Annual Financial Report 2008

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

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1. General economic environment

In 2008, the world economy experienced the negative effects of the crisis on financial markets. While this crisis was at first mainly limited to international financial markets, its impacts were also felt by the real global economy by the fourth quarter of 2008.

In the US, the continued weakness of the banking and financial system led the US economy into its deepest recession since 1982. In Europe, economic growth in most countries was also greatly affected by the financial turbulences and economic decline. Initial forecasts for 2009 predict the GDP of the Eurozone to decrease by 1.2 %.

As a small, export-oriented country, Austria was not immune to this downward trend. While the Austrian economy managed to fight the negative market trends until the autumn of 2008, it was then even more affected by the crisis in the following period. Despite the massive countermeasures taken by the federal government, it is expected that Austria's GDP in real terms will decrease by 0.5 % in 2009. At the end of 2008, the German economy found itself at the brink of a recession with growth of approximately 1.7 %. Almost all economic data has been deteriorating in the last months and indicates that the decline of total economic production has accelerated even further during the last quarter. The Italian economy was already close to a recession at the beginning of the second quarter. In this context, both investment activities as well as private consumption experienced significant declines.

The global shortfall of funds created a massive problem for Central and Eastern Europe – a region which has experienced tremendous growth in the last years. The rapid catch-up process underway during the past years was largely supported by capital inflows from the Eurozone, whereby companies as well as private households considerably expanded their debts in the last few years. In 2008, this was offset by a massive loss of confidence on international financial markets. In view of the stagnating imports by its neighbouring countries, Slovenia had to face an expected 3.8 % decrease in economic growth in 2008. In addition, the international financial crisis made it harder for Slovenian banks to access funds from abroad. The Croatian economy underwent a similar development. According to initial forecasts, GDP growth slowed to 2.2 % in the past financial year, mainly on the basis of the effects of the global economic situation on tourism, but also due to a change in domestic consumer behaviour. Similar to practically all South Eastern European stock exchanges, the Croatian equities market is finding itself under tremendous pressure. Following the positive pricing developments in previous years, the Crobex Index 2008 incurred losses of approximately 67 %. By signing the Stabilisation and Association Agreement (SAA) with the European Union on 16 June 2008, Bosnia and Herzegovina was on track to EU membership. The country's economy reacted positively, and GDP grew by 6.5 % according to initial estimates. In Serbia, which also signed the SAA treaty with the EU in 2008, economic growth slowed to 6.0 %, mainly due to the sudden disappearance of foreign investors as of October. The massive increase in Serbia's inflation rate was an additional negative factor. On 15 December, the government of Montenegro submitted its application for official EU membership. Forecasted GDP is expected to increase by approximately 8 % in 2008; however, it is likely that this growth period has now reached its end, as tourism and its associated industries were the main drivers behind last year's growth. In Bulgaria, expected economic growth for 2008 reached levels of approximately 6.5 %. The country benefited from solid growth in the first half year before encountering the negative effects created by a loss of confidence on the part of customers and investors during the second half of the year. Hungary also experienced disparate growth for the 2008 financial year. While all macro-economic indicators still posted increases during the first half of the year, Hungary's economy did not stay immune to the effects of the global financial crisis. Based on initial reports, real GDP grew by 1.7 %.

In view of the current situation on global financial markets, it is fairly difficult to issue forecasts for 2009. Growth forecasts for subsequent years are based on the assumption that the economy will slowly start to rebound towards the end of 2009.

2. Overview of Hypo Group Alpe Adria

Founded in 1896, Hypo Group Alpe Adria is now active in the countries of an extended Alpine to Adriatic region with its two large business segments Banking and Leasing. With over 7,500 employees in the core business at more than 380 locations in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Germany, Bulgaria, Macedonia, Hungary and the Ukraine, the company is considered one of the leading financial corporations in the region. Hypo Group Alpe Adria's network, which covers a wide area, ensures optimum support for over 1.3 m customers, whereby proximity to customers and a high quality of services comprise the main focus.

