BANK

HYPO ALPE ADRIA
GEMEINSAM. FREUNDLICH. FAIR.

Annual report 2011

Hypo Alpe-Adria-Bank AG

Key data

Hypo Alpe-Adria-Bank AG

in EUR m

	2011	2010	Change 11/10
Total assets	5,740	5,967	–227
Primary funds (customer deposits, own issues)	3,423	3,568	–145
Credit volume	4,686	5,152	–466
Own capital funds	310	302	8
of which Tier 1	157	149	8
Net interest income	51	53	–2
Operating income	83	83	0
Operating expense	65	69	–4
Operating result	18	14	4
Result from ordinary activities	10	–108	118
Cost/income ratio	78.70 %	83.10 %	4.40 %
ROE	5 %	negativ	
ROA	0.13%	negativ	
Nos. of staff	453	523	

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Management report

1. General economic environment

Although the global economy grew at a strong rate in the first part of the year 2011, the recovery was overshadowed by the re-emergence of the debt crisis in the second half of the year. Increasing worry about Greece becoming bankrupt and about the solvency of other eurozone economies such as Ireland, Portugal, Italy or Spain had a negative effect on investor and consumer confidence. On top of that, the down-grading of the USA by the rating agency Standard & Poor's, came as a blow in August. However, driven by continuingly high growth rates in China, India and other large emerging economies, the eurozone economy still managed to grow by 1.4 % last year; the USA by 1.8 %. However, inflation also grew in the eurozone economies, to 2.7 %, which was more than the 2.0 % targeted by the European Central Bank (ECB). Unemployment remained at 2010 levels, at 10.1 %. The outlook for 2012 is not so optimistic at the moment. Economic output in the eurozone is forecast to shrink by 0.6 %, and unemployment to rise to 11.2 %, while inflation should go back down to 1.5 %.

In 2011, as a result of dynamic growth in exports, the Austrian economy managed to grow by 3.1 %. Thanks to strong growth in jobs, the average unemployment rate over the year sank from 4.4 % (2010) to 4.2 %. Rising oil and food prices led to a significant increase in inflation, however, to 3.6 %. The outlook for growth in 2012 is less optimistic. Deterioration in most key figures is expected. As a consequence of austerity measures and because of the debt crisis, the economy could even shrink by 0.2 %, thus causing unemployment to rise significantly again, to 5.0 %. The weakening of the economy should, however, lead to a slow-down in inflation, to 1.8 %.

2. Overview of Hypo Alpe-Adria-Bank AG

2.1. Positioning of the bank

Hypo Alpe-Adria-Bank AG was founded 116 years ago in Carinthia as a not-for-profit credit institute and from the beginning focussed primarily on financing for the public sector and for residential building, and the issuing of mortgage bonds. These business areas still constitute the main cornerstones of the bank's business today. The bank is wholly owned by Hypo Alpe-Adria-Bank International AG, which operates in the wider Alps-to-Adriatic region. A far-reaching restructuring project to realign the business strategy was initiated during the last financial year: it is characterised on the one hand by a return to the original strengths of the organisation, and on the other by an emphasis on modern, customer-oriented financial advisory services.

Hypo Alpe-Adria-Bank AG today is positioned as a regional universal bank, strongly anchored in Carinthia and with a clear niche strategy for the Vienna and Salzburg locations. The strategic business areas are retail and private banking, SME and corporate banking, and public sector financial services.

With its maxim "Supportive. Friendly. Fair.", Hypo Alpe-Adria-Bank AG is delivering a promise to its customers, which is demonstrated every day in dealings with customers. Personal communication and mutual trust and confidence in a forward-looking, service-led partnership are the two qualities that come to the fore in dealings with customers in the bank's 15 branches in Carinthia, as well as its Vienna and Salzburg branches.

After four difficult years characterised by uncertain economic conditions and by needing to address intensively the bank's risk situation, Hypo Alpe-Adria-Bank AG is now showing that it is on the right path. Measures to reduce costs and the complexity of internal processes, together with the concentration on solid banking business in sustainable business areas, are returning the consolidated Carinthian bank to profitability.

The most important restructuring measures in recent months have concentrated on reorganising internally to become a simplified, customer-oriented regional bank.

2.2. Retail & Private Banking segment

The main focus in the Retail & Private Banking division in 2011 was on further optimising the branch network. While the Velden branch had to be closed and the customers serviced, according to their location, out to the Villach and Klagenfurt branches, a new centre of expertise for doctors and self-employed professionals was set up in Klagenfurt, staffed by a team of specialists out of the Domgasse branch and Klinikum service point.

With the introduction of the Hypo Support Center in the course of the 2011 financial year, a service unit has been created which takes over a large proportion of the branches' administrative tasks centrally. An experienced team based in the Support Center also deals with general and product-related customer telephone enquiries.

A further area of focus in 2011 was on the complete overhaul of the product catalogue and its realignment towards the four need areas: financing, personal wealth, financial planning and liquidity.

In the area of financing, the focus area "Home financing" achieved a volume of some EUR 380 m in the year under review and thus an increase in new lending over the prior year, thanks to attractive product positioning. A third of the total amount of new credit issued for home financing in 2011 was placed as mortgage bond covering loans.

There was a new issue of the proven "Hypo Kunstpfandbrief" ("art mortgage bond") in 2011, with artwork by the famous Carinthian artist Ulrich Plieschnig. With this mortgage bond, in addition to a gilt-edged investment, the investor receives an original signed, limited edition coloured etching – a valuable combination of financial investment and art.

In addition to this, ten further mortgage bonds with a value of EUR 42 m were successfully issued and placed by Hypo Alpe-Adria-Bank AG with investors who set great store on a safe (low risk) strategy for their investments in securities.

As part of the updating and ongoing optimisation of the bank's master list of funds offered, there were cooperation agreements signed with some well-known companies. Products were developed with Franklin Templeton Investments, Pioneer Investments Austria and BNP Paribas, for example, thereby taking account of customers' needs and wishes. One example of this was the "Hypo Power-Kombi" product, which is a combination of a fixed-income savings product and an investment in the Franklin Templeton Marathon. There was great demand for the "Hypo Gold-Kombi" product, a combination of savings book and Pioneer Funds Austria Gold Stock.

The Retail & Private Banking division was able to achieve a significant increase in building savings/loan contracts in 2011, in contrast to the decline observed across Austria as a whole.

With regard to accounts, the range of private and corporate accounts offered was expanded and revised in 2011. With the introduction of the Hypo Fair and Hypo Business Fair accounts, customers are being offered attractive account packages with an extensive range of services.

The focus in the area of financial planning in 2011 was on planning for the future, risk insurance and, in particular, on income protection insurance. The latter compensates for the financial consequences of long-term illness or an accident and thus ensures a stable financial situation for the customer.

2.3. Corporate Banking segment

Products for the "Mittelstand" (predominantly medium-sized, privately-owned businesses) business area were also aligned to the need areas financing, personal wealth, financial planning and liquidity, so that our customers receive the best overall solution to suit their individual aspirations and the needs arising from these. Hypo Alpe-Adria-Bank AG has developed the "Hypo Advice on Opportunities" and "Compass for Mittelstand businesses" as practical tools for helping businesses. These facilitate an analysis of a business's requirements and the structure of its financial affairs, as part of account management.

The product focus in 2011 was, amongst other areas, on export financing in conjunction with international cash management. With this product, the bank was able to solve the financial challenges faced by many clients in a proactive manner.

A highly-skilled team of experts on funding and grants was established to help "Mittelstand" businesses find their way around the funding/grants landscape and to offer support with the implementation of innovation projects, starting up new businesses, equity investment and expansion projects.

The bank will continue to systematically pursue its strategy of providing needs-oriented solutions for "Mittelstand" businesses throughout the 2012 financial year. Leadership in this targeted customer segment will be further consolidated through more training for staff, the development of further products and the optimisation of internal processes. The objective continues to be to improve the portfolio quality and stabilise results so that they remain at a solid level.

2.4. Public Finance segment

The Public Finance division successfully maintained its position as a stable factor both for its institutional clients and, ultimately, for the bank in 2011.

In strategic terms, the focus was on the provision of customer-friendly service and on providing house bank functions to its public and near-public customers, with the emphasis on Carinthian clients. This was reflected in initiatives such as Hypo Office Banking and in the increased concentration on advisory services, for example, in connection with the SEPA change-over, and in the area of debt management. Customers are offered the benefits of the bank's expertise to help them manage their financing portfolio.

Working together with the specialist unit Treasury Sales, there was a focus on specific products and the derivative products necessary for portfolio management, modified for institutional clients, were offered.

This strategy will continue to be followed and built on in 2012. The emphasis will be on advisory services, investments and cash management. Additionally, expertise in the area of advising on insurance products will be expanded in the Public Finance division, so that customer-oriented solutions for the specific requirements of institutional clients can be offered in this area as well.

2.5. Divestments

Hypo Alpe-Adria Bank AG divested itself of some significant shares in associated companies in 2011, so as to be able to concentrate fully on its core business in the future.

The eight biogas plants in Germany and ten biogas plants in Austria, with a total output of some 9,500 kW were sold, in a structured bidding process to the highest bidders, in most cases regional investors. The bank has thus withdrawn from its activities in the biogas sector in Austria and Germany. The liquidation of the Biogaspark Alpe-Adria GmbH holding company in 2012 will represent the final step.

A new, and competent, owner for the 100 % holding in Hypo Alpe-Adria-Insurance Services GmbH, the bank's own centre of competence for insurance affairs, was found in the SIVAG Group. Close collaboration on insurance brokerage will not only be maintained, but will be extended to include all the bank's business divisions.

The sale of the 20 % share in Hypo Versicherung AG to its majority shareholder, Grazer Wechselseitige Versicherung AG, was a further demonstration of how Hypo Alpe-Adria-Bank AG is systematically pursuing its strategy of downsizing the bank as part of its restructuring.

3. Business development in Hypo Alpe-Adria-Bank AG

3.1. Development of the balance sheet

Hypo Alpe-Adria-Bank AG reported total assets of EUR 5,740 m as at 31.12.2011 (31.12.2010: EUR 5,967 m). The reduction of EUR 227 m or 3.8 % is consistent with the restructuring activities, which have now been concluded in the main, and with the bank's new strategy. As a result – and despite the continuing predominantly difficult general economic conditions and the turbulence prevailing since 2007 – the bank was able to post a positive result for the year.

Total assets
in EUR m

In terms of assets, the lending volume came to EUR 4,686 m (31.12.2010: EUR 5,152 m), and was reduced by 9.0 % in line with internal targets (31.12.2010: 8.7 %), through the reduction of defined parts of the lending portfolio. Thanks to intensive work on the risk portfolio, non-performing loans were reduced by EUR 203 m to EUR 641 m.

Development of non-performing loans
Rating class 5A to 5E, in m

Loans and advances to credit institutions increased by EUR 295 m, and were accounted for by short-term cash investments. The balance sheet items treasury bills and bonds and other fixed-income securities are used exclusively for liquidity reserves; they reduced by EUR 50 m compared to the prior year and stood at EUR 445 m as at 31.12.2011. The reduction was a result of the redemption of securities which had reached their term.

With regard to liabilities, primary funds (customer deposits and own issues) came to EUR 3,423 m (31.12.2010: EUR 3,568 m), which equates to 62 % of funding. The primary volume was thus held at about the same level as the prior year. Of this, EUR 784 m was accounted for by savings deposits and EUR 894 m by demand and timed deposits. The loan to deposit ratio, which shows the proportion of lending to primary funds, improved over the year, from 144.4 % to 136.9 %. The reduction in liabilities to banks of EUR 78 m to EUR 1,919 m is in line with the normalisation of the structure

Balance sheet structure

in EUR m

Assets	2011	2010	2009
Loans and advances to credit institutions	456	162	210
Loans and advances to customers	4,685	5,152	5,639
Fixed-income securities, shares and investment certificates	454	497	624
Investments in associated companies	5	6	6
Other assets	140	149	193
Total assets	**5,740**	**5,967**	**6,672**

Liabilities	2011	2010	2009
Liabilities to credit institutions	1,919	1,997	2,772
Liabilities to customers	1,678	1,749	1,593
Debt securities in issue and subordinated capital	1,898	1,972	2,005
Own capital funds/Tier 1 capital	157	149	202
Other liabilities	88	100	101
Total liabilities	**5,740**	**5,967**	**6,672**

of the balance sheet. The net change in debt securities in issue of EUR 74 m to EUR 1,745 m as at 31.12.2011, compared to EUR 1,819 m as at 31.12.2010, is a result of the difference between new issues and redemptions at maturity.

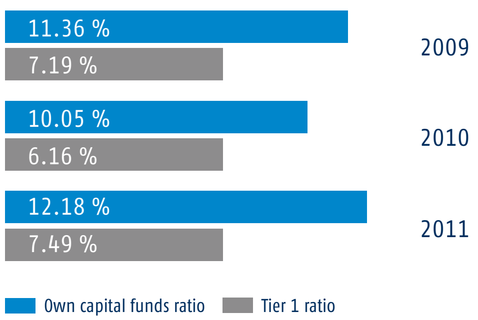
3.2. Own capital funds

Total own capital funds as defined by the Austrian Banking Act (BWG) came to EUR 265 m as at 31.12.2011 (31.12.2010: EUR 265 m). The legal minimum requirement stood at EUR 174 m. This represents a surplus of EUR 91 m, or a coverage of 152 %.

