After the markedly high expense of the previous years, there was a significant reduction in risk provisions for the loan business in the first half of 2011. Despite the continuingly sluggish economic recovery in Hypo Alpe Adria's core markets, which did not meet expectations, as well as the ailing secondary market for (real estate) collateral, the level of new risk provisions for the first six months came in much lower than in the comparable prior-year period, at EUR -134.9 m (1 January – 30 June 2010: EUR -667.1 m).

The main drivers for the risk provisions were the leasing business, above all in Croatia, Montenegro and Bosnia; and primarily the Slovenian business in the banking area. A turnaround was achieved in the cross-border financing portfolios, which are managed out of Austria.

Compared to the same period of the previous year costs remained relatively stable overall. Operating expenses in the first half of the year were slightly lower, by EUR 2.6 m or 1.0%, at EUR -267.9 m. Personnel expenses rose by EUR 6.9 m from EUR -130.2 m to EUR -137.1 m as a result of the need to bring in highly-skilled employees to set up and develop central controlling functions; to analyse and handle credit risks and the downsizing of the group; and to process and deal with the past in a systematic way.

The high costs incurred in connection with restructuring and realigning the group had an effect on administrative expenses; they rose by EUR 10.7 m or 11.0% over the comparable prior-year period, to EUR -108.1 m.

The significant reduction in depreciation on tangible and intangible assets by EUR 20.3 m from EUR -43.0 m in the first half of 2010 to EUR -22.8 m is mainly due to the requirement, back in 2010, for unscheduled depreciation on individual group software projects which were discontinued or not followed through on the same scale as originally planned.

Overall, against operating income of EUR +493.7 m (1 January – 30 June 2010: EUR +483.4 m), risk provisions on loans and advances of EUR -134.9 m (1 January – 30 June 2010: EUR -667.1 m) and operating expenses of EUR -267.9 m (1 January – 30 June 2010: EUR -270.5 m) were recorded. The resulting net operating result came to EUR +90.7 m, which was considerably better than the comparable figure for the previous year (EUR -454.2 m).

After taking into account the result from investments accounted for at equity of EUR -0.2 m (1 January – 30 June 2010: EUR +4.9 m), which in the previous year had resulted primarily from the write-up of the investment value in a participation in a tourism project, the result before tax for the period came to EUR +90.7 m (1 January – 30 June 2010: EUR -449.4 m).

Taxes on income amounted to EUR -13.3 m in the first six months of 2011 (1 January – 30 June 2010: EUR -53.5 m). The improvement of EUR +40.1 m was in the main due to the previous year's write-down (of EUR -43.0 m) of the loss carry-forward for the Austrian tax group.

After allocation of the share in results attributable to non-controlling interests in the group amounting to EUR +5.7 m (1 January – 30 June 2010: EUR -4.0 m) there is a consolidated result after tax and non-controlling interests of EUR +71,6 m, which represents a clear improvement over the comparable period for the previous year (EUR -498.9 m).

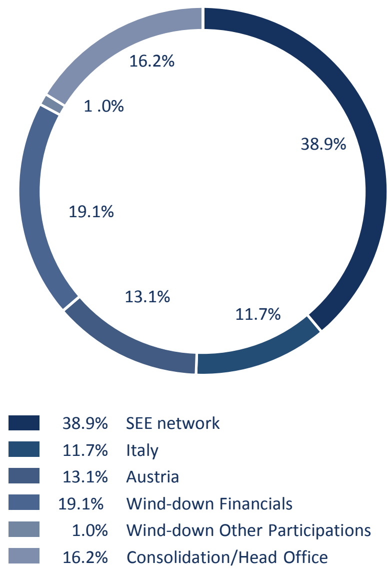
Despite the difficult market environment, the net interim result is positive at EUR +5.2 m, even before taking the positive one-time effects totalling EUR +66.4 m from fair value measurements into account. As a result, following several years of negative results, a positive consolidated result for the period can again be reported, due mainly to the stabilisation in risk provisions on loans and advances and at the same time to a more or less unchanged operating result.

Statement of financial position development

The ongoing reduction in total assets, initiated at the beginning of 2009 after more than a decade of continual, expansionary growth, continued in the first half of 2011. Hypo Alpe Adria's total assets at the end of this period reduced by EUR -2.2 bn, from EUR 38.8 bn as at 31 December 2010 to EUR 36.6 bn. The main reason behind this lies in the reduction (by EUR -1.3 bn) in loans and advances to credit institutions, as a result of the repayment of liabilities due as well as the partial buy-back of a government-backed bond in February 2011.

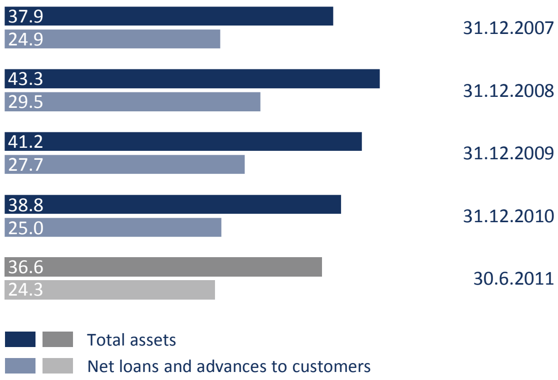
The reduction in new financing business also had the effect of reducing total assets, as did the general stop on new business applying to the "wind-down" companies, which led to a decline in the volumes of financing for both the credit and leasing areas.

Total assets per segment as of 30 June 2011
in percent



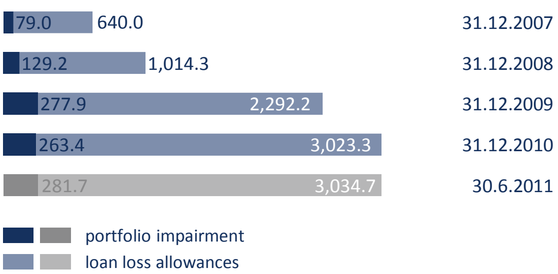
Net loans and advances to customers (loans and advances to customers less risk provisions for loans and advances) decreased from EUR 25.0 bn to EUR 24.3 bn (a decrease of EUR -0.7 bn or some -2.9%). The slower than expected economic recovery in the group's core markets meant that, as in previous years, Hypo Alpe Adria had to exercise great care in the granting of new credit, so as to avoid any additional risk. In addition, new business remained below forecast levels, particularly for the Italian and Slovenian subsidiaries. Overall, loans and advances to customers decreased from EUR 28.2 bn to EUR 27.5 bn, a reduction of some 2.5%.

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



Loans and advances to credit institutions, which include the liquidity reserves, also declined significantly, by EUR 1.3 bn (or -25%) from the level at 31 December 2010, to EUR 3.9 bn. This was due both to the repayment of outstanding liabilities together with the buy-back of a government-backed bond.

Development of risk provisions on loans and advances
in EUR m



The level of risk provisions on loans and advances, which had reached a record level of EUR 3.3 bn as at 31 December 2010, remained practically unchanged as at 30 June 2011. The level of non-performing loans (NPLs) increased slightly in the first half of 2011. The main reason for this was the consistent and conservative application of the ratings standards for groups of related customers. Without this effect there was clear evidence of stabilisation in nearly every country market, reflected in the stagnation in the level of risk provisions as at 30 June 2011. The largest proportion of provisions overall was accounted for by the Austrian banks, and additionally by the subsidiaries in Croatia, Slovenia and Bosnia.

Trading assets, which were already low as a result of the limited trading activities of the group, reduced further in the first half of 2011, from EUR 34.3 m to EUR 23.9 m.

Derivative financial instruments, which on the assets side include positive fair value from traded derivatives and which are being reported collectively as a single balance sheet item from 2011 onwards, decreased in the first half of 2011 by EUR 222.8 m from EUR 1,262.8 m to EUR 1,040.0 m.

Financial investments designated at fair value through profit or loss (FVO) decreased in the period under review by EUR 59.0 m to EUR 819.2 m. The total value of financial investments – available for sale (afs) increased in the period by EUR 0.3 bn to EUR 2.9 bn, mainly as a result of purchases of debt instruments and fixed-interest securities.

Other financial investments grew from EUR 1,034.3 m in the previous year to EUR 1,079.8 m at the end of the reporting period, mainly as a result of the increase in investment properties.

The item Assets classified as held for sale contains principally the real estate and tourism projects which are to be sold off as a consequence of the new strategic direction of Hypo Alpe Adria. In addition the value of assets in a group leasing company which is scheduled to be sold before the end of the 2011 financial year is reported in this position.

On the liabilities side, the liabilities to credit institutions decreased from EUR 6.4 bn to EUR 5.8 bn in the period under review. This reduction was due mainly to the scheduled repayment of loans.

Liabilities to customers increased slightly again compared to 31 December 2010: they rose by 0.4% to EUR 8.2 bn. The increase in deposits was achieved mainly in the area of retail banking in South-Eastern Europe; in contrast there were reductions in the corporate and public sector segments.

Debt securities in issue fell in the first half of the year by EUR 1.7 bn (or -8.3%) from EUR 20.1 bn to EUR 18.5 bn. This decrease was caused primarily by the previously mentioned buy-back of a government-backed bond for EUR 0.8 bn.

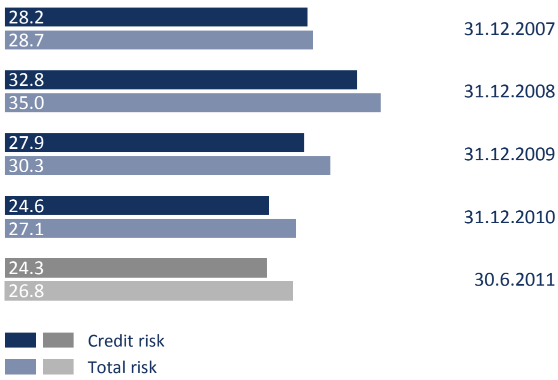
As a result of the net profit achieved, equity rose by EUR 0.1 bn over 31 December 2010, to EUR 1.6 bn as at 30 June 2011.

Own capital funds

The own capital funds ratios have remained practically unchanged since 31 December 2010. The effect of a slight reduction in own funds due to the redemption of a supplementary capital bond was effectively compensated for by a reduction in risk-weighted assets (RWA).