In line with a clearly focused Alpine-Adriatic strategy, for the past financial year the financial institution has been focusing on consolidating its existing network following years of controlled growth. At the same time, it has also successfully continued to improve internal structures and processes to meet increasing requirements, and adapted the risks of Hypo Group Alpe Adria in line with an orientation towards sustainability.

The difficult conditions on international financial markets in 2008, along with their effects on the real economy, also impact the economic growth of Hypo Group Alpe Adria, it also had to adjust existing risks and take precautions for further risk minimisation.

The Group's equity base was strengthened by a capital increase of EUR 700 m which was undertaken in the fourth quarter, involving BayernLB at approximately EUR 699.9 m and the Hypo Alpe Adria Mitarbeiter Privatstiftung (employee foundation) at approximately EUR 0.1 m. In addition, subsequent to the respective resolutions by the committees, the Executive Board of the Bank utilised a government package of measures (BGBl (Federal Law Gazette) I 136/2008) and also issued non-voting share capital.

In accordance with an agreement in principle to issue non-voting share capital, which was concluded with the Republic of Austria, the terms of the share certificate and the subscription agreement of 29 December 2008, the Republic of Austria subscribed 18,000 share certificates at a nominal amount of EUR 50,000.00 each, as well as non-voting share capital at a total amount of EUR 900 m.

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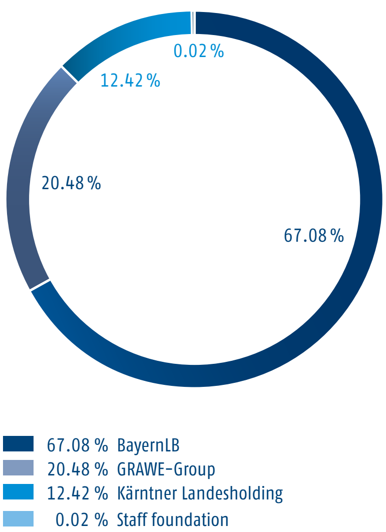
Based on these two capital measures, as well as a Tier 1 capital ratio of 8.3 % and total equity ratio of 11.9 %, on the closing date of 31 December 2008 Hypo Group Alpe Adria possesses a very solid equity base and is therefore well prepared for further strategic growth.

Following the completion of both capital measures, as well as further shifts in investments, Bayerische Landesbank (BayernLB) held 67.08 % of base capital as of the 31 December 2008 closing date. 20.48 % of shares were owned by the BVG Beteiligungs- und Verwaltungsgesellschaft mbH (GRAWE-Group [Grazer Wechselseitige Versicherung AG]). An additional 12.42 % were held by the Landes- und Hypothekenbank-Holding (Kärntner Landesholding), and 0.02 % by the Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation).

Shareholder structure
as of 31 December 2008



Concurrent with the restructuring and reorganisation of Hypo Group Alpe Adria, significant developments affecting the future direction of the company also took place in the Group's Supervisory and Executive Board. In this vein, Michael Kemmer, Chairman of the Executive Board of BayernLB, was elected Chairman of the Supervisory Board for Hypo Group Alpe Adria. In its meeting of 30 April 2008, the Supervisory Board appointed Božidar Špan, previously Chairman of the Executive Board for Hypo Alpe-Adria-Bank d.d., Slovenia, and Andreas Dörhöfer, previously department manager Risk Office Corporates and Financial Institutions at BayernLB to serve on the Executive Board. The appointment of Božidar Špan, who has been responsible for the areas Corporate and Leasing since 1 June 2008, corresponds with the increasing significance of international markets for the bank, as this is the first time in the history of the company that a director from a Hypo country has been appointed to the Board. Andreas Dörhöfer has been responsible for the areas Risk Management and Settlement since 1 May 2008. Josef Kircher, most recently a director on the bank's Board with responsibilities for Corporate and Leasing, has left the Executive Board effective 31 May 2008 at his own request. Thomas Morgl, most recently responsible for the areas Retail, IT/Organisation and Settlement, has also left the Executive Board in December 2008. His functions have been transferred to the remaining Directors as of January 2009.

