Interim Financial Report 2012

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

	2012	2011	2010
Income statement	**1.1.-30.6.**	**1.1.-30.6.***	**1.1.-30.6.***
Net interest income	342.9	389.5	446.7
Net fee and commission income	29.2	37.7	55.7
Risk provisions on loans and advances	-125.1	-134.9	-667.1
Operating expenses (administrative expenses)	-246.6	-266.4	-269.3
Operating result – prior to risk provisions on loans and advances	159.5	225.9	212.8
Operating result – after risk provisions on loans and advances	34.4	91.0	-454.2
Result for the period before tax	34.4	90.8	-449.4
Result for the period after tax	2.6	77.5	-502.9
Consolidated result for the period (attributable to equity holders of parent)	-9.9	71.8	-498.9
Statement of financial position	**30.6.**	**31.12.**	**31.12.**
Loans and advances to customers	25,829.3	26,722.4	28,217.5
Liabilities to customers	8,324.8	8,201.1	8,120.4
Debt securities in issue and subordinated capital and hybrid capital	16,919.4	18,303.0	21,329.6
Equity (including non-controlling interests)	1,438.3	1,413.3	1,421.3
Total assets	33,699.9	35,132.5	38,746.1
Risk-weighted assets (banking book)	22,498.0	23,111.0	24,611.1
Key figures	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**
Cost/income ratio	60.7%	54.1%	56.0%
Net interest income/Ø risk-weighted assets (banking book)	1.5%	1.6%	1.4%
Risk/earnings ratio	36.5%	34.6%	149.4%
Risk/Ø risk-weighted assets (banking book)	0.6%	0.6%	2.1%
Bank-specific figures	**30.6.**	**31.12.**	**31.12.**
Own capital funds according to BWG	2,380.5	2,498.7	2,777.5
Own capital funds requirement according to BWG	2,003.1	2,048.9	2,167.4
Surplus capital	377.4	449.8	610.1
Core capital (Tier 1)	1,521.9	1,602.8	1,794.7
Tier 1 ratio – banking book	6.7%	6.9%	7.3%
Tier 1 ratio – including market and operational risk	6.1%	6.2%	6.6%
Own capital funds ratio – total (solvency ratio)	9.5%	9.8%	10.3%
Moody's rating	**30.6.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	withdrawn	withdrawn	Baa3
Long-term (liabilities covered by statutory guarantee)	A1	Aa3**	Aa3
Short-term	withdrawn	withdrawn	P-3
Bank Financial Strength Rating (BFSR)	withdrawn	withdrawn	E
Employees and locations	**30.6.**	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent – FTE)	7,655	7,690	7,624
Employees average (FTE)	7,606	7,774	7,927
Number of locations	321	330	328

* Prior-year values adjusted – see note (4) Prior-year adjustments.

** Reporting date figures adjusted due to error correction.

Interim Financial Report 2012

Letter from the Chairman of the Executive Board

Dear customers and staff,
Dear taxpayer,
Dear partners,

In 2011 Hypo Alpe Adria (HAA) returned to profit for the first time in four years. Building on this achievement the priority for 2012 was from the outset to continue this positive trend and to secure and strengthen profitability and efficiency in every area of our operations. This target applies to the continuing banking operations in the core strategic markets in Austria, Italy and South Eastern Europe (SEE), the phase out activities and the activities related to cleaning up the bank's past with the aim of winning back funds for the taxpayer.

Considering HAA's history and the current macroeconomic climate in Europe it was always clear that these were highly ambitious targets.

The challenges for HAA and our staff became even more pronounced as the European debt and economic crisis deepened in the first half of 2012. Comparing the most reliable growth forecasts for SEE from 2010 with the actual developments to date reveals a gap of 4 percentage points, while recent estimations for 2012 and 2013 point towards negative growth. Planning was made even more uncertain by a series of changes in government in several SEE countries after elections, which should now be followed by a phase of political and administrative stability. Nature, too, contributed to the fragile economic situation in a core market of HAA, when Northern Italy was struck by a series of earthquakes in the spring of 2012.

In the face of this difficult environment we are proud to report that HAA has been able to meet its targets in nearly every area in the first half of 2012. This has led to a small profit before tax and a further significant reduction of government-guaranteed liabilities. This result demonstrates that the steps taken since the nationalisation of the bank at the end of 2009 are having a beneficial and sustained impact on our institution.

We owe this success first and foremost to the operative banking units which have been able to compensate for the slower progress in phasing out other areas due to the sluggish economic situation.

The banking operations in all three key areas – Austria, Italy and SEE – have been able to win back trust in their markets. This is best demonstrated by the 40,000 new customers added to the bank's portfolio in the first half of 2012. Concerning new business in addition to improvements of the risk structure, the planned move towards lower-volume business, an increase in cross-selling and an upswing in income from services have all been achieved successfully. These efforts help to maintain the value of the bank. At the same time, the half-year figures show progress in pursuing the strategy of down-sizing, meaning the transformation into customer- and regionally-focused banks with highest standards of service and increasingly funded by their own deposit generation. A reduction of predominantly large-volume credit commitments by around EUR 900 m over the previous year is contrasted by some EUR 120 m in new deposits across the group despite the background of recession. Even if the development of margins cannot be satisfactory given the current economic environment, this robust performance should be credited in particular to the HAA staff, who are displaying extraordinary dedication and professionalism even when faced with an ongoing efficiency programme and, in part, a concomitant resizing of the workforce.

Even if economic and political events and the accompanying media reports occasionally cast a shadow over the clean-up and restructuring work at HAA, the key figures show that HAA has been able to reduce the total assets, risk assets and government-guaranteed liabilities, and thus the liabilities threatening the taxpayer, by some 25 percent since the bank's nationalisation. In 2009, at the end of an unsustainable expansion drive, every Austrian citizen was on paper liable for EUR 2.700, while this figure has now been reduced to EUR 2.100. The further reduction of this amount according to plan and the use of the bank's own resources to avoid calls on that liability remain central goals of the bank.

Cleaning up the past, a process which was initiated under nationalisation and has focused on the gathering of data and processing of cases according to civil and criminal law, will in the next phase gradually be transferred to HAA where substantial know-how and expertise have been built up in recent years. The newly-created position of external coordinator has established an interface between the bank and the Republic of Austria and the necessary external advisers. The structured and methodical co-operation between these positions and functions is a prerequisite for investigating each phase in the history of HAA until the bank's emergency nationalisation with the same intensity and impartiality as before, yet in an efficient and focused manner. The investigations are conducted on wide-ranging topics, with the involvement of a variety of experts and on a step-by-step basis which ensures, bearing in mind the need for expediency and parsimonious use of taxpayer's money, that good progress is being made in the allocated time with good prospects of success. Recent developments in the civil and criminal investigations in Austria, Slovenia, Croatia and Serbia clearly demonstrate that progress is being made.

The clarification of past responsibilities and overcoming the bank's legacy, together with current market activities and business restructuring measures, form the basis for the future of HAA. All these activities contribute decisively to mastering the challenges ahead. These range from the much-discussed capital requirement set by the supervisory authorities, to the finalisation of the state aid proceedings with the European Commission, to the continuation of efforts to re-privatise the strategically promising banking entities.

In all its activities HAA and its management remain firmly committed to Austrian and European market regulations and expressly welcome these rules in the interest of stability and strengthening of the banking sector against stress. However, HAA's particular situation with domestic liabilities totalling billions of Euros and a clear business focus on SEE as the region of the future must also be taken into account: All banking subsidiaries with active market operations are to be returned to the market through privatisation, while the wind-down part of the business is being reduced systematically and successively.

Taken together, these perspectives combine to an overall prospect for HAA which in the opinion of the Management Board is the only way forward: to continue with the strategy of restructuring, downsizing, re-privatising, and phasing out of the non-strategic business. A flexible and, if necessary, extended timeline, together with an acknowledgement of HAA's efforts and of the uncontested reputation of our owner, the Republic of Austria, are sufficient to head off doomsday scenarios and panic-driven speculation for the long term. During the two and a half years since the emergency nationalisation of the bank, the conditions have been created to ensure that those banks that can be sold can maintain their value until such time as the banking market will allow their sale. At the same time the organisation and resources have been created to make the wind-down (phase out) of a diversified asset portfolio possible. The interim financial statement presented in the following shows in figures that the banking entities and the wind-down organisation are fit for purpose and also demonstrate the fruits of our staff's efforts. We see this as a mandate to continue our path to successful conclusion.

Kind regards

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

Interim management report

1. Significant events in the first half of 2012

Alongside the operational management of the group, the first half of 2012 has been characterised by the preparatory work carried out for the planned reprivatisation of the marketable units – in such a way as to preserve as much value as possible – and the wind-down of non-strategic units which are not part of the Hypo Alpe Adria (HAA) group's core business. In addition to this, significant steps were taken early on to improve the structure of the group's own capital funds ahead of the upcoming new treatment of own capital funds under Basel III, through the buy-back of hybrid capital in April 2012.

1.1. Result for the period after tax

Following the first positive consolidated net result achieved by HAA last year after a series of losses, the consolidated net result for the first half of 2012 was again positive – despite difficult economic conditions in HAA's core markets – with a result close to break-even: the consolidated net result before taxes and non-controlling interests came to EUR +34.4 m (1 January – 30 June 2011: EUR +90.8 m), after taxes EUR +2.6 m (1 January – 30 June 2011: EUR +77.5 m); and after allowing for non-controlling interests the result was reduced to EUR -9.9 m (1 January – 30 June 2011: EUR +71.8 m). The operating result for the first half of 2012 is again lower, as a consequence of continuing with the redimensioning strategy of the group. With risk provisions on loans and advances, at EUR -125.1 m at about the same level as in the previous year (1 January – 30 June 2011: EUR -134.9 m), the consolidated result was further influenced by the one-time effects of the hybrid capital buy-back and charges related to the planned disposal of participations in industrial companies and write-downs on returns from financing transactions. Whereas the previous year's result included significant fair value effects from own issues (liabilities) of EUR +66.4 m, the same item was much lower in the first half of 2012, EUR +4.7 m, and only had a minimal effect on the result.

1.2. Economic environment/sovereign debt crisis

Economic development in the eurozone was also affected in the first half of 2012 by the continuing sovereign debt crisis. Downgraded ratings and political uncertainty led to a requirement for high yields, particularly for Spanish and Italian government bonds; the prices of Greek and Portuguese government bonds continued to be pressurised. In contrast, the sovereign debt crisis had a comparably lower impact on the SEE region, although continuing tension in the context of the debt crisis in the eurozone did lead to a deterioration in the risk rating for the region, above all in Slovenia.

1.3. Buy-back of hybrid capital

In April 2012 a volume of around EUR 165.0 m out of the total of EUR 225.0 m of hybrid capital issued through two Jersey issuance vehicles was removed from the market. The take-up quota achieved of over 70% demonstrated the very high level of acceptance by the holders of both issues and results in a strengthening of own capital funds by EUR 153.0 m, for which there is a positive effect of EUR +12.0 m on the consolidated result under IFRS accounting, as well as a related EUR -9.6 m tax deferral under IAS 12. This constituted a further step towards restructuring and improving the capital structure and – looking ahead to the future Basel III regulations – achieving a lasting improvement in the quality of Tier 1 capital.

1.4. Disposal and restructuring measures within the HAA group

Within the context of the planned reprivatisation of the marketable units and the wind-down of non-strategic units within HAA, the aim is to have put everything in place swiftly, so as to be ready for the reprivatisation of the marketable banking interests and the sell-off of the non-strategic units when the M&A market picks up.

The work started in the last financial year on preparing the transfer out of selected credit portfolios (loans and finance leases) belonging to the SEE network subsidiaries in Croatia and Serbia into local wind-down companies was progressed in the first half of 2012. The transfers planned will facilitate the derecognition of the portfolios in the balance sheet, thereby leading to a normalisation of the key financial figures in the units concerned, particularly in relation to net interest income, the NPL quota and strengthening of the capitalisation figures/ratios.

In addition to the banks in the SEE network, the credit institutions in Italy and Austria will be subject to the same portfolio clean-ups.

The transaction pertaining to Hypo Alpe-Adria Bank S.P.A. (Italy) has already been implemented as of 1 February 2012, with the agreement of the local authorities; it is expected that the transfer will be completed in the form of a legally recognised split of the Austrian banking subsidiary in the second half of 2012. This splitting of the business will see the strategic core business remaining with Hypo Alpe-Adria-Bank AG (Austria), and the non-strategic business taken over by Hypo Alpe-Adria-Bank International AG.

1.5. Joint Risk Assessment Decision (JRAD)

Following an audit conducted in the summer of 2011 by the Oesterreichische Nationalbank (OeNB) as part of the so-called JRAD process, which was based on key financial figures for HAA as at 31 December 2010 and which led to the stipulation of a total capital ratio of 12.04% to cover potential losses to be achieved by 31 December 2012, an examination of the bank lasting several months was conducted by the supervisory authorities in the first half of 2012, concentrating on the parameters and calculation models relevant to the JRAD process.

The bank has been in receipt of the provisional report on the last OeNB audit, conducted in the first half of the year, since 8 August 2012. The audit has been focussed on the topics of models and parameters for measuring credit risk, collateral and monitoring, stress testing and risk management in the leasing business, with the core themes of the audit selected also with a view to the determination of economic capital as part of the JRAD process. The report contains 48 concrete findings, for which changes or improvements are set out, and of which the majority of the criticisms are compatible with the programme for refining and improving risk management. With this in mind, a detailed reply to the report will be given by 19 September 2012.