A significant reduction in the RWA base was achieved in the last financial year thanks to various measures introduced, in particular the stop on new business imposed on many of the group companies, as well as the efforts to improve the evaluation of collateral and to increase the quality of data. This trend continued in the first half of 2011. In relation to credit risk, the risk-weighted assets reduced by EUR 0.3 bn to EUR 24.3 bn. Taking the market and operational risk into account, total risk-weighted assets reduced from EUR 27.1 bn (31 December 2010) to EUR 26.8 bn (30 June 2011).

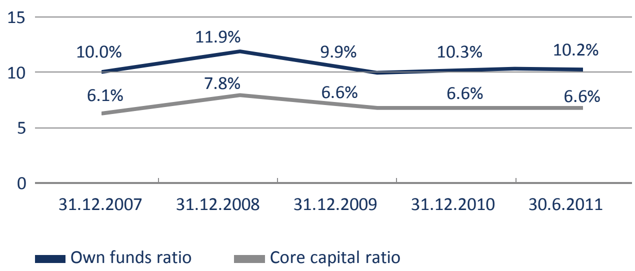
Risk-weighted assets (RWA), related to total risk/credit risk
in EUR bn



The total eligible own funds as defined in the Austrian Banking Act (BWG) amounted to EUR 2,748.1 m as at 30 June 2011 (31 December 2010: EUR 2,777.5 m), while the minimum legal requirement stood at EUR 2,146.7 m (31 December 2010: EUR 2,167.4 m). This represents surplus coverage of EUR 601.4 m (31 December 2010: EUR 610.1 m) or a coverage ratio of 128.0% (31 December 2010: 128.1%).

The own funds ratio (solvency ratio) in relation to the total capital base (including market and operational risk) came to 10.2% as at 30 June 2011 (10.3% as at 31 December 2010), which is well over the legally required minimum level of 8.0% in Austria.

Change in own funds and core capital ratio
in percent



With regard to the ultimate holding company, Hypo Alpe-Adria-Bank International AG, own funds amounted to EUR 1,784.4 m, and free funds to EUR 415.7 m.

Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 54.3% as at 30 June 2011 (1 January to 30 June 2010: 56.0%). The inclusion of EUR 66.4 m in one-time fair value effects should not be forgotten.

Credit risk in relation to net interest income (the risk/earnings ratio) fell from 149.4% in the previous year to 34.6% in the first half of 2011. Despite the small decline in net interest income, the steep reduction is above all due to the reduction in the level of risk provisions on loans and expenses required.

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

1.3. Outlook for the second half of 2011

Although the figures for the first half of the year indicate stabilisation and an improvement in results, Hypo Alpe Adria faces big challenges in the coming months within its own organisation, in the markets in which it operates and in the regulatory environment.

After the years of recession, a hesitant recovery is becoming apparent in the core markets of Southern and South-Eastern Europe. A strengthening of the economy and recovery in consumer spending in the respective countries is proceeding at a much slower rate than had been hoped. It is not yet clear whether the firm prospect of Croatia's accession to the EU and Serbia's approchement with the EU members in the region will encourage the level of economic performance that has been observable, for example, in certain Eastern European countries.

Against this background, Hypo Alpe Adria is continuing to focus its energies on developing a competitive SEE banking network, with the emphasis currently on increasing the efficiency of the sales organisation and skills of all sales personnel, and on reorganising the leasing and banking business areas. The progress made in these areas should, if framework conditions remain stable, make it possible to increase customer deposits further still.

Apart from pursuing this marketing strategy, which is aimed at supporting a lasting turnaround and restructuring of the bank, the focus of efforts continues to be on the areas of risk management and governance. Only a structured elimination of credit risks, and in particular of concentration risks, can bring appreciable relief and visible improvement in the performance indicators and capital ratios. The amount of Hypo Alpe Adria's NPLs is looking to remain stable for the year. As a result of the most recent financial crisis, the debate is no longer just focussing on economic factors but increasingly on arguments about further-reaching, regulatory and preventative measures such as the discussion about risk measurement and the banks' own capital funds ratios.

As previously mentioned, a validation of the EBA results on the basis of the Internal Capital Adequacy Assessment Process (ICAAP) is currently in progress. Further pointers will come from the Joint Risk Assessment and Decision (JRAD) process - which has been initiated by the supervisory authorities and involves the regulatory bodies of several countries - when it is completed in the second half of 2011.

The next steps towards becoming a smaller, simpler and more customer-oriented group will include sustained efforts to reduce the sum of total assets further; and the ongoing winding-down of parts which are not part of core business in the future. For around half of the 20 largest M&A projects planned, a time horizon of 18 months has been set for the sale of the businesses. The current situation in the M&A markets, coupled with the insecurity in Europe caused by the turbulence on the currency markets, is making it particularly hard for the sellers to turn the assets to account and to draw up binding time-lines and terms and conditions of sale.

In the search for investors in both the Hypo Alpe-Adria-Bank AG, Klagenfurt, subsidiary as well as for Hypo Alpe-Adria-Bank S.p.A., Udine, which is being conducted in accordance with EU regulations, as well as for other projects, Hypo Alpe Adria is sticking to the principle of turning these assets to account in such a way as to preserve value and protect capital.

The Executive Board continues to be committed to systematically following the path it defined for the group. The objective of achieving a balanced result for the group in 2011 remains unchanged. It must, however, be borne in mind that the current market environment places severe limitations on the reliability of forecasts.

Interim Consolidated Financial Statements

as at 30 June 2011

Hypo Alpe-Adria-Bank International AG

I. Statement of Comprehensive Income

Income statement

EUR m

	Note	1.1. - 30.6.2011	1.1. - 30.6.2010
Interest and similar income	(7)	856.1	929.7
Interest and similar expenses	(8)	–466.6	–483.1
Net interest income		**389.5**	**446.7**
Fee and commission income	(9)	60.9	70.6
Fee and commission expenses	(10)	–23.2	–14.9
Net fee and commission income		**37.7**	**55.7**
Result from trading		8.7	15.7
Result from hedge accounting		–0.2	1.4
Result from fin. investments - designated at fair value through profit or loss		63.3	8.2
Result from fin. investments - available for sale		–14.7	–4.0
Result from other financial investments	(11)	10.3	–10.9
Other operating result		–1.0	–29.3
Operating income		**493.7**	**483.4**
Risk provisions on loans and advances	(12)	–134.9	–667.1
Operating income after risk provisions on loans and advances		**358.8**	**–183.7**
Personnel expenses		–137.1	–130.2
Other administrative expenses		–108.1	–97.3
Depreciation and amortization on tangible and intangible assets		–22.8	–43.0
Operating expenses		**–267.9**	**–270.5**
Operating result		**90.8**	**–454.2**
Result from companies accounted for at equity		–0.2	4.9
Result before tax		**90.7**	**–449.4**
Taxes on income		–13.3	–53.5
Result after tax		**77.3**	**–502.9**
thereof attributable to non-controlling interests		5.7	–4.0
thereof attributable to equity holders of parent (consolidated result after tax and non-controlling interests)		71.6	–498.9

Other comprehensive income

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Result after tax	**77.3**	**–502.9**
Gains/losses on available for sale-reserves	18.6	–11.4
Foreign exchange differences (change in foreign currency reserve)	9.6	–21.3
Tax effects from valuation of available-for-sale assets	0.6	16.7
Total other comprehensive income	**28.8**	**–16.1**
Total comprehensive income	**106.1**	**–518.8**
thereof attributable to non-controlling interests	4.9	–2.9
thereof attributable to equity holders of parent	101.2	–516.0

II. Statement of Financial Position

EUR m

	Note	30.6.2011	31.12.2010 adapted*	1.1.2010 adapted*
ASSETS				
Cash and balances at central banks		711.0	843.6	1,019.9
Loans and advances to credit institutions	(13)	3,884.3	5,178.7	4,086.6
Risk provisions on loans and advances to credit institutions	(15)	–13.7	–13.1	–23.8
Loans and advances to customers	(14)	27,522.9	28,217.5	30,116.6
Risk provisions on loans and advances to customers	(15)	–3,227.0	–3,189.6	–2,423.9
Trading assets	(16)	23.9	34.3	52.2
Derivative financial instruments	(17)	1,040.0	1,262.8	1,112.7
Financial investments - designated at fair value through profit or loss	(18)	819.2	878.2	919.7
Financial investments - available for sale	(19)	2,858.6	2,527.3	2,714.2
Financial investments - held to maturity		35.7	42.3	42.1
Investments in companies accounted for at equity		2.9	5.1	1.7
Other financial investments	(20)	1,079.8	1,034.3	1,088.5
thereof investment properties		870.1	795.7	725.8
thereof operate leases		209.7	238.6	362.8
Intangible assets		53.4	55.7	63.6
Tangible assets		395.8	456.5	484.8
Tax assets		91.4	86.1	635.4
thereof current tax assets		9.4	24.1	49.4
thereof deferred tax assets		82.0	62.0	586.0
Assets classified as held for sale	(21)	244.3	274.7	138.3
Other assets	(22)	1,048.8	1,066.8	1,052.3
Risk provisions on loans and advances on other assets	(15)	–7.4	–8.1	–2.3
Total assets		**36,564.0**	**38,753.2**	**41,078.7**
EQUITY AND LIABILITIES				
Liabilities to credit institutions	(23)	5,787.4	6,350.0	7,556.6
Liabilities to customers	(24)	8,150.7	8,120.4	7,649.8
Debt securities in issue	(25)	18,463.7	20,141.8	20,761.0
Trading liabilities		0.0	0.0	0.0
Derivative financial instruments	(26)	628.2	649.4	404.8
Provisions		213.9	191.8	215.9
Tax liabilities		31.3	35.5	543.2
thereof current tax liabilities		4.1	23.5	29.4
thereof deferred tax liabilities		27.2	12.0	513.7
Liabilities included in disposal groups classified as held for sale	(27)	10.9	39.8	44.9
Other liabilities	(28)	548.7	586.3	705.3
Subordinated capital	(29)	1,175.8	1,187.8	1,207.1
Equity		1,553.7	1,450.4	1,990.1
thereof attributable to equity holders of parent		1,046.6	945.4	1,465.6
thereof attributable to non-controlling interests		507.0	504.9	524.5
Total equity and liabilities		**36,564.0**	**38,753.2**	**41,078.7**

*) The figures shown for the items Trading assets/Trading liabilities, Positive/Negative fair value from hedge accounting derivatives and Other assets/Other liabilities differ from those shown in the 2010 consolidated financial statements as a result of reclassification (see notes (1),(5)).