Hypo Alpe-Adria Bank International AG, as the representative of Hypo Group Alpe Adria on international capital markets, has been assigned a non-guaranteed long-term A2 rating, as well as a guaranteed long-term rating of Aa2, a BFSR (Bank Financial Strength Rating) of D-, and a bond rating of Aaa. On 11 November 2008, the rating agency Moody's put the non-guaranteed long-term rating of A2 and the short-term rating of P-1, as well as the rating for subordinate liabilities (A3) and preference stock rating (Baa2) on review for a possible downgrade.

3. Analysis of financial key indicators

These consolidated financial statements of Hypo Group Alpe Adria for the financial year ending 31 December 2008 have been prepared on the basis of the International Financial Reporting Standards (IFRS). At the end of 2008, the basis of consolidation, including the parent company of the Group, consisted of 118 companies, of which 32 are headquartered in Austria and 86 abroad, respectively.

3.1. Development of results

The 2008 financial year of Hypo Group Alpe Adria was characterised by significant exceptional charges, which were not offset by the higher net interest income.

The operative customer business continued to generate solid growth for both the bank as well as the leasing business. This development was particularly evident in the net interest income which, despite the negative interest inflows from interest-based derivative transactions, increased significantly as compared to the previous year by 17.2 %, or EUR 103 m, to EUR 702 m.

Currently at EUR 118 m, net fee and commission income are slightly behind those of last year (–3.1 %). The largest contribution to the net fee and commission income was provided by our two subsidiary banks in Croatia, followed by Austria and Serbia. The result actually posts a slight increase of 1.9 % once adjusted for the effect of Alpe Adria Privatbank AG (former: Hypo Alpe-Adria-Bank [Liechtenstein] AG), which was included in the previous year's consolidated financial statements at a net fee and commission income of EUR 6 m.

The burden created by the financial market crisis was evidenced in a clearly negative result from trading, which decreased from EUR 22 m to EUR –38 m. Within the interest- and index-based areas, this development was mainly due to market value losses for derivatives in the bank book, which had to be recorded as affecting net income.

The result from hedge accounting was – at EUR –44 m – negative and resulted primarily from the abrupt decrease in key interest rates (EURIBOR and LIBOR). Differing interest adjustment dates contributed to hedge inefficiency, brought about by the variable component in interest derivatives.

The result from financial investments designated at fair value through profit or loss (fair value option), experienced positive growth, increasing to EUR 12 m in 2008 as compared to EUR –153 m in the previous year. This also includes an approximately EUR –56 m valuation result from the portfolio of the HBInt. Credit Management Ltd. investment company operated by Hypo Alpe-Adria-Bank International AG and a 49 % co-investor, which in turn includes EUR –14 m for securities which were either sold or were in default during the first half of 2008. Other negative valuation effects incurred during the financial year included effects from fund shares which have been attributed to the fair value option, the structured credit investment portfolio as well as the write-off of a structured security of the issuer Lehman Brothers. Opposing positive effects from the fair value option were created as a result of the valuation of liabilities evidenced by certificates of EUR 63 m which must be reported at fair value, and EUR 85 m from the fair value evaluation of self-issued hybrid capital (subordinated capital).

The result from financial investments – available for sale (AFS) deteriorated from EUR +6 m in 2007 to EUR –114 m in the year under review 2008, and was therefore particularly affected by the financial crisis. A significant factor in the less than favourable result was the insolvency of three Icelandic

Net interest income
in EUR m

banks, whose securities became de facto worthless, and which resulted in write-offs for an amount of EUR –51 m to a remaining book value of EUR 2 m. The continued declines in share prices for subprime-based credit securities necessitated impairment devaluations affecting net income in the amount of EUR –17 m, whereby the remaining book value of EUR 1 m presents a very manageable figure. Following an impairment test, a total of EUR –27 m in devaluations had to be recorded for the remaining credit investment portfolio of the AFS category. In the area of equity futures (shares, funds), which are subject to very strict impairment specifications as per IAS 39, EUR –9 m had to be recorded as affecting net income during the 2008 financial year.