The own capital funds ratio in relation to the banking book (credit risk) amounted to 13.31 % as at 31.12.2011 (31.12.2010: 11.06 %), primarily due to the reduction in the non-performing loan portfolio. The Tier 1 ratio was, at 7.49 %, also well above the level as at 31.12.2010 (6.16 %).

In relation to the total capital base (including market and operational risk), the Tier 1 ratio was 12.18 % as at 31.12.2011 (31.12.2010: 10.05 %), significantly over the legally required minimum level of 8.0 % in Austria.

Development of the own capital funds/Tier 1 ratios
in percent



3.3. Development of results

The development of results for Hypo Alpe-Adria-Bank AG in the year under review was satisfactory. There was an increase in the operating result, which can be attributed to the necessary restructuring measures taken, which will have their full effect in 2012. Despite the continuingly difficult general economic climate, credit risk provisions were reduced to a normal level, with the successful management of non-performing loans playing a major role in this area. The bank continues to assume that the restructuring measures and future developments in operations will have a positive effect both on results of operations and on provisions.

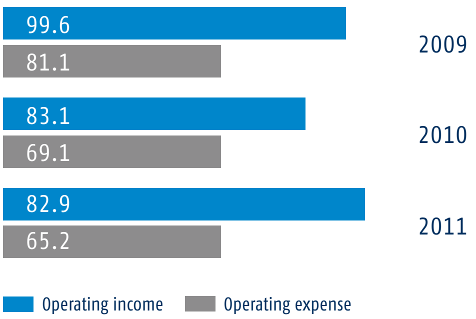
Against this background, income from operations (net interest income, fee and commission income, income from securities and equity interests, other income) in the year under review stood at EUR 82.9 m, as compared to EUR 83.1 m in 2010, and was thus at the level of the previous year. Net interest income reduced by 4 % over year-end 2010 and came to EUR 50.5 m (31.12.2010: EUR 52.6 m). This is due, on the one hand, to the strategic reduction in interest-bearing assets; and on the other to necessary interest exemptions. Further influences on the reduction in net interest income were the changes in funding structure and the interest rate curve. Dividends received from subsidiaries totalling EUR 2.1 m and dividends from shares and share-holding rights totalling EUR 2 m more than compensated for the reduction in the net interest income result.

The net fees and commissions, as the balance between fee and commission income and expense, came to EUR 18.2 m in the year under review, as compared with EUR 15.4 m in 2010. The marked increase of EUR 2.8 m resulted mainly from intensified, and successful, selling of commission-bearing banking and insurance products, which will also be of central importance to the bank and its new strategic direction in the future; it was also as a result of one-off commission expenses in 2010 which will not recur.

Hypo Alpe-Adria-Bank AG's operating expenses, at EUR 65.2 m, remained clearly under the level of the prior-year figures (2010: EUR 69.1 m) and are tending to show a downward trend since the realignment of strategy. This can be primarily attributed to the success of the restructuring measures, reflected in the reduction by EUR 3.4 m to EUR 34.4 m of personnel expenses (31.12.2010: EUR 37.8 m); and also to a greater cost consciousness with regard to operating expense.

As a consequence of the above, the operating result – as the balance of operating income and operating expense – came to EUR 17.6 m.

Operating income/expense
in EUR m



The result on the measurement and disposal of receivables, contingent liabilities and securities held as current assets was negative for 2011, at EUR -7.5 m.

The individual items break down as follows: the balance from the measurement of receivables and contingent liabilities held as current assets is EUR -0.6 m (31.12.2010: EUR -118 m), the balance from the measurement and disposal of securities held for liquidity is EUR -3.9 m (31.12.2010: EUR -5,3 m). As shown by the reduction in non-performing loans, the bank was able to reduce significantly the risk tangent through the use of targeted measures from the restructuring project.

In the course of working through the problems of the past, errors were identified in the investment advice given. A provision totalling EUR 4,000 thousand was formed in the 2011 financial year for costs for legal risks. This sum is intended for use in the event of advisor liability on the grounds of faulty or incorrect advice given to customers, to pay for resulting legal costs and any compensation payments, where these are necessary.

The balance of measurement and disposal of financial assets (securities and equity investments) held as fixed assets comes to EUR 1 m (31.12.2010: EUR 0.8 m).
Taking into account the abovementioned effects, Hypo Alpe-Adria-Bank AG recorded a positive result from ordinary activities of EUR 10.2 m. After allowing for taxes and tax effects from the group taxation arrangement of EUR 2.7 m, the net profit for the 2011 financial year came to EUR 7.4 m.

3.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 78.7 % as at the reporting date (83.1 % as at 31 December 2010). The Return on Equity (ROE) after tax stands at 5 %, for the 2011 financial year, the Return on Assets (ROA) at 0.13 %. As a result of the loss posted in 2010, ROE and ROA are both negative and therefore cannot be compared.

Please refer to the information given in the notes with regard to the use of derivative financial instruments.

4. Analysis of non-financial key performance indicators

4.1. Employees

As at the reporting date of 31.12.2011, Hypo Alpe-Adria-Bank AG employed 453 staff at 17 locations throughout Austria. The bank offers its employees various part-time working models, which have been taken up by 97 employees. Taking this into account gives a FTE employment level of 414.77.

The change over the prior year, from 523 to 453 employees is due in particular to the new strategic direction of the bank, concentrating on its core business areas, and to the implementation of internal improvement measures as part of the restructuring process.

Employee numbers
2009 -2011

The focus of training and development activities in 2011 was on the private client segment as well as on the small and medium-sized enterprise business area.

A new training programme along the lines of the need areas was designed for customer advisory activities in the branches, which has at its core the optimisation of customer-oriented customer service and advice. In order to support the advice-giving process, the practical quality tools "Account dialogue" and "Future dialogue" were developed. In addition to this, experts delivered selective training to give more depth on topics specific to certain target groups, for example "Holistic business analysis for self-employed professionals" and "Strategic customer presentations for doctors and self-employed professionals", as well as "Home financing".

In the SME business area, training continued using the expertise of zeb Münster, so as to be able to offer completely individualised solutions for customers as part of the "Hypo Advice on Opportunities" using the "Compass for Mittelstand businesses".

These training measures were rounded off with ongoing product training (on life, business interruption and accident insurance) as well as information events on tax and legal topics and on Basel III requirements.

4.2. Customers

Hypo Alpe-Adria-Bank AG views personal communication and mutual trust as absolute priorities when working together with its customers. Easy-to-understand, robust and transparent products, which meet the needs of customers in their different phases of life, reflect the importance placed on customer orientation. Flexibility and the desire and orientation towards finding a solution set the tone at every meeting with a customer, with the objective of ensuring the personal or business success of every one of our 55,000 customers.

In order to offer customers added value over and above the classic banking products, the "Hypo Academy" – a series of events addressing current topics of financial or economic interest was set up. The series opened with the event "Optimising home building", which dealt with, amongst other topics, how to ensure sustainability in building projects and threw light on such subjects as energy efficiency and what services/outputs to look for in building contracts. For corporate clients, financial derivatives from the point of view of the customer were explained as part of the event "Managing interest rates and foreign currency issues" and made clear using practical examples. Two further Academy events were staged, on the topics of "What is the value of my company and how can I increase it?" and "The strategic fitness of your company", and rounded off last year's programme of Hypo Academy events.

4.3. The environment and social responsibility

Hypo Alpe-Adria-Bank AG is conscious not just of its commercial, but also of its social responsibility.

For this reason, the project to make cash point zones barrier-free was implemented in 2011: all branches in Carinthia and Salzburg were equipped with voice-operated cash dispensing. Hypo Alpe Adria developed this software solution together with the company Allgemeines Rechenzentrum GmbH.

The charity programme "Hypo Pro Futuro" was set up within the Hypo group back in 2010. As part of this programme projects worthy of support were also given help in 2011, amongst them the Diakonie Kärnten project (residential care for children and youngsters) and the ELKI parent-and-child centre at the Klinikum Klagenfurt hospital:

- The Diakonie Kärnten association "Verantwortung zeigen" ("Show responsibility") organises an annual advent calendar enabling businesses to demonst rate their social responsibility in a very vibrant way: apart from donating to a project, businesses can get involved in activities with the people concerned. In 2011 Hypo Alpe-Adria-Bank AG made it possible for a group of children and youngsters living in Diakonie Kärnten sheltered accommodation to spend a very special skiing day with managers from Hypo and our very own skiing legend from Carinthia, Franz Klammer.
- On every Saturday in advent, Hypo Alpe-Adria-Bank AG staged "Advent banking" in its Domgasse branch. Every session spent with a customer advisor is paid for in the form of a donation to ELKI Klagenfurt for music therapy for newborns and premature babies.

Various cultural and sporting initiatives were also supported, including the Kultur.Raum.Kirche and Trigonale festivals (sacred and ancient music), the Ironman Austria triathlon event in the area of sport, and the IronKids event in Klagenfurt (children's event running as part of the Ironman event).

4.4. Research and development

By dint of its sector, Hypo Alpe-Adria-Bank AG does not conduct any research and development activities.

5. Risk management

Hypo Alpe-Adria-Bank International AG carries out certain central risk management functions for Hypo Alpe-Adria-Bank AG, which are regulated by Service Level Agreements.

The risk controlling function of Hypo Alpe-Adria-Bank AG was integrated into the Group Credit Risk Control and Group Market Risk Control divisions in October 2010 – risk controlling and risk monitoring are conducted centrally through both these units.

5.1. Risk strategy, risk controlling and risk monitoring

The bank controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and of ensuring the ability to bear risks at any time, thus protecting the bank's creditors.

The following central principles apply to the overall controlling process:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
- The group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, measuring, combining, directing and monitoring the different risk types.
- Appropriate limits are set and effectively monitored for material risk types.

5.2. Risk management organisation and Internal Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the Chief Risk Officer, who is a member of the bank's Executive Board.

The core tasks of risk management are the management of counterparty risks; the restructuring of problem loans; monitoring the credit-granting process; as well as risk controlling and monitoring of counterparty, market, liquidity and operational risks at portfolio level. The Chief Risk Officer is also responsible for monitoring risk-bearing capacity and directing the risk capital which is required from an economic point of view. Within the Executive Board, the Chief Financial Officer is responsible for monitoring adherence to regulatory own capital funds requirements.

The Audit division is a permanent function which audits the bank's operations and reports to the Executive Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes. Internal Audit carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

5.3. Changes to risk controlling and risk monitoring

As prescribed by Hypo Alpe-Adria-Bank International AG, the risk units of Hypo Alpe-Adria-Bank AG are divided up into the following functions, based on the four-pillar principle:

- Credit Management (retail risk management, under-writing, reviewing and monitoring)
- Credit Rehabilitation (including the Local Task Force)
- Risk Control
- Credit Processing

In 2011 the group holding company developed and implemented new rating procedures for the segments Corporate, SME, Retail (behavioural scoring), Commercial Real Estate Finance, Project Finance and Start-ups on a central rating platform in the data centre.

The procedures comply with the standards stipulated by the regulatory authorities and the data is available and updated daily through holding it centrally.

In order to ensure universal use of the newly-developed rating tool and to update the risk assessment for each portfolio, a so-called "rating rush" was carried out immediately after the introduction of each new tool. The objective of the rating rush was to put the majority of the portfolio to be rated (in most cases more than 99 %) through a risk assessment in a short period of time (approx. three months).

All new rating developments will be completed by June 2012 and the portfolios almost in their entirety will be assigned a rating using the new procedures.

In addition to the newly validated rating procedures leading to considerably improved risk assessments, a higher level of rating effectiveness and data quality will be achieved through the holding of data centrally and through systematic reporting.

The levels of default probability on the 25-level master rating scale have been updated to take as much account as possible of actual default rates observed in certain sub-segments.

A project to estimate loss rates and conversion factors was initiated by the group holding company in 2011, the objective of which was to estimate LGDs and CCFs based on internal data and statistical models, so as to improve risk management in relation to more precise loss data estimates and thereby to optimise follow-up risk-adjusted calculations and processes (e.g. pricing, risk provision planning). In order to ensure uniform data collection, the existing, standardised loss database (FER) will be further improved in the first half of 2012.

As a consequence of the "review rush" project which ended at the start of the year, in 2011 all commercial and private property offered as collateral was revalued ("valuation rush"), in keeping with the principle of keeping entirely up-to-date with market prices. The Corporate Real Estate Management function carried out these estimates.

The "valuation rush" process was monitored in detail to ensure completeness. All collateral, as a result, now has an up-to-date estimated value.

5.4. Reporting

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

The risk report developed in 2009 was developed further throughout the course of 2011 and new key performance indicators (KPIs) for credit risk were defined.

Regular credit risk reporting is carried out on a monthly basis. There is standardised reporting of liquidity risk on a daily, weekly and monthly basis.

In stress cases the reporting frequency can be increased if required. Market risk reports are compiled on a daily basis.

5.5. Capital management

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

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

Regulatory capital adequacy (solvency)

Capital resource planning is the starting point for the allocation of regulatory on-balance sheet equity. Capital resources are composed of the liable equity capital, which is made up of Tier 1 and Tier 2 capital, plus third-ranking funds.