III. Statement of Changes in Equity

EUR m

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
Equity as at 1.1.2011	**1,623.3**	**0.0**	**–78.2**	**–57.2**	**–542.4**	**945.5**	**504.9**	**1,450.4**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	–2.8	–2.8
Total comprehensive income	0.0	0.0	20.0	9.6	71.6	101.2	4.9	106.1
Result after tax	0.0	0.0	0.0	–0.1	71.6	71.5	5.7	77.2
Other comprehensive income	0.0	0.0	20.0	9.7	0.0	29.7	–0.8	28.9
Other changes	–814.6	0.0	0.0	0.0	814.6	0.0	0.0	0.0
Equity as at 30.6.2011	**808.7**	**0.0**	**–58.2**	**–47.6**	**343.8**	**1,046.6**	**507.0**	**1,553.7**

The changes to the item Issued capital result from the nominal capital reduction passed at the end of May 2011, which became effective on 3 June 2011 (see note (48)).

EUR m

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
Equity as at 1.1.2010	**1,023.2**	**0.0**	**–59.0**	**–16.7**	**518.0**	**1,465.6**	**524.5**	**1,990.1**
Capital increases	600.0	0.0	0.0	0.0	0.0	600.0	0.0	600.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	–2.4	–2.4
Total comprehensive income	0.0	0.0	4.2	–21.4	–498.7	–516.0	–2.9	–518.9
Result after tax	0.0	0.0	0.0	2.2	–498.9	–496.7	–4.0	–500.7
Other comprehensive income	0.0	0.0	4.2	–23.6	0.2	–19.3	1.0	–18.2
Other changes	0.0	0.0	0.0	0.0	–0.1	–0.2	0.0	–0.1
Equity as at 30.6.2010	**1,623.2**	**0.0**	**–54.8**	**–38.1**	**19.2**	**1,549.4**	**519.2**	**2,068.6**

IV. Statement of Cash Flows

EUR m

	30.6.2011	30.6.2010
Cash and cash equivalents at end of previous period (1.1.)	**843.6**	**1,019.9**
Cash flows from operating activities	–99.0	–634.9
Cash flows from investing activities	–31.6	–12.2
Cash flows from financing activities	–14.8	565.9
Effect of exchange rate changes	12.8	–17.6
Cash and cash equivalents at the end of period (30.6.)	**711.0**	**921.2**

V. Notes to the Interim Consolidated Financial Statements

Accounting policies and basis of consolidation

(1) Significant accounting policies

These interim consolidated financial statements for Hypo Alpe Adria as at 30 June 2011 have been prepared in accordance with the IFRS as applied in the EU for interim reporting (IAS 34). The interim condensed financial statements do not contain all the information required for the full consolidated financial statements. For this reason, the interim consolidated financial statements should be read in conjunction with the most recently published full-year consolidated financial statements for the year to 31 December 2010.

The interim consolidated financial statements have been prepared according to the generally accepted accounting principles and in keeping with the general requirement to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. In drawing up the interim consolidated financial statements, the going concern principle was applied. With regard to the possible ramifications of the EU state aid proceedings and the resulting uncertainty affecting the group's activities, please refer to the section "Important proceedings" (note (50)).

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

Unless otherwise stated, the same accounting and measurement principles as well as methods of calculation have been applied in these interim consolidated financial statements as in the last published consolidated financial statements as at 31 December 2010, apart from where Hypo Alpe Adria has applied standards, modifications and interpretations which are valid for financial years beginning on or after 1 January 2011. In the interests of greater transparency, Hypo Alpe Adria has modified the way in which derivative financial instruments are measured in the statment of financial position (see note (5)).

The IFRS whose application was mandatory as at the balance sheet date have been used in these interim consolidated financial statements. The application of the following modifications to standards has led to changes in accounting methods, they have not, however, had any significant effect on the financial position and results of operations of Hypo Alpe Adria:

Standard	Description		Compulsory for annual period
Various	IFRS (May 2010)	Improvements	2011
IFRS 3	Business Combinations	Assessment option for non-controlling interests	2011
IFRS 7	Financial instruments - information	Information simplifications	2011
IAS 1	Presentation of Financial Statements	Analysis of other results	2011
IAS 34	Interim Financial Reporting	Additional information on material events and transactions	2011

The following are instances of terminological or editorial changes. The application of these standards does not have any effect on the financial position and results of operations of Hypo Alpe Adria:

Standard	Description		Compulsory for annual period
Various	IFRS (May 2010)	Improvements	2011
IFRS 3	Business Combinations	Accounting for consideration, share-based compensation plans	2011
IAS 27	Consolidated- and separate financial statements	Application of transitional provisions of IAS 27	2011
IFRIC 13	Customer loyalty programs	Award credits	2011
IAS 32	Classification of rights	Definition of a financial liability adjusted	2011
IFRIC 14 to IAS 19	Prepayments of minimum funding requirements	Plan assets	2011
IFRIC 19	Repayment of financial instruments with equity instruments	Equity instruments	2011
IFRS 1	First time adoption of IFRS	First-time adopter	2011

(2) Changes to parameters in conjunction with fair value measurements

As a result of the buy-back in the first half of 2011 of the bond guaranteed by the Republic of Austria it was necessary to redefine the derived input parameters for determining the fair value of own issues backed by statutory guarantees and designated at fair value; and the hedging transactions linked to them. Following evaluation, the new input parameters for determining the fair value of own issues backed by statutory guarantees were set, based on observable market spreads. As there was not a sufficiently liquid market for these issues backed by statutory guarantees at the time of the financial crisis, the issues are no longer subject to such high temporary fluctuations in value and may now be traded in a sufficiently liquid market again. This had a one-time positive effect of EUR 66.4 m on the half-year results.

(3) Scope of consolidation

Including Hypo Alpe-Adria-Bank International AG, 25 Austrian (31.12.2010: 32) and 78 foreign (31.12.2010: 81) companies are included in the interim consolidated financial statements:

	30.6.2011 Fully consolidated	Equity method	31.12.2010 Fully consolidated	Equity method
Start of period (1.1.)	**108**	**5**	**117**	**5**
Newly included in period under review	1	0	6	1
Merged in period under review	–2	0	–9	-
Excluded in period under review	–9	0	–7	-
Reclassified	0	0	1	–1
End of period (30.6.)	**98**	**5**	**108**	**5**
thereof Austrian companies	23	2	30	2
thereof foreign companies	75	3	78	3

The following company was included in the consolidated financial statements for the first time in the first half of 2011:

Company	Seat	Ownership interest in %	Method of consolidation	Reason
Probus Real Estate GmbH	Vienna	100.0%	Fully cons.	Materiality

The following 11 fully-consolidated subsidiaries were excluded from the scope of consolidation in the first six months of the 2011 financial year:

Company	Seat	Ownership interest in %	Method of consolidation	Reason
HYPO ALPE-ADRIA-VRIJEDNOSNICE d.o.o,	Sarajevo	100.0%	Fully cons.	Merger
PROJEKT NEKRETNINE d.o.o	Zagreb	100.0%	Fully cons.	Merger
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH in Liquidation	Klagenfurt am Wörthersee	100.0%	Fully cons.	Liquidation
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH in Liquidation	Klagenfurt am Wörthersee	100.0%	Fully cons.	Liquidation
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & CO KG	Klagenfurt am Wörthersee	100.0%	Fully cons.	Liquidation
HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD- U LIKVIDACIJI	Belgrade	100.0%	Fully cons.	Liquidation
WS Liegenschaftsverwaltungs GmbH in Liquidation	Klagenfurt am Wörthersee	100.0%	Fully cons.	Liquidation
HYPO ALPE-ADRIA-MARKETING und ADVERTISING GmbH	Klagenfurt am Wörthersee	100.0%	Fully cons.	Materiality
Hypo Cityimmobilien- Klagenfurt GesmbH	Klagenfurt am Wörthersee	100.0%	Fully cons.	Liquidation
TRP Projektentwicklungs GmbH	Klagenfurt am Wörthersee	100.0%	Fully cons.	Materiality
Lamplhof Betriebs GmbH	Klagenfurt am Wörthersee	100.0%	Fully cons.	Materiality

(4) Business combinations

No acquisitions were made in the first half of 2011.

In accordance with IFRS 3.45, the 83.97% share in TLM-TVP d.o.o., Sibenik – acquired via the subsidiary Aluflexpack d.o.o., Zadar, with effect from 1 September 2010 – was included in the accounts for the first time on the basis of a provisional purchase price allocation (PPA). The adjustments to fair value resulting from the provisional PPA have not been made in the first half of 2011; they will be finalised in the second half of 2011.

(5) Adjustments to prior-year values

In the interests of greater transparency, Hypo Alpe Adria has modified the presentation of derivative financial instruments. The values of derivative financial instruments previously shown under the items Trading assets, Trading liabilities, Other assets, Other liabilities and Positive/Negative fair value from hedge accounting will now be shown under the single item Derivative financial instruments; prior-year figures have been adjusted accordingly. Apart from the reclassification of the positions, there are no further effects on either the income statement or the statement of financial position.