1.6. Status of the EU proceedings/restructuring measures

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

1.7. Ratings

In November 2011 HAA decided to stop the ratings for the bank as an institution. Prior to stopping the process, Moody's confirmed the rating remained unchanged, at investment grade Baa3 (negative outlook). All state-guaranteed bonds and the "Pfandbrief" rating remained unaffected from the withdrawal from the rating process and continue to be rated. Subsequent to Moody's new rating for the State of Carinthia, which was announced on 21 February 2012, the rating for the state-guaranteed bonds was also revised, from Aa3 to A1.

Information on the withdrawal from the rating process and all the related and previous Moody's publications on this topic can be found on the group's website (www.hypo-alpe-adria.com) in the Investor Relations area.

1.8. Forensics

In order to coordinate the work taking place on working through and dealing with the past, as well as to support the work being carried out in this respect by the bank, an external consultant ("coordinator") was appointed. The transfer of the so-called "CSI Hypo" function to the bank itself (Forensics department) is being supported by the coordinator and in consultation with the Executive and Supervisory Boards. The Forensics department, which reports directly to the Executive Board and works closely with the coordinator, manages the work of dealing with the past in Austria and abroad.

By the middle of 2012 a total of 65 cases in Austria and abroad had been reported to the relevant public prosecutors. In addition, there are currently 5 civil law suits against former senior executives before the civil courts in Austria, in which claims for EUR 107.0 m are being asserted.

The main areas of focus in 2012 are the "BayernLB expert assessment", "Consultants", "Liechtenstein", "HLH preference shares" as well as continuing to work on the "top 50 losses" and working through central cases affecting the subsidiaries in the country markets. The Forensics department and the coordinator are also concentrating on closing those cases which do not display any indications of wrongdoing under criminal or civil law.

Experts are currently conducting examinations with regard to the quality of the capital made available by BayernLB. Should the experts conclude that these funds may be classified as equity, then it would not be necessary to repay these funds and repayment of interest already paid could be demanded. Due to the ongoing analyses still taking place, the outcome of these investigations and any possible ramifications cannot yet be assessed.

1.9. Outlook for the second half of the year

With regard to the full-year results for 2012, the management expects that the restructuring measures being taken will continue to be evident from the bank's key performance figures; and that it will be possible for the operating units to avoid a fall-back into the red. How economic conditions develop in Europe, and in particular in the SEE region, will play a decisive role in the degree to which these targets are met.

The group's strategy with regard to the planned reprivatisation of the marketable units and the wind-down of non-strategic units will be systematically pursued in the second half of 2012.

2. Development of business in the group

2.1. Development of results

The first half of 2012 was characterised by a further decline in business volumes; a balanced result; the buy-back of hybrid capital to improve the quality of the Tier 1 capital; and the preparatory measures for the disposal of non-core parts of the business. All these factors demonstrated that the redimensioning strategy for the HAA group was being systematically pursued.

Despite difficult economic conditions in its core markets, HAA was able, in the first half of 2012, to achieve a consolidated tax profit for the period before tax of EUR 34.4 m (1 January – 30 June 2011: EUR +90.8 m) and a consolidated result for the period of EUR +2.6 m after tax (1 January – 30 June 2011: EUR +77.5 m). After allowing for taxes and non-controlling interests, the consolidated net result for the period came to EUR -9.9 m (1 January – 30 June 2011: EUR +71.8 m). Alongside the positive effects on the result from the buy-back of hybrid capital (EUR +12.0 m), the result was affected by write-downs on returns from financing transactions and relating to the disposal of certain assets. Whereas the previous year's result included significant fair value effects from own issues (liabilities) of EUR +66.4 m, the same item was much lower in the first half of 2012, EUR +4.7 m, and only had a minimal effect on the result.

The net interest income shows a decline from EUR +389.5 m to EUR +342.9 m (-12.0%), mainly due to the decline in interest-bearing assets because of the maturing portfolio. The main reason for this is the complete stop on all new business in the non-core areas of the business, along with muted levels of new business in the SEE region, as well as at the banking units in Italy and Austria.

Net interest income
in EUR m

Net fee and commission income, which had contributed EUR +37.7 m to the prior-year first-half result, declined by EUR -8.5 m and came to EUR +29.2 m. This reduction is due to declining levels of new business along with increased costs in connection with holding liquidity reserves.

In contrast to the development and results from trading in the prior-year comparable period, the result from trading in the period under review showed an increase of EUR +14.8 m, from EUR +8.7 m to EUR +23.5 m. This is primarily due to the effects of hedging on the Serbian dinar (RSD) against the euro.

The result from hedge accounting, which derives from hedge inefficiencies, came out at a comparable level to that of the prior-year period, at EUR -1.1 m (prior-year: EUR -0.2 m).

The result from financial investments designated at fair value through profit or loss (fair value option) of EUR +4.1 m in the first half of 2012 (1 January – 30 June 2011: EUR +63.3 m) was positively influenced to the tune of EUR +4.7 m by the fair value measurement of own issues. The same position in the prior-year comparable period stood at EUR +66.4 m. The reason for this is that one-time effects from the measurement of own issues were significantly lower following the buy-back of the hybrid capital.

The result from financial investments – available for sale, which had been clearly negative in the previous year, at EUR -14.7 m, showed a rise of EUR +15.7 m in the first half of the financial year, to EUR +1.0 m. This improvement comes as a result, in particular, of the sale of shares, which had a positive effect of EUR +7.0 m on the result from financial investments – available for sale. This was partially cancelled out by capital contributions amounting to EUR -3.2 m, and classified as expenses. The comparable prior-year period had been impacted by impairment write-downs on the Greek exposure totalling EUR -16.0 m. As at 30 June 2012 HAA does not hold any Greek-related securities.

The result from other financial investments also showed an increase in the period under review over the previous year, from EUR +10.3 m to EUR +15.3 m, although it should be noted that both periods include positive extraordinary items. There was extraordinary income of EUR +10.0 m from the tiering of a supplementary capital bond in the first half of 2011; and one-time income from the buy-back of hybrid capital in 2012.

The other operating result, at EUR -8.7 m, was lower than the figure of EUR -2.3 m for the prior-year comparable period. Negative effects from write-downs totalling EUR -14.8 m on returns from financing contracts played a key role here, primarily from the Bulgarian and German leasing subsidiaries and the Montenegrin subsidiary bank. There were, additionally, negative effects totalling EUR -7.5 m on the other operating result from the planned sale of a participation in an industrial group.
Against this there was a positive effect of EUR +17.1 m resulting from the operations of the industrial participation. The banking levy, which was introduced in Austria last year, impacted on the other operating result to the tune of EUR -11.5 m (1 January – 30 June 2011: EUR -9.0 m), with the extraordinary stability contribution introduced for the first time in 2012 having an additional, negative impact on the result.

Risk provisions on loans and advances, at EUR -125.1 m in the first half of 2012, were held at a constant level compared to the prior-year comparable period (EUR -134.9 m), although net additions reduced by EUR +9.8 m in comparison with the prior-year period. More than 60% (approx. EUR -76.5 m) of the risk costs are accounted for by the segment "Wind-down financials", in which the leasing companies and wind-down portfolios which do not count as core business are brought together. The risk costs for the SEE network amounted to EUR -28.6 m, with the negative developments in Slovenia accounting in great part for this.

Compared to the first half of 2011 (EUR -266.4 m), costs showed an improvement of EUR +19.8 m in reaching EUR -246.6 m and break down as follows: personnel expenses, at EUR -136.3 m, were at roughly the same level as in the previous year (EUR -135.7 m), although headcount is lower than in the previous year and is not yet fully reflected in the costs.

On the other hand administrative expenses for the period were lower than in the comparative period by EUR +23.7 m, standing at EUR -84.4 m. This reduction represents the first fruits of the group's efforts to save costs on a lasting basis.

Depreciation on tangible and intangible assets rose by some EUR -3.3 m from EUR -22.6 m to EUR -25.9 m. While this item contained extraordinary write-downs on group software projects which impacted on the prior-year comparable period to a significant degree, in the period under review the depreciation figure also included the write-down on a hotel investment.

In total there were risk provisions on loans and advances of EUR -125.1 m (1 January – 30 June 2011: EUR -134.9 m) and operating expenses of EUR -246.6 m (1 January – 30 June 2011: EUR -266.4 m) against operating income of EUR +406.2 m (1 January – 30 June 2011: EUR +492.3 m). This resulted in an operating result of EUR +34.4 m, which was significantly lower than the prior-year figure (EUR +91.0 m).

In contrast to the previous year (1 January – 30 June 2011: EUR -0.2 m) there was no result for investments accounted for at equity, which is why the consolidated result for the period before taxes is the same as the operating result.

Taxes on income amounted to EUR -31.8 m in the period under review (1 January – 30 June 2011: EUR -13.3 m). The increase was in part as a result of a reduction, in stages, of the corporation tax rate in Slovenia, which made a write-down of deferred tax assets necessary. In addition, the income achieved from the hybrid buy-back, taking into account the limit for loss carry-forwards, was also subject to tax, making a tax accrual necessary.

After allocation of the share in results attributable to non-controlling interests in the group, which amounted to EUR +12.6 m (1 January – 30 June 2010: EUR +5.7 m), the consolidated net result for the period after taxes comes to EUR -9.9 m (1 January – 30 June 2011: EUR +71.8 m).

Despite the much lower one-time effects in comparison to the prior-year comparable period, the reduction in the operating result and the development of business in the SEE region, which remained clearly below expectations, a positive result after taxes and before non-controlling interests of EUR +2.6 m (1 January – 30 June 2011: EUR +77.5 m) was nevertheless achieved.

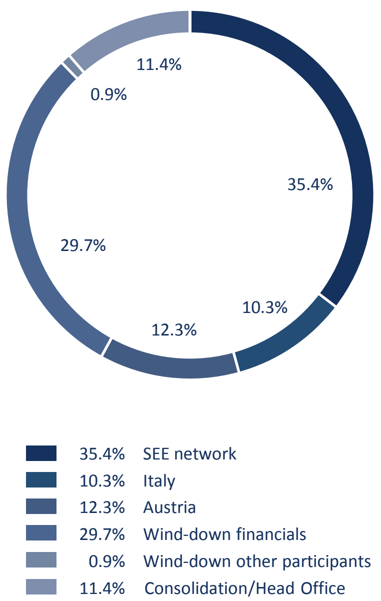
2.2. Statement of financial position

With total assets of EUR 33.70 bn as at 30 June 2012, HAA's total assets are already EUR 9.64 bn below the peak level of EUR 43.34 bn reached as at 31 December 2008. This systematic reduction in business volume is in line with the group's restructuring plan. In the first half of 2012 total assets reduced by EUR -1.43 bn over the prior-year figure, from EUR 35.13 bn to EUR 33.70 bn. The main reasons for this were the payment of liabilities becoming due, the extremely muted level of new business and the stop on new business for the wind-down companies.

The reduction in assets resulted primarily from the decline in loans and advances to customers of EUR -0.89 bn and loans and advances to credit institutions of EUR -0.64 bn. This is mainly as a result of the abovementioned factors, i.e. the reduction in new credit business and the complete stop on new business applying to the wind-down companies.

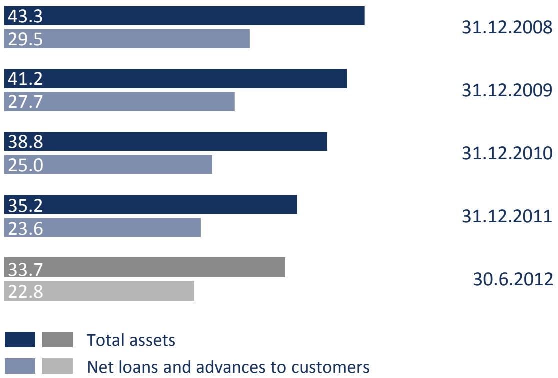
At the same time, the funds freed up from the repayment of credit agreements were used to pay off liabilities becoming due – in this case, primarily debt securities in issue.

Total assets per segment as of 30 June 2012
in percent



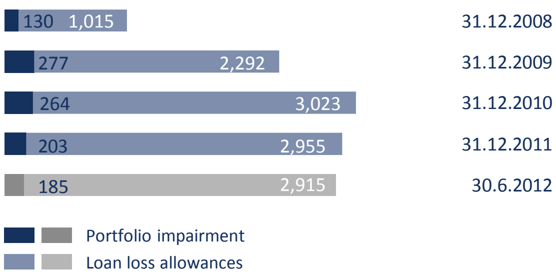
Net loans and advances to customers (loans and advances to customers less risk provisions on loans and advances) decreased from EUR 23.63 bn to EUR 22.77 bn (a decrease of EUR -0.86 bn or some -3.6%); net loans and advances to customers in both the public sector and leasing areas have declined. As the group has had to deal with continuingly difficult economic conditions in its core markets in particular, HAA, as in the previous year, has continued to be very restrictive in the level of new credit issued. In addition to this, new business development – above all in the banks in Slovenia, Serbia, Italy and Montenegro – has remained well below forecasts. In total, loans and advances to customers declined from EUR 26.72 bn to EUR 25.83 bn, which equates to a reduction of -3.4%.