Capital resource planning is mainly based on an internal target for the Tier 1 ratio (ratio of Tier 1 capital to risk positions) and an internally set target ratio for the overall own capital funds ratio (ratio of capital resources to risk positions) for the bank.

Economic capital (risk-bearing capacity)

In addition to ensuring regulatory capital requirements are met, securing the bank's ability to bear economic risks forms a central part of controlling activities. To this end, Hypo Alpe-Adria-Bank AG has an institutionalised internal process as regards risk-bearing capacity (ICAAP, or "Internal Capital Adequacy Assessment Process").

The bank manages its risks as part of the overall bank management process, which makes risk capital available for the different types of necessary risk involved in following strategies, and limits those risks by placing upper limits on them.

The economic aggregate risk cover (ARC) is used as the basis for annual limit planning and is updated and monitored on a monthly basis.

The risk-bearing capacity report is produced on a monthly basis by Risk Controlling and presented once a quarter to the Executive Board and Supervisory Board. Decisions on the minimum/target rating (confidence level) to be applied are made by the Executive Board.

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

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

In the course of managing risks associated with economic capital, the bank monitors the risk profile and ensures adequate risk-bearing capacity by comparing risk capital with the risk capital requirement. The upper limit for loss – and thus the available risk capital – is determined from the sum of the capital elements.

5.6. Credit risk

In terms of scale, credit risks constitute the most significant risks for the bank. They mainly arise from the lending business. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised securities, reduced by the recovery rate of unsecured portions.

General requirements

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

In line with a directive on authority levels defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board and Executive Board, as well as by key staff in the front office and the analysis units of the risk office for standard, mass-market credit applications. The internal credit committee is a permanent institution of the bank and the highest body for making credit decisions, at the same level as the Executive Board.

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

The responsibility for checking the completeness and the quality of the ratings lies with the back office and with the front office for standard, mass-market applications (4-eyes principle). Group Credit Risk Control regularly checks the quality of the ratings at portfolio level and reports on them to the Executive Board. Standardised rating reporting has been set up for this purpose.

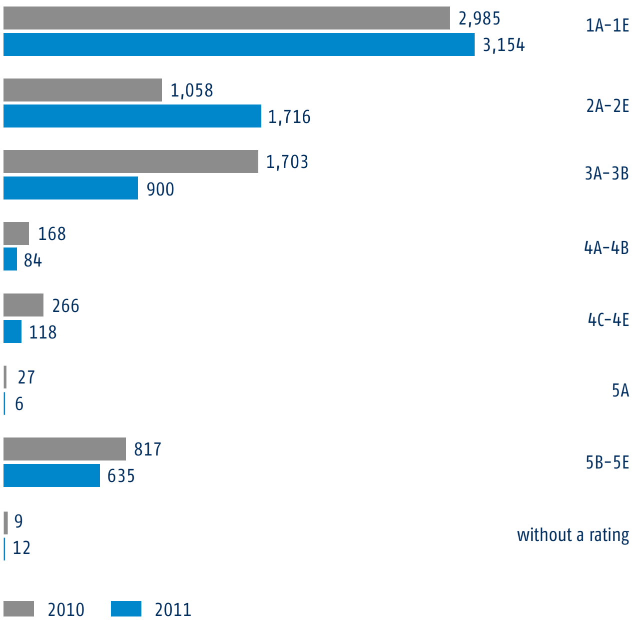
Risk limitation
The control of total commitments with an individual client or a group of affiliated clients is carried out by the respective customer segment or business area. In the banking division, limits are set and monitored independently by Risk Controlling.

Another important instrument in limiting risk is the collection and crediting of generally accepted collateral. The valuation is processed in line with the collateral policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are generally concluded for trading transactions involving derivatives.

The stipulations for the evaluation and processing of collateral are governed by the collateral policy. This also contains a description of the collateral normally accepted by the bank. The main types of collateral include mortgages (approx. 60 % of the collateral portfolio), pledges, cessions and guarantees.

Distribution of exposure
In the year under review, the bank's exposure reduced by EUR 369 m or 5.25 %. This is due to the systematic reduction of defined parts of the portfolio. In total, there are free lines of credit and loans available totalling some EUR 251 m.

Exposure by rating class
in EUR m

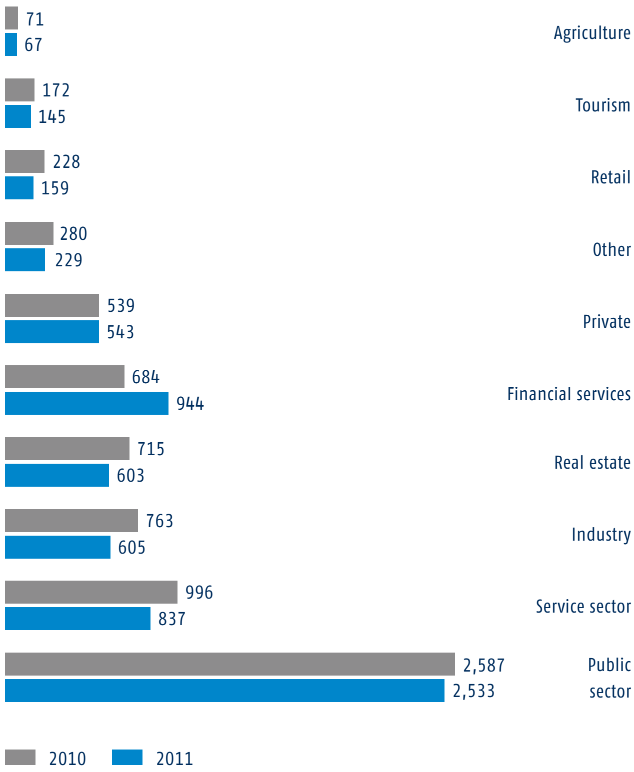


Around 73 % of the exposure is categorised as rating classes 1A to 2E. This relates in the main to loans and advances to credit institutions and public institutions.

There was a steep decrease in exposure in the classes 5B–5E (impaired commitments through to derecognition), which reflects the efforts made by the bank to reduce the proportion of non-performing loans.

A uniform classification code (NACE Code 2.0) is used for the economic control and strategic focus of industry exposure. This code is mapped into ten industry sectors for reporting purposes. The lower-risk industry groups – credit institutions and the public sector – account for a share of 52.2 %. The well-diversified private clients sector has a share of 8.1 %.

Exposure by industry sector
in EUR m



Some 50.4 % of exposure lies in the area < EUR 10 m. The bank is pursuing a strict strategy of systematic reduction of concentration risk. A majority share of the EUR 3.3 bn exposure in the area > EUR 10 m is attributable to banks and the public sector (66.8 %).

Size classes	2011	2010
< 10,000	417	421
10,000 – 20,000	144	164
20,000 – 50,000	132	121
50,000 – 100,000	78	145
100,000 – 250,000	394	290
250,000 – 500,000	623	622
500,000 – 1,000,000	193	226
1,000,000 – 3,500,000	566	637
3,500,000 – 10,000,000	814	939
> 10,000,000	3,303	3,470
Total	**6,664**	**7,034**

5.7. Equity risk

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

5.8. Country risk

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

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

Country risk is limited by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. Risk Controlling monitors adherence to the country limits on a monthly basis and reports any breaches as part of its regular country limit utilisation reporting directly to the Executive Board. Ad hoc reports are also prepared as required.

The exposure of Hypo Alpe-Adria-Bank AG to the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) and Hungary is kept to an absolute minimum. The table below shows only direct exposure to the central banks, states, regions and credit institutions as at 31 December 2011.

Country	Risk segment	Exposure
Greece	State, central bank	0.2
	Regions, municipalities	0.0
	Credit institutions	0.0
	Total	0.2
Ireland	State, central bank	0.0
	Regions, municipalities	0.0
	Credit institutions	1.6
	Total	1.6
Italy	State, central bank	0.0
	Regions, municipalities	12.5
	Credit institutions	30.4
	Total	42.9
Portugal	State, central bank	0.0
	Regions, municipalities	10.0
	Credit institutions	10.0
	Total	20.0
Spain	State, central bank	0.0
	Regions, municipalities	12.0
	Credit institutions	10.4
	Total	22.4
Hungary	State, central bank	5.3
	Regions, municipalities	0.0
	Credit institutions	20.0
	Total	25.3
Total		**112.3**

5.9. Market price risk

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

General requirements

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

Risk measurement

The bank calculates its market risk as part of daily monitoring with value at risk methods on the basis of a one-day holding period, with a confidence level of 99 %.

Risk limitation

In line with the group's current risk strategy, a limit for market risk of ten percent of the risk capital has been set. This defined risk capital represents the maximum loss for assuming market risks.

Risk controlling and monitoring

All market risks are monitored centrally by the Group Market Risk Control function, which is unconnected to trading functions. The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset Liability Committee, which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity controlling.

Overview – market risk

Interest rate risk: the interest rate risk (excluding non-interest-bearing items) of the bank stood at EUR 0.28 m at year-end 2011. The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics.

The regulatory limit of 20 % and the internal limit of 15 % were not even close to being reached or exceeded at any point in the year. Utilisation as at 31 December 2011 stood at 1.6 %.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities, thereby mitigating interest rate risk.

Open currency position: the database for determining the value at risk for the open foreign currency position is based on the figures in the OeNB report and contains operational business activities. The open foreign currency position thus covers the entire FX risk. The main risk driver for open foreign currency positions is the CHF currency. The value at risk for this FX risk was approximately EUR 20,000 per day as at 31 December 2011, at a confidence interval of 99 %.

Equity risk: the value at risk for the equity price risk in the bank amounted to approx. EUR 364,000 as at 31 December 2011 with a one-day holding period and a confidence level of 99 %. In line with the risk strategy, no further increase in share positions from an investment viewpoint is planned.

Credit spread risk: the credit spread risk within the bank stood at approx. EUR 6.28 m at year-end 2011 with a 1-day value at risk and 99 % confidence level and represents the main risk driver for market risk. The most important influences are the liquidity reserves in the form of securities. Consequently, there is very limited scope for reducing risk from these positions.

5.10. Liquidity risk

Liquidity risk is defined as the risk of not being able to meet due payment obligations in full or on time, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

General requirements

The strategic principles of handling liquidity risks are defined in the risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. The content-related and organisational conditions for the management and controlling of liquidity risks are governed by a liquidity manual which applies across the entire group.

Liquidity risk controlling is the responsibility of the Group Market Risk Control division. It is here that risk measurement, mitigation as well as timely and consistent reporting are carried out.

The bank has in place emergency liquidity planning which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or tackle acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain the ability to pay and to prevent damage to the bank's reputation.

Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favourable terms and conditions. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of liquidity potential are as follows:

- Free access to central bank and interbank funds
- Access to further central bank-eligible securities
- Issue potential in the cover register
- The guarantee of financing lines in stress cases

In addition to the normal scenario, other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow), supplement the risk measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation. For the purpose of evaluating the liquidity situation, the liquidity ratio (minimum liquidity position) and "time to wall" (maximum liquid time horizon) indicators are calculated for up to one year, although utilisation over the first 4 weeks is taken to be particularly important.

Risk controlling

A range of different stress tests is conducted to ensure ability to pay at any time.

Taking the cash flow statement as the basis, short-term forecast data is elicited directly from client transactions by the sales units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

Besides structural controlling, care is also taken to ensure that general regulatory requirements are adhered to; this means meeting the minimum reserve as well as 1st and 2nd grade liquidity reserves.

Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and "time to wall" key indicators under normal and stress conditions and, on the other hand, through the integration of the structural liquidity risk into the bank's overall controlling (risk-bearing capacity).

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been defined and are monitored constantly.

5.11. Operational risk

Operational risk ("OpRisk") is the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as risks to reputation, but not strategic risks.

The aim of operational risk management at Hypo Alpe-Adria-Bank AG is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). The bank adopts the Basel II standard approach for this purpose.

5.12. Summary and outlook

In the year under review, Hypo Alpe-Adria-Bank AG has developed its risk controlling and risk management instruments further. In 2012 the risk management function will be further improved, so as to equip it for the internal and external challenges of the future. This applies particularly to the following areas:

- **Risk-bearing capacity**
  On the basis of the risk inventory carried out in 2011, the risk-bearing capacity will be revised and adapted to the new framework conditions in the first quarter of 2012.

- **Rating process**
  Four further rating modules will be developed and rolled out in 2012, to round off the rating lands cape. These will cover the segments banks, states, regional administrative bodies and insurance com panies. As part of the new strategy for retail ban king within the group, retail scorecards will also be developed in the first half of 2012, which should speed up the processing of new business and at the same time ensure adequate risk mapping both at product and customer level.

- **Basel III – key liquidity figures**
  Efforts are being directed at fulfilling the entire Basel III requirements within Hypo Alpe Adria by the 3rd quarter of 2012.

6. Internal control system (ICS)

Hypo Alpe-Adria-Bank AG has an internal control system (ICS) for accounting procedures, in which suitable structures and procedures are defined and implemented.

Hypo Alpe-Adria-Bank AG's ICS is part of the internal control system for the Hypo Alpe Adria group and is based on the COSO (Committee of the Sponsoring Organisations of the Treadway Commission) framework, although the Executive Board has independently determined the scope and direction of the ICS on the basis of the specific requirements of the organisation.