The changes to the presentation of derivative financial instruments in the statement of financial position are shown in the tables below:

EUR m

	31.12.2010	1.1.2010
Trading assets old	**66.9**	**72.9**
+/- Reclassification to Derivative financial instruments	–32.6	–20.7
Trading assets new	**34.3**	**52.2**

EUR m

	31.12.2010	1.1.2010
Derivative financial instruments old (hedge accounting)	**1,048.1**	**933.3**
+/- Reclassification from trading assets, financial assets, other assets	214.7	179.4
Derivative financial instruments new	**1,262.8**	**1,112.7**

EUR m

	31.12.2010	1.1.2010
Financial investments - designated at fair value through profit or loss	**996.0**	**1,039.6**
+/- Reclassification to Derivative financial instruments	–117.8	–119.9
Financial investments - designated at fair value through profit or loss new	**878.2**	**919.7**

EUR m

	31.12.2010	1.1.2010
Other assets old	**1,131.1**	**1,091.2**
+/- Reclassification to Derivative financial instruments	–64.3	–38.9
Other assets new	**1,066.8**	**1,052.3**

EUR m

	31.12.2010	1.1.2010
Trading liabilities old	**6.2**	**4.8**
+/- Reclassification to Derivative financial instruments	–6.2	–4.8
Trading liabilities new	**0.0**	**0.0**

EUR m

	31.12.2010	1.1.2010
Derivative financial instruments old (hedge accounting)	**167.8**	**126.7**
+/- Reclassification from trading assets and other liabilities	481.6	278.1
Derivative financial instruments new	**649.4**	**404.8**

EUR m

	31.12.2010	1.1.2010
Other liabilities old	**1,061.7**	**978.6**
+/- Reclassification to Derivative financial instruments	–475.4	–273.3
Other liabilities new	**586.3**	**705.3**

Notes to the Income Statement

(6) Segment reporting

As a result of the restructuring and realignment of the group, the segment classification used for reporting purposes was changed at the end of the 2010 financial year.

As the information needed to produce a retrospective statement of the adjusted segments for the first half of 2010 is not available because of changes to booking methods, and as the costs of subsequent compilation would be excessively high, it was decided not to present a comparison with the first half of 2010. A comparison with the previous year's figures and conclusive analysis of the changes is not possible, because of differences in the way in which entities have been assigned and the fact that refinancing costs are no longer allocated to the carrying amounts of investments in 2011 reporting. The reporting of segment figures for the first half of 2011 on the basis of the previous year's segment classification as required by IFRS 8.30 is, in the same way as at 31 December 2010, not possible because of system-related restrictions.

In line with the restructuring plan produced for the purpose of the EU proceedings, those parts of the group which are being systematically wound down are reported separately from the ongoing business activities. The group units designated as ongoing consist of the SEE network, i.e. banking and leasing operations in Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and Croatia (only banking operations), the banking operations in Italy and the core part of the Austrian banking business. A sales process was initiated for the Austrian bank and the Italian bank in the first half of 2011, with the objective of disposing of both group companies in the medium term. Until such time as they cease to become part of the Hypo Alpe Adria group, the companies will be shown as the segments "Austria" (only the core part) and "Italy" (whole bank) in reporting.

Business activities classified as "wind-down" are subdivided into the segments "financials" and "other participations". Included under "financials" are all group leasing companies which operate in the countries Croatia, Germany, Austria, Hungary, Macedonia, Montenegro, Bulgaria, Bosnia, Ukraine and Italy (since the first half of 2011) and whose business activity is solely concentrated on winding down. Also included in this segment are the securities portfolios of the investment companies HBInt. Credit Management ltd. and Norica Investments Ltd. as well as the customer portfolios of Hypo Alpe-Adria-Bank International AG and the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which relate to the cross-border and large-volume corporate lending business.

"Other participations" are taken to be all participations which are not part of banking and leasing operations, i.e. in the areas of industry, tourism or real estate, and which are to be sold off.

The "Consolidation/Head Office" segment includes the effects from the consolidation between the different business segments as well those parts of the holding operation related to the core business activities.

SEE network

The business units included in this segment generated total net interest income of in EUR +211.1 m and net fee and commission income of EUR +29.6 m, and thus contributed 54.2% and 78.5% respectively to the group's overall result. The trading result, which includes the result from foreign currency transactions, came to EUR +12.9 m. There was a negative result of EUR – 4.1 m for the other operating result. More than two-thirds of the total risk costs – namely EUR -96.6.m – were incurred by this segment. The operating expenses for the SEE network constituted about 44% of the total operating expenses for the group. The segment achieved a result before tax of EUR 38.1 m; after accounting for income tax expense of EUR - 5.9 m, the segment result after tax comes to EUR +32.3 m. The SEE network is thus by far the most profitable segment for the Hypo Alpe Adria group.

Italy
The Italy segment, which is represented by the bank in Udine, is mainly composed of leasing transactions in the real estate segment. Market conditions continued to be very difficult, in particular in the area of lease financing with a value of EUR 1 - 2 m, which resulted in new financing being below expectations in the first half of 2011. In total, the segment achieved net interest income of EUR +53.2 m and net fee and commission income of EUR +4.0 m. Risk provisions on loans and advances for the first six months, at EUR -20.4 m, were at the levels expected. With operating expenses of EUR -30.6 m and income taxes of EUR -3.5 m, the segment result after tax amounted to EUR +4.2 m.

Austria
The part of Austrian banking operations which is to be retained by the group achieved net interest income of EUR +26.7 m and net fee and commission income of EUR +7.5 m in the first six months of 2011. After allowing for risk provisions on loans and advances of EUR -3.8 m, operating expenses of EUR -28.5 m, income tax expense of EUR -0.3 m and other items contributing to the result and totalling EUR +4.0 m, there was a clearly positive segment result after tax of EUR +5.6 m.

Wind-down financials
The group leasing and financing companies and the sub-divisions of the Austrian banks which as per the restructuring plan drawn up for EU purposes are not considered to be part of the future continuance group, generated total net interest income of EUR +71.7 m and negative net fee and commission income of EUR –8.1 m. The negative measurement effects of securities impacted on the result from financial investments for this segment. The expense for risk provisions on loans and advances was significantly reduced in the first half of 2011 and came to EUR -14.0 m. Taking into account operating expenses of EUR -34.8 m, of which EUR -23.1 m was caused by legal and consultancy expenses in connection with the restructuring of the group, and income tax expense of EUR -5.7 m, there was a loss after tax for this segment totalling EUR -3.8 m.

Wind-down other participations
The real estate, industrial and tourism participations, which are also being wound down, posted negative net interest income (due to the nature of their operations) of EUR -4.2 m and negative net fee and commission of EUR -0.4 m. The other operating result, which contains the revenue and direct costs of sales, came to EUR +23.9 m: the operating expenses of EUR -27.9 m were markedly higher than the income achieved and, taking into account the financing result, led to a negative result for the segment of EUR -9.7 m.

Consolidation/Head Office
This segment includes the core activities of the Austrian group holding company, namely controlling and managing funds for the group companies, as well as consolidation effects between the individual segments. As a result of the financing function performed for the group, this segment reported net interest income of EUR +31.0 m and net fee and commission income of EUR +5.2 m. The hedging measures related to the Serbian dinar (RSD), carried out at Head Office level to hedge against the RSD risk arising for the subsidiaries through capital measures, had a negative impact on the trading income. The reasons for the positive overall segment result of EUR +47.0 m before income tax expense were the positive effects totalling EUR +66.4 m from the fair value measurement of own issues. Impairment write-downs on securities totalling EUR -9.9 m impacted on the result from financial investments – available for sale, while the buy-back and redemption of receivables led to a positive result of EUR +10.7 m, which is the main factor behind the EUR +11.2 m result from financial investments. The material effects of consolidation between the segments were accounted for in the other operating result (EUR -19.9 m) and in administration expenses. The segment showed a net result after income taxes of EUR +48.7 m.

EUR m

Period 1.1.-30.6.2011	SEE network	Italy	Austria*)	Wind-down Financials	Wind-down Other Partici-pations	Consolidation /Head Office	Total
Net interest income	211.2	53.2	26.7	71.7	–4.2	31.0	389.5
Net fee and commission income	29.6	4.0	7.5	–8.1	–0.4	5.2	37.7
Result from trading	12.9	2.0	0.7	–0.6	1.0	–7.4	8.7
Result from hedge accounting	0.0	0.0	0.2	0.0	0.0	–0.5	–0.2
Result from fin. investments - afvtpl	0.0	–0.2	3.0	–5.7	–0.3	66.5	63.3
Result from fin. investments - afs	1.7	0.0	–2.1	–4.1	–0.2	–9.9	–14.7
Result from fin. investments - htm	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result from other financial investments	0.6	0.1	0.0	0.0	–1.7	11.2	10.3
Other operating result	–4.1	–0.4	2.2	–2.6	23.9	–19.9	–1.0
Operating income	**251.9**	**58.7**	**38.2**	**50.6**	**18.1**	**76.2**	**493.7**
Risk provisions on loans and advances	–96.6	–20.4	–3.8	–14.0	0.0	–0.2	–134.9
Operating income after risk provisions on loans and advances	**155.2**	**38.3**	**34.4**	**36.7**	**18.1**	**76.0**	**358.8**
Personnel expense	–55.7	–16.8	–16.3	–9.6	–15.3	–23.4	–137.1
Other administrative expenses	–47.9	–11.7	–11.6	–23.1	–8.8	–5.0	–108.1
Depreciation and amortization on tangible and intangible assets	–13.5	–2.1	–0.7	–2.1	–3.8	–0.6	–22.8
Operating expenses	**–117.1**	**–30.6**	**–28.5**	**–34.8**	**–27.9**	**–29.0**	**–267.9**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	–0.2	0.0	–0.2
Segment result before tax	**38.1**	**7.7**	**5.9**	**1.9**	**–10.0**	**47.0**	**90.7**
Taxes on income	–5.9	–3.5	–0.3	–5.7	0.2	1.7	–13.3
Segment result after tax	**32.3**	**4.2**	**5.6**	**–3.8**	**–9.7**	**48.7**	**77.3**
Segment assets	14,225.8	4,270.5	4,783.1	6,993.3	373.5	5,917.8	36,564.0
Loans and advances to customers	11,381.5	3,983.7	3,714.0	7,922.2	7.8	513.6	27,522.9
Liabilities to customers	4,199.8	782.5	1,590.9	92.0	0.5	1,485.0	8,150.7

*) The segment „Austria" does not include the wind-down part of the Austrian banking subsidiary as well as the Austrian leasing subsidiary.