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



The reduction in loans and advances to credit institutions, which includes the liquidity reserves, also had the effect of reducing total assets. Existing liquidity reserves were used to carry out the scheduled redemption of securitised issues totalling some EUR 1.4 bn, which led to a reduction in loans and advances to credit institutions from EUR 3.13 bn to EUR 2.49 bn.

Development of risk provisions on loans and advances
in EUR m



The level of risk provisions on loans and advances, which stood at EUR -3.10 bn as at 31 December 2011, remained more or less at the same level as at 30 June 2012 (EUR -3.06 bn).

Compared with year-end 2011, the item derivative financial instruments rose, from EUR 1.43 bn to EUR 1.50 bn, primarily due to the rise in market value for interest derivatives.

Financial investments designated at fair value through profit or loss (FVO) rose in value in the period under review compared to the previous year, from EUR 0.76 bn to EUR 0.84 bn, also due to movements in the interest curve. The total value of financial investments – available for sale (afs) increased from EUR 2.65 bn to EUR 2.71 bn as a result of positive one-time measurement effects during the period under review. Correspondingly, the negative value reported for the available for sale reserve reduced, from EUR -0.12 bn to EUR -0.07 bn. Other financial investments, which primarily includes investment properties and equipment from operate leases, remained virtually unchanged over 31 December 2011 (EUR 0.99 bn), at EUR 0.98 bn.

The value of tangible assets rose slightly in the reporting period over year-end 2011 (EUR 0.36 bn), by EUR 0.2 bn to EUR 0.38 bn, mainly due to the fact that a property taken over as part of a financing transaction was then designated for own use.

The small reduction in income tax assets in the period under review, by EUR 0.01 bn to EUR 0.09 bn (31 December 2011: EUR 0.1 bn) is based, amongst other factors, on the previously mentioned reduction, in stages, of corporation tax rates in Slovenia.

The item assets classified as held for sale contains principally those assets which, in line with group strategy, are to be disposed of as part of a sales process and which meet the criteria of IFRS 5. This item reduced in value in the first six months of 2012, by EUR -0.05 bn to EUR 0.09 bn. The reason for the decline is the reversal of an intention to sell off a group leasing company which had been included under this item in the previous year.

On the liabilities side, the liabilities to credit institutions decreased only slightly in the first half of 2012, from EUR 5.68 bn to EUR 5.49 bn.

Liabilities to customers again increased slightly in the reporting period, by EUR 0.12 bn to EUR 8.32 bn (31 December 2011: EUR 8.20 bn). The increase in deposits was achieved mainly in the area of retail banking; in contrast there were reductions in the corporate and public sector segments. In terms of country markets, the subsidiary banks in Croatia, Serbia and Italy all showed good growth.

There was a significant reduction in debt securities in issue in the reporting period, by EUR -1.32 bn (-7.7%) from EUR 17.15 bn to EUR 15.83 bn, due to the scheduled repayment of liabilities.

There were changes to the subordinated and hybrid capital totals in the period under review, by EUR 0.01 bn and EUR -0.08 bn to EUR 1.05 bn and EUR 0.04 bn respectively. The majority of the reduction in hybrid capital was as a result of the buy-back of two hybrid capital issues in April 2012.

Equity rose only slightly, by EUR 0.02 bn, in the first half of 2012 compared to 31 December 2011 and thus remained overall at the level of the previous year, at EUR 1.44 bn. While there were negative effects from currency movements affecting the Serbian dinar (RSD), these were more than compensated for by the increase in value of afs securities.

2.3. Own capital funds

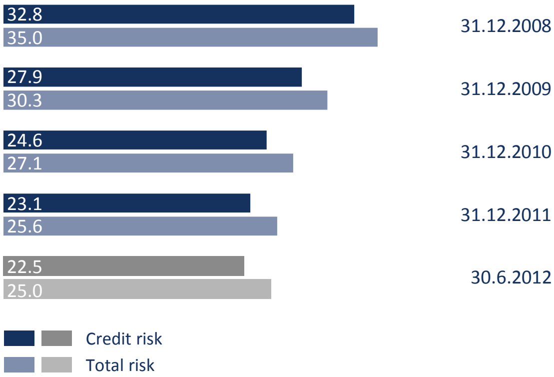
The own capital funds ratios have declined slightly since 31 December 2011, due mainly to a reduction in own capital funds (Tier 1 and Tier 2) as compared to a smaller reduction in risk-weighted assets.

Improvements were made to the own capital funds structure through the previously mentioned buy-back of hybrid capital: with the net income totalling EUR +153.0 m from this transaction the hybrid capital, which will in any case not count as Tier 1 capital in future, was converted into core Tier 1 capital.

The measures put in place several years ago to reduce the RWA, such as the stop on new business for many subsidiaries and the efforts to improve measurement/eligibility of collateral and data quality, continued to contribute towards an ongoing reduction in the RWA base.

In relation to credit risk, the risk-weighted assets reduced by EUR -0.61 bn to EUR 22.50 bn as at 30 June 2012. Taking market and operational risk into account, total risk-weighted assets declined from EUR 25.61 bn (31 December 2011) to EUR 25.04 bn (30 June 2012).

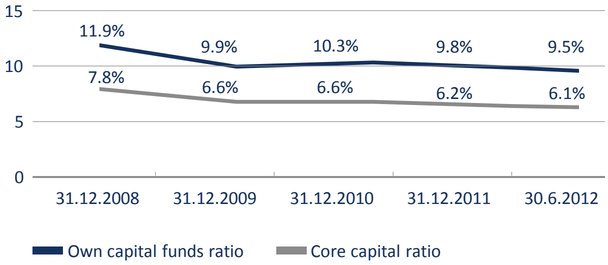
Risk-weighted assets (RWA) related to total risk/credit risk
in EUR bn



The total eligible own capital funds as defined in the Austrian Banking Act (BWG) amounted to EUR 2.38 bn as at 30 June 2012 (31 December 2011: EUR 2.50 bn), while the minimum legal requirement stood at EUR 2.00 bn (31 December 2011: EUR 2.05 bn). This represents surplus coverage of EUR 0.38 bn (31 December 2011: EUR 0.45 bn) or a coverage ratio of 118.8% (31 December 2011: 122.0%).

The own capital funds ratio in relation to the total capital base (including market and operational risk) came to 9.5% as at 30 June 2012 (9.8% as at 31 December 2011), which is well over the legally required minimum level of 8.0% in Austria.

Change in own capital funds and core capital ratio
in percent



2.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 60.7% as at 30 June 2012 (1 January – 30 June 2011: 54.1%). This increase is as a result of lower operating income, against which there are lower expenses, with one-time effects already taken account of.

Credit risk in relation to net interest income (the risk/earnings ratio) rose slightly from 34.6% in the previous year to 36.5% in the review period. This change is due to the fact that, despite a small decline in risk provisions on loans and expenses, there was by comparison a greater decline in net interest income.

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

3. Outlook for the second half of 2012

In contrast to forecasts by economic research institutes made only a few quarters ago, today it cannot be assumed that economic conditions in Europe will improve in the second half of 2012. This is above all valid for the HAA core markets in the SEE region, for which negative growth is forecast for the next 18 months and which are subjected to continuing rating downgrades with direct impacts on the banking sector through increased risk premiums.

These circumstances will not only affect the market initiatives by HAA and systematic efforts in regards to costs, but will also put the brakes on the wind-down (phase out) and re-privatisation processes. HAA is prepared for such delays and discussing possible alternative scenarios with representatives of the owner and the European Commission within the context of the European state aid proceedings.

Regarding re-privatisation and deciding which parts of the bank were the most likely candidates, it is promising that HAA initiated preparations and (in the case of Austria and Italy) commissioned initial market analyses at an early stage. Updated sales documents reflecting the market environment will be finalised and presented to the market in the second half of 2012.

For the Austrian subsidiary Hypo Alpe-Adria-Bank AG, the plan is to split the bank and transfer non-core business activities and portfolios financially and organisationally from the core bank. This portfolio will be integrated into the holding company Hypo Alpe-Adria-Bank International AG. Management is assuming that all the necessary approvals will be given in good time and the demerger can take place as planned.

With regards to the re-privatisation of the SEE network, an in-depth market analysis will be conducted in the second half of the year together with Deutsche Bank, which has been appointed the investment bank for this project. The aim is to get an overview by the end of the year of potential investors in the total SEE network with a central management holding company in Austria. A detailed schedule for the sale cannot reliably be predicted at this moment due to the volatile market and economic conditions.

One of the most important topics in the second half of the year will be the current recalculation of the bank's risk assessment by Oesterreichische Nationalbank. A first notification based on consolidated figures as of 31 December 2010 put the additional capital requirement at EUR 1.5 bn. Referring to improvements since the last investigation, an extension of the deadline for fulfilment of the requirement was granted from 31 March to 31 December 2012.

Management assumes that the recent calculations made as part of the JRAD audit will show the progress made by the bank in risk reduction as well as an improvement of internal data and control methods.

At the same time, however, it has to be expected that the persistently difficult economic environment in HAA's core markets will be viewed as adding to the bank's risk assessment. Regardless of the actual outcome of the audit, the bank's highest priority is to continue its strategy of cleaning up, restructuring, re-privatising and winding down, whenever possible using its own resources in compliance with all regulations and as far as possible without additional direct capital injections by the government.

The clarification of the questions about the bank's regulatory capital is also an important stepping stone towards concluding the state aid proceedings with the European Commission. All parties are united in their desire to bring the process to a conclusion by the end of the year and subsequently start implementing the final agreement.

It is also assumed that by end2012 there will be an overview of the legal steps required in connection with the emergency nationalisation 2009 to claw back funds previously withdrawn from the bank by previous shareholders.

As far as the 2012 results are concerned, assuming economic and business growth is in line with forecasts, the management expects that the restructuring measures will continue to find expression in the bank's key performance figures and that it will thus be possible for the operating units to avoid a fall-back into loss. However, the degree to which the strained economic conditions may further slow down progress and impact HAA's wind-down operations, and how negative deviations here could be compensated by the operational banking units, will be decisive for the overall 2012 result of HAA.

Interim Consolidated Financial Statements

as at 30 June 2012
for Hypo Alpe-Adria-Bank International AG

I. Statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 30.6.2012	1.1. - 30.6.2011*
Interest and similar income	(6)	774.5	856.1
Interest and similar expenses	(7)	-431.6	-466.6
Net interest income		**342.9**	**389.5**
Fee and commission income	(8)	55.5	60.9
Fee and commission expenses	(9)	-26.3	-23.2
Net fee and commission income		**29.2**	**37.7**
Result from trading		23.5	8.7
Result from hedge accounting		-1.1	-0.2
Result from fin. investments – designated at fair value through profit or loss	(10)	4.1	63.3
Result from fin. investments – available for sale		1.0	-14.7
Result from other financial investments	(11)	15.3	10.3
Other operating result		-8.7	-2.3
Operating income		**406.2**	**492.3**
Risk provisions on loans and advances	(12)	-125.1	-134.9
Operating income after risk provisions on loans and advances		**281.0**	**357.4**
Personnel expenses		-136.3	-135.7
Other administrative expenses	(13)	-84.4	-108.1
Depreciation and amortization on tangible and intangible assets		-25.9	-22.6
Operating expenses		**-246.6**	**-266.4**
Operating result		**34.4**	**91.0**
Result from companies accounted for at equity		0.0	-0.2
Result for the period before tax		**34.4**	**90.8**
Taxes on income		-31.8	-13.3
Result for the period after tax		**2.6**	**77.5**
thereof attributable to non-controlling interests		12.6	5.7
thereof attributable to equity holders of parent (consolidated result for the period after tax and non-controlling interest)		-9.9	71.8

* Prior-year values adjusted – see note (4) Prior-year adjustments.

Other comprehensive income

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011*
Result for the period after tax	**2.6**	**77.5**
Gains/losses on available for sale-reserves	56.4	18.6
Foreign exchange-differences (change in foreign currency reserve)	-31.0	9.6
Tax effects from valuation of available for sale-assets	-0.1	0.6
Total other comprehensive income	**25.3**	**28.8**
Total comprehensive income	**28.0**	**106.3**
thereof attributable to non-controlling interests	17.7	5.0
thereof attributable to equity holders of parent	10.3	101.3

* Prior-year values adjusted – see note (4) Prior-year adjustments.