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

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

The particular objectives with regard to accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that accounting procedures and standards and the internal group policy on IFRS and UGB/BWG accounting reporting, which are mandatory for all companies consolidated in the group financial statements, are upheld.

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

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

Hypo Alpe-Adria-Bank AG, as a subsidiary of Hypo Alpe-Adria-Bank International AG, prepares its financial statements in accordance with UGB/BWG, maps them to IFRS and transfers the data to Hypo Alpe-Adria-Bank International AG by means of a group-wide, uniform reporting tool.

In this way, Hypo Alpe-Adria Bank AG's ICS ensures that:

- the chart of accounts and structure of financial reporting conforms to national and international standards as well as to the bank's requirements
- the business activities of Hypo Alpe-Adria-Bank AG are correctly and appropriately documented and reported
- all relevant records are systematically submitted in a traceable manner
- all data required for financial reporting is docu mented in a traceable manner
- the accounting processes prevent the assets of the bank from being used, sold or acquired without the appropriate approval
- all departments involved in producing financial reports are capable of fulfilling this function in terms of both education and staff capacity
- responsibilities related to the accounting process are clearly and unambiguously regulated
- access to the IT systems which are crucial to the accounting process is restricted, in order to prevent misuse
- all relevant stipulations, particularly those of the BWG, are adhered to

The Executive Board of Hypo Alpe-Adria-Bank AG is responsible for the implementation and monitoring of the ICS in relation to accounting procedures for the financial statements, and is responsible for the correct and timely execution of the accounting processes and systems. The ICS itself is not a static system and is constantly adjusted to comply with changing frame conditions. In this respect, the ongoing evaluation of risk estimates and monitoring the effectiveness of control instruments is a key component. The Executive Board uses the Internal Audit unit to assist it in monitoring compliance. Internal Audit checks the effectiveness of the ICS and the reliability of the accounting function as part of its regular auditing activity. Over and above this, the effectiveness of the ICS is monitored by the Audit Committee or the Supervisory Board of Hypo Alpe-Adria-Bank AG in accordance with the stipulations of the Austrian Stock Corporation Act.

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

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

6.1. ICS-related activities in 2011

The project "OP&K" (organisation, processes and controls) was introduced back in 2009 together with Hypo Alpe-Adria-Bank International AG with the aim of ensuring the ongoing implementation of a uniform, system-supported ICS in the Austrian institutes. One partial outcome of the project was the definition of competence areas of the employee responsible for the ICS within the group. The employee responsible for the ICS was assigned to Group Credit Risk Control in Hypo Alpe-Adria-Bank International AG in terms of organisation and as of August 2010 the role was integrated into the Operational Risk & Control Management department. The postholder is responsible for both banks.

With the setting-up of the department, a follow-up project to implement the ICS in the group was also approved. The method used in the "OP&K" project serves as the basis for this and has been refined. Using the significant accounts, the processes relevant to the ICS were identified and prioritised, and worked through gradually using the list of priorities.

6.2. Outlook

On the basis of the processes relevant to the ICS, the risk owner and control owner will be identified and trained up. Test scenarios will be developed and periodically reviewed. The group-wide policy will be modified to reflect local circumstances and will then be implemented and become part of the bank's regulations.

7. Events after the balance sheet date

Hypo Alpe-Adria-Bank AG sold its 100 % shareholding in Hypo Alpe-Adria-Insurance Services GmbH to the SIVAG Group in January 2012.

A claim for EUR 2.5 m was filed against the bank in connection with the assignment of receivables from a bank guarantee transaction, in February 2012. At this point in time the Executive Board assumes no payment will be necessary in this connection.

No further events of particular significance for the bank, which could have led to a change in the presentation of the financial position and results of operations, were recorded after the reporting date of 31.12.2011.

8. Outlook

Following the acquisition of all shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria as part of the nationalisation process in December 2009, the banking group's current restructuring plan includes preparing every aspect of Hypo Alpe-Adria-Bank AG for medium-term reprivatisation.

Having carried out extensive internal restructuring measures, the first soundings-out of the reactions to the privatisation of Hypo Alpe-Adria-Bank AG were carried out in the first half of 2011.

It became clear that for the sale of the bank to take place in the current environment and in the foreseeable future, those areas of the business that cannot be deemed future strategic business need to be separated out as a key prerequisite for a more focussed positioning of the bank and thus for a successful and sustainable privatisation. Planning for the separating out of non-strategic business areas is currently taking shape as part of a wide-ranging project within Hypo Alpe-Adria-Bank AG.

This implementation of this project should, in the course of 2012, round off the restructuring measures for Hypo Alpe-Adria-Bank AG, making it a smaller, simpler and more customer-oriented universal bank.

The Executive Board expects that the bank's income position from the year under review will be reinforced in the 2012 financial year. All the measures implemented are targeted at ensuring sustainable and structurally-embedded profitability and boosting the trust already shown by customers through professional activities. All efforts are directed at supporting a successful reprivatisation of the bank and ensuring the continuity of the future strategically important business segments in the long term, in the interests of our customers, the region and our staff.

Klagenfurt am Wörthersee, 9 March 2012
Hypo Alpe-Adria-Bank AG

THE EXECUTIVE BOARD

Gerhard Salzer (Chairman)	Friedrich Racher (Deputy Chairman)	Peter Lazar

Financial statement 2011

Balance sheet as at 31. December 2011

			31. 12. 2011 EUR	31. 12. 2010 EUR thousands
Assets				
1.	**Cash in hand, balances with central banks and post office giro institutions**		**41,423,604.50**	**44,455**
2.	**Treasury bills and other bills eligible for refinancing with central banks Treasury bills and similar securities**		**152,691,707.02**	**103,566**
3.	**Loans and advances to credit institutions**			
	a) Repayable on demand	30,383,900.03		58,894
	b) Other loans and advances	426,053,883.54		102,874
			456,437,783.57	**161,768**
4.	**Loans and advances to customers**		**4,685,266,659.10**	**5,152,164**
	thereof: assets held in trust in acc. with section 2 (1a) PfandbriefG EUR 771,830,460.88 (prior year: EUR 771,830 thousand)			
5.	**Bonds and other fixed-income securities**			
	a) Public sector issuers	8,849,955.24		3,839
	b) Other issuers	283,244,186.63		387,051
	thereof:		**292,094,141.87**	**390,890**
	own bonds EUR 45,386,432.84 (prior year: EUR 54,138 thousand)			
6.	**Shares and other variable-yield securities**		**9,542,279.90**	**2,904**
7.	**Investments in associated companies**		**4,145,275.49**	**6,100**
	thereof: in credit institutions EUR 2,905,887.30 (prior year: EUR 3,336 thousand)			
8.	**Shares in affiliated companies**		**537,486.54**	**249**
9.	**Intangible fixed assets**		**296,199.20**	**345**
10.	**Tangible fixed assets**		**10,965,673.97**	**11,430**
	thereof: land and buildings used by the bank for its own activities EUR 7,987,324.11 (prior year: EUR 7,987 thousand)			
11.	**Other assets**		**85,753,773.55**	**92,654**
12.	**Deferred assets**		**606,639.77**	**618**
	Total assets		**5,739,761,224.48**	**5,967,143**
1.	**Foreign assets**		**1,101,239,515.05**	**1,318,614**

		31. 12. 2011 EUR	31. 12. 2010 EUR thousands
Equity & Liabilities			
1. Liabilities to credit institutions			
a) Repayable on demand	45,422,380.13		71,410
b) With agreed maturities or periods of notice	1,873,816,526.41		1,925,585
		1,919,238,906.54	**1,996,995**
2. Liabilities to customers			
a) Savings deposits	784,051,889.65		821,111
thereof:			
aa) Repayable on demand EUR 57,286,559.82 (prior year: EUR 12,465 thousand)			
bb) With agreed maturities or periods of notice EUR 726,765,329.83 (prior year: EUR 808,645 thousand)			
b) Other liabilities	894,243,393.18		927,967
thereof:		**1,678,295,282.83**	**1,749,078**
aa) Repayable on demand EUR 484,005,971.07 (prior year: EUR 513,730 thousand)			
bb) With agreed maturities or periods of notice EUR 410,237,422.11 (prior year: EUR 414,238 thousand)			
3. Debt securities in issue		**1,744,851,056.16**	**1,818,706**
Bonds issued			
4. Other liabilities		**41,907,207.70**	**41,308**
5. Deferred liabilities		**144,570.30**	**122**
6. Provisions			
a) Provisions for severance payments	6,613,911.00		6,940
b) Provisions for pensions	3,494,464.00		3,708
c) Tax provisions	966,787.00		0
d) Other	34,055,590.04		47,859
		45,130,752.04	**58,507**
7. Subordinated liabilities		**112,852,017.59**	**112,851**
8. Supplementary capital		**40,297,278.89**	**40,297**
9. Issued capital		**30,000,000.00**	**30,000**
10. Capital reserves			
a) appropriated	82,008,562.42		
b) unappropriated	323,552.95	**82,332,115.37**	**82,009**
11. Revenue reserves			
a) Statutory reserves	0.00		0
b) Other reserves	0.00		0
		0.00	**0**
12. Liability reserves under section 23 (6) BWG		**36,995,640.00**	**36,996**
13. Retained profit		**7,482,247.06**	**0**
14. Untaxed reserves			
Valuation reserves due to special depreciation allowances		**234,150.00**	**274**
Total equity and liabilities		**5,739,761,224.48**	**5,967,143**
1. Contingent liabilities			
Guarantees and other collateral securities		**253,718,806.46**	**316,879**
2. Loan exposures		**250,854,000.00**	**350,523**
3. Liabilities from fiduciary transactions		**75,531,276.14**	**87,379**
4. Eligible capital under section 23 (14) BWG		**264,634,568.00**	**265,111**
thereof:			
own capital funds pursuant to section 23 (14) (7) BWG (prior year: EUR 4,196 thousand)	1,471,676.88		
5. Own capital funds requirement pursuant to section 22 (1) BWG		**173,780,577.51**	**210,992**
thereof:			
own capital funds requirement pursuant to section 22 (1) (1) and (4) BWG (prior year: EUR 206,796 thousand)	172,308,900.63		
6. Foreign liabilities		**673,839,706.33**	**758,583**

Income statement for the period from 1 January to 31 December 2011

				2011 EUR	2010 EUR thousands
1.	Interest and similar income			262,302,243.78	262,286
	thereof:				
	fixed-income securities EUR 29,223,088.00				
	(prior year: EUR 29,133 thousand)				
2.	Interest and similar expenses			(211,843,995.36))	(209,718)
I.	**NET INTEREST INCOME**			**50,458,248.42**	**52,568**
3.	Income from securities and equity interests				
	a) Shares, other equity interests and variable-yield securities		2,035,281.72		1,741
	b) Associated companies		75,595.00		376
	c) Affiliated companies		2,041,992.88		0
				4,152,869.60	2,117
4.	Fee and commission income			21,012,699.62	22,174
5.	Fee and commission expenses			(2,767,245.00)	(6,714)
6.	Net income from trading activities			1,273,267.45	3,466
7.	Other operating income			8,697,301.84	9,501
II.	**OPERATING INCOME**			**82,827,141.93**	**83,112**
8.	General administrative expenses				
	a) Staff costs				
	aa) Wages and salaries	(24,525,192.71)			(27,800)
	bb) Cost of statutory social security contributions and other				
	pay-related contributions	(6,448,446.76)			(7,125)
	cc) Other social welfare expenditures	(548,711.18)			(614)
	dd) Expenses for pensions and other retirement benefits	(1,682,056.98)			(879)
	ee) Pension provision allocation	0.00			0
	ff) Expenses for severance payments and contributions				
	to employee severance funds	(1,220,053.31)			(1,547)
			(34,424,460.94)		(37,965)
	b) Other administrative expenses		(26,959,585.28)		(26,505)
	(operating expenses)			(61,384,046.22)	(64,470)
9.	Value adjustments for fixed assets				
	(balance sheet items 9 and 10)			(1,627,213.01)	(2,893)
10.	Other operating expenses			(2,174,103.93)	(1,704)
III.	**OPERATING EXPENSES**			**(65,185,363.16)**	**(69,067)**
IV.	**OPERATING PROFIT**			**17,641,778.77**	**14,045**

		2011 EUR	2010 EUR thousands
11./12.	Net gain/loss from the disposal and remeasurement of receivables and securities held as current assets	(8,445,887.66)	(123,348)
13./14.	Net gain/loss from the disposal and remeasurement of securities treated as financial investments	984,160.34	842
V.	**RESULT FROM ORDINARY ACTIVITIES**	**10,180,051.45**	**(108,461)**
15.	Taxes on income	(338,751.40)	6,636
16.	Other taxes not shown in item 15	(2,399,604.99)	(507)
VI.	**PROFIT FOR THE YEAR**	**7,441,695.06**	**(102,332)**
17.	Changes in reserves thereof: allocation to liability reserves EUR 0.00 (prior year: EUR 0 thousand)	40,552.00	102,332
VII.	**NET PROFIT FOR THE YEAR**	**7,482,247.06**	**0**