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

Period 1.1. - 30.6.2010	Austria	Italy	Slovenia	Croatia
Net interest income	24.4	53.5	54.0	88.1
Net fee and commission income	7.5	7.1	3.5	22.5
Result from trading	2.0	–1.5	0.3	–1.9
Result from hedge accounting	–0.1	0.0	0.0	0.0
Result from fin. investments - afvtpl	4.1	0.0	0.0	0.0
Result from fin. investments - afs	–0.1	0.0	0.0	0.5
Result from fin. investments - htm	0.0	0.0	0.0	0.0
Result from other financial investments	–8.1	0.1	0.7	–1.7
Other operating result	3.9	–0.7	0.0	–0.6
Operating income	**33.7**	**58.7**	**58.5**	**106.9**
Risk provisions on loans and advances	–79.4	–24.5	–58.8	–93.3
Operating income after risk provisions	**–45.7**	**34.2**	**–0.3**	**13.5**
Personnel expense	–20.2	–16.9	–11.5	–24.2
Other administrative expenses	–12.9	–11.8	–6.6	–22.1
Depreciation and amortization on tangible and intangible assets	–3.9	–2.5	–2.2	–12.5
Operating expenses	**–36.9**	**–31.2**	**–20.3**	**–58.9**
Segment result (Operating result)	**–82.7**	**3.0**	**–20.6**	**–45.3**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0
Segment result before tax	**–82.6**	**3.0**	**–20.6**	**–45.3**
Taxes on income	–0.2	–1.6	4.4	–7.4
Segment result after tax	**–82.9**	**1.4**	**–16.2**	**–52.7**
attributale to non-controlling interests	0.0	0.0	0.0	0.0
Segment result after tax (after non-controlling interests)	**–82.9**	**1.4**	**–16.2**	**–52.7**

Average total assets	7,472	4,787	4,911	6,777
Risk provision on loans and advances	–492	–101	–188	–543
Average risk weighted assets (RWA)	3,289	3,906	4,211	5,063
Average equity allocated	264	314	338	407
Cost/income ratio	109.7%	53.2%	34.7%	55.1%
Risk/earning ratio	325.1%	45.8%	108.9%	105.9%
Average number of employees (capacity)	626	547	613	2,010

Abbreviations:

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

EUR m

B&H	Serbia	Other markets	Other business divisions	Holding	Consolidation	Total
36.5	31.8	17.5	–12.5	153.6	–0.4	446.7
5.6	5.8	0.0	0.9	2.6	0.1	55.7
1.8	0.0	–2.3	0.3	14.0	2.8	15.7
0.0	0.0	0.0	0.0	1.0	0.4	1.4
0.0	0.0	0.0	–8.8	12.8	0.0	8.2
0.0	0.5	–0.1	0.1	–4.8	0.0	–4.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	–0.4	0.0	–1.3	–0.1	0.0	–10.9
–3.8	–1.3	–14.6	6.3	–4.6	–13.9	–29.3
40.2	**36.4**	**0.5**	**–15.1**	**174.6**	**–10.9**	**483.4**
–55.7	–28.8	–122.8	–0.9	–202.8	0.0	–667.1
–15.6	**7.6**	**–122.4**	**–16.0**	**–28.2**	**–10.9**	**–183.7**
–10.9	–9.2	–4.7	–10.5	–21.9	0.0	–130.2
–8.7	–9.2	–6.0	–7.6	–25.5	13.2	–97.3
–2.5	–2.3	–1.4	–13.2	–2.6	0.0	–43.0
–22.1	**–20.8**	**–12.1**	**–31.4**	**–50.0**	**13.2**	**–270.5**
–37.7	**–13.1**	**–134.5**	**–47.4**	**–78.2**	**2.3**	**–454.2**
0.0	0.0	0.0	4.9	0.0	0.0	4.9
–37.7	**–13.1**	**–134.4**	**–42.5**	**–78.2**	**2.3**	**–449.4**
3.4	–0.2	–0.1	–0.4	–50.9	–0.4	–53.5
–34.4	**–13.3**	**–134.4**	**–42.9**	**–129.2**	**1.9**	**–502.9**
0.0	0.0	0.0	0.0	4.0	0.0	4.0
–34.4	**–13.3**	**–134.5**	**–42.9**	**–125.2**	**1.9**	**–498.9**
2,288	1,886	1,728	477	11,502	–86	41,742
–197	–120	–347	21	–912	0	–2,881
2,041	1,590	1,577	241	5,910		27,829
164	128	127	19	475		2,237
55.1%	57.0%	2554.6%	–208.0%	28.6%		56.0%
152.5%	90.4%	702.8%	–6.8%	132.0%		149.4%
1,220	975	445	924	390		7,749

(7) Interest and similar income

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Interest income	**696.5**	**751.1**
from loans and advances to credit institutions	18.3	13.1
from loans and advances to customers	501.1	521.1
from bonds, treasury bills		
and other fixed interest securities	42.1	41.9
from derivative financial instruments, net	125.3	168.1
Other interest income	9.7	6.9
Current income	**159.6**	**178.6**
from shares and other non-fixed interest securities	0.3	0.1
from leasing business	142.6	164.5
from investment properties	16.8	14.0
Total	**856.1**	**929.7**

(8) Interest and similar expenses

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Interest expenses	**–448.9**	**–465.3**
for liabilities to credit institutions	–55.8	–55.2
for liabilities to customers	–121.4	–115.3
for debt securities in issue	–253.7	–273.5
for subordinated capital	–17.1	–16.8
for other liabilities	–1.0	–4.5
Similar expenses	**–17.7**	**–17.8**
Total	**–466.6**	**–483.1**

(9) Fee and commission income

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Credit business	21.7	30.6
Securities and custodian business	7.7	7.5
Bank transfers incl. payment transactions	18.0	17.6
Other financial services	13.5	14.8
Total	**60.9**	**70.6**

(10) Fee and commission expenses

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Credit business	–12.3	–5.4
Securities and custodian business	–3.3	–2.6
Bank transfers incl. payment transactions	–4.0	–3.9
Other financial services	–3.5	–3.0
Total	**–23.2**	**–14.9**

(11) Result from other financial investments

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Result from investment properties	–1.9	–0.8
Result from operate lease assets	1.0	–3.0
Other income from financial investments	11.2	–7.1
Total	**10.3**	**–10.9**

(12) Risk provisions on loans and advances

The risk provisions for on- and off-balance-sheet transactions are composed as follows:

EUR m

	1.1. - 30.6.2011	1.1. - 30.6.2010
Allocations	–518.6	–935.2
Releases	364.6	275.1
Receipts from loans and advances previously impaired	26.4	4.3
Directly recognised impairment losses	–7.2	–11.3
Total	**–134.9**	**–667.1**

Notes to the Statement of Financial Position

(13) Loans and advances to credit institutions

EUR m

	30.6.2011	31.12.2010
Austria	2,215.8	3,319.2
Central and Eastern Europe (CEE)	626.6	618.2
Other countries	1,041.9	1,241.3
Total	**3,884.3**	**5,178.7**

(14) Loans and advances to customers

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

EUR m

	30.6.2011	31.12.2010
Public sector	4,931.3	4,915.5
Corporate clients	15,329.5	15,972.4
Retail clients	7,262.1	7,329.6
Total	**27,522.9**	**28,217.5**

(14.2) Loans and advances to customers – by region

EUR m

	30.6.2011	31.12.2010
Austria	4,411.0	4,613.0
Central and Eastern Europe (CEE)	17,192.2	17,335.9
Other countries	5,919.7	6,268.6
Total	**27,522.9**	**28,217.5**

(15) Risk provisions on loans and advances

Releases on risk provisions contain an unwinding effect of EUR 87.2 m (1 January – 30 June 2010: EUR 57.0 m).

EUR m

	as at 1.1.2011	Foreign exchange - differences	Allocations	Releases	Use	Changes to the consolidated Group	as at 30.6.2011
Specific risk provisions	–2,975.8	–6.2	–442.9	379.8	52.3	–8.6	–3,001.3
Portfolio-based risk provisions	–235.0	–0.2	–63.7	51.5	0.0	0.7	–246.8
Subtotal	**–3,210.8**	**–6.4**	**–506.6**	**431.3**	**52.3**	**–7.9**	**–3,248.1**
Provisions for credit commitments and guarantees	–75.8	0.0	–12.0	20.4	0.0	–0.9	–68.3
Total	**–3,286.6**	**–6.4**	**–518.6**	**451.7**	**52.3**	**–8.8**	**–3,316.4**

EUR m

	as at 1.1.2010	Foreign exchange - differences	Allocations	Releases	Use	Changes to the consolidated Group	as at 31.12.2010
Specific risk provisions	–2,205.7	–30.5	–1,634.2	573.1	175.5	146.0	–2,975.8
Portfolio-based risk provisions	–244.4	0.0	–137.7	145.6	0.0	1.4	–235.0
Subtotal	**–2,450.1**	**–30.5**	**–1,771.9**	**718.7**	**175.5**	**147.4**	**–3,210.8**
Provisions for credit commitments and guarantees	–119.9	0.3	–53.8	52.7	44.9	0.0	–75.8
Total	**–2,570.0**	**–30.2**	**–1,825.7**	**771.3**	**220.5**	**147.4**	**–3,286.6**

(16) Trading assets

EUR m

	30.6.2011	31.12.2010*
Bonds and other fixed-interest securities	17.1	18.3
Shares and other non-fixed interest securities	6.8	16.0
Total	**23.9**	**34.3**

*) Prior-year values have been adjusted, see note (5).

(17) Derivative financial instruments

EUR m

	30.6.2011	31.12.2010*
Positive market value of derivative financial instruments - trading	26.4	32.6
Positive market value of derivative financial instruments - banking book	1,013.6	1,230.2
Total	**1,040.0**	**1,262.8**

*) Prior-year values have been adjusted, see note (5).

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

EUR m

	30.6.2011	31.12.2010*
Loans and advances to customers and credit institutions	562.8	580.6
Bonds and other fixed-interest securities	217.2	256.7
Shares and other non-fixed interest securities	39.1	40.8
Total	**819.2**	**878.2**

*) Prior-year values have been adjusted, see note (5)

(19) Financial investments – available for sale

EUR m

	30.6.2011	31.12.2010
Bonds and other fixed-interest securities	2,778.5	2,444.2
Shares and other non-fixed interest securities	42.4	52.2
Participations without intention for sale (< 20%)	7.5	8.4
Other participations (associated companies 20% - 50%)	13.9	13.4
Shares in affiliated, non-consolidated companies (> 50%)	16.4	9.2
Total	**2,858.6**	**2,527.3**

(20) Other financial investments

EUR m

	30.6.2011	31.12.2010
Investment properties	870.1	795.7
Assets used for operate lease	209.7	238.6
Total	**1,079.8**	**1,034.3**

(21) Assets classified as held for sale

The item Assets held for sale, which in accordance with IFRS 5 must be reported separately, includes the assets of tourism participations for sale, a cluster of properties deployed as shopping centres and the assets held by HYPO ALPE-ADRIA-LEASING GmbH, Munich.