II. Statement of financial position

EUR m

	Note	30.6.2012	31.12.2011
ASSETS			
Cash and balances at central banks		761.6	757.5
Loans and advances to credit institutions	(14)	2,491.8	3,133.4
Risk provisions on loans and advances to credit institutions	(16)	-4.3	-13.3
Loans and advances to customers	(15)	25,829.3	26,722.4
Risk provisions on loans and advances to customers	(16)	-3,054.7	-3,089.8
Trading assets	(17)	2.6	12.0
Derivative financial instruments	(18)	1,500.7	1,434.0
Financial investments – designated at fair value through profit or loss	(19)	838.5	760.6
Financial investments – available for sale	(20)	2,707.7	2,651.7
Financial investments – held to maturity		35.9	36.5
Investments in companies accounted for at equity		1.4	1.4
Other financial investments	(21)	984.8	985.4
thereof investment properties		856.0	837.5
thereof operate leases		128.8	147.9
Intangible assets		41.6	60.0
Tangible assets		378.0	359.8
Tax assets		87.2	104.4
thereof current tax assets		20.6	27.9
thereof deferred tax assets		66.6	76.5
Assets classified as held for sale	(22)	88.2	138.9
Other assets	(23)	1,016.3	1,084.7
Risk provisions on loans and advances on other assets	(16)	-6.9	-7.0
Total assets		**33,699.9**	**35,132.5**
EQUITY AND LIABILITIES			
Liabilities to credit institutions	(24)	5,486.1	5,678.4
Liabilities to customers	(25)	8,324.8	8,201.1
Debt securities in issue	(26)	15,830.1	17,147.4
Derivative financial instruments	(27)	761.9	716.3
Provisions		132.5	183.9
Tax liabilities		43.9	34.6
thereof current tax liabilities		9.3	2.8
thereof deferred tax liabilities		34.6	31.8
Liabilities included in disposal groups classified as held for sale	(28)	77.5	77.8
Other liabilities	(29)	515.6	524.0
Subordinated capital	(30)	1,046.9	1,036.0
Hybrid capital		42.4	119.6
Equity		1,438.3	1,413.3
thereof attributable to equity holders of parent		935.6	925.6
thereof attributable to non-controlling interests		502.6	487.7
Total equity and liabilities		**33,699.9**	**35,132.5**

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 1.1.2012	**808.6**	**0.0**	**-121.4**	**-67.4**	**305.8**	**925.6**	**487.7**	**1,413.3**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-3.0
Total comprehensive income	0.0	0.0	51.2	-31.0	-9.9	10.3	17.7	28.0
Result for the period after tax	0.0	0.0	0.0	0.1	-9.9	-9.9	12.6	2.7
Other comprehensive income	0.0	0.0	51.2	-31.0	0.0	20.2	5.1	25.3
Other changes	0.0	0.0	0.0	0.3	-0.6	-0.3	0.2	-0.1
Equity as at 30.6.2012	**808.6**	**0.0**	**-70.2**	**-98.0**	**295.3**	**935.6**	**502.6**	**1,438.2**

EUR m

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total*
Equity as at 1.1.2011	**1,623.3**	**0.0**	**-78.2**	**-56.9**	**-567.2**	**921.0**	**500.3**	**1,421.3**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-2.8	-2.8
Total comprehensive income	0.0	0.0	20.0	9.6	71.8	101.4	5.0	106.3
Result for the period after tax	0.0	0.0	0.0	0.1	71.8	71.8	5.7	77.5
Other comprehensive income	0.0	0.0	20.0	9.6	0.0	29.6	-0.8	28.8
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**	**-47.3**	**319.2**	**1,022.4**	**502.4**	**1,524.8**

* Prior-year values adjusted – see note (4) Prior-year adjustments.

For further information on equity, please refer to notes (48) Participation capital and (49.2.) Other proceedings.

IV. Condensed statement of cash flows

EUR m

	2012	2011*
Cash and cash equivalents at end of previous period (1.1.)	**757.5**	**843.6**
Cash flows from operating activities	151.2	-98.8
Cash flows from investing activities	-48.2	-32.0
Cash flows from financing activities	-69.7	-14.8
Effect of exchange rate changes	-29.1	13.0
Cash and cash equivalents at end of period (30.6.)	**761.7**	**711.0**

* Prior-year values adjusted – see note (4) Prior-year adjustments.

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 (HAA) as at 30 June 2012 were drawn up in accordance with the IFRS as applied in the EU for interim reporting (IAS 34). The condensed interim 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 2011.

The interim consolidated financial statements as at 30 June 2012 have neither been audited nor reviewed by the auditors.

The interim consolidated financial statements have been prepared in accordance with 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 Joint Risk Assessment & Decision (JRAD) process, and any uncertainties relating to the group's business activities which may result from these, please refer to note (49) Important proceedings and note (32) JRAD – Joint Risk Assessment and Decision process.

The figures in the interim consolidated financial statements are expressed in millions of euros (EUR m); euro (EUR) 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 2011, apart from where new standards, amendments and interpretations which are valid for financial years beginning on or after 1 January 2012 have been applied.

IFRS whose application was mandatory as at the balance sheet date have been used in these interim consolidated financial statements. The following new or amended IFRS/IAS standards and interpretations, issued by the IASB and adopted by the EU, are being applied by HAA for the first time in 2012:

Standard	Description		Compulsory for annual period
IFRS 7	Information on transfer of financial assets	Additional disclosure requirements	2012

The additions to IFRS 7, Financial instruments: Descriptions, which extend disclosure obligations while retaining the derecognition rules of IAS 39, extend the information to be given in the notes on transfers of financial assets, where the transferor retains a lasting interest in the assets being transferred. Additional information must be supplied when an unusually large sum is transferred at the end of the reporting period. The amendment must be applied for financial years starting on or after 1 July 2011. The additional disclosures will be made for the first time in the notes to the consolidated financial statements as at 31 December 2012. The amendments do not have an influence on HAA's statements of financial position or comprehensive income.

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

There were no material changes to estimates in the 2012 financial year.

The parameters for calculating portfolio-based risk provisions were validated as at 30 June 2012. The validations of the default probabilities and cure rates did not lead to any significant changes (difference < 1%). The Loss Identification Period (LIP) factors were estimated for specific segments, dependent upon the prevailing processes for, and developments in, risk monitoring. The LIP factors currently valid for banks and states remain at 0.1. The minimum threshold for the retail and corporate business areas also remains unchanged, at 0.5. The only modification was made by the Croatian bank HBC, which adjusted the LIP factor for corporate customers from 1 to 0.5 (in line with group guidelines) in the first half of 2012. All parameters are regularly checked and adjusted as required.

For further information on discretionary decisions about estimates and assumptions, please refer to the most recently published group annual report as at 31 December 2011.

(3) Scope of consolidation

Including Hypo Alpe-Adria-Bank International AG, 21 Austrian (31 December 2011: 24) and 81 foreign (31 December 2011: 81) companies are included in the interim consolidated financial statements:

	30.6.2012		31.12.2011	
	Fully consolidated	Equity method	Fully consolidated	Equity method
Start of period (1.1.)	**101**	**4**	**108**	**5**
Newly included in period under review	2	0	9	0
Merged in period under review	0	0	-2	0
Excluded in period under review	-5	0	-14	-1
Reclassified	0	0	0	0
End of period (30.6.)	**98**	**4**	**101**	**4**
thereof Austrian companies	19	2	22	2
thereof foreign companies	79	2	79	2

The following two companies were included in the interim consolidated financial statements for the first time in the 2012 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
DOHEL d.o.o.	Sesvete	100.0%	Fully consolidated	Acquisition
ALUFLEXPACK NOVI d.o.o.	Zadar	100.0%	Fully consolidated	Foundation

The Croatian real estate company DOHEL d.o.o. was acquired in the first half of 2012 in conjunction with the drawdown of collateral for a financing deal, and was allocated to the “Wind-down financials” segment. As the company does not consider any business combinations, the stipulations of IFRS 3 in regard to initial consolidation of the company do not apply.

The company ALUFLEXPACK NOVI d.o.o. has been formed as a result of a reorganisation, in the course of which the business of the Croatian industrial participation ALUFLEXPACK d.o.o., Zadar, was transferred to ALUFLEXPACK NOVI d.o.o. Like its predecessor, the company was allocated to the “Wind-down participation” segment.

In the first six months of 2012, the following five fully-consolidated subsidiaries were excluded from the scope of consolidation:

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

(4) Prior-year adjustments

The final purchase price allocation for TLM-TVP d.o.o., Sibenik, which was acquired in 2010, was determined in accordance with IFRS 3 and reflected in the consolidated financial statements as at 31 December 2011. As a result of the modifications to the carrying amounts for the tangible and intangible assets acquired in 2010 it was necessary to adjust the item depreciation of tangible and intangible assets for the period 1 January to 30 June 2011 as compared to the values previously reported in the interim consolidated financial statements as at 30 June 2011. The net profit reported for the first half of 2012 has therefore been adjusted from EUR +77.3 m to EUR +77.5 m as a result of the EUR 0.2 m lower depreciation expense.

The positive effects of the reversal of provisions for personnel costs have been reclassified from other operating result to personnel expenses in 2012. The prior-year figures were accordingly adjusted (EUR 1.3 m). This reclassification had no effect on either the income statement or statement of financial position.

Notes to the income statement

(5) Segment reporting

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

In line with the restructuring plan produced for the purpose of the EU proceedings, that part of the group which is being systematically wound down is reported separately from the remaining business activities, which, in line with the restructuring plan, will be successively reprivatised. The "continuance" group units consist of the strategic SEE network, i.e. bank and leasing companies in Slovenia and Bosnia and Herzegovina, the banking units in Serbia (which still included leasing units as at 30 June 2011), Montenegro, Croatia, Italy and the core part of the Austrian banking business. The sales process relating to the bank in Austria and the bank in Italy was initiated in the first half of 2011, with the objective of disposing of the two subsidiary companies in the medium term. Both operations will be included in segment reporting with their core business under "Austria" (only core business) and "Italy" until such time as they are no longer part of the HAA group.

Business activities classified as "wind-down" are subdivided into the segments "financials" and "participations". Included under "financials" are all group leasing companies which operate in the countries Croatia, Germany, Austria, Hungary, Macedonia, Bulgaria, Bosnia, Serbia (reported in this grouping for the first time in the 2012 interim consolidated financial statements), Ukraine and in Italy, for which the sole business activity is the liquidation of their assets. 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 in the main relate to the cross-border and large-volume corporate lending business.

"Participations" covers all associated companies which are not banking and leasing businesses, and which operate in the areas of industry, tourism and real estate; these are to be sold off.

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

5.1. SEE network

The business units included in this segment generated total net interest income of EUR +153.1 m (1 January – 30 June 2011: EUR +211.2 m) and net fee and commission income of EUR +29.0 m (1 January – 30 June 2011: EUR +29.6 m) – this segment thus made the greatest contribution to total group income by a long way in the first half of 2012. Compared to the previous year, however, this represented a decline of EUR -58.1 m in net interest income and EUR -0.6 m in net fee and commission income. The decline in net interest income is primarily due to the transfer of wind-down portfolios now in the segment "Wind-down financials" (in this connection, please refer to the comments on the segment assets and on the "Wind-down financials" segment). The trading result, which includes the result from foreign currency translation, came to EUR +9.4 m (1 January – 30 June 2011: EUR +12.9 m), the other operating result was negative, at EUR -9.8 m (1 January – 30 June 2011: EUR -4.1 m). Compared to the prior-year period (1 January – 30 June 2011: EUR -96.6 m), the level of new risk provisions created was moderate, at EUR -28.6 m. As in the previous year, the greater part of these was due to the Slovenian banking and leasing units. The operating expenses for the SEE network came to EUR -115.5 m (1 January – 30 June 2011: EUR -117.1 m), which represents a decrease of EUR 1.6 m or 1.4% over the previous year. In total, therefore, the segment's result before tax – at EUR +37.9 m – is slightly lower than the prior-year result of EUR +38.1 m. After taking into account income tax expense of EUR -11.9 m (1 January – 30 June 2011: EUR -5.9 m), the segment result after tax comes to EUR +26.0 m (1 January – 30 June 2011: EUR +32.3 m). The segment's assets reduced considerably compared to the previous year, to EUR 11.9 bn (prior-year figure: EUR 14.2 bn). This reduction was primarily due to the division of the portfolios into core business and wind-down business portfolios, which was carried out as part of a portfolio rationalisation project at the end of 2011 for the banking units in Slovenia (including leasing units), Montenegro and Bosnia and Herzegovina. A similar transfer is planned for the banking units in Croatia and Serbia in the second half of 2012 and in 2013, and this has already been recognised in the segment assets as at 30 June 2012 (see note (53) Portfolio clean-up in the SEE network and banks in Italy and Austria).

5.2. 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, which led to declining volumes of new business in the first half of 2012 in comparison to the prior-year period, which were also below forecasts. In total, the Italy segment achieved net interest income of EUR +41.7 m (1 January – 30 June 2011: EUR +53.2 m) and net fee and commission income of EUR +4.7 m (1 January – 30 June 2011: EUR +4.0 m). The risk provisions on loans and advances, at EUR -16.6 m (1 January – 30 June 2011: EUR -20.4 m), were below the prior-year figure. After taking into account operating expenses of EUR -27.4 m (1 January – 30 June 2011: EUR -30.6 m) and income tax expense at EUR -1.5 m (1 January – 30 June 2011: EUR -3.5 m), the segment result after tax amounted to EUR +1.4 m (1 January – 30 June 2011: EUR +4.2 m). In the first quarter of 2012 the transfer of a EUR 0.8 bn receivables portfolio was made to a wind-down company in preparation for the sale of the Italian business, so as to achieve a more attractive basis for selling to a potential investor through offering a redimensioned bank. Segment assets reduced from EUR 4.3 bn (as at 30 June 2011) to EUR 3.5 bn because of this transfer.