Schedule 3 to the notes

Cash flow statement

	2011 EUR thousands	2010 EUR thousands
Pre-tax profit	**10,180**	**-108,461**
Appreciation in value	**0**	**0**
Depreciation	**2,278**	**14,868**
of tangible fixed assets	1,495	2,754
of intangible fixed assets	132	138
of financial investments	651	11,976
Gains (losses) from disposals	**0**	**42**
of tangible and intangible fixed assets	0	42
of financial investments	0	0
Change in loans and advances and other assets	**158,894**	**538,552**
Loans and advances to credit institutions	-294,670	48,526
Loans and advances to customers	446,652	478,874
Other assets	6,900	-4,379
Deferred assets	11	15,531
Change in provisions	**-14,342**	**-14,220**
for severance payments	-326	316
for pensions	-214	-17
other provisions	-13,803	-14,519
Change in payables and other liabilities	**-221,772**	**-635,475**
Liabilities to credit institutions	-77,756	-774,470
Liabilities to customers	-70,783	156,479
Debt securities in issue	-73,855	-33,529
Other liabilities	599	16,016
Deferred liabilities	24	29
Change in securities classed as current assets	**10,742**	**22,279**
Bonds and other fixed-income securities	17,381	20,016
Shares and other variable-yield securities	-6,638	2,263
Taxes	**-1,772**	**3,197**
Taxes on income	-339	6,636
Other taxes	-2,400	-507
Tax provisions	967	-2,932
Change to the fund for general banking risks	**0**	**0**
Fund for general banking risks	0	0
Cash flow from operating activities	**-55,791**	**-179,218**
Changes in tangible and intangible fixed assets	**-1,115**	**-898**
Investments	-1,626	-994
Proceeds from sales	512	96
Open movements in fixed assets schedule	0	0
Changes in financial investments	**102,675**	**140,156**
Securities classed as fixed assets	101,474	152,117
Associates and affiliated companies	1,203	-11,961
Cash flow from investment activities	**101,560**	**139,258**

	2011 EUR thousands	2010 EUR thousands
Dividends paid	**0**	**0**
paid to shareholders of the parent company	0	0
paid to non-controlling interests	0	0
Changes in subordinated and equity capital	**325**	**0**
Capital contributions	324	0
Subordinated liabilities	1	0
Hybrid capital		249,998
Supplementary capital	0	250,000
Changes in minorities	0	0
Changes due to exchange rates, scope of consolidation	**0**	
Changes due to scope of consolidation	0	0
Changes	0	0
Payments to third-party companies	0	249,998
Exchange rate differences	0	
Annual profit/loss - group	0	
Annual profit/loss - third-party investments	0	
True netting differences	0	
Other	**0**	
Reclassifications	**0**	
Fixed assets movement schedule	**0**	
Cash flow from financing activities	**325**	**50,000**
Cash flow	**46,094**	**10,040**
Cash and cash equivalents at beginning of the period	**148,021**	**137,981**
Cash in hand, balances with central banks	44,455	74,894
Treasury bills and bills of exchange eligible for refinancing	103,566	63,087
Cash and cash equivalents at end of the period	**194,115**	**148,021**
Cash in hand, balances with central banks	41,424	44,455
Treasury bills and bills of exchange eligible for refinancing	152,692	103,566
Effective change in cash and cash equivalents	**46,094**	**10,040**

Comparison with prior-year balance sheet 2010 : 2011

Assets	2010 amount in EUR thousands	as a % of total assets	2011 amount in EUR thousands	as a % of total assets	Change in EUR	Change as a %
1. Cash in hand, balances with central banks and post office giro institutions	44,455	0.74	41,424	0.72	(3,031)	(6.82)
2. Treasury bills and other bills eligible for refinancing with central banks	103,566	1.74	152,692	2.66	49,126	47.43
3. Loans and advances to credit institutions	161,768	2.71	456,438	7.95	294,670	182
4. Loans and advances to customers	5,152,164	86.33	4,685,267	81.65	(466,897)	(9.06)
5. Bonds and other fixed-income securities	390,890	6.55	292,094	5.09	(98,796)	(25.27)
6. Shares and other variable-yield securities	2,904	0.05	9,542	0.17	6,638	229
7. Investments in associated companies	6,100	0.10	4,145	0.07	(1,955)	(32.05)
8. Shares in affiliated companies	249	0.00	537	0.01	288	116
9. Intangible fixed assets	344	0.01	296	0.01	(48)	(13.95)
10. Tangible fixed assets	11,430	0.19	10,966	0.19	(464)	(4.06)
11. Other assets	92,655	1.55	85,754	1.49	(6,901)	(7.45)
12. Deferred assets	618	0.01	606	0.01	(12)	(1.94)
Total assets	**5,967,143**	**100.00**	**5,739,761**	**100.00**	**(227,382)**	**(3.81)**

Equity & Liabilities	2010 amount in EUR thousands	as a % of total assets	2011 amount in EUR thousands	as a % of total assets	Change in EUR	Change as a %
1. Liabilities to credit institutions	1,996,995	33.47	1,919,239	33.44	(77,756)	(3.89)
2. Liabilities to customers	1,749,078	29.31	1,678,295	29.24	(70,783)	(4.05)
3. Debt securities in issue	1,818,706	30.48	1,744,851	30.40	(73,855)	(4.06)
4. Other liabilities	41,308	0.69	41,908	0.73	600	1.45
5. Deferred liabilities	122	0.00	145	0.00	23	18.85
6. Provisions	58,506	0.98	45,131	0.79	(13,375)	(22.86)
7. Subordinated liabilities	112,851	1.89	112,851	1.97	0	0.00
8. Supplementary capital	40,297	0.68	40,297	0.70	0	0.00
9. Issued capital	30,000	0.50	30,000	0.52	0	0.00
10. Capital reserves	82,009	1.37	82,332	1.43	323	0
11. Liability reserves under section 23 (6) BWG	36,996	0.62	36,996	0.64	0	0.00
12. Retained profit	0	0.00	7,482	0.13	7,482	0.00
13. Untaxed reserves	275	0.00	234	0.00	(41)	(14.91)
Total equity and liabilities	**5,967,143**	**100.00**	**5,739,761**	**100.00**	**(227,382)**	**(3.81)**

Comparison with prior-year income statement 2010 : 2011

		2010	2011	Changes	
		EUR thousands	EUR thousands	in EUR	as a %
1.	Interest and similar income	262,286	262,302	16	0
2.	Interest and similar expenses	(209,718)	(211,844)	2,126	1
I.	**Net interest income**	**52,568**	**50,458**	**(2,110)**	**(4.01)**
3.	Income from securities and equity interests	2,116	4,153	2,037	96
4.	Fee and commission income	22,174	21,013	(1,161)	(5.24)
5.	Fee and commission expenses	(6,714)	(2,767)	(3,947)	(58.79)
6.	Net income from trading activities	3,466	1,273	(2,193)	(63.27)
7.	Other operating income	9,502	8,697	(805)	(8.47)
II.	**Operating income**	**83,112**	**82,827**	**(285)**	**(.34)**
8.	General administrative expenses	(64,470)	(61,384)	(3,086)	(4.79)
9.	Value adjustments for fixed assets (balance sheet items 9 and 10)	(2,893)	(1,627)	1,266	44
10.	Other operating expenses	(1,704)	(2,174)	(470)	(27.58)
III.	**Operating expenses**	**(69,067)**	**(65,185)**	**(3,882)**	**(5.62)**
IV.	**Operating profit**	**14,045**	**17,642**	**3,597**	**26**
11./12.	Net gain/loss from the disposal and remeasurement of receivables and securities held as other current assets	(123,347)	(8,446)	114,901	93
13./14.	Net gain/loss from the disposal and remeasurement of receivables and securities treated as financial investments	841	984	143	17.00
V.	**Result from ordinary activities**	**(108,461)**	**10,180**	**(118,641)**	**(109.39)**
15.	Extraordinary expense		0	0	0
15.	Taxes on income	6,636	(339)	(6,975)	(105.11)
16.	Other taxes not included in item	(507)	(2,400)	(1,893)	(373.37)
VI.	**Profit for the year**	**(102,332)**	**7,441**	**(109,773)**	**(107.27)**
17.	Changes in reserves	102,332	41	(102,291)	(99.96)
VII.	**Net profit for the year = retained profit**	**0**	**7,482**	**7,482**	**0.00**

Notes to the financial statements for the financial year 2011

Basic accounting principles

The separate financial statements of Hypo Alpe-Adria-Bank AG were prepared in accordance with the provisions of the Austrian Banking Act (BWG), as amended, and where applicable with the provisions of the Austrian Commercial Code (UGB) and the Austrian Stock Corporation Act (AktG), both as amended.

The financial statements consist of the balance sheet, income statement and the notes. In addition, there is a management report, which is in accord with the financial statements.

The balance sheet and income statement are presented in the form prescribed in Schedule 2 to section 43 BWG. The option given in section 53 (3) and 54 (2) of the BWG to combine certain items in the income statement has been exercised. Except where otherwise stated, all amounts are shown in EUR thousands. The tables may contain rounding differences.

Accounting and measurement polices

The separate financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present as true and as fair a view as possible of the bank's financial position and results of operations.

The principle of individual measurement was applied and a going concern assumption made for the measurement of assets and liabilities.

With regard to the continuance of the credit institution as a going concern, the Executive Board has made the same assumptions that underpin the group's restructuring plan drawn up for the purposes of the EU state-aid investigation, although the future development of the business continues to be uncertain given the current volatility in economic and financial markets.

The result of the proceedings is not yet known; the repercussions for Hypo Alpe-Adria-Bank AG could range from continuing as a part of the group through to the group divesting itself of the bank. The process of reprivatising the bank has already been started by its sole owner, Hypo Alpe-Adria-Bank International AG.

The principle of prudence was applied, paying particular attention to the special features of the banking business: only profits and gains realised at the balance sheet date were recognised, and all recognisable risks and impending losses were taken into account.

Assets and liabilities in foreign currencies are translated using mean rates of exchange on the balance sheet date. Forward transactions are translated at the applicable forward rate.

Loans and advances to credit institutions and customers are in general included at their nominal value. Premiums and discounts are recognised under accrued assets and liabilities respectively and written back over the life of the security.

Securities earmarked for permanent use in the business are shown on the balance sheet as financial assets in accordance with section 56 (1) BWG and valued according to the modified lower of cost or market principle. The option accorded under section 56 (2) and (3) BWG (distribution of the difference between acquisition and repayment costs over the remaining term) was not exercised. Impairment write-downs of financial assets are made where the loss in value is expected to be permanent. The bank checks as required, and at least once a year, whether there has been permanent impairment of any financial assets. Where the lasting deterioration of the creditworthiness of an issuer has been identified, an extraordinary impairment write-down is made.

All other securities (liquidity reserves) form part of current assets and, to the extent that they are stock exchange listed securities, they are shown at market value in accordance with section 56 (5) BWG. Unlisted securities are valued strictly at the lower of cost or market principle. Bought-back liabilities are allocated to current assets. Own issues such as these are measured at cost of acquisition, with any difference between a higher buy-back value and the repayment amount being immediately recognised in the income statement. If there is a difference as a result of the buy-back value being lower than the repayment amount, this is only recognised in the income statement upon redemption.

Securities forming part of the trading book are included at market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. Where no stock market price is available, the future cash flows of the financial instrument are discounted to present value using the applicable interest rate. The calculation applies standard investment mathematics procedures.

Investments in associated companies and **shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down.

Intangible assets, together with **tangible assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2 and 10 per cent, for movable assets they range from 4 to 33 per cent, and for software they are 25 per cent. Low-value items for which the cost of acquisition is less than EUR 400 are written off immediately in the year of acquisition. In the year under review, impairment write-downs totalling EUR 309 thousand were necessary as a result of the closure of the Velden branch.

Liabilities are shown either at original nominal values or at the amounts repayable. Any issue costs such as premiums and discounts are written off over the life of the underlying debt and shown in net interest income. Other issue costs are shown immediately as an expense.

Provisions for pensions were calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19 in the year under review. The so-called corridor method of distributing the actuarial gains and losses was not used. The calculation assumed an interest rate of 4.75 per cent (2010: 4.75 per cent) and an unchanged annual pension increase of 2 per cent.

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were calculated actuarially also using the projected unit credit method in accordance with the provisions of IAS 19 (without applying the corridor method). The calculation used an interest rate of 4.75 per cent (2010: 4.75 per cent) and assumed an unchanged salary increase rate of 3 per cent p.a., taking into account a deduction of 0 per cent (2010: 6 per cent) to reflect employee turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment.

Other provisions are based on the amounts expected to be required over and above the amounts of known liabilities.

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the hedging book or to the trading book, depending on their purpose. Derivatives with a negative market value which are not being used to hedge an underlying transaction and anticipated losses for not entirely effective hedges are treated as liabilities. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option pricing models drawing on current market parameters are used to measure options and financial instruments with similar characteristics.

Credit risks have been accounted for by specific and portfolio-based risk provisions for loans and advances and for off-balance-sheet commitments. Risk provisions for individual transactions are created where there is an objective indication of credit risk, taking into account the amount of the expected loss. The size of the specific risk provision is calculated on the basis of the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the collateral provided. The calculation of portfolio-based risk provisions is derived essentially from the Basel II model, although internal parameters are also applied. General risk provisions as defined in section 57 (1) BWG are not created.