The result from other financial investments deteriorated from EUR 11 m in 2007 to EUR –37 m, of which an amount of EUR –16 m can be attributed to a devaluation of an investment in Croatia which was considered as a precautionary measure in light of a legal dispute. Impairment of assets used for operating leasing also resulted in additional negative effects.

Other operating result of EUR 46 m was at exactly the same level as the previous year, even though the respectively included components were very different. This total includes income from the final settlement with the Croatian government in connection with the “DAB” legal dispute, which finally resulted in a charge of EUR –9 m in 2008. The increase within this particular item is based on the sales figures for Schlosshotel Velden, which for the first time is included at a full year of sales for 2008. This effect is countered by lower sales from apartment sales by the Schlosshotel, which are under the comparative values of the previous year.

On balance, the sum of operating income at EUR 645 m fell EUR 6 m under the 2007 value (EUR 651 m).

In 2008, risk provisions on loans and advances increased from EUR –274 m in 2007 to EUR –533 m in 2008. It is mainly based on a significantly more restrictive risk management policy as well as high exceptional charges from individual engagements. A significant part of these exceptional charges resulted in connection with the withdrawal of the Austrian bank subsidiary from the German market, as well as the provisions for leasing financing on the Croatian and Bulgarian market. Furthermore, the Austrian bank subsidiary applied EUR 27 m of risk provisions on loans and advances for non-acceptance of ordered stocks in the securities client business as a precautionary measure, whereby 100 % value adjustments were carried out for open credit risk as a matter of precaution. This item also includes expenses of EUR –15 m for subprime-based securities, which are assigned to the valuation category loans and receivables (LAR).

In 2008, operating expenses grew from EUR 492 m in the previous year’s period to EUR 586 m, which represents an increase of 19.2 %. Personnel expenses increased by 11.5 % to EUR 269 m. This increase is based mainly on the increase in the average number of employees in the core business by 8.5 %, from 6,963 in 2007 to 7,552 in 2008. Compared to the previous year, other administrative expenses increased by 8.4 %, to EUR 218 m. This development was primarily due to increased marketing activities and an increase in remaining general administrative expenses. The steep increase in amortisations on tangible and intangible assets from EUR 49 m to EUR 99 m is almost entirely due to extraordinary amortisations on production and assembly facilities in Croatia as well as buildings used for own activities.

Overall, the 2008 financial year generated an operating income of EUR 645 m against risk provisions on loans and advances in the amount of EUR –533 m and operating expenses in the amount of EUR –586 m. This results in a deterioration of the negative operating result from EUR –114 m to EUR –474 m for 2008.

Taking into account the positive result from companies accounted for at equity in the amount of EUR 1 m, and expenses for current and deferred taxes in the amount of EUR –46 m, the negative after-tax result for the period is EUR –518 m. The corresponding result in 2007 was EUR –70 m.

Following an allocation of ongoing results portions to the Group’s minority shareholders, the consolidated net result for the period is decidedly negative at EUR –520 m (2007: EUR 3 m). Therefore the overall positive operative business in 2008 was not nearly able to offset the considerable negative special charges, which are based on the high risk provisions for individual engagements, the underperformance of individual Group companies as well as the effects of the international financial crisis.

3.2. Key profit indicators

On 31 December 2008, the cost/income ratio, which also takes into account the negative valuation results from financial instruments, was at a high 90.7 %, as compared to 75.4 % in 2007. Because of the negative annual result, the key indicators return on equity and return on assets are not expressive for the 2008 financial year, therefore these values have not been indicated.

3.3. Balance sheet growth

During the 2008 financial year, Hypo Group Alpe Adria also continued its growth in South Eastern Europe and further strengthened its position as a financial services provider in this region.

As a result, the total assets for Hypo Group Alpe Adria on the closing date of 31 December 2008 were EUR 43.3 bn, 14.2 % over the comparable figure for the previous year (EUR 37.9 bn).