5.3. Austria

The part of the Austrian banking operations which is planned for continuance achieved net interest income of EUR +22.5 m in the first half of 2012 (1 January – 30 June 2011: EUR +26.7 m) and net fee and commission income of EUR +6.6 m (1 January – 30 June 2011: EUR +7.5 m). After allowing for operating expenses of EUR -23.5 m (1 January – 30 June 2011: EUR -28.5 m), reversals of risk provisions on loans and advances in the first half of 2012 totalling EUR +1.5 m (1 January – 30 June 2011: EUR -3.8 m) and other items contributing to the result totalling EUR -4.3 m (1 January – 30 June 2011: EUR -1.5 m) there is a positive segment result after tax of EUR +7.8 m (1 January – 30 June 2011: EUR +5.6 m). The improvement in the result is primarily due to the reversals of previously created risk provisions. Total assets for the segment amount to EUR 4.2 bn as at 30 June 2012 and are thus some EUR -0.6 bn lower than the comparable figure for the previous year (EUR 4.8 bn). The planned split of the Austrian subsidiary bank in the second half of 2012 has already been taken into account in the asset allocation.

5.4. Wind-down financials

The group leasing and financing companies and the sub-divisions of the Austrian banks, which are not part of the future continuance group, generated increased net interest income over the prior-year comparable period of EUR +95.9 m (1 January – 30 June 2011: EUR +71.7 m). The increase in this result is due in particular to the transfer of wind-down portfolios to, in part, specially created companies in this segment (in this conjunction, please also see the comments on segment assets). In contrast, net fee and commission income is negative, at EUR -10.5 m (1 January – 30 June 2011: -EUR 8.1 m), which is primarily as a result of the annual guarantee charges of EUR -20.0 m p.a. in connection with the guarantee agreement concluded with the Republic at the end of 2010. The prior-year figure had been impacted by value adjustments to items afvtpl and afs as a result of write-downs on Greek securities: in the period under review the result for items afvtpl was positive, at EUR +4.1 m. Newly-created risk provisions on loans and advances led to a clearly negative development in this item compared to the first half of 2011: at EUR -78.9 m (1 January – 30 June 2011: EUR -14.0 m), this was mainly due to the transfer of wind-down portfolios from the SEE countries, but also due to the deterioration of the group holding company’s wind-down portfolio. Taking into account operating expenses of EUR -40.8 m (1 January – 30 June 2011: EUR -34.8 m), of which a major part – EUR -19.7 m (1 January – 30 June 2011: EUR -23.1 m) – was accounted for by administration expenses, the result after tax for this segment is negative, at EUR -44.0 m (1 January – 30 June 2011: EUR -3.8 m). The assets allocated to this segment have a value of EUR 10.0 bn as at 30 June 2012 (as at 30 June 2011: EUR 7.0 bn) and, compared to the prior-year comparable period, include the non-performing loans (NPL) transferred or still to be transferred as a consequence of the portfolio rationalisation project. This is the main reason for the steep increase in segment assets compared to the total as at 30 June 2011.

5.5. Wind-down participations

The real estate, industrial and tourism investments, which are also being wound down, posted negative net interest income (due to the nature of their operations) of EUR -5.7 m (1 January – 30 June 2011: EUR -4.2 m) and negative net fee and commission income of EUR -1.4 m (1 January – 30 June 2011: EUR -0.4 m). As the funding of some of these companies is conducted in a foreign currency, there was a small positive trading result of EUR +1.6 m (1 January – 30 June 2011: EUR +1.0 m) due to exchange rate movements. Other operating income includes revenues and expense directly related to service provision and contributed EUR +19.0 m (1 January – 30 June 2011: EUR +23.9 m) to the segment result. Operating expenses, at EUR -20.2 m (1 January – 30 June 2011: EUR -27.7 m) were higher than income and, taking into account the financing result, led to a negative segment result for the period of EUR -9.7 m after tax (1 January – 30 June 2011: EUR -9.5 m). The total value of segment assets has reduced from EUR 0.4 bn (1 January – 30 June 2011) to EUR 0.3 bn, in particular as a result of the reclassification of the assets of one company to the "Wind-down financials" segment, as well as the effects resulting from the measurement of an industrial investment.

5.6. Consolidation/Head Office

This segment includes the core activities of the Austrian group holding company, namely controlling and managing funds for the group companies, as well as consolidation effects between the individual segments. As a result of the financing function performed for the group, this segment reported net interest income of EUR +35.4 m, which was approximately at the same level of the previous year at EUR +31.0 m. Net fee and commission income was lower than the comparable figure for the previous year, at EUR +0.8 m (1 January – 30 June 2011: EUR +5.2 m). The trading result amounted to EUR +13.8 m (1 January – 30 June 2011: EUR -7.4 m) and was primarily due to the positive effects of currency hedging by the Austrian holding company of the Serbian dinar (RSD) against the euro. The result from other financial investments was positive again, at EUR +16.5 m (1 January – 30 June 2011: EUR +11.2 m). The main reason for this was the earnings generated from the buy-back of hybrid capital at below its nominal value. The two abovementioned effects in particular contributed to a positive segment result for the period before tax of EUR +31.5 m (1 January – 30 June 2011: EUR +47.0 m) for the segment as a whole. The positive effects from the fair value measurement of own issues achieved in the prior-year comparable period (EUR +66.4 m) could not be repeated. The material effects of consolidation between the segments were accounted for in the other operating result, which came to EUR -20.0 m, and in administration expenses. The segment showed a positive segment result for the period after tax of EUR -10.2 m (1 January – 30 June 2011: EUR +1.7 m), of EUR +21.3 m (2010: EUR +48.7 m). The value of total assets for the segment at the reporting date amounts to EUR 3.8 bn and is some EUR 3.0 bn below the prior-year value, due to both the scheduled reduction of liquidity reserves held for meeting liabilities and the reclassification of deteriorating portfolios to the "Wind-down financials" segment.

5.7. Segment presentation

EUR m

Period 1.1. - 30.6.2012	SEE network	Italy*	Austria*	Wind-down financials	Wind-down participations	Consolidation/ Head Office	Total
Net interest income	153.1	41.7	22.5	95.9	-5.7	35.4	342.9
Net fee and commission income	29.0	4.7	6.6	-10.5	-1.4	0.8	29.2
Result from trading	9.4	1.8	1.0	-4.0	1.6	13.8	23.5
Result from hedge accounting	0.0	0.0	-0.9	1.1	0.0	-1.3	-1.1
Result from fin. investments – afvtpl	0.0	-0.2	-1.3	4.1	-0.8	2.3	4.1
Result from fin. investments – afs	0.0	0.0	2.0	-3.7	-0.4	3.1	1.0
Result from other financial investments	0.3	0.2	-0.1	-1.8	0.2	16.5	15.3
Other operating result	-9.8	-1.2	0.0	3.3	19.0	-20.0	-8.7
Operating income	**182.0**	**47.0**	**29.9**	**84.3**	**12.4**	**50.6**	**406.2**
Risk provisions on loans and advances	-28.6	-16.6	1.5	-78.9	-2.4	0.0	-125.1
Operating income after risk provisions	**153.4**	**30.3**	**31.4**	**5.4**	**9.9**	**50.6**	**281.0**
Personnel expenses	-55.5	-14.2	-16.5	-15.1	-11.9	-23.2	-136.3
Other administrative expenses	-47.3	-11.3	-6.4	-19.7	-4.9	5.3	-84.4
Depreciation and amortization on tangible and intangible assets	-12.7	-2.0	-0.6	-5.9	-3.4	-1.3	-25.9
Operating expenses	**-115.5**	**-27.4**	**-23.5**	**-40.8**	**-20.2**	**-19.1**	**-246.6**
Segment result (Operating result)	**37.9**	**2.9**	**7.8**	**-35.4**	**-10.3**	**31.5**	**34.4**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Segment result for the period before tax	**37.9**	**2.9**	**7.8**	**-35.4**	**-10.3**	**31.5**	**34.4**
Taxes on income	-11.9	-1.5	0.0	-8.7	0.6	-10.2	-31.8
Segment result for the period after tax	**26.0**	**1.4**	**7.8**	**-44.0**	**-9.7**	**21.3**	**2.6**
Segment assets	11,936.4	3,459.0	4,161.6	9,992.0	307.1	3,843.8	33,699.9
thereof non-current-assets	1,051.6	40.8	6.0	282.1	47.8	-23.9	1,404.4
Loans and advances to customers	8,722.5	3,269.2	2,850.6	10,445.3	4.3	537.4	25,829.3
Liabilities to customers	4,490.2	726.3	1,647.2	70.4	1.3	1,389.4	8,324.8
Risk-weighted assets (RWA)	9,721.6	2,664.7	1,936.3	4,745.4	94.9	3,335.1	22,498.0

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

Abbreviations:
- ha: hedge accounting
- afvtpl: at fair value through profit or loss (fair value option)
- afs: available for sale

EUR m

Period 1.1. - 30.6.2011	SEE network	Italy	Austria*	Wind-down financials	Wind-down participations	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 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	-21.2	-2.3
Operating income	**251.9**	**58.7**	**38.2**	**50.6**	**18.1**	**74.9**	**492.3**
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	**155.2**	**38.3**	**34.4**	**36.7**	**18.1**	**74.7**	**357.4**
Personnel expenses	-55.7	-16.8	-16.3	-9.6	-15.3	-22.1	-135.7
Other administrative expenses	-47.9	-11.7	-11.6	-23.1	-8.8	-5.0	-108.1
Depreciation and amortization of tangible and intangible assets	-13.5	-2.1	-0.7	-2.1	-3.6	-0.6	-22.6
Operating expenses	**-117.1**	**-30.6**	**-28.5**	**-34.8**	**-27.7**	**-27.7**	**-266.4**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	-0.2	0.0	-0.2
Segment result for the period before tax	**38.1**	**7.7**	**5.9**	**1.9**	**-9.8**	**47.0**	**90.8**
Taxes on income	-5.9	-3.5	-0.3	-5.7	0.2	1.7	-13.3
Segment result for the period after tax	**32.3**	**4.2**	**5.6**	**-3.8**	**-9.5**	**48.7**	**77.5**
Segment assets	14,225.8	4,270.5	4,783.1	6,993.3	373.5	5,917.8	36,564.0
thereof non-current assets	1,150.4	41.4	34.5	195.3	78.5	29.0	1,529.1
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

* Austria segment – not including the part of the bank and the leasing subsidiaries to be divested.

Abbreviations:
ha: hedge accounting
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale

(6) Interest and similar income

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Interest income	**645.0**	**696.5**
from loans and advances to credit institutions	9.8	18.3
from loans and advances to customers	469.8	501.1
from bonds, treasury bills		
and other fixed-interest securities	46.2	42.1
from derivative financial instruments, net	115.8	125.3
Other interest income	3.4	9.7
Current income	**129.5**	**159.6**
from shares and other non-fixed-interest securities	0.9	0.3
from leasing business	111.4	142.6
from investment properties	17.1	16.8
Total	**774.5**	**856.1**

(7) Interest and similar expenses

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Interest expenses	**-419.6**	**-448.9**
for liabilities to credit institutions	-50.0	-55.8
for liabilities to customers	-130.5	-121.4
for debt securities in issue	-219.7	-253.7
for subordinated capital	-18.1	-17.1
for other liabilities	-1.4	-1.0
Similar expenses	**-12.0**	**-17.7**
Total	**-431.6**	**-466.6**

(8) Fee and commission income

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Credit business	17.8	21.7
Securities and custodian business	6.0	7.7
Bank transfers incl. payment transactions	18.2	18.0
Other financial services	13.5	13.5
Total	**55.5**	**60.9**

(9) Fee and commission expenses

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Credit business	-16.1	-12.3
Securities and custodian business	-2.9	-3.4
Bank transfers incl. payment transactions	-3.8	-4.0
Other financial services	-3.5	-3.5
Total	**-26.3**	**-23.2**

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

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Result from financial assets and related derivatives	7.7	2.6
Result from financial liabilities and related derivatives	-3.5	60.8
Total	**4.1**	**63.3**

Changes in the fair value of financial liabilities which are attributable to a change in the bank's own credit spread or to those resulting from third-party liabilities amounted cumulatively to EUR 144.6 m in the period under review (30 June 2011: EUR 135.8 m), which led to a positive effect of EUR +4.7 m on the income statement (30 June 2011: positive effect of EUR 66.4 m).

(11) Result from other financial investments

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Result from investment properties	-1.2	-1.9
Result from operate lease assets	4.4	1.0
Other income from financial investments	12.1	11.2
Total	**15.3**	**10.3**

In order to strengthen its capital structure, HAA bought back hybrid capital in April 2012. The buy-back resulted in a gain under IFRS accounting of EUR +12.0 m, which has been reported under the item "other income from financial investments".