There were no changes to accounting and measurement methods in the year under review.

Notes to the balance sheet

1. Relations with affiliated and associated companies

The following balance sheet items include loans and advances and liabilities in respect of affiliated or associated companies

in EUR thousand

	2011	2010
A3. Loans and advances to credit institutions	**191,181**	**97,104**
of which to affiliated companies	191,181	97,104
of which to associated companies	0	0
A4. Loans and advances to customers	**33,548**	**98,519**
of which to affiliated companies	1,515	71,716
of which to associated companies	32,033	26,803
A5. Bonds and other fixed-income securities	**1,870**	**2,192**
of which to affiliated companies	982	1,239
of which to associated companies	888	953
P1. Liabilities to credit institutions	**1,354,915**	**1,421,004**
of which to affiliated companies	1,354,915	1,420,810
of which to associated companies	0	194
P2. Liabilities to customers	**26,879**	**32,630**
of which to affiliated companies	13,722	22,271
of which to associated companies	13,157	10,359
P3. Debt securities in issue	**0**	**0**
of which to affiliated companies	0	0
of which to associated companies	0	0
P7. Subordinated liabilities	**15,000**	**15,000**
of which to affiliated companies	15,000	15,000
of which to associated companies	0	0

The most important companies are:

in EUR thousand

Loans and advanced to affiliated companies	Hypo Alpe-Adria-Bank International AG	187,186
Liabilities to affiliated companies	Hypo Alpe-Adria-Bank International AG	1,354,663

2. Maturities of balance sheet items

Maturities in accordance with section 64 (1) (4) BWG were as follows

in EUR thousand

	2011	2010
A3: Loans and advances to credit institutions	**456,438**	**161,768**
– payable on demand	30,384	58,894
– up to three months	256,587	1,215
– three months to one year	74,392	5,464
– one year to five years	44,015	46,752
– over five years	51,060	49,443
A4: Loans and advances to customers	**4,685,267**	**5,152,164**
– payable on demand	187,413	248,257
– up to three months	222,397	263,759
– three months to one year	525,458	516,907
– one year to five years	1,307,861	1,466,448
– over five years	2,442,138	2,656,793
P1: Liabilities to credit institutions	**1,919,239**	**1,996,995**
– payable on demand	45,423	71,410
– up to three months	104,207	156,758
– three months to one year	378,338	64,350
– one year to five years	626,308	868,332
– over five years	764,963	836,145
P2: Liabilities to customers	**1,678,296**	**1,749,078**
– payable on demand	541,293	526,195
– up to three months	290,601	318,967
– three months to one year	560,024	384,096
– one year to five years	166,829	351,125
– over five years	119,549	168,695

3. Securities incl. accrued interest

in EUR thousand

	2011	2010
2a. Treasury bills and other bills eligible for refinancing with central banks	**152,692**	**103,566**
of which listed	152,692	103,566
of which fixed assets	103,891	9,000
of which accrued interest in fixed assets	1,821	390
of which current assets	46,037	92,390
of which accrued interest in current assets	943	1,786
3. Loans and advances to credit institutions	**234**	**236**
of which not listed	234	236
4. Loans and advances to customers	**361,572**	**381,933**
of which not listed	361,572	381,933
of which fixed assets	359,716	379,962
of which accrued interest in fixed assets	1,855	1,971
of which current assets	0	0
of which accrued interest in current assets	0	0
5. Bonds and other fixed-income securities	**292,094**	**390,890**
of which listed	251,712	346,225
of which not listed	40,382	44,665
of which fixed assets	134,651	216,067
of which accrued interest in fixed assets	1,773	2,356
of which current assets	154,054	170,722
of which accrued interest in current assets	1,616	1,745
6. Shares and other variable-yield securities	**9,542**	**2,904**
of which listed	7,828	964
of which not listed	1,714	1,940
of which current assets	9,542	2,904
7. Investments in associated companies	**4,145**	**6,100**
of which not listed	4,145	6,100
8. Shares in affiliated companies	**537**	**249**
of which not listed	537	249

Breakdown of bonds and other fixed-income securities:

in EUR thousand

	2011	2010
Issued by public authorities	**8,850**	**3,839**
Issued by others	**283,244**	**387,051**
of which:		
Own issues	45,689	54,694
Domestic bonds (credit institutions)	36,143	64,081
Foreign bonds (credit institutions)	151,181	237,857
Mortgage bonds and municipal bonds	32,680	11,606
Convertible bonds		0
Other bonds	17,551	18,813
Total	**292,094**	**390,890**

The bonds issued by public authorities (excl. accrued interest) break down by country as follows:

in EUR thousand

Country	Nominal value	Carrying amount 31.12.2011	Write-downs 2011	Write-ups 2011
Belgium	15,000	14,504	254	0
Germany	5,000	5,013	16	0
Greece	1,000	190	414	0
Austria	97,000	98,116	144	0
Poland	5,000	3,878	0	30
Sweden	5,000	5,106	0	2
Hungary	6,000	4,750	427	0
European Union	27,000	27,000	0	37

Other disclosures relating to securities:

The difference between the value of securities recognised at their higher market value (section 56 (5) BWG) classed as current assets and their acquisition cost comes to EUR 3,801 thousand (2010: EUR 6,652 thousand).

In 2012 fixed-income securities from the bank's own holdings shall fall due as follows: an amount of EUR 78,844 thousand (2011: EUR 126,981 thousand) from euro-denominated securities and EUR 3,878 thousand (2011: EUR 0 thousand) from foreign-denominated securities.

Fixed-income securities from private issuers, which were eligible for refinancing by the Oesterreichische Nationalbank on the balance sheet date, amounted to EUR 216,230 thousand (2010: EUR 296,236 thousand), of which EUR 166,743 thousand (2010: EUR 242,715 thousand) were pledged as at the balance sheet date.

Subordinated securities within the meaning of section 45 (3) BWG with a value of EUR 9,603 thousand (2010: EUR 15,377 thousand) were held as at 31 December 2011.

The trading book (section 64 (1) (15), section 22n BWG) showed the following volume split as at 31 December 2011:

in EUR thousand

	2011	2010
Securities (at the market values shown in the balance sheet)	81	393
Currency options (nominal value)	0	0
Currency forward transactions (nominal value)	41.617	61.479
Interest swaps (nominal value) and interest rate contracts	231.452	240.371

The option afforded by section 22 (B) BWG was not exercised and there were no money market instruments allocated to the securities trading book as at 31 December 2011.

Financial investments held as fixed assets and recognised at fair value (section 237a (1) (2) UGB) are broken down as follows:

in EUR thousand

	Carrying amount 31.12.2011	Losses not yet recognised 31.12.2011	Carrying amount 31.12.2010	Losses not yet recognised 31.12.2010
Treasury bills	103,891	–1,505	9,000	–71
Loans and advances to customers (fixed-income securities)	359,716	–1,275	379,961	–1,146
Bonds and other fixed-income securities	134,651	–2,813	216,067	–2,725
Investments in associated companies	4,145	0	6,100	0
Shares in affiliated companies	537	0	249	0
	602,940	**–5,592**	**611,377**	**–3,942**

No write-ups of securities classed as fixed assets were undertaken in the financial year. The bank checks as appropriate – and at least once a year – whether a permanent impairment has arisen in the financial investments. A permanent deterioration in the creditworthiness of the issuers was not established.

As defined in section 64 (1) (7) BWG, issued bonds with a value of EUR 175,811 thousand will become due in 2012 in Hypo Alpe-Adria-Bank AG.

4. Shares in associated companies as defined in section 238 (2) UGB:

Name of company	Reg. office	Capital share	Equity [1] in EUR thousand	Result [2] in EUR thousand	Closing date
Alpe Adria Beteiligungs- GmbH	Klagenfurt am Wörthersee	100 % direct	404	–2	31.12.2011
Hypo Alpe-Adria-Insurance Service GmbH	Klagenfurt am Wörthersee	100 % direct	492	347	31.12.2011
Biogaspark Alpe Adria GmbH	Sankt Veit an der Glan	98 % direct	1,345	–1,123	31.12.2010

[1] Equity = as defined in section 229 UGB, plus untaxed reserves
[2] Result = profit/loss for the year before reserve movements and non-controlling interests

5. Tangible and intangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Schedule 2 to the notes).

The value of land included in land and buildings as at 31 December 2011 comes to EUR 4,111 thousand.

6. Other assets

The breakdown of other assets is as follows:

in EUR thousand

	2011	2010
Other assets	**85,754**	**92,654**
Interest income	7,689	9,562
– of which to be paid after the closing date	7,689	9,562
Offset claims	9,256	26,280
Receivables arising from the foreign exchange measurement of banking book derivatives	2,827	2,051
Receivables from trading book derivatives	19,343	15,221
Trade receivables	46,639	39,540

7. Other liabilities

The breakdown of other liabilities is as follows:

in EUR thousand

	2011	2010
Other liabilities	**41,907**	**41,308**
Interest expense	133	379
– of which falling due after the closing date	133	379
Clearing account balances	5,208	5,081
Fees and levies	2,983	4,125
Liabilities arising from the foreign exchange measurement of banking book derivatives	5,249	7,913
Liabilities from trading book derivatives	18,971	14,739
Trade payables	1,744	2,468
Statutory guarantee liabilities	1,279	1,137
Miscellaneous liabilities	6,340	5,466

8. Provisions

The main items included under other provisions are as follows:

in EUR thousand

	2011	2010
Guarantees	12,946	27,348
Holidays not taken	1,485	1,498
Long-service bonuses	956	996
Employee performance bonuses	1,620	955
Association of mortgage banks – section 1406 ABGB	510	533
Legal and consultancy fees	542	1,302
Costs for legal risks	4,000	0
General data processing centre	272	99
Restructuring provisions	5,905	11,072
Negative market values of derivatives in the banking book	2,962	3,216
Miscellaneous provisions	2,857	840
Total	**34,055**	**47,859**

The provisions for risk from the lending business include both provisions for specific cases amounting to EUR 9,198 thousand (2010: EUR 21,701 thousand) as well as at portfolio level amounting to EUR 3,748 thousand (2010: EUR 5,647 thousand).

The group-wide restructuring plan which was approved in 2009 and which has as its main themes sustained cost reduction as well as streamlining of the internal organisation and implementation of measures to boost efficiency, is still valid as a statement of medium-term objectives. In this connection, provisions were made for severance and redundancy costs up until 2015. In the 2011 financial year, the sum of EUR 1,967 thousand was used for this purpose.

Further, the sum of EUR 4,000 thousand was used as planned as restructuring costs for the EU branch in Munich which was closed on 31 March 2009. A new amount of EUR 800 thousand was provided for the property relating to the University branch, which has already been closed down and is being liquidated.

A provision totalling EUR 4,000 thousand was formed in the 2011 financial year for costs for legal risks. This sum is intended for use in the event of liability on the grounds of faulty or incorrect advice given to customers, to pay for resulting legal costs and any compensation payments, where these are necessary.

Through the creation of provisions for pending losses, a loss sustained in pending transactions which are not shown in the balance sheet, as defined in section 198 (8) UGB, is recorded in the period in which it becomes probable and recognisable as a result of the developments in market conditions. The amount of the provision is dependent on the size of the expected loss. Hypo Alpe-Adria-Bank AG uses the market values of derivatives in the regulatory banking book in its analysis.

When calculating the provision for pending losses from banking book derivatives there was compliance with the position of the Austrian Financial Reporting and Auditing Committee (AFRAC) as outlined in "Accounting for derivatives and hedging instruments under commercial law" published in September 2010. This means that provisions for pending losses are only made for derivative transactions for which, in hedging terms, there was no underlying transaction.

According to the AFRAC position paper, a provision for pending losses should be formed for the ineffective parts of a derivative with a negative market value, from 1 January 2011 onwards. In the case of a micro hedge, if all the parameters of the underlying transaction and the hedging transaction, which determine the extent of the secured impairment, are identical but offset each other, this is an indicator of a fully effective hedging relationship. All micro hedges are subjected to a check at Hypo Alpe-Adria-Bank AG and the effectiveness of the hedging relationship is documented. Own securities and loans treated as assets form the underlying transactions for hedging. Underlying transactions from own issues and promissory notes recorded as liabilities form the hedging relationship. The hedging period is in the main identical with the term of the underlying transaction. Hedge efficiency for fair value hedges is calculated on the basis of the cumulated theoretical change in price of the underlying transaction as well as the hedge transaction from the start of the hedge using a regression model (advanced dollar offset method) for the hedged risk factors on a monthly basis.

Hypo Alpe-Adria-Bank AG differentiates between the following types of hedge accounting:

- **Hedge accounting of derivatives at fair value:**
  For transactions designated as fair value hedges in accordance with the IFRS international accounting standards, the same assumption of a micro hedge is made under UGB/BWG. The base parameters of all fair value hedges are identical, although opposites; and their effectiveness is measured on a monthly basis. At Hypo Alpe-Adria-Bank AG, only fair value hedges which serve to secure the market value of assets and obligations (underlying transactions) are used within the framework of hedge accounting. The risks to be hedged are interest rate risks and currency risks. A provision in the amount of EUR 1,206 thousand (2010: EUR 1,409 thousand) was necessary to cover the ineffective part of one hedge.