EUR m

	30.6.2011	31.12.2010
Cash and balances at central banks	0.0	10.3
Loans and advances to credit institutions	6.8	29.6
Loans and advances to customers	156.9	140.7
Risk provisions on loans and advances	–25.8	–26.7
Investments in companies accounted for at equity	3.3	0.0
Other financial investments (investment properties)	11.0	1.7
Intangible assets	0.3	0.3
Tangible assets	23.7	44.5
Tax assets	1.2	1.2
Other assets	66.8	73.0
Total	**244.2**	**274.6**

(22) Other assets

EUR m

	30.6.2011	31.12.2010*
Deferred income	59.2	123.5
Other assets	989.6	943.3
Total	**1,048.8**	**1,066.8**

*) Prior-year values have been adjusted, see note (5).

(23) Liabilities to credit institutions – by region

EUR m

	30.6.2011	31.12.2010
Austria	185.8	133.0
Central and Eastern Europe (CEE)	760.4	1,145.2
Other countries	4,841.2	5,071.9
Total	**5,787.4**	**6,350.0**

(24) Liabilities to customers

(24.1) Liabilities to customers – by type of customer

EUR m

	30.6.2011	31.12.2010
Saving deposits	**1,468.4**	**1,422.9**
Demand and time deposits	**6,682.3**	**6,697.4**
from public sector	568.3	679.3
from corporate clients	3,569.0	3,552.0
from retail clients	2,544.9	2,466.1
Total	**8,150.7**	**8,120.4**

(24.2) Liabilities to customers – by region

EUR m

	30.6.2011	31.12.2010
Austria	1,463.6	1,573.5
Central and Eastern Europe (CEE)	4,255.2	3,900.6
Other countries	2,431.9	2,646.2
Total	**8,150.7**	**8,120.4**

(25) Debt securities in issue

EUR m

	30.6.2011	31.12.2010
Issued bonds	16,167.9	17,694.7
Liabilities issued by the "Pfandbriefstelle"	2,294.7	2,445.7
Other debt securities in issue	1.0	1.4
Total	**18,463.7**	**20,141.8**

(26) Derivative financial instruments

EUR m

	30.6.2011	31.12.2010*
Negative market value of derivative financial instruments - trading	4.0	6.2
Negative market value of derivative financial instruments - banking book	624.2	643.2
Total	**628.2**	**649.4**

*) Prior-year values have been adjusted, see note (5).

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

EUR m

	30.6.2011	31.12.2010
Liabilities to customers	0.6	20.2
Tax liabilities	5.3	5.2
Other liabilities	5.0	14.4
Total	**10.9**	**39.8**

(28) Other liabilities

EUR m

	30.6.2011	31.12.2010*
Deferred expenses	229.3	240.1
Accruals und other obligations	319.4	346.1
Total	**548.7**	**586.3**

*) Prior-year values have been adjusted, see note (5).

(29) Subordinated capital

EUR m

	30.6.2011	31.12.2010
Subordinated liabilities	939.1	940.8
Supplementary capital	95.4	105.6
Hybrid capital	141.3	141.4
Total	**1,175.8**	**1,187.8**

Risk Report

(30) Developments in gross exposure and in the non-performing loans

Gross exposure decreased by nearly EUR 2 bn in the first half of the year, with the greatest reduction occurring in the Financial Institutions segment.

Non-performing loans (NPLs) have risen slightly. The main reason for this was the systematic and uniform application of the ratings at the level of groups of related customers (GoBs), as a result of which all the individual customers making up a group of related customers are classified as defaulting as soon as a single customer in this group is identified as NPL. Without this effect, the level of NPLs stabilised in nearly every country market, which was also achieved by the significantly reduced requirement for risk provisions on loans and advances at the half-year point. A clear reduction in NPLs was noticed in June 2011.

(31) Validation of the review rush

A follow-up validation of the review rush (October 2010 – January 2011) was initiated in order to monitor the quality of local review rushes and check their plausibility.

- In this subsequent examination, Group Credit Management (GCM) concentrated on the local watch loan portfolio and, depending on the total liabilities of local groups of related customers, on larger groups in ratings class “3”
- The samples were defined in advance by responsible GCM analysts; additionally, the examining team had the right to include selected local borrowers ad hoc in their examinations
- For all on-the-spot examinations, all the loan documentation had to be made available in advance
- In the course of conducting local examinations, the teams also interviewed local analysts.

(32) Early warning system

The “Early warning system” project was carried out during the first half of the year with external support; it had the following objectives:

- Development of a group-wide tool for the corporate credit portfolio to enable identification of high risk customers as early as possible using predefined early warning signals and to be in a position to mitigate against further deterioration of the portfolio
- Definition of watch loan categories and obligatory actions and strategies related to these
- In conjunction with the new early warning system, the development of a new monitoring/watch loan process for the identification, validation, classification and management of watch loan customers as well as measures to be implemented
- Development of a regular reporting process
- Creation of a new department for the early warning process.

The pilot implementation in Hypo Alpe-Adria-Bank AG (Austria) was completed on 30 June 2011; a further roll-out to the other group subsidiaries is planned for 30 September 2011.

(33) Creation of the Group Financial Analysis Department ("Statement of financial position analysis – new")

The new tool for analysing statement of financial position was implemented at Hypo Alpe Adria's IT-Provider in the first half of 2011 and has already been rolled out in Austria and Slovenia. In parallel to this the Group Financial Analysis Department was created; with the following duties:

- Support and management of the implementation of the new statement of financial position analysis tool
- Active support and management of the further development of the rating system and analysis tool
- Implementation of the Group Financial Statement Standards
- Development and accumulation of country-specific accounting expertise for analysing foreign consolidated and individual financial statements
- Expanding activities with a view to exercising a quality assurance role in the core countries
- Creation of a centre of excellence to act as the first point of contact for any topic connected statement of financial position analysis

(34) Rating Rush – Project "Ratings process"

The new project to develop complete rating models for Hypo Alpe Adria, which began in May 2010, progressed successfully in the first half of 2011. Five new rating models were installed on the central ratings portal and rolled out throughout the group in the first six months of this year.

These are the ratings systems for Corporate, Small Business Client, Commercial Real Estate, Retail Behaviour Scoring and Expert.

By carrying out an intensive re-rating process (rating rush) in the months March to June, the majority of corporate customers and retail customers were assigned a new rating. In addition to the newly validated process giving a significantly improved risk assessment, both the coverage of ratings and the quality of data have been improved through the availability of data centrally and a systematic approach to reporting.

In the second half of this year five further modules will be developed, which will replace the RSU systems currently being used. They will deal with the following ratings systems: Project Financing, Banks, Insurance Companies, Countries and Municipalities.

(35) Retail Risk Management

The Group Retail Risk Management division which covers the customer segments Private Customer and SME was set up on 1 April and reports directly to the Chief Risk Officer (CRO).

The existing Underwriting Department for the Austrian subsidiary Hypo Alpe-Adria-Bank AG was integrated into the division. Furthermore, the division will cover the following functions which are relevant to the retail business: Country Risk Portfolio Management, Analytics and Reporting, Fraud Prevention, Collections, Data Quality und Retail Risk Review. All the main posts should be filled by the end of 2011, enabling governance to be put into practice.

A retail risk project for the core country markets, which is to be carried out jointly by the Back Office and Risk Management functions, was kicked off at the beginning of the second half and has the following objectives:

- Consolidated overview of the current status (retail risk infrastructure, processes, organisation)
- Portfolio analysis and identification of the segments with increased risk
- Drawing up of a retail risk development plan for each of the five core country markets.

(36) Collateral/Valuation Rush

The "Valuation Rush" project started up in the first quarter of 2011, the objective of which is to ensure, with the help of external experts, all overdue valuations for Commercial Real Estates (CRE) and Residential Real Estates (RRE) are brought up to date by the end of 2011, with internal valuation experts checking the valuations for plausibility.

The valuation rush has been divided into four phases, with the market value of the collateral and the degree of exposure to respective customers determining the priorities for processing.

Phases I & II have been completed as at 30 June 2011 and the results fed into the system. Phases III & IV will be completed in the third and fourth quarters of 2011; they cover the lower-volume portfolio. Any further potential adjustments to values of collateral are intended to be covered by the risk budget.

(37) Counterparty portfolio limits

In the first half of 2011 the portfolio limitation system, which had been developed in 2010, was rolled out in the core country markets (Slovenia, Croatia, Serbia, Bosnia) as well as Austria. Depending on the degree of risk involved in transactions – as represented by a combination of the rating classification, size class and industry sector – Hypo Alpe Adria's portfolio is divided into higher risk and lower risk business. The portfolio limits are capped by the capital available for risk coverage and are monitored on a monthly basis both at group and subsidiary level. If limits are exceeded the group-wide escalation process kicks in, and the operating unit in the country has to take appropriate steps to ensure the limits set are adhered by year-end.

In addition to linking limits directly to the risk-bearing capacity of Hypo Alpe Adria, the portfolio limitation system helps to create a sustainable portfolio (the focus of the limits process is on higher-risk business).

(38) Risk-Weighted Assets (RWA) Optimisation Project

The Risk-Weighted Assets Optimisation Project was successfully carried out, together with the banking and leasing subsidiaries and with the support of an experienced external consultancy, in the period from September 2010 to March 2011. The end result was the optimisation/reduction of RWA at group level by EUR 1.374 bn (which equates to around EUR 110 m of own funds). The project focussed amongst other things on producing a complete overview of collateral and detailing all overdue receivables while taking into account the threshold limits allowed in regulatory law. A total of 237 individual measures and 38 general topics across all group companies was identified, analysed and clearly assigned to people/departments responsible for working through to completion. The tracking processes set up, as well as the committee set up to monitor them, will ensure these measures are sustainable.