(12) Risk provisions on loans and advances

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

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Allocations	-264.3	-518.6
Releases	130.9	364.6
Receipts from loans and advances previously impaired	16.2	26.4
Directly recognised impairment losses	-7.9	-7.2
Total	**-125.1**	**-134.9**

(13) Other administrative expenses

EUR m

	1.1. - 30.6.2012	1.1. - 30.6.2011
Infrastructure costs	-21.3	-21.9
IT and telecommunications	-21.4	-20.6
Advertising costs	-5.0	-9.0
Legal and advisory costs	-12.9	-18.1
Expense for audit and audit-related services	-2.2	-2.1
Expenses related to restructuring	-3.6	-12.0
CSI Hypo	-1.6	0.0
Staff training cost	-1.7	-1.3
Administration expenses related to HBInt. Credit Management	-0.8	-2.8
Other general administrative expenses	-13.9	-20.2
Total	**-84.4**	**-108.1**

Notes to the statement of financial position

(14) Loans and advances to credit institutions

EUR m

	30.6.2012	31.12.2011
Austria	831.1	1,576.1
Central and Eastern Europe (CEE)	651.7	641.9
Other countries	1,009.0	915.4
Total	**2,491.8**	**3,133.4**

(15) Loans and advances to customers

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

EUR m

	30.6.2012	31.12.2011
Public sector	4,906.4	4,997.7
Corporate clients	14,191.0	14,676.4
Retail clients	6,731.9	7,048.3
Total	**25,829.3**	**26,722.4**

15.2. Loans and advances to customers – by region

EUR m

	30.6.2012	31.12.2011
Austria	4,023.9	4,248.7
Central and Eastern Europe (CEE)	16,032.2	16,617.7
Other countries	5,773.2	5,856.0
Total	**25,829.3**	**26,722.4**

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

EUR m

	as at 1.1.2012	Foreign exchange-differences	Allocations	Releases	Use	Changes to the consolidated Group	Un-winding	as at 30.6.2012
Specific risk provisions	-2,934.0	-5.5	-245.6	86.4	118.8	-11.9	90.0	-2,901.7
Portfolio-based risk provisions	-176.0	0.0	-15.5	27.8	0.0	-0.4	0.0	-164.1
Subtotal risk provisions on loans and advances	**-3,110.0**	**-5.5**	**-261.1**	**114.3**	**118.8**	**-12.3**	**90.0**	**-3,065.8**
Provisions for credit commitments and guarantees	-48.2	0.1	-3.2	16.7	0.3	0.0	0.0	-34.4
Total	**-3,158.2**	**-5.4**	**-264.3**	**130.9**	**119.1**	**-12.3**	**90.0**	**-3,100.2**

EUR m

	as at 1.1.2011	Foreign exchange-differences	Allocations	Releases	Use	Changes to the consolidated Group	Un-winding	as at 31.12.2011
Specific risk provisions	-2,975.8	22.5	-702.0	355.5	212.0	-21.5	175.2	-2,934.0
Portfolio-based risk provisions	-235.0	0.9	-51.3	110.8	0.0	-1.4	0.0	-176.0
Subtotal risk provisions on loans and advances	**-3,210.8**	**23.4**	**-753.2**	**466.3**	**212.0**	**-22.9**	**175.2**	**-3,110.0**
Provisions for credit commitments and guarantees	-75.8	0.2	-19.7	46.4	0.6	0.0	0.0	-48.2
Total	**-3,286.6**	**23.6**	**-772.9**	**512.7**	**212.6**	**-22.9**	**175.2**	**-3,158.2**

(17) Trading assets

EUR m

	30.6.2012	31.12.2011
Bonds and other fixed-interest securities	2.4	11.6
Shares and other non-fixed-interest securities	0.2	0.5
Total	**2.6**	**12.0**

(18) Derivative financial instruments

EUR m

	30.6.2012	31.12.2011
Positive market value of derivative financial instruments – trading	31.4	28.2
Positive market value of derivative financial instruments – banking book	1,469.3	1,405.8
Total	**1,500.7**	**1,434.0**

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

EUR m

	30.6.2012	31.12.2011
Loans and advances to customers and credit institutions	637.6	563.9
Bonds and other fixed-interest securities	163.7	159.2
Shares and other non-fixed-interest securities	37.2	37.5
Total	**838.5**	**760.6**

(20) Financial investments – available for sale

EUR m

	30.6.2012	31.12.2011
Bonds and other fixed-interest securities	2,631.5	2,568.8
Shares and other non-fixed-interest securities	50.5	58.5
Participations without intention for sale (< 20%)	5.3	5.3
Other participations (associated companies 20% - 50%)	3.8	2.9
Shares in affiliated, non-consolidated companies (> 50%)	16.7	16.2
Total	**2,707.7**	**2,651.7**

(21) Other financial investments

EUR m

	30.6.2012	31.12.2011
Investment properties	856.0	837.5
Assets used for operate lease	128.8	147.9
Total	**984.8**	**985.4**

(22) Assets classified as held for sale

The item assets classified as held for sale, which in accordance with IFRS 5 must be reported separately, includes as at 30 June 2012 the assets of the Aluflexpack and TLM-TVP groups which are up for sale, as well as of a tourism participation in Carinthia. The assets of the leasing unit in Ukraine reported in this item as at 31 December 2011 had to be reclassified to their respective positions in the balance sheet due to having to abandon the intention to sell in the short term. The assets of this company are reported under “Wind-down financials” in the segment report.

EUR m

	30.6.2012	31.12.2011
Loans and advances to credit institutions	0.1	2.3
Loans and advances to customers	0.7	49.1
Risk provisions on loans and advances	0.0	-33.9
Financial investments – available for sale	0.2	0.4
Investments in companies accounted for at equity	4.3	4.5
Intangible assets	0.4	0.3
Tangible assets	33.8	33.7
Other assets	48.5	82.3
Total	**88.1**	**138.8**

(23) Other assets

EUR m

	30.6.2012	31.12.2011
Deferred income	57.3	102.4
Other assets	959.1	982.2
Total	**1,016.3**	**1,084.7**

(24) Liabilities to credit institutions – by region

EUR m

	30.6.2012	31.12.2011
Austria	266.7	154.2
Central and Eastern Europe (CEE)	607.3	678.8
Other countries	4,612.1	4,845.4
Total	**5,486.1**	**5,678.4**

(25) Liabilities to customers

25.1. Liabilities to customers – by type of customer

EUR m

	30.6.2012	31.12.2011
Saving deposits	**1,478.3**	**1,446.7**
Demand and time deposits	**6,846.5**	**6,754.4**
from public sector	558.9	613.4
from corporate clients	3,079.6	3,347.0
from retail clients	3,208.0	2,794.0
Total	**8,324.8**	**8,201.1**

25.2. Liabilities to customers – by region

EUR m

	30.6.2012	31.12.2011
Austria	1,506.5	1,544.6
Central and Eastern Europe (CEE)	4,288.7	4,247.9
Other countries	2,529.5	2,408.6
Total	**8,324.8**	**8,201.1**

(26) Debt securities in issue

EUR m

	30.6.2012	31.12.2011
Issued bonds	13,684.0	14,880.4
Liabilities issued by the "Pfandbriefstelle"	2,145.3	2,265.8
Other debt securities in issue	0.8	1.2
Total	**15,830.1**	**17,147.4**

(27) Derivative financial instruments

EUR m

	30.6.2012	31.12.2011
Negative market value of derivative financial instruments – trading	1.1	1.9
Negative market value of derivative financial instruments – banking book	760.8	714.4
Total	**761.9**	**716.3**

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

EUR m

	30.6.2012	31.12.2011
Liabilities to credit institutions	26.2	26.9
Provisions	0.7	0.0
Tax liabilities	0.0	-0.2
Other liabilities	50.5	51.2
Total	**77.5**	**77.8**

(29) Other liabilities

EUR m

	30.6.2012	31.12.2011
Deferred expenses	222.0	245.8
Accruals und other obligations	293.7	278.2
Total	**515.6**	**524.0**

(30) Subordinated capital

EUR m

	30.6.2012	31.12.2011
Subordinated liabilities	961.8	952.2
Supplementary capital	85.1	83.9
Total	**1,046.9**	**1,036.0**

Risk report

(31) Developments in exposure and in non-performing loans

Exposure decreased by some EUR 1.3 bn in the first half of 2012, with the greatest reduction occurring in the Financial Institutions segment. HAA was successful in liquidating a large part of the NPL portfolio for the Corporate segment, which also helped to reduce exposure.

The situation with non-performing loans (NPLs) in HAA has stabilised further in the first half of 2012. This is mainly due to stringent monitoring as well as detailed analysis of early warning indicators for customer accounts with a risk of default against the background of a generally difficult economic environment.

Additions to risk provisions are within HAA's budgeted targets.

(32) JRAD – Joint Risk Assessment and Decision process

Following an audit conducted in the summer of 2011 by the Oesterreichische Nationalbank (OeNB) as part of the so-called JRAD process, which was based on key financial figures for HAA as at 31 December 2010 and which led to the stipulation of a total capital ratio of 12.04% to cover potential losses, there was an examination of the bank lasting several months in the first half of 2012 by the supervisory authorities concentrating on the parameters and calculation models relevant for the JRAD process. This also took into account IRBA guidelines, which only apply to a limited extent to HAA, as a standard approach bank, but which it uses for internal risk monitoring.

The bank has been in receipt of the provisional report on the last OeNB audit, conducted in the first half of the year, since 8 August 2012. The audit focussed on the topics of models and parameters for measuring credit risk, collateral and monitoring, stress testing and risk management in the leasing business, with the emphases of the audit selected also with a view to the determination of economic capital as part of the JRAD process. The report contains 48 concrete findings, for which changes or improvements are set out; the majority of the criticisms are compatible with the programme for refining and improving risk management. A detailed reply to the report will be given with this in mind by 19 September 2012.

Notwithstanding any measures which may need to be taken as a result of the new JRAD evaluation, HAA continues to devote great efforts to implementing the measures to reduce its NPL portfolio in order to achieve a significant reduction in the size of the gap in coverage by 31 December 2012. A group-wide task force to reduce the toxic concentration risk was set up to this end. In addition to a standardised process for monitoring and analysing existing business which is linked to clear targets for improving the risk profile of the portfolio, HAA can already point to significantly better quality new business from a risk point of view, thanks to strict directives on the issuing of new credit. These factors will also lead to a significant reduction in capital requirements in the medium term.

(33) New management of the ICAAP process at Hypo Alpe Adria

The management of the Internal Capital Adequacy Assessment Process (ICAAP) was overhauled at the beginning of 2012 as the result of a risk inventory project. This brought about improvements within HAA, in particular in the central distribution of collateral, the estimation of parameters and the availability centrally of data. The new approach to managing ICAAP also took account of new risk types, such as concentration risk, and made improvements to methodology for existing risk types.

All risk types at HAA have been regulated for in detail in either a policy or relevant manual; there is an appropriate methodology for quantifying risks and there is a defined capital limit for managing every significant risk.

ICAAP now covers the following risk types at HAA:

Hypo Alpe Adria Risk Bearing Capacity	
Credit Risk	Single Name
	Concentration Risk
	Country Risk
	Participation Risk
	TOTAL
Market Risk	Interest Rate Risk (Trading & Banking Book)
	Credit Spread Risk (liquid & illiquid)
	Foreign Exchange Risk
	Equity Risk
	Alternative Investment Risk
	Volatility Risk
	TOTAL
Strategic Market Risk	
Funding Spread Risk	
Operational Risk	
Object Risk	
Other Risks	
Overall Internal Capital Requirement	

Within the new risk strategy for 2012, the aggregate risk cover for the risk coverage targets was defined as follows:

- 20% as a general buffer. This is primarily intended to cover any effects from stress tests, so as to support the long-term sustainability of the group.
- 80% is allocated for covering capital requirements. This 80% provides the basis for further allocation to individual risk types.

So as to ensure the 80% mark is not permanently breached, HAA has started the following initiatives:

- The business plans for the wind-down portfolios as defined by HAA are targeted at ensuring there is a portfolio reduction. The most important factor is to avoid further losses by implementing these strategies without delay – there has been considerable success in this area already in the first half of 2012.
- The aim of targeted portfolio limitation and management is to ensure stable development, improve the quality of the portfolio and ensure business in the core markets is profitable.
- Ongoing validation of the risk parameters.
- Projects to improve data quality and make data provision more stable.
- Continuous monitoring of the collateral held.

(34) Improvement of risk data storage and management at Hypo Alpe Adria

The aim is to have a sole source of all data necessary for risk management in HAA. Previously HAA had had two separate data channels, in line with Basel II's pillars I and II.

Data provision for all SEE countries and for the Italian subsidiaries was successfully migrated to the central data pool (ZDP) in the first half of the year. The migration of the subsidiaries Hypo Alpe-Adria-Bank AG (Austria)/HBInt. will take place in August.

The migration for the leasing subsidiaries will be carried out in the 4th quarter of 2012.
The final migration to the ZDP, for derivative and securities data, will be completed in the 1st quarter of 2013.

Additionally, an internal project to stabilise data provision and the documentation of data flows was started in mid-March. It consists of two pillars:

Pillar 1: Risk considerations

- New roll-out of all key fields relevant for calculating risk-bearing capacity on the basis of the ZDP.
- Evaluation of data availability, data quality and the responsibilities for these.

Pillar 2: IT considerations

- Documentation of the processes related to the data sources (data flow documentation, etc.) from the local core systems through to the central risk data storage/management facility.
- Further improvement and simplification of the data flow from the subsidiaries to HAA.
- The project was successfully completed in May.

(35) Rating process

The project to develop a new rating process for all ratings within HAA, which began in May 2010, was successfully completed in the first half of 2012. Four new rating processes were installed on the central rating portal and rolled out throughout the group in the first six months of this year. These are the rating systems for banks, insurance companies, municipal bodies and states. Apart from the considerably improved risk assessment afforded by the new processes, a higher level of rating penetration and data quality is achieved through the central availability of data. All rating information is available on a same-day basis and is used for generating management reports.