On the asset side of the balance sheet, the significant growth in the total assets was carried by strong growth in the loan business in the first nine months of the financial year. The collapse of the US-based investment bank Lehman Brothers in the middle of September, along with a further escalation of the financial market crisis, resulted in a drastic shortage of liquidity for refinancing on equity markets, among other things. As a consequence, Hypo Group Alpe Adria was forced to significantly limit its refinancing business as of the fourth quarter.

At the same time, net loans and advances to customers (gross receivables following a consideration for risk provisions on loans and advances) increased from EUR 24.9 bn to EUR 29.5 bn in the 2008 financial year, which represents an increase of EUR 4.6 bn or 18.5 %. Loans and advances to credit institutions increased by EUR 0.6 bn (+14.0 %), mainly as a result of short-term money market investments.

In 2008, the level of risk provisions on loans and advances was 54 % (EUR 1.1 bn) higher than in the previous year. The increase was connected to the continued streamlining of the loan portfolio, and almost entirely affected loans and advances to customers.

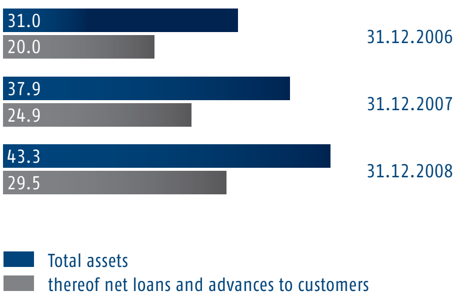
Financial investments of the categories designated at fair value through profit or loss (FVO) and available for sale (AFS) decreased from EUR 4.1 bn to EUR 3.7 bn during the year under review, which represents a decrease of EUR 0.4 bn, or 11.8 %. This reduction was based on partial divestitures in the area of FVO securities, significantly lower share prices for securities, which are particularly evidenced by the negative AFS provision of EUR 0.2 bn, as well as write-offs for securities due to defaults by issuers or underlying debtors.

Other financial investments recorded an increase of EUR 0.2 bn to EUR 1.1 bn due to the expansion of the operating leasing business, which corresponds with an increase of 18.2 %. However, extensive restrictions were applied to the awarding of operating leasing contracts in countries such as Serbia and Croatia as of the fourth quarter of 2008.

Tangible assets used for the Group's own business activities decreased compared to the previous year, in particular due to the applied impairment write-offs on facilities in the non-core area – mainly on production facilities and real estate.

This growth was financed by the liability side of the balance sheet mainly through credit lines of the parent company, BayernLB, but also through the capital increases undertaken in the 2008 financial year. There was therefore an increase, compared to the previous year, in liabilities to credit

Total assets
in EUR bn



institutions of EUR 2.8 bn to EUR 7.3 bn, whereas in the past financing for Hypo Group Alpe Adria was carried out by issuing bonds on the capital markets (liabilities evidenced by certificates).

Liabilities to customers also strengthened, and increased slightly by 2.9 % as compared to the previous year. Liabilities evidenced by certificates were at EUR 1.1 bn or 5.6 % over the final value for 2007, and result mainly from on changes to underlying transaction adjustments for hedge accounting. Subordinated capital increased by EUR 0.3 bn, mainly due to the supplementary capital issued during the reporting period.

Equity rose by 52 % to EUR 2.5 bn in the 2008 financial year. This increase is due, on the one hand, to the formation of an investment company together with an international co-investor, in which Hypo Alpe-Adria-Bank International AG holds a 51% share; on the other hand, to the subscription by the Republic of Austria to participation capital with a value of EUR 0.9 bn, as well as the capital increase of EUR 0.7 bn by the majority shareholder BayernLB, both of which took place in December 2008.

Factors reducing equity in the 2008 financial year included the negative consolidated result for the year, the intended dividend payments totalling EUR 50.0 m, as well as negative minority interest components. Equity was further reduced through the announcement of the regrading of preference shares in a Group company by EUR 0.2 bn planned for 2009, as well as the write-downs on securities caused by the escalation of the crisis on the international financial markets. Almost all of the securities held by the Group, which are mainly held as available for sale (AFS), were affected by the increase in credit spread of financial instruments. As compared to 31 December 2007, the fair value reserve relating to equity was reduced by EUR 0.2 bn and is valued as of the balance sheet date at EUR –0.2 bn.