- **Hedge accounting of Fair Value Option derivatives:**
  In IFRS it is assumed that FVO transactions will have a compensatory effect between underlying and hedge transaction. The connection is documented accordingly. As at 31 December 2011 there were eight FVO transactions showing a negative efficiency totalling EUR 3,198 thousand. These transactions are identical, offsetting hedges, as the base parameters of the underlying and hedge transactions match. For this reason, no provision was created. A provision totalling EUR 748 thousand (2010: 774 thousand) was created to cover the negative, ineffective part of three FVO hedges.

- **Hedge accounting of stand-alone derivatives:**
  The remaining swap portfolio consists of derivatives used to hedge savings accounts with guaranteed interest rates and "macro caps" which are passed on to retail customers in individual tranches. It is currently being investigated whether it would be possible to define and document these as a measurement unit in accordance with AFRAC. To date, a single provision has been created for all negative market values. For Hypo Alpe-Adria-Bank AG as at 31 December 2011, a provision in the amount of EUR 1,008 thousand (2010: EUR 1,033 thousand) was necessary.

9. Information on risk provisions

The development of risk provisions was as follows (loans and advances to customers):

in EUR thousand

Loans and advances to customers	2011	2010
Status at start of year	**382,342**	**352,856**
Additions	50,058	144,112
Releases	−25,934	−39,591
Appropriation	−118,886	−77,255
FRW valuation	458	2,220
Status at year-end	**288,038**	**382,342**

For credit defaults existing on the balance sheet date but not yet identified as such, the portfolio risk provision was adjusted from the 2010 level (EUR 20,742 thousand) to EUR 10,983 thousand in the 2011 financial year.

10. Supplementary and subordinated capital

The face value of subordinated capital as defined in section 23 (8) BWG comes to EUR 112,000 thousand (2010: EUR 112,000 thousand). Subordinated capital has a maturity of over 5 years.

in EUR thousand

ÎSIN	Type	Volume	Curr.	Int. rate 31.12.11	Issue date	Matures
XS0139343635	Bond	15,000	EUR	5.730 %	10.12.2001	10.12.2021

The bond constitutes unsecured, subordinated liabilities of the issuer, which are equal in status to each other and to all other subordinated liabilities of the issuer. In the event of the winding up, liquidation or insolvency of the issuer, entitlements resulting from the bond may only be honoured after the entitlements of non-subordinated creditors have been honoured – i.e. payments on bonds may not be made until the claims of other, non-subordinated creditors have been settled in full.

The issuer has the right to terminate on 10 December 2013.

Subordinated capital may not be pledged or assigned to a third party. In the event of liquidation or insolvency, any entitlements are subordinate to all other creditors and may not be offset against receivables of Hypo Alpe-Adria-Bank AG.

in EUR thousand

ÎSIN	Type	Volume	Curr.	Int. rate 31.12.11	Issue date	Matures
1333690	Loan against a Promissory Note	15,000	EUR	1.887%	30.09.2004	30.09.2017
S51426	Loan against a Promissory Note	7,000	EUR	4.600%	30.06.2006	15.09.2017
S51428	Loan against a Promissory Note	7,000	EUR	4.600%	30.06.2006	15.09.2017
S53316	Loan against a Promissory Note	4,000	EUR	4.517%	15.03.2007	29.09.2017
S51432	Loan against a Promissory Note	13,000	EUR	4.600%	30.06.2006	15.09.2017
S53315	Loan against a Promissory Note	20,000	EUR	4.517%	15.03.2007	29.09.2017
S51953	Loan against a Promissory Note	1,500	EUR	4.560%	31.08.2006	31.08.2017
S51954	Loan against a Promissory Note	1,500	EUR	4.560%	31.08.2006	31.08.2017
S51955	Loan against a Promissory Note	5,000	EUR	4.560%	31.08.2006	31.08.2017
S51957	Loan against a Promissory Note	2,500	EUR	4.560%	31.08.2006	31.08.2017
S51959	Loan against a Promissory Note	500	EUR	4.560%	31.08.2006	31.08.2017
S53185	Loan against a Promissory Note	5,000	EUR	4.575%	15.02.2007	29.09.2017
S53186	Loan against a Promissory Note	5,000	EUR	4.575%	15.02.2007	29.09.2017
S53238	Loan against a Promissory Note	10,000	EUR	2.030%	23.02.2007	23.02.2017

The loans constitute an unsecured subordinated liability on the part of the borrower, as defined in section 23 (8), in conjunction with section 45 (4) BWG, which are equal in status to each other and to all other subordinated liabilities of the borrower. In the event of the winding up, liquidation or insolvency of the borrower, entitlements resulting from the loan may only be honoured after the entitlements of the other, non-subordinated creditors of the borrower have been honoured – i.e. payments on the loan may not be made until the claims of other, non-subordinated creditors have been settled in full. Subordinated capital may not be repaid ahead of term; nor may it be pledged or assigned to a third party. In the event of liquidation or bankruptcy, claims are subordinate to all other creditors' claims and may not be offset against receivables of Hypo Alpe-Adria-Bank AG.

The face value of the supplementary capital shown as at 31 December 2011 was EUR 40,000 thousand (2010: EUR 40,000 thousand). Own issues capital contains nominal amounts of EUR 9 thousand (2010: EUR 9 thousand). The supplementary capital has a maturity from 3 to over 5 years.

Supplementary capital may not be repaid ahead of term; nor may it be pledged or assigned to a third party. In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during the term of the capital. 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 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 of the issue or through a premature buy-back of the issue.

Hypo Alpe-Adria-Bank AG has in the past issued supplementary capital pursuant to section 23 (7) BWG, which in accordance with regulations has been allocated to own capital funds. According to the restrictions laid down in section 23 (7) (2) BWG, interest can only be paid out "if it is covered by the annual profits before movements in reserves". As none of the previous financial statements for the financial years ending 31 December 2007, 2008, 2009 and 2010 meet this criterion, and following the formal adoption of the financial statements, interest on the supplementary capital issues may not be paid out by the issuer.

The current financial statements as at 31 December 2011 do meet the criterion of coverage by the annual profits (prior to movements in reserves) and thus, following formal adoption of the financial statements, current interest for the 2011 financial year as well as unpaid interest from prior years will be paid out at the interest payment date.

The interest expense for the supplementary and subordinated capital amounts to EUR 5,830 thousand.

There were no new subordinated loans raised in 2011.

11. Equity

The issued share capital of Hypo Alpe-Adria-Bank AG as at the balance sheet date amounts to EUR 30,000 thousand (2010: EUR 30,000 thousand) and is divided into 30,000 (2010: 30,000) no par value bearer shares.

12. Reserves

The changes in untaxed reserves were as follows:

in EUR thousand

Designation	Opening balance 01.01.2011	Disposals	Releases	Closing balance 31.12.2011
Valuation reserves resulting from special depreciation allowances	275	0	41	234
Valuation reserves as def. in sec. 8 EstG on land and buildings, plant and equipment	0	0	0	0
Valuation reserves as def. in sec. 12 EstG on land and buildings	0	0	0	0
Total untaxed reserves	**275**	**0**	**41**	**234**

The development of capital and revenue reserves, and of the liability reserves, was as follows:

in EUR thousand

Designation	Opening balance 01.01.2011	Additions	Disposals	Allocations	Releases	Closing balance 31.12.2011
Capital reserves	82,009	323	0	0	0	82,332
Revenue reserves	0	0	0	0	0	0
Liability reserves	36,996	0	0	0	0	36,996

Off-balance-sheet items

13. Derivative financial instruments

The following transactions were unsettled as at the balance sheet date:

in EUR thousand

Futures transactions	Nominal purchase contracts		Nominal sales contracts		Fair value positiv		Fair value negative	
	2011	2010	2011	2010	2011	2010	2011	2010
a) Interest rate-related business								
OTC products								
Interest swaps/ Interest rate contracts	3,449,142	3,794,420	3,449,142	3,794,420	190,019	121,263	247,437	172,943
b) Currency-related business								
OTC products								
Currency swaps	29,410	38,634	31,832	43,609	3,598	2,721	9,261	8,847
Cross-currency swaps	0	61,519	0	62,407	0	112	0	1,260
Forward exchange contracts	20,811	30,754	20,806	30,725	474	388	469	360
Currency swaptions	0	0	0	0	0	0	0	0

The majority of transactions are used to hedge against fluctuations in interest rates, exchange rates or market prices, as well as customer-oriented derivative items. Micro hedges are used selectively to hedge individual transactions on both the assets and liabilities sides of the balance sheet directly.

14. Other off-balance-sheet information

in EUR thousand

	2011	2010
Contingent liabilities	**253,719**	**316,879**
Guarantees and other collateral securities	252,962	313,630
Letters of credit	757	3,249

Loan exposures comprise unused credit lines totalling EUR 250,854 thousand (2010: EUR 350,523 thousand).

In addition to the contingent liabilities shown below the line, there is also an obligation with respect to the obligatory membership of "Hypo-Haftungs-Gesellschaft m.b.H" in relation to the safety of deposits under section 93 BWG.

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank AG is, in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other member institutions for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association for the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003 or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors of the member institutions (the State of the member in question) are according to section 2 (2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at around EUR 9.0 bn as of the reporting date 31 December 2011 (2010: 10.3 bn). This equates to almost the entire sum of the Pfandbriefstelle's liabilities as at 31 December 2011. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Hypo Alpe-Adria-Bank AG, in the amount of EUR 0.88 bn (2010: 0.94 bn), the resulting amount which must be reported in accordance with section 237 (8a) UGB comes to EUR 8.1 bn (2010: 9.3 bn).

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank AG amount to EUR 3,007 thousand in the 2011 financial year (2010: EUR 3,291 thousand), EUR 2,757 thousand in 2012 and EUR 13,682 thousand in total for the years 2012 to 2016.

Notes to the income statement

Interest and similar income

in EUR thousand

	2011	2010
From loans and advances to credit institutions and customers	**143,786**	**144,916**
of which Austria	111,040	110,053
of which international	32,746	34,863
From fixed-income securities	**29,223**	**29,132**
of which Austria	21,728	21,069
of which international	7,495	8,063
From other assets	**89,293**	**88,238**
of which Austria	89,293	88,238
of which international	0	0

Interest and similar expense

in EUR thousand

	2011	2010
From liabilities to credit institutions and customers	**62,087**	**60,320**
of which Austria	47,226	46,037
of which international	14,861	14,283
From debt securities in issue	**56,090**	**56,064**
of which Austria	56,090	56,064
of which international	0	0
From other liabilities	**93,667**	**93,334**
of which Austria	93,667	93,334
of which international	0	0

Fee and commission income and expenses

in EUR thousand

	2011	2010
From the lending business		
Fee and commission income	9,183	9,787
Fee and commission expenses	−1,281	−4,724
From the securities business		
Fee and commission income	4,008	4,469
Fee and commission expenses	−666	−973
From other transactions		
Fee and commission income	7,821	7,918
Fee and commission expenses	−820	−1,016

Other administration expenses (operating expenses)

in EUR thousand

	2011	2010
Legal and consultancy costs	2,902	1,814
Liability commission for statutory guarantee (Federal State of Carinthia)	1,600	1,137
Advertising and hospitality expenses	1,842	2,066
Rental, leasing and other building costs	7,530	7,542
IT costs	848	1,338
Data centre costs	2,685	2,859
Training expenses	571	601
Issue costs	13	0
Travel expenses	228	269
Fleet costs	204	305
Insurance	188	242
Telephone/postage costs	989	943
Costs in connection with company legal structure	22	15
Office/stationery costs	216	237
Other operating expense	7,122	7,137
Total	**26,960**	**26,505**

The breakdown of income from associated companies for the purposes of section 238 (4) UGB was as follows:

in EUR thousand

	2011	2010
ALPE ADRIA BETEILIGUNGS GMBH	750	0
HYPO ALPE-ADRIA-Insurance Services GmbH	1,292	0
Total	**2,042**	**0**

The balance of untaxed reserves (after movements) has had the effect of increasing profits for the purposes of tax assessment by EUR 41 thousand in the year under review (2010: EUR 183 thousand, also positive).

Supplementary information

15. Important long-term agreements

A contract of agency was concluded on 14 June 2004 between Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG, which provides for fees to be charged in respect of certain shared back office activities.

A service agreement was concluded on 1 April 2007 between Hypo Facility Services GmbH and Hypo Alpe-Adria-Bank AG. The services provided cover building administration, technical maintenance of buildings, cleaning, post room and fleet car management services, as well as project development and project steering.

Hypo Alpe-Adria-Bank AG (group member) has been a group member of a group as defined by section 9 KStG (Austrian Corporation Tax Law), since it was set up in 2005, with Hypo Alpe-Adria-Bank International AG as the taxable company of the group. The Group Taxation Agreement drawn up for this purpose includes, in addition to the compulsory arrangement on tax reconciliation (invoicing and settlement of tax contributions) in accordance with section 9 (8) KStG, the respective rights and duties of the lead company and group members. This covers in particular the procedure for filing the group application, calculation of each of the group members' tax results, rights to receive/duty to provide information, ceasing to be a member of the group, duration and dissolution of the group. The method of charging out tax in essence follows that of the charging model and any advantage arising out of the group arrangement is passed on to the group members using a fixed allocation rate.