(36) Collateral/Valuation Rush

Further improvements to collateral management were achieved in the first half of 2012. GCP, as the overarching unit within the group, ensures and checks, by means of reports, compliance with all directives and time-related stipulations for all collateral. Checks are made to ensure monitoring activities by category of collateral are made in line with stipulations; that assessments are up-to-date; to check market liquidity and that internal measurement approaches are compliant with guidelines.

The following checks are made to ensure that all real estate offered as collateral for our credit portfolio is current:

- All RRE (residential real estate) with a valuation dating back three years or more are updated on a quarterly basis using the R&S new measurement tool and entered in the collateral system.
- All CRE (commercial real estate) with a valuation over a year old and with a market value of under EUR 1.0 m are updated on a quarterly basis using the R&S new measurement tool and entered in the collateral system.
- The account manager for all CRE (commercial real estate) with a valuation over a year old and with a market value of over EUR 1.0 m uses the internally-created “remeasurement workflow” to trigger a revaluation three months prior to maturity. Through this workflow Commercial Real Estate Management (CREM) or its unit in the subsidiary is commissioned to value the real estate. The CREM is an autonomous unit which provides expert valuations using certified evaluators.

(37) Counterparty portfolio limitation

The portfolio limitation system has been implemented in full in the core countries (Slovenia, Croatia, Serbia, Bosnia, Montenegro) as well as in Austria since the beginning of 2012. Depending on the degree of risk involved in the transaction – made clear through the combination of rating, size and sector/product group – HAA's portfolio is split into low, medium and high risk. The portfolio limits are capped through the amount of risk-bearing capacity availability and are monitored on a monthly basis both at group and subsidiary level. In the event of limit breaches the group-wide escalation process kicks in, and the market units must then implement appropriate measures to ensure the limits set are complied with by year-end.

In addition to directly deriving the limits from HAA's risk-bearing capacity, the portfolio limitation system (the focus of limitation is on risky transactions) also enables a balanced risk profile to be created.

(38) Operational risk and internal control management

Many changes were made in the area of operational risk management in the first half of 2012. The priority was on ensuring the completeness of the capture of loss data and on improving the quality of the data. There were also increased training measures to ensure the sustainability of the improvements.

The Operational Risk (OpRisk) Committee was defined as a complementary measure. The objective of the committee is not just to ensure no gaps in reporting but also to define proactively appropriate measures to support the attainment of targets and to monitor the implementation of these measures. The committee meets on a monthly basis at subsidiary level and on a quarterly basis at group level.

A further milestone in the first half of 2012 were the preparations for the implementation of the new governance, risk and compliance tool for the management of operational risk. This tool replaces the old loss data collection process and ensures integrated management of OpRisk and, in addition, standardises all the main interfaces in the area of reporting (compliance, combating of fraud, business continuity). Special attention was paid up front to the set-up of the SAS tool (in terms of classifying/allocating data, alignment of the interfaces). The objective is to achieve better interaction between methodology and the OpRisk management tools (e.g. key OpRisk indicators, risk and controlling self-assessment).

The definition of internal reputational risk has been dealt with together with the operational risks. The relevant policy was approved, implemented and rolled out to the subsidiaries in the first half of the year.

As regards the internal control system, the methodology for evaluating the ICS has been further refined. The policy for the internal control system was drawn up and rolled out.

The invoicing processes were mapped in all core countries and documented in the standard process tool ARIS. These processes were then evaluated from the point of view of risk and appropriate control measures were defined.

(39) ALM system

The requirements for a future ALM system as part of the "Operative Bank Steering" project were specified in a preliminary study conducted together with the best bidder for the ALM system and covering the following main areas of focus:

- an appropriate systems architecture with interfaces and links to a data warehouse as well as data management including tracking, which can be integrated into the "business intelligence concept";
- "Classic ALM" analyses enabling interest gap and capital commitment analyses with stochastic behavioural modelling to be carried out so that all the regulatory ALM requirements of Basel II and III are met;
- "Advanced ALM" analyses 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.

(40) Collateral management for derivatives

The implementation of the collateral management project for derivatives will bring about a higher level of process automation and better provisioning of cash collaterals for the limitation process for banking lines. Comparison of external market values with the internal model values from the portfolio management systems is improved with the structured database, thereby making more effective collateral management possible. The future requirements for a central counterparty clearing system also form part of the project, as do the possible enhancements to a collateral management system for repos.

(41) Liquidity risk

In order to ensure liquidity on an ongoing basis, HAA holds cash reserves in the form of cash deposits which are available on demand at the Oesterreichische Nationalbank (OeNB). HAA 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 new requirements of Basel III relating to liquidity are being dealt with in a special project due to complete by the end of 2012. The first reports covering the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) key performance figures have already been sent to the supervisory authorities as part of the quantitative impact study (QIS). The implications for pricing, planning and the liquidity reserves are being assessed as part of the project.

(42) Integration of credit spread in the group-wide portfolio and risk management system

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

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

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

The first of three planned project phases was successfully concluded at the end of November 2011, enabling the deployment of some significant project milestones.

(43) GIIPS exposure

The risk management function continually monitors exposure to the GIIPS states and Croatia very closely and checks for opportunities to reduce risk further. HAA is reducing exposure to the GIIPS states on a continual basis, in such a way as to preserve value, and has had success in this area in the first half of the year. HAA was able to reduce its Greek exposure completely.

EUR m

Breakdown by country and risk segment		Total fair value 30.6.2012	Total fair value 31.12.2011
Greece	State and central bank	0.0	6.1
	Regions and municipalities	0.0	0.0
	Banks	0.0	0.0
	Total	**0.0**	**6.1**
Ireland	State and central bank	0.0	0.0
	Regions and municipalities	0.0	0.0
	Banks	58.7	50.8
	Total	**58.7**	**50.8**
Italy	State and central bank	83.1	93.6
	Regions and municipalities	33.9	37.4
	Banks	172.6	129.6
	Total	**289.7**	**260.6**
Portugal	State and central bank	0.0	0.0
	Regions and municipalities	20.0	20.0
	Banks	13.5	25.1
	Total	**33.5**	**45.1**
Spain	State and central bank	0.0	0.0
	Regions and municipalities	102.4	102.5
	Banks	122.2	139.8
	Total	**224.6**	**242.3**
Hungary	State and central bank	26.6	24.3
	Regions and municipalities	0.0	0.0
	Banks	29.3	43.4
	Total	**55.9**	**67.6**
Croatia	State and central bank	1,106.1	1,190.6
	Regions and municipalities	41.6	41.3
	Banks	41.6	34.1
	Total	**1,189.2**	**1,266.0**
Total		**1,851.5**	**1,938.4**

Supplementary information

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

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

EUR m

	30.6.2012	31.12.2011
Contingent liabilities	**686.1**	**755.6**
from bills of exchange transferred for settlement	0.3	1.1
from credit guarantees	411.9	453.1
from letters of credit	15.9	22.2
from other guarantees	241.3	260.1
from other contingent liabilities	16.8	19.0
Other liabilities	**908.6**	**961.7**
from irrevocable credit commitments	890.4	944.7
from other liabilities	18.2	17.0
Total	**1,594.7**	**1,717.3**

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

The following valuations for individual balance sheet items have resulted from applying the fair value option:

EUR m

	30.6.2012	31.12.2011
Loans and advances to customers and credit institutions	637.6	563.9
Bonds and other fixed-interest securities	163.7	159.2
Shares and other non-fixed-interest securities	37.2	37.5
Total	**838.5**	**760.6**
Liabilities to customers	435.3	427.6
Debt securities in issue	429.0	439.1
Subordinated capital	21.0	19.7
Hybrid capital	5.9	50.7
Total	**891.2**	**937.2**

(46) Fair value of financial instruments carried at fair value

EUR m

30.6.2012	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	2.6	0.0	0.0	2.6
Derivative financial instruments	0.0	1,498.2	2.6	1,500.7
Financial investments – designated at fair value through profit or loss	0.0	770.4	68.0	838.5
Financial investments – available for sale	2,287.7	400.1	19.9	2,707.7
Total	**2,290.3**	**2,668.7**	**90.5**	**5,049.5**
Liabilities				
Liabilities to customers	378.0	57.3	0.0	435.3
Debt securities in issue	347.8	81.2	0.0	429.0
Derivative financial instruments	0.0	761.9	0.0	761.9
Subordinated capital	0.0	21.0	0.0	21.0
Hybrid capital	5.8	0.0	0.0	5.8
Total	**731.7**	**921.4**	**0.0**	**1,653.1**

EUR m

31.12.2011	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	12.0	0.0	0.0	12.0
Derivative financial instruments	0.0	1,429.5	4.5	1,434.0
Financial investments – designated at fair value through profit or loss	0.0	759.1	1.5	760.6
Financial investments – available for sale	2,210.8	422.9	18.0	2,651.7
Total	**2,222.8**	**2,611.5**	**24.0**	**4,858.4**
Liabilities				
Liabilities to customers	374.2	53.5	0.0	427.6
Debt securities in issue	350.6	88.5	0.0	439.1
Derivative financial instruments	0.0	716.3	0.0	716.3
Subordinated capital	0.0	19.7	0.0	19.7
Hybrid capital	50.7	0.0	0.0	50.7
Total	**775.5**	**877.9**	**0.0**	**1,653.4**

In the first half of 2012 there was a reclassification of financial investments – designated at fair value through profit or loss with a value of EUR 14.3 m from level 2 to level 1 of the fair value hierarchy, due to improved market values. A total of EUR 1.8 m was reclassified from level 3 to level 2. As a result of the limited availability of external market value data, some EUR 68.0 m was reclassified from level 2 to level 3.

Within the item financial investments – available for sale a total of EUR 5.2 m was reclassified from level 1 to level 2 and EUR 2.5 m from level 2 to level 3.

(47) Related party disclosures

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

EUR m

as at 30.6.2012	Parent	Affiliated companies	Joint Ventures	Key management personnel	Executive Board and Supervisory Board
Assets	97.6	150.4	122.4	1.6	0.4
Liabilities	7.6	15.8	0.6	4.0	1.3
Liabilities arising from guarantees	0.0	14.6	0.0	0.0	0.0

EUR m

as at 30.6.2011	Parent	Affiliated companies	Joint Ventures	Key management personnel	Executive Board and Supervisory Board
Assets	114.7	152.1	73.3	1.2	0.1
Liabilities	14.7	15.4	0.5	2.4	1.0
Liabilities arising from guarantees	0.0	16.2	81.6	0.0	0.0

(48) Participation capital

As a result of the resolution passed at the general shareholders' meeting for Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed at the extraordinary shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Hypo Alpe-Adria-Bank International AG and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 275,111,072.56 (18,000 participation certificates each with a value of EUR 15,283.94848). Under section 23 (3) (8) BWG there is no obligation to make back-payments of dividends on participation capital.

The participation capital subscribed to by the previous owners in the course of the change in ownership of Hypo Alpe-Adria-Bank International AG which became effective on 29 December 2009 currently has a value, after allocation of losses and the capital reduction, of EUR 64,428,867.95.

Participation capital is reported under equity in the item subscribed capital in the consolidated financial statements for Hypo Alpe-Adria-Bank International AG. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is the separate financial statements for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG and the prerequisite is sufficient annual profit after movement in reserves.

(49) Important proceedings

49.1. EU proceedings

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

49.2. Other proceedings

At the end of June 2011 Hypo Alpe-Adria-Bank International AG filed an application at the Commercial Court in Vienna for a declaratory judgement against BayernLB, with a total claim value of EUR 0.5 m. Specifically it is about the interpretation of two provisions in the share purchase agreement, concluded between BayernLB, the Republic of Austria and Hypo Alpe-Adria-Bank International AG. The legal dispute was settled in August 2012.

In a judgement by the Regional Court in Klagenfurt dated 27 April 2012, the claim by the State of Carinthia for the payment of guarantee commission for 2010 totalling EUR 6.2 m plus interest was upheld. This judgement has in the meantime become final; the amount of guarantee commission in dispute has already been paid.

The application for a declaratory judgement against the bank made by the State of Carinthia in connection with the capital reduction resolution passed at the general shareholders' meeting on 30 May 2011 was upheld in the first instance by the Commercial Court in Vienna in a judgement dated 16 July 2012. Hypo Alpe-Adria-Bank International AG will appeal against this judgement of the first instance; the deadline for submitting the appeal is 16 August 2012.

BayernLB filed a claim in July 2011 against the HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS) calling for the reversal of share purchase agreements made in 2007 and concerning the acquisition of a total of 175,316 shares in Hypo Alpe-Adria-Bank International AG on the grounds of intent to mislead in conjunction with the allowability to count as equity the preference shares that had been issued by Hypo Alpe-Adria-Leasing Holding AG (now Hypo Alpe-Adria-Leasing GmbH). The sum in dispute, originally set at EUR 50.0 m, was reduced to EUR 10.0 m by BayernLB in a hearing on 14 March 2012. MAPS has served a third-party notice on Hypo Alpe-Adria-Bank International AG on the grounds that the actions of supporting the due diligence process and drawing up the consolidated financial statements as at 31 December 2006, in which the preference shares were shown as equity, could, as the actions of employees and executive bodies of Hypo Alpe-Adria-Bank International AG, be attributed to the same. Hypo Alpe-Adria-Bank International AG has joined these proceedings as a third-party intervener. Subsequently Hypo Alpe-Adria-Bank International AG served third-party notices on potential recourse parties, so as not to rule out claims to recourse by Hypo Alpe-Adria-Bank International AG in the event that MAPS should make a claim. The main proceedings were suspended until final judgement was reached on the sub-process regarding the admission of further third-party interveners. In a judgement of the first instance, the further third-party interveners concerned were not accepted. The Higher Regional Court in Vienna confirmed the judgements of the first instance in all main points; there is no right to appeal. The next hearing for the main proceedings has now been set for 7 December 2012.