Assets in EUR m

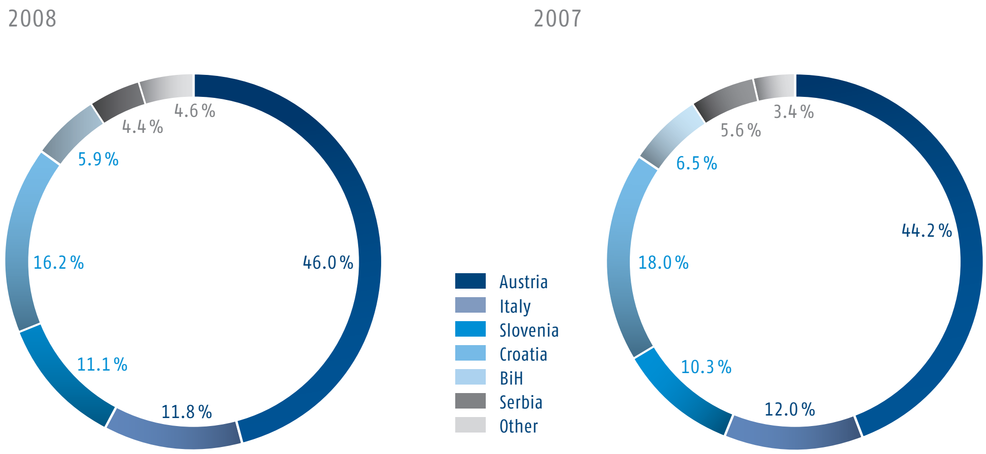
	2008	2007
Cash and balances with central banks	999	998
Loans and advances to credit institutions	4,483	3,933
Loans and advances to customers (net)	29,480	24,945
Trading assets and other securities	4,400	4,354
Participations and investments in affiliated companies	105	115
Investment properties and assets held under operate leases	1,135	960
Tangible and intangible assets	650	700
Other assets	2,084	1,934
Total assets	**43,336**	**37,939**

Liabilities in EUR m

	2008	2007
Liabilities to credit institutions	7,288	4,457
Liabilities to customers	8,717	8,474
Liabilities evidenced by certificates	21,415	20,282
Subordinated capital	1,590	1,334
Other liabilities	1,796	1,733
Equity	2,530	1,659
Total equity and liabilities	**43,336**	**37,939**

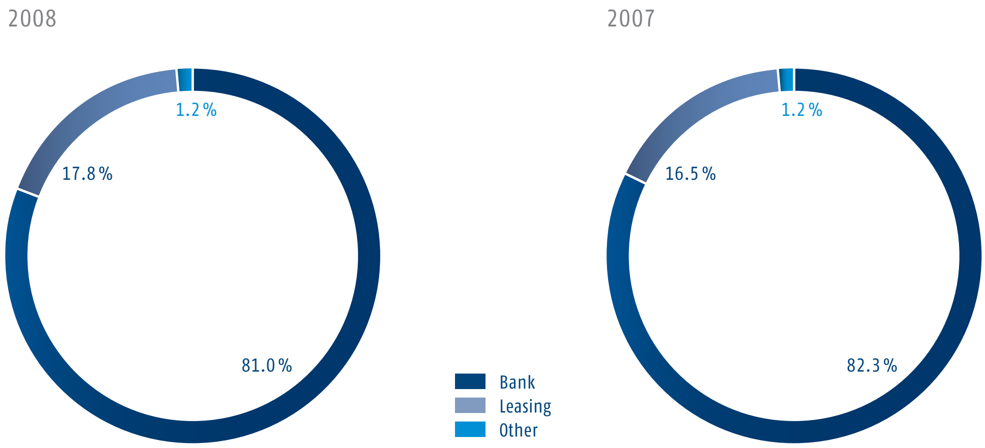
In 2008, total assets increased from EUR 37.9 bn to EUR 43.3 bn. All regional companies contributed to this increase, albeit at different rates. Austria, Croatia and Italy – markets in which Hypo Group Alpe Adria has had the longest representation – contributed almost three quarters of total assets. Slovenia, Bosnia and Herzegovina (BiH) as well as Serbia contributed another round 21 % of the total assets. Contributions of the remaining markets of the international financial Group were at almost 4.6 % in the past year.