(39) Operational risk and internal control management

One focus of operational risk management in the first half of 2011 was the implementation and evaluation of the scenarios deployed across the group in the subsidiaries in 2010. The results of the analysis of the scenarios were discussed with the relevant personnel in the subsidiaries and appropriate measures drawn up. In addition, risk self assessments were developed further at group level. One key priority in 2011 has been on ensuring the loss event database is complete. Further training measures were implemented across the group. The group-wide policies have been updated and the roll-out was supported.

The methods for evaluating the IKS internal control system were developed. The policy relating to the internal control system has been drawn up and authorised, and will be rolled out in the third quarter.

The accounting processes in all core countries have been fixed and documented in the ARIS uniform process tool. The processes were also evaluated from a risk perspective and appropriate control measures defined.

(40) ALM system

The requirements for a future ALM system were modified to reflect current bank requirements as part of the "Operative Bank Steering" project. The main areas of focus are on:

- An appropriate systems architecture with interfaces and links to a data warehouse as well as data management including tracking
- "Classic" ALM analysis enabling interest gap and capital commitment analyses with stochastic behavioural modelling to be carried out so that all the regulatory requirements of Basel II and III are met
- "Advanced" ALM analysis enabling periodic and dynamic interest gap and capital commitment analyses to be carried out which take into account planning and behavioural modelling and a funds transfer pricing model which has been specifically adapted for the group
- "Accounting-adjusted ALM" analysis to enable economic effects to be reconciled to IFRS or Austrian Enterprise Code presentation of accounts as well as the fully automatic creation of the fair value appendix in the IFRS notes in accordance with IFRS 7 and hedge accounting for portfolio hedges in particular.

(41) Liquidity risk

In order to ensure liquidity on an ongoing basis, Hypo Alpe Adria holds cash reserves in the form of cash deposits which are available on demand at the Österreichische Nationalbank (OeNB). Hypo Alpe Adria also holds liquidity portfolios of extremely liquid, eligible securities which can be sold or used as eligible collateral for financial transactions with the central bank at short notice.

The developments in primary funds, after a phase of stabilisation in the previous year, have shown a growth trend again in the first half of 2011. The more stable retail deposits, in particular, have grown at an above-average rate.

The remaining action points on liquidity management from the 2009 OeNB audit were actioned as projects. The resulting implementation of appropriate technical and personnel resources has now been almost entirely completed. The remaining points which are still open are being worked on with the aim of completing them by year-end 2011.

(42) Credit spread integration within the market risk management system

Credit spread risk is, together with interest rate risk, the largest risk factor in market risk. Developments in the credit default-swap markets have been dynamic in recent years. MaRisk and regulatory requirements require appropriate risk measurement systems to be in place in market risk management and controlling to deal with them. IFRS also calls for a clear separation of credit spread effects from liquidity spread effects to be shown in the IFRS notes and for a differentiation between full fair value and hedged fair value. To this end, developments in the group-wide market risk management system providing the necessary functionality for appropriate risk measurement and treatment of risk in the accounts were prioritised.

(43) PIIGS exposure

The risk management function has been closely monitoring exposure to the PIIGS states and checking for the potential to reduce possible risk.

EUR m

Exposure at Default (EaD) as at 30.6.2011	Sovereign/ Municipal	Bank	Other	Total
Greece	42.0	14.7	0.0	56.6
Ireland	0.0	32.0	2.0	34.0
Italy	204.4	110.1	0.0	314.5
Portugal	20.0	44.9	2.5	67.4
Spain	102.3	46.5	0.0	148.8

(44) Charges resulting from the Greek crisis

Impairment write-downs of EUR -21.5 m on the EUR 93.0 m total exposure to Greece impacted negatively on the 2011 first-half result. The sale of a EUR 50.0 m exposure (which had no further impact on results) in July 2011 has reduced the remaining exposure to EUR 43.0 m and the carrying amount to EUR 26.6 m, which equates to an average devaluation of some 38.0%.

Supplementary Information

(45) Contingent liabilities and other off-balance-sheet liabilities

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

EUR m

	30.6.2011	31.12.2010
Contingent liabilities	**777.5**	**829.9**
from bills of exchange transferred for settlement	0.3	2.8
from credit guarantees	479.1	527.4
from letters of credit	31.9	16.7
from other guarantees	254.7	271.4
from other contingent liabilities	11.6	11.6
Other liabilities	**1,146.5**	**1,375.7**
from irrevocable credit commitments	1,036.9	1,281.2
from other liabilities	109.6	94.5
Total	**1,923.9**	**2,205.6**

(46) Loans and advances and financial liabilities designated at fair value

The following valuations for individual statement of financial position items have resulted from applying the fair value option:

EUR m

	30.6.2011	31.12.2010
Loans and advances to customers and credit institutions	562.8	580.6
Bonds and other fixed-interest securities	217.2	256.7
Shares and other non-fixed interest securities	39.1	40.8
Total assets	**819.2**	**878.2**
Liabilities to customers	430.9	425.0
Debt securities in issue	795.2	914.0
Subordinated capital	106.3	108.7
Total liabilites	**1,332.4**	**1,447.7**

(47) Related party disclosures

Business relations with related parties on the respective balance sheet dates were as follows:

EUR m

as at 30.6.2011	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	114.7	152.1	73.3	1.2
Liabilities and equity	14.7	15.4	0.5	2.4
Liabilities arising from guarantees	0.0	16.2	81.6	0.0

EUR m

as at 30.6.2010	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	197.1	202.1	77.5	2.4
Liabilities and equity	22.6	23.8	0.0	4.1
Liabilities arising from guarantees	0.0	36.6	88.0	0.0

(48) Participation capital

A resolution was passed in the general shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 May 2011 to reduce nominal share capital proportionately to cover the net loss reported in the financial statements as at 31 December 2010. Share capital was accordingly reduced by EUR 43,377,156.49 from EUR 62,474,208.00 to EUR 19,097,051.51 and the 2008 and 2009 capital issues of participation certificates were reduced by EUR 771,233,041.49 from a total of EUR 1,110,772,982.00 to EUR 339,539,940.51 in accordance with sections 182 ff of the Austrian Stock Corporation Act in conjunction with section 23 (4)(2) of the Austrian Banking Act. The reduction in share capital became effective with its registration in the Commercial Register on 3 June 2011.

In addition, a resolution was passed in the extraordinary shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to raise share capital by EUR 449,999,997.78 from EUR 19,097,051.51 to EUR 469,097,049.29 through the conversion of the participation capital issued by the bank in its 2010 issue of participation certificates. The increase in share capital became effective with its registration in the Commercial Register on 20 July 2011. In conjunction with this, the number of no-par shares was increased by 184,016,584 from 7,809,276 to 191,825,860. The nominal value of the participation certificate issue (issued in 2010) was converted into share capital in the company through this measure (for all but EUR 2.22 of the total amount, which was transferred to an appropriated reserve).

(49) Statutory guarantee

Notice has been served by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) to terminate the contractual guarantee commission agreement governing the payment of guarantee commission in connection with the statutory guarantee provided by the State of Carinthia on 31. December 2011 in accordance with the terms of the contract, as a result of which the contractual obligation to pay guarantee commission no longer applies. Irrespective of the termination of this contractual guarantee commission agreement, which may become the subject of a legal dispute with the State of Carinthia, the state guarantee provided for by law in section 5 of the Carinthian State Holding Law (K-LHG) applies.

The sums for which the State of Carinthia is liable as at 30 June 2011 are as follows:

EUR m

	30.6.2011	31.12.2010*
Hypo Alpe-Adria-Bank International AG	17,670.3	18,311.1
Hypo Alpe-Adria-Bank AG	1,423.5	1,460.3
Total	**19,093.8**	**19,771.4**

*) Prior-year values have been adjusted.

It was necessary to adjust the amount of liabilities subject to statutory guarantee that had previously been calculated as applying on 31 December 2010, as an internal review in the spring of 2011 brought to light mistakes in the systems used for calculation.

With regard to the sum applying on the balance sheet date of 31 December 2010, there was a requirement to adjust the amount of liabilities subject to statutory guarantee applying to Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG from EUR 18,833.0 m to EUR 19,771.4 m.

(50) Important proceedings

Based on the restructuring plan which was presented by the Republic of Austria to the European Commission at its request in April 2010, Hypo Alpe Adria is to be redimensioned, which will lead to a significant number of group companies being relinquished. In conjunction with this, high restructuring and exit costs have been budgeted in the current business plan for 2011 – 2015 which, depending on when a given market is exited and the market conditions prevailing at the time, could have a greater or lesser negative impact on the results for future periods. The IFRS specify that these expenses may only be recognised when the specific criteria of IFRS 5 are fulfilled.

On 20 April 2011 a revised restructuring plan in the form of a condensed summary was sent to the European Commission; the plan uses the same segments as presented in this interim report and draws on data from the financial statements for 2010. The full restructuring plan is currently being updated. As the subject of the proceedings, Hypo Alpe-Adria-Bank International AG is in an ongoing, constructive dialogue with the European Commission. The European Commission’s inspection process still has some way to go. At the time of writing, it cannot be estimated with any degree of certainty when the EU proceedings will be concluded and what their outcome will be. Depending on whether the European Commission grants permanent authorisation and on whether there are any limitations imposed in this connection, significant ramifications for the business activities of the entire banking group cannot be ruled out. The Executive Board has based its judgement of the ability of Hypo Alpe Adria to continue as a going concern on the same assumptions that underpin the restructuring plan for the group – the future development of the group’s business continues to be subject to uncertainty in the light of the after-effects of the economic crisis.

At the end of June 2011 Hypo Alpe-Adria-Bank International AG filed an application at the Commercial Court in Vienna for a declaratory judgement on BayernLB. Specifically it is about the interpretation of two provisions in the agreement to sell its shareholding, concluded between BayernLB, the Republic of Austria and Hypo Alpe-Adria-Bank International AG. Clarification is sought firstly on whether the increased equity costs for receivables from loans and bonds which BayernLB claims to have incurred as a result of Hypo Alpe Adria ceasing to be part of the BayernLB group of credit institutions can be passed on to Hypo Alpe-Adria-Bank International AG. It is also sought on the question of which lines of credit according to the shareholding sales agreement are covered by BayernLB‘s waiver: the judgement would determine which lines of credit must still be serviced and accordingly how high the interest charges will be for Hypo Alpe-Adria-Bank International AG. The intention is that both issues are clarified by way of a binding declaratory judgement which finds in favour of Hypo Alpe-Adria-Bank International AG.