At the beginning of April 2012 UniCredit Bank AG filed a claim at the Regional Court in Klagenfurt against Hypo Alpe-Adria-Bank International AG. In it a claim is asserted for damages and warranty and application made for a declaratory judgement. Specifically, the plaintiff calls for the repayment of the nominal value (including statutory interest on arrears) of a supplementary capital bond issued by Hypo Alpe-Adria-Bank International AG and redeemed at no value due to the statute on loss allocation contained in section 23 (7) (3) BWG. The plaintiff also calls for the payment of interest due on the bond from April 2009 to April 2011 including statutory interest on arrears. Hypo Alpe-Adria-Bank International AG takes the view that the redemption of the bond at no value upon reaching final maturity was correct (see also note (51) Servicing of subordinated capital).

The former consultant who had filed a lawsuit against Hypo Alpe-Adria-Bank International AG based on a consulting contract in October 2009 for payment of unpaid fees totalling EUR 65 thousand, has, based on the same consulting contract, filed a further lawsuit seeking payment of unpaid fees totalling EUR 576 thousand and seeking a declaratory judgement confirming entitlement to additional fees. Hypo Alpe-Adria-Bank International AG assumes that the claims have no basis in law.

At the end of April 2012 BayernLB filed a lawsuit against Hypo Alpe-Adria-Bank International AG for the reimbursement of consulting fees for the Boston Consulting Group. The background to this is the commissioning by BayernLB at the end of 2008 of the Boston Consulting Group to deliver consultancy and support services as part of a restructuring project for Hypo Alpe-Adria-Bank International AG. This legal dispute was settled in August 2012.

(50) Guarantee agreements

On 28 December 2010 a guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG, with the Republic taking on liability as a statutory guarantor pursuant to section 1356 of the Austrian Civil Code (ABGB). The liability of the Republic relates to a precisely specified portion of receivables in the portfolio of Hypo Alpe-Adria-Bank International AG and is capped at a maximum of EUR 200 m ("maximum guaranteed sum"). Hypo Alpe-Adria-Bank International AG agreed to pay a commission to the Republic of Austria of 10% p.a. for the assumption of liability, based on the nominal value of the part of the receivables for which liability is assumed. The liability of the Republic expires on 30 June 2013 and is subject to Hypo Alpe-Adria-Bank International AG fulfilling the requirements agreed in the contract. A claim on the guarantee was made for the first time on 30 July 2012 for a loan for which the relevant legal consequences apply. In the event of such a claim on the guarantee, the Republic of Austria is entitled to regress from Hypo Alpe-Adria-Bank International AG, dependent on certain key financial figures. In return for the guarantee agreement, the bank has undertaken to reduce the guarantee liability of the Republic of Austria by buying back government guaranteed bonds (GGB). The bank met this obligation through buying back issues totalling EUR 751.7 m in February 2011. The volume of open guaranteed issues now stands at EUR 598.4 m.

The EU Commission provisionally approved the guarantee agreement as additional state aid on 19 July 2011 because it is consistent with the requirement to recapitalise financial institutions following the financial crisis. The approval was made subject to the Commission approving the bank's restructuring plan based on the state aid provided through the emergency nationalisation in 2009. Please refer, in this connection, to note (49.1.) EU proceedings.

(51) Servicing of subordinated capital

51.1. Supplementary capital

Both Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) have in the past issued supplementary capital pursuant to section 23 (7) of the Austrian Banking Act (BWG), which has been allocated to own capital funds in accordance with supervisory regulations. According to the restrictions laid down in section 23 (7) (2) of the BWG, interest can only be paid out "if it is covered by the annual profits (before movements in reserves)". As neither the separate financial statements of Hypo Alpe-Adria-Bank International AG nor of Hypo Alpe-Adria-Bank AG (Austria) as at 31 December 2007 to 2010 meet this criterion, following formal adoption of the financial statements, interest on the supplementary capital issues of both credit institutions could not be paid out. The financial statements for Hypo Alpe-Adria-Bank International AG as at 31 December 2011 also do not meet this criterion, and consequently interest on the supplementary capital issues made by Hypo Alpe-Adria-Bank International AG could not be paid out. According to the specific legal provisions, payment of interest may only be resumed when subsequent adopted financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (before movements in reserves) have been shown.

The financial statements for Hypo Alpe-Adria-Bank AG (Austria) as at 31 December 2011 show an annual profit (prior to movements in reserves). Consequently, Hypo Alpe-Adria-Bank AG (Austria) may resume payments of interest relating to the supplementary capital issues made by it.

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

When ongoing payments of interest are resumed by Hypo Alpe-Adria-Bank AG (Austria) the interest payments not made for the preceding periods and relating to the supplementary capital issues made by Hypo Alpe-Adria-Bank AG (Austria) will then be paid out.

In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during its term. This means that the losses must be allocated in proportion to the paid-in capital in accordance with section 23 (3) BWG and to the supplementary capital (pari passu) of the supplementary capital bond in question. Taking into account the loss allocation required by law, a complete financial loss in relation to supplementary capital issues by Hypo Alpe-Adria-Bank International AG has been established, which can lead to a total loss for the investor. The loss allocation must be applied not only in the case of redemption at term but also in the event of premature repayment by giving notice on the issue or through a premature buy-back of the issue. Please refer, in this connection, to the claim brought against Hypo Alpe-Adria-Bank International AG by UniCredit Bank AG for the payment of the nominal value plus all non-paid interest charges relating to a supplementary capital bond, which reached final maturity in April 2011 and was redeemed at no value because of the loss allocation provision applicable to it (see note (49.2.) Other proceedings).

51.2. Hybrid capital

HAA has in the past made a total of two issues of subordinated hybrid capital, with no obligation to remargin interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75.0 m and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150.0 m). Both issues are essentially for an unlimited term, although the issuer has a unilateral right to terminate.

Hypo Alpe-Adria Bank International AG made an offer to investors dated 29 February 2012 to buy back in cash hybrid capital issued through two companies in Jersey at a nominal value of up to EUR 225 m. The offer was open until 22 March 2012. Hybrid capital totalling approx. EUR 165.0 m (from both issues) was taken out of the market. The buy-back marks a further step towards restructuring and improving the capital structure, as hybrid capital will no longer count as core capital under Basel III. Following the buy-back, approximately EUR 60.0 m of hybrid capital is still on the market.

The primary criterion for servicing the outstanding hybrid capital issues is sufficient “distributable funds”, as defined in the issue conditions; the secondary criterion is that there is no short-fall on the limits set for the group’s own capital funds.

As the separate financial statements for Hypo Alpe-Adria-Bank International AG as at 31 December 2011 prepared in accordance with UGB/BWG show a clear loss (prior to movements in reserves), the main prerequisite for servicing hybrid capital is not met, and thus may not be carried out.

HAA may therefore not undertake to pay out interest on hybrid capital until such time as the separate financial statements adopted for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG show annual profits and are adopted, which would then require the servicing of the hybrid capital in accordance with the issue conditions with regard to “distributable funds”.

As there is no supervisory regulatory obligation to remargin missed interest payments, the payments with regard to this hybrid capital do not apply and are therefore not shown as interest expense in the consolidated income statement.

51.3. Subordinated liabilities

As subordinated capital (subordinated liabilities), as defined by section 23 (8) BWG, is not contractually tied either to the existence of sufficient net income or “distributable funds”, nor to an annual profit (before movements in reserves), there are currently no contractual restrictions on servicing the interest payments for these issues.

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

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

EUR m

	30.6.2012	31.12.2011
Core capital (Tier 1)	**1,521.9**	**1,602.8**
Paid-in capital	808.6	808.6
Reserves (incl. hybrid capital and non-controlling interests in equity)	761.4	1,009.8
Funds for general banking risks	153.7	0.7
Intangible assets	-41.6	-56.1
Deduction net loss, material negative results	-160.2	-160.2
Supplementary elements (Tier 2)	**826.6**	**867.1**
Supplementary capital	65.7	65.7
Subordinated capital	760.9	801.4
Deductions pursuant to section 23 (13) BWG	**-9.6**	**-9.5**
Tier 3 (reclassified Tier 2 capital)	**41.5**	**38.3**
Own capital funds according to BWG	**2,380.5**	**2,498.7**
Own capital funds requirement according to BWG	**2,003.1**	**2,048.9**
Surplus capital	**377.4**	**449.8**
Coverage	118.8%	122.0%

EUR m

	30.6.2012	31.12.2011
Risk-weighted basis for assessment in acc. with section 22 of the BWG (banking book)	**22,498.0**	**23,111.0**
thereof 8% minimum own funds requirements	1,799.8	1,848.9
Own funds requirement – securities trading book	9.7	8.3
Own funds requirement – open foreign exchange position	31.8	30.0
Own funds requirement – operational risk	161.7	161.7
Total own capital funds requirement	**2,003.1**	**2,048.9**

EUR m

	30.6.2012	31.12.2011
Assessment basis banking book (risk-weighted)	**22,498.0**	**23,111.0**
Tier 1 ratio	6.7%	6.9%
Own capital funds ratio	10.6%	10.8%
Assessment basis incl. market and operational risk	**25,038.8**	**25,611.7**
Tier 1 ratio	6.1%	6.2%
Own capital funds ratio	9.5%	9.8%

The buy-back of hybrid capital totalling some EUR 165.0 m in April 2012, which has already been detailed in note (51.2.) Hybrid capital, after deduction of all expenses connected to the transaction led to income attributable to the group's own funds of EUR 153.0 m, which was allocated to the fund for general banking risks. The allocation to the fund for general banking risks first took effect on 30 April 2012.

In the first half of 2012 Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of HAA, was in compliance with the minimum own capital funds requirements as defined by the Austrian Banking Act.

(53) Portfolio clean-up in the SEE network and in the banks in Italy and Austria

The work started in the last financial year on preparing the transfer out of selected credit portfolios (loans and finance leases) belonging to the SEE network subsidiaries in Croatia and Serbia into local wind-down companies was progressed in the first half of 2012. These planned transfers will facilitate the derecognition of the portfolios in the balance sheet, thereby leading to a normalisation of the key financial figures in the units concerned, particularly in relation to net interest income, the NPL quota and strengthening of the capitalisation figures/ratios.

In addition to the banks in the SEE network, the credit institutions in Italy and Austria will be subject to the same portfolio clean-ups.

The transaction pertaining to Hypo Alpe-Adria Bank S.P.A. (Italy) has already been implemented as per 1 February 2012, with the agreement of the local authorities; it is expected that a transfer will be completed in the form of a legally recognised split of the Austrian banking subsidiary in the second half of 2012.

(54) Employee data

	30.6.2012	31.12.2011
Employees at closing date (Full Time Equivalent – FTE)	7,655	7,690
Employees average (FTE)	7,606	7,774

(55) Events after the reporting date

In July 2012 Moody's downgraded its rating for Italy. The rating for Italian government-backed bonds was downgraded by two levels, from A3 to Baa2. The outlook for Italy continues to be negative. The resulting increase in the regulatory risk weighting for Italy is leading to a relatively small increase in risk-weighted assets at group level, as a result of the loans and advances to the Republic of Italy and to other Italian institutions. The effect of the increased risk-weighted assets is significantly greater at the level of the single institution in the case of Hypo Alpe-Adria-Bank International AG because of its liability for lines of credit extended to the Italian subsidiaries.

Please refer to note (49.2.) Other proceedings which details the judgement in connection with the application for a declaratory judgement by the State of Carinthia, as well as the settlement of the disputes with BayernLB relating to the reimbursement of fees for the Boston Consulting Group and the purchase contract for an equity holding between BayernLB, the Republic of Austria and Hypo Alpe-Adria-Bank International AG.

A claim was made on the guarantee agreement with the Republic of Austria in the case of a specific loan, effective 30 July 2012. Please refer to note (50) Guarantee agreements for more information.

Please refer to note (32) JRAD – Joint Risk Assessment and Decision process for comments on the audit report received from the OeNB in August 2012.

The sales agreements concluded in January 2012 relating to the interests held by HAA in the two Croatian industrial participations Aluflexpack and TLM-TVP were abandoned by mutual agreement in the first half of the year. The sale of the interests held by HAA in TLM-TVP was agreed with a different investor and agreements outlining the transfer of the interests held by HAA in TLM-TVP signed on 10 August 2012. The group is confident that the sale of the Aluflexpack group will also be concluded in the second half of 2012.

Klagenfurt am Wörthersee, 10 August 2012
Hypo Alpe-Adria-Bank International AG

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 interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the interim group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim consolidated financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Klagenfurt am Wörthersee, 10 August 2012
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Imprint

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Forward-looking statements and forecasts are based on the information and data available at the time of going to press (10 August 2012). Changes after this date could influence the facts and forecasts given in the Interim Financial Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be excluded. The English version of the Interim Financial Report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this Interim Financial Report which were used in the interests of better legibility also cover the feminine form.
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