In the year under review a positive tax charge of EUR 70 thousand (2010: EUR 7,630 thousand) was assigned.

16. Other information

Own capital funds

in EUR thousand

	2011	2010
Core capital (TIER 1)	**149,207**	**148,866**
Paid-in capital	30,000	30,000
Reserves (incl. non-controlling interests and hybrid capital)	119,562	119,279
Fund for general banking risks	0	0
Intangible assets	296	344
Less: net loss and mat. negative results	0	0
Deferred taxes	58	69
Supplementary elements (TIER 2)	**114,594**	**114,424**
Supplementary capital	39,991	39,991
Subordinated capital	74,604	74,433
Deductions pursuant to section 23 (13) BWG	**638**	**2,375**
TIER 3 (reclassified TIER 2 capital)	**1,472**	**4,196**
Own capital funds as defined by BWG	**264,635**	**265,111**
Own capital funds requirement acc. to BWG	**173,781**	**210,992**
Surplus capital	**90,854**	**54,119**
Coverage	152.28 %	125.64 %

	2011	2010
Assessment basis for banking book (risk-weighted):	**1,987,876**	**2,397,616**
TIER 1 ratio	7.49 %	6.16 %
Own capital funds ratio	13.31 %	11.06 %
Assessment basis incl. market and operational risk*	**2,172,264**	**2,637,403**
TIER 1 ratio	6.85 %	5.60 %
Own capital funds ratio	12.18%	10.05 %

* Calculation basis: own capital funds as defined by BWG / 8 * 100

in EUR thousand

	2011	2010
Risk-weighted basis for assessment in accordance with section 22 BWG (banking book)	**1,987,876**	**2,397,616**
thereof 8 % minimum own capital funds requirement	159,030	191,809
own capital funds requirement in acc. with section 22 BWG (securities trading book)	1,293	3,922
own capital funds requirement in acc. with section 26 BWG (open foreign exchange position)	178	274
own capital funds requirement for operational risk	13,279	14,987
Total own capital funds requirement	**173,781**	**210,992**

The item liabilities to customers includes trustee savings accounts with a value of EUR 2,665 thousand (2010: EUR 2,551 thousand).

The balance sheet contains the following foreign currency amounts (equivalent value in EUR thousand):

in EUR thousand

	2011	2010
Assets	1,057,719	1,073,972
Liabilities	1,036,731	981,938

The greater part of the EUR 20,988 thousand difference is hedged with currency swap agreements.

Mortgage bond activities pursuant to the Mortgage Bond Act (PfandBG) were as follows:

in EUR thousand

	Debt securities in issue		Covering loans		Surplus/shortfall in cover	
	2011	2010	2011	2010	2011	2010
Mortgage bonds	18,097	8,819	92,696	97,586	74,599	88,767
Public sector mortgage bonds	781,162	817,535	1,415,367	1,162,365	634,206	344,830

A trustee framework agreement, which became effective on 15 October 2008, was concluded between Hypo Alpe-Adria-Bank AG and Hypo Alpe-Adria-Bank International AG in accordance with section 2 (1a) (7) PfandBG. Under the terms of this agreement, a communal cover loan for the sum of EUR 0 thousand (2010: EUR 771,830 thousand) was made available by Hypo Alpe-Adria-Bank AG to Hypo Alpe-Adria-Bank International AG for its underlying stock. The trustee framework agreement was cancelled by mutual agreement with effect from 31 December 2011.

In accordance with section 64 (1) (8) BWG, securities with a value of EUR 315,910 thousand classed as current assets and loans with a value of EUR 622,897 thousand were made over as collateral for liabilities to credit institutions amounting to EUR 50,000 thousand as well as for liabilities to customers of EUR 1,955 thousand.

Securities classed as current assets with a value of EUR 31,914 thousand were deposited with various clearing houses as collateral for trading activities.

In accordance with section 45 (2) BWG, subordinated loans and advances with a value of EUR 13,878 thousand are included in the balance sheet item loans and advances to customers; and with a value of EUR 9,374 thousand in the item bonds and other fixed-income securities.

The amount for deferred tax liabilities, shown under liabilities in the balance sheet, is EUR 87 thousand (2010: deferred tax assets totalling EUR 1,695 thousand).

Guarantee of the State of Carinthia

The guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into between 3 April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The State will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG). A guarantee commission agreement between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) provides for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid.

Availing themselves of the contractually agreed rights to termination, notice was given by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG to terminate the guarantee commission agreement as of 31 December 2011, whereby the contractual obligation to pay guarantee commission would cease. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at the bank.

In December 2011, the State of Carinthia filed a claim against Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG because of the non-payment of guarantee commission for 2010; the value of the claim was set at EUR 6.2 m plus interest. The proportion of the value claimed attributed to Hypo Alpe-Adria-Bank AG amounts to EUR 1.6 m. Hypo Alpe Adria takes the viewpoint that the law in which the state guarantee is anchored does not provide for any remuneration and that the conclusion of a guarantee commission agreement under private law violates the principle of legality.

As at 31 December 2011, the State of Carinthia must extend guarantees for fixed-term and non-fixed-term commitments from Hypo Alpe-Adria-Bank AG with a total value of EUR 1.32 bn (corrected value for 2010: 1.46 bn). It was necessary to adjust the amount of liability that had previously been calculated as applying on 31 December 2010, as an internal review in the spring of 2011 brought to light mistakes in the systems used for calculation. With regard to the sum applying on the reporting date of 31 December 2010, there was a requirement to adjust the amount of liability applying to Hypo Alpe-Adria-Bank AG from the previously shown guaranteed volume of EUR 1.39 bn to EUR 0.07 bn.

Information on the parent company and inclusion in consolidated financial statements (section 237 (12) UGB):

The company is, by means of full consolidation, included in the group consolidated financial statements for HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt am Wörthersee, which are drawn up in accordance with the internationally accepted IFRS principles of accounting as applied in the EU.

Hypo Alpe-Adria-Bank AG is wholly owned by Hypo Alpe-Adria-Bank International AG, Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, which itself is 100 % owned by the Republic of Austria.

The consolidated financial statements for Hypo Alpe-Adria-Bank International AG are published in the Wiener Zeitung newspaper as well as on the www.hypo-alpe-adria.com (-> Investor Relations -> Financial reports) website. Disclosure is made in the commercial register as well as at the address of Hypo Alpe-Adria-Bank International AG, at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee.

By virtue of the provisions in section 26a (3) BWG, disclosure obligations pursuant to section 26 BWG are fulfilled on the basis of the consolidated financial position of the superordinated credit institution Hypo Alpe-Adria-Bank International AG.

17. Statement of cash flows

The statement of cash flows is presented in Schedule 3 to the notes.

18. Employees

The average number of employees for the purposes of section 239 UGB:

	2011	2010
Salaried employees	414.38	491.26
Hourly-paid	1.00	1.39

Advances, loans and guarantees in respect of members of the management bodies
As of year-end, the members of the Executive Board had received advances, loans or guarantees totalling EUR 33 thousand from Hypo Alpe-Adria-Bank AG.

As of year-end, the members of the Supervisory Board had received, either for themselves or on behalf of the companies for which they are personally liable, loans or guarantees totalling EUR 184 thousand from Hypo Alpe-Adria-Bank AG.

Expenses for severance payments and pensions
The bank used the following amounts for payments and provisions for severance pay and pension payments in 2011:

in EUR thousand

	2011
Members of the Boards	57
Senior employees	84
Other employees	1,079
Total	**1,220**

EUR 140 thousand of the total expenses for severance payment and pensions (EUR 1,220 thousand) are contributions to employee severance funds.

Breakdown of compensation for members of the Executive and Supervisory Boards

in EUR thousand

	2011
Executive Board	
– of which fixed	810
– of which variable	0
Supervisory Board	3
Remuneration of former members of the Executive and Supervisory Boards and their surviving dependents	0
– of which related to termination	0
Total	**813**

Members of the Executive and Supervisory Boards who served during the year under review are detailed in Schedule 1 to these notes.

Klagenfurt, am 09. März 2012

Executive Board

Gerhard Salzer (signed personally)

Friedrich Racher (signed personally

Peter Lazar (signed personally)

Shedule 1 to the notes

Management bodies

Chairman of the Supervisory Board:
Gottwald Kranebitter, Klagenfurt

Deputy Chairman of the Supervisory Board:
Wolfgang Edelmüller, Klagenfurt

Members of the Supervisory Board:
Rainer Sichert, Klagenfurt,
Werner Hochfellner, Klagenfurt

Delegated by the Works Council:
Klaus Jernej, Chairman, Klagenfurt
Werner Müller, Klagenfurt until 08.08.2011
Peter Quinesser, Klagenfurt, since 10.08.2011

State Commissioner:
Angelika Schlögel, Wien

Deputy State Commissioner:
Monika Hutter, Wien

Trustee:
Josef Wogrin, Klagenfurt

Deputy Trustee:
Maria Hacker-Ostermann, Graz

Executive Board:
Gerhard Salzer, Maria Saal/Klagenfurt
Friedrich Racher, Klagenfurt, since 01.01.2011
Peter Lazar, Klagenfurt, since 01.01.2011

Schedule 2 to the notes

Fixed assets movement schedule

Asset	Acquisition cost 01.01.2011	Additions 2011	Disposals 2011
Item 2			
Treasury bills			
Fixed-income securities held as fixed assets	9,234,191.96	104,402,736.70	9,000,000.00
Item 3			
Loans and advances to credit institutions			
Fixed-income securities held as fixed assets	0.00	0.00	0.00
Item 4			
Loans and advances to customers			
Fixed-income securities held as fixed assets	379,961,603.17	2,722.77	20,248,001.86
Item 5			
Bonds and other fixed-income securities			
Fixed-income securities held as fixed assets	216,290,703.94	44,606,760.70	125,835,380.00
Item 7			
Investments in associated companies	9,244,513.86	1,816.82	1,526,238.53
Item 8			
Shares in affiliated companies	12,370,464.85	323,552.95	1,000.00
Item 9			
Intangible fixed assets	2,114,226.14	91,489.84	85,419.07
Item 10			
Tangible fixed assets	31,278,815.85	1,534,947.30	2,258,707.22
TOTAL	**660,494,519.77**	**150,964,027.08**	**158,954,746.68**

Transfers 2011	Acquisition costs 31.12.2011	Cumulative depreciation	Carrying amount 31.12.11	Carrying amount 31.12.10	Depreciation 2011
0.00	104,636,928.66	746,266.56	103,890,662.10	9,000,000.00	512,074.60
0.00	0.00	0.00	0.00	0.00	0.00
0.00	359,716,324.08	0.00	359,716,324.08	379,961,603.17	0.00
0.00	135,062,084.64	410,659.02	134,651,425.62	216,066,684.92	186,640.00
0.00	7,720,092.15	3,574,816.66	4,145,275.49	6,099,697.20	430,000.00
0.00	12,693,017.80	12,155,531.26	537,486.54	248,933.59	34,000.00
0.00	2,120,296.91	1,824,097.71	296,199.20	344,432.20	132,448.84
0.00	30,555,055.93	19,589,381.96	10,965,673.97	11,429,987.10	1,494,764.17
0.00	**652,503,800.17**	**38,300,753.17**	**614,203,047.00**	**623,151,338.18**	**2,789,927.61**

Statement of all legal representatives

"We confirm to the best of our knowledge that the separate financial statements for Hypo Alpe-Adria-Bank AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the business as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the business faces."

Klagenfurt am Wörthersee, 9 March 2012

Executive Board:

Gerhard Salzer e.h.	Friedrich Racher	Peter Lazar

Auditors' report

Report on the financial statements

We have audited the accompanying financial statements, including the accounting system, of HYPO ALPE-ADRIA-BANK AG, Klagenfurt, for the financial year from 1 January 2011 to 31 December 2011. These financial statements comprise the balance sheet as at 31 December 2011, the income statement for the financial year ending on 31 December 2011, and the notes.

Management's responsibility for the financial statements and for the accounting system

The company's management is responsible for the accounting records and for the preparation and fair presentation of these financial statements in accordance with the Austrian Generally Accepted Accounting Principles and the provisions of Austrian commercial law. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting and measurement policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and the Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as at 31 December 2011 and of its financial performance for the financial year from 1 January 2011 to 31 December 2011, in accordance with Austrian Generally Accepted Accounting Principles.

Without qualifying our opinion we draw attention to the details provided by the Executive Board in the notes to the financial statements in the section "Accounting and measurement policies". When drawing up the financial statements the company's Executive Board has assumed the European Commission will make a positive decision about the restructuring plan presented to it in April 2010 for the Hypo Alpe Adria group. There are significant uncertainties with regard to the timing and content of the European Commission's decision, which is why – as stated by the Executive Board in the notes – there is significant uncertainty as to the ramifications of that decision for the bank's operations.

Comments on the management report
Pursuant to statutory provisions, the management report must be examined as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the company's position. The auditors' report must also contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to section 243a (2) UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to section 243a (2) UGB are appropriate.

Vienna, 9 March 2012

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner	Elisabeth Glaser
Certified Public Accountant	Certified Public Accountant

Imprint

Responsible for the content

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