The “CSI Hypo” project team put in place by the Republic of Austria in 2010 has continued with its work in line with plan. Compared to the position as at 31 December 2010, the geographic focus is currently spread wider to cover cases concerning the Slovenian subsidiary. A large number of the cases being investigated are already at the point of an in-depth investigation of the facts and evidence. In around 60 cases summaries of the facts have been submitted or proceedings initiated. The expected costs for the “CSI Hypo” project were provided for in the consolidated financial statements as at 31 December 2010. Costs may exceed the existing sums provided for if there are requirements to investigate further or in greater depth, if proceedings take a long time or the focus of investigation is extended.

A borrower brought a case against Hypo Alpe-Adria-Bank International AG and HYPO-LEASING Kroatien d.o.o. at the beginning of 2011. The claimant asserts that additional funds for the financing of the subject of the credit agreement, a marina in Croatia, should have been provided once the loan ran out. The claim is for damages; the sum in dispute is EUR 106.0 m. Hypo Alpe Adria assumes that such a claim has no basis in law, as no obligation exists to provide further credit.

In 2002 Hypo Alpe-Adria-Nekretnine d.o.o. acquired 100% of the shares in a Croatian company, which were sold on by the same in 2005 to a third party. In the same year the original vendor claimed the share sale agreement of 2002 was void. This claim was upheld in March 2011; Hypo Alpe Adria has appealed against this judgement. A decision from the court of appeal is not expected for two years. The consequences of a negative outcome of this case for Hypo Alpe Adria would be the reversal of the share sale agreement and all subsequent transactions; the resulting damages cannot be exactly quantified at this point in time.

There is nothing new to report on the legal dispute for EUR 130.0 m described in the 2010 financial statements in note (110).

(51) Guarantee agreements

On 15 April 2011 an addendum was made to the guarantee agreement dated 28 December 2010 in which the terms for paying the agreed consideration for the guarantee were defined in more detail. Hypo Alpe-Adria-Bank International AG must pay a guarantee consideration of 10% p.a. of the sum guaranteed during the period 31 December 2010 to 30 June 2013 to the Republic of Austria for taking on the guarantee. For partial sums for which the Republic is called upon to provide guarantees, in place of the aforementioned consideration, a consideration amounting to 10% p.a. of the sum called upon under the guarantee up until 31 August 2013 is to be paid. This part of the consideration must only be paid to the extent it can be covered by distributable profit after movements in reserves. It also not subject to any subsequent payments and takes precedence both over payments of dividends to the sole shareholder and all participants as well as recourse payments to the Republic as a result of the guarantee agreements. This additional state aid was provisionally approved by the EU Commission on 24 May 2011, because it is compatible with the requirements for recapitalising financial institutions in the financial crisis.

(52) Supplementary capital

Both Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) have in the past issued supplementary capital pursuant to section 23 (7) of the Austrian Banking Act (BWG), which has been allocated to own capital funds in accordance with supervisory regulations.

According to the restrictions laid down in section 23 (7) (2) of the BWG, interest can only be paid out "if it is covered by the annual profits (before movements in reserves)". As neither the separate financial statements of Hypo Alpe-Adria-Bank International AG nor of Hypo Alpe-Adria-Bank AG (Austria) from 2007 to 2010 meet this criterion, and following formal adoption of the financial statements, interest on the supplementary capital issues of both credit institutions cannot be paid out. According to the specific legal provisions, payment of interest may only be resumed when subsequent financial statements for Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) respectively establish that sufficient annual profits (before movements in reserves) have been shown.

Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) assume that there will be an obligation to make back payments of interest for the preceding periods of non-payment; these sums, therefore, continue to be shown and accrued as interest expense in the consolidated income statement, but not paid out.

In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during the time of the capital. This provision has been interpreted by the regulatory authorities to mean that the losses must be allocated to the supplementary capital bond in question in the same proportion as the nominal value of the paid-in capital pursuant to section 23 (3) BWG and the supplementary capital. Taking this loss allocation set down in law into account and in relation to the supplementary capital issues by Hypo Alpe-Adria Bank International AG, a total loss has been established at the time of writing, which may lead to a total loss for an investor. The loss allocation applies not only in the case of redemption at maturity but also if there is early repayment if the issue is terminated or the issue is bought back ahead of term.

(53) Own capital funds as defined by the Austrian Banking Act

The own capital funds of the group as defined by the Austrian Banking Act (BWG) and the Solvency Ordinance (SolvaV) are made up as follows:

EUR m

	30.6.2011	31.12.2010
Core capital (Tier 1)	**1,778.6**	**1,794.7**
Paid-in capital	808.6	1,623.2
Reserves (incl. non-controlling interests in equity and hybrid capital)	1,027.5	220.6
Funds for general banking risks	0.7	0.7
Intangible assets	–49.4	–49.8
Deduction: net loss, material negative results	–8.9	0.0
Supplementary elements (Tier 2)	**963.0**	**986.3**
Supplementary capital	73.7	89.0
Subordinated capital	889.3	897.4
Deductions pursuant to Section 23 (13) BWG	**–12.0**	**–13.5**
Tier 3 (reclassified Tier 2 capital)	**18.6**	**9.9**
Own capital funds	**2,748.1**	**2,777.5**
Own capital funds requirement according to BWG	**2,146.7**	**2,167.4**
Surplus capital	**601.4**	**610.1**
Coverage	128.0%	128.1%

EUR m

	30.6.2011	31.12.2010
Risk-weighted basis for assessment in acc. with section 22 of the BWG (banking book)	**24,294.7**	**24,611.1**
thereof 8% minimum own funds requirements	1,943.6	1,968.9
own funds requirement in acc. with section 22 BWG (securities trading book)	6.0	6.5
own funds requirement in acc. with section 26 BWG (open foreign exchange position)	36.2	31.1
own funds requirement - operational risk	160.9	160.9
Total own capital funds requirement	**2,146.7**	**2,167.4**

EUR m

	30.6.2011	31.12.2010
Assessment basis banking book (risk-weighted)	**24,294.7**	**24,611.1**
Tier 1 ratio	7.3%	7.3%
own capital funds ratio	11.3%	11.3%
Assessment basis incl. market and operational risk	**26,833.6**	**27,092.4**
Tier 1 ratio	6.6%	6.6%
own capital funds ratio	10.2%	10.3%

In the first half of 2011 Hypo Alpe-Adria-Bank International AG, as the ultimate holding company for Hypo Alpe Adria, was in compliance with the minimum capital requirements as defined by the Austrian Banking Act.

(54) Events after the reporting period

In an extraordinary shareholders' meeting held on 30 June 2011, a resolution was passed to increase the share capital, which became effective with its registration in the Commercial Register on 20 July 2011. For further information please refer to note (48) – Participation capital.

Hypo Alpe Adria sold the Schlosshotel Velden, including the apartments belonging to the hotel complex, at the end of July 2011. Closing is planned for the third quarter of 2011.

At the beginning of August Hypo Alpe Adria sold off all its German biogas plants to a German biogas plant operator. Also in August, the 20.0% stake in Hypo Versicherung AG was sold by the Austrian business unit.

With the disposal of the abovementioned assets Hypo Alpe Adria is systematically pursuing its strategy of disposing of non-strategic participations, downsizing the group and intensifying its focus on the core business.

Klagenfurt am Wörthersee, 12 August 2011
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Statement of all Legal Representatives

"We confirm to the best of our knowledge that the condensed interim financial statements gives a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the important events that have occurred during the first six months of the financial year and their impact on the interim condensed financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year."

Klagenfurt am Wörthersee, 12 August 2011
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Report on the Auditors' Review of the Interim Condensed Consolidated Financial Statements

Introduction

We have reviewed the attached interim condensed consolidated financial statements for Hypo Alpe-Adria-Bank International AG, Klagenfurt, for the period 1 January 2011 to 30 June 2011. These condensed financial statements comprise the consolidated statement of financial position as at 30 June 2011; the consolidated statement of comprehensive income, the condensed consolidated cash flow statement and the consolidated statement of changes in equity for the period 1 January 2011 to 30 June 2011, as well as the notes, which contain a summary of the significant accounting policies and other explanations.

The company's management is responsible for the preparation of these interim condensed consolidated financial statements in accordance with the IFRS on interim reporting as adopted in the EU.

Our responsibility is to express an opinion on these interim condensed consolidated financial statements based on our review.

Scope of the review

We have conducted our review in accordance with laws and regulations and professional guidelines applicable in Austria, in particular the expert opinion (reference number KFS/PG 11) "Standards for reviewing financial statements" as well as the International Standard on Review Engagements 2410 "Reviews of interim financial statements by an independent auditor". A review of interim financial statements covers questioning – primarily – the employees responsible in the Finance/Accounting departments, and making assessments based on analyses and other sources of information. It is substantially less in scope than an audit the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Summary opinion

Based on our review, no matters have come to our attention that cause us to presume that the attached interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU.

Without qualifying our summary opinion, we draw attention

- to the explanatory information given by the company's Executive Board in drawing up the interim condensed consolidated financial statements with regard to the assumption of the company's ability to continue as going concern in section (1) "Significant accounting policies". The Executive Board, in drawing up the interim condensed consolidated financial statements, has assumed the European Commission will decide in favour of the restructuring plan submitted to the European Commission in April 2010. There is significant uncertainty as to the timing and content of the European Commission's decision, and for this reason – as stated in the explanatory notes from the Executive Board – there is significant uncertainty with regard to the continuance of the enterprise as a going concern

Comments on the interim management report and statement of the legal representatives in accordance with section 87 of the Austrian Stock Exchange Act

We have read the interim management report and assessed whether it contains any apparent contradictions with regard to the condensed consolidated interim financial statements.

In our opinion, the management report is consistent with the condensed consolidated interim financial statements.

The interim consolidated financial statements contains the statement of the legal representatives as required by section 87 (1)(3) of the Austrian Stock Exchange Act (BörseG).

Vienna, 12 August 2011

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Ernst Schönhuber eh
Certified Public Accountant

Elisabeth Glaser eh
Certified Public Accountant

eh = eigenhändig = signed personally

Imprint

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