Total assets by country
Comparison



Seen from a business segment point of view, banking dominated as in previous years, contributing 81.0 % to total assets, whereas leasing generated 17.8 %. As a result the breakdown remained virtually unchanged as compared to the previous year.

Total assets by business segments
Comparison



3.4. Own capital funds

The regulatory classification standards as per Basel II provisions were applied for the first time as of 1 January 2008, with the standard approach being used for determining the credit risk and the basis indicator approach being used for determining the operational risk throughout the whole banking group.

Overall, total creditable own capital funds increased significantly during the 2008 financial year pursuant to the Austrian Banking Act (BWG), with a closing date figure of EUR 4,173 m (2007: EUR 2,872 m). Considering the own capital funds requirement of EUR 2,797 m (2007: EUR 2,296 m), this corresponds to a coverage of 149.2 % (2007: 125.1 %) at an surplus capital of EUR 1,376 m (2007: 577 m).

The capital increase of EUR 700 m in the middle of December, which was almost entirely carried by main shareholder BayernLB, as well as the issue of Tier 1 capable non-voting share capital in the amount of EUR 900 m, which was provided to the Bank by the Republic of Austria as part of the banking package, served to increase the regulatory Tier 1 capital of the bank. On the other hand, Tier 1 capital was also reduced by the burdens on the result which occurred in 2008, in particular high risk provisions in the loan business and the effects of the financial crisis.

As of 31 December 2008, the own capital funds ratio as related to the banking book (credit risk) reached 12.7 % (2007: 10.2 %). The corresponding core capital ratio (Tier 1 ratio) stood at 8.3 % at the end of the year (2007: 6.3 %), following a provision for 50 % of allowances.

In relation to the total capital base (including market and operational risk), the resulting own capital funds ratio was at 11.9 % for 31 December 2008 (2007: 10%), which was clearly above Austria's statutory minimum ratio of 8.0 %.

4. Analysis of non-financial key indicators

4.1. Employees

Hypo Group Alpe Adria places great emphasis on the education and work satisfaction of its employees, as it is the employees who, by virtue of their extensive know-how and qualifications along with a global way of thinking, are able to create relationships with customers which form one of the supporting pillars of the company's success. For this reason, the targeted promotion of attractive (continued) training opportunities for employees forms a permanent component of Hypo Group Alpe Adria's approach.

The further intensification of the network along with an absolute requirement to work as close to the customer as possible resulted in a further increase of employee numbers in core business during the last financial year, reaching 7,552 by the end of 2008. This represents an increase of 589 employees, or an increase of 8.5 % as compared to the previous year.

Employees in core business
Development 2004 to 2008

Training and continuing education activities which were held across different countries were again a major focus of the 2008 education and continuing education program. Based on its role as a strongly customer-oriented and international financial service provider, the Group views the targeted support of new and existing employees by way of attractive continuing education activities as a fixed component of its corporate culture. As a result, and notwithstanding the difficult economic environment, 2008 saw a continuation of the training of executives as part of the Management Academy.

The recruitment of new employees – mainly graduates from post-secondary facilities or universities – is an important consideration for all Hypo Group Alpe Adria locations. Many of the recruiting activities took place at universities and included direct advertising for junior positions, which was met with great interest. Newly recruited graduates are trained as part of special training activities right on the job, as well as through tailored internal educational events, and thus integrated into the company.

In the course of training and continuing education activities held in the different countries, during the past financial year Hypo Group Alpe Adria also strengthened its focus on product management training and controlling training to create uniform Group-wide standards. The training of executives as part of the Management Academy again played a significant role in the last financial year. In this area, the cost and process management modules as well as self- and time-management modules were introduced as an option.

Hypo Group Alpe Adria is also placing an increasing emphasis on technical training in order to promote uniform standards and know-how at the Group level. Accordingly, the year 2008 saw the first technical training module for the Treasury area, which is to be followed by similar training for the Settlements area.

4.2. Customers

In the markets of South Eastern Europe, served transnationally by Hypo Alpe-Adria-Bank International AG's subsidiaries, an intimate knowledge of the markets and a profound understanding of customers' needs also on an emotional level are critical factors for success. Against this background, the Bank sees itself in a long-term partnership role that extends far beyond mere financial transactions: its work with its customers is shaped by face-to-face communication and mutual respect. This is based on an unwavering commitment to delivering customer-driven services, especially reflected in ease of access to banking facilities and rapid attainment of personal goals. With distinctive, reliable and easy-to-understand products on both financing and investment sides, Hypo Group Alpe Adria makes an impressive contribution to the prosperity of its more than 1.3 m customers.

4.3. Corporate Social Responsibility (CSR)

Hypo Group Alpe Adria is a responsible company which addresses the challenge of viewing economic, social and ecological aspects as a whole, and achieving a balance between the interests of the different stakeholders. Of utmost priority are customised and decentralised projects in the different markets so as to best address the different regional requirements in these countries. In addition, cross-border projects in the areas of social responsibility, art and culture as well as the environment are also promoted. In this vein, during 2008 Hypo Group Alpe Adria supported socially disadvantaged groups in different countries as well as a number of different regional cultural activities, such as exhibitions of young artists.

The Group's responsibility for the environment and society is reflected in the day-to-day work of all Group employees and is enshrined in the management code. Sustainability and social commitment are key factors in working with customers, business partners and shareholders.

The topic of CSR is also discussed in a separate section of the Hypo Group Alpe Adria business report.

5. Risk report

5.1. Risk strategy, control and monitoring

Hypo Group Alpe Adria controls and monitors its risks across business segments, with the goal of optimising its risk/performance profile and to guarantee the ability to bear risks at any time. In this vein, it influences the business and risk policies of its strategic and other holdings through its involvement in shareholder and supervisory committees. In the case of Group strategic holdings, compatible risk control processes, strategies and methods are implemented.

The following central principles apply to the overall direction process for Hypo Group Alpe Adria:

1. 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.
2. Front and middle office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
3. The Group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, measuring, combining, directing and monitoring the different risk types.
4. With regard to essential risk types, appropriate limits are set and effectively monitored

5.2. Organisation, reporting, internal audit

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

The core tasks of risk management are the individual risk management of counterparty risks as well as risk controlling and monitoring of counterparty, market, liquidity and operational risks at the portfolio level. The CRO 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" (CFO) is responsible for monitoring adherence to regulatory-related equity requirements. Hypo Group Alpe Adria has separated the CFO and CRO roles into two independent functions.

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 audit department is a permanently set up organisation which audits the business activities of Hypo Group Alpe Adria; it reports to the Chairman of the Executive Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Group Alpe Adria, including those that are outsourced. This area carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements. Furthermore the audit area also acts as Group auditor in addition to the Internal Audit sections of the subordinate companies of the Hypo Group Alpe Adria group of institutions.

5.3. Capital management

As part of the overall direction, capital management for Hypo Group Alpe Adria is based on a multi-dimensional planning process, which consolidates strategic, risk-oriented and regulatory aspects as part of an operational multi-year plan.

As an initial process for planning, Hypo Group Alpe Adria's strategy is adjusted at certain time intervals and/or as required. The Executive Board confirms or adjusts the strategy.

Risk management then prepares a risk limit for Hypo Group Alpe Adria on the basis of the approved strategic direction, which is then transformed to the individual market units of the bank in cooperation with the business segments. The risk limit contains the framework conditions for the business strategy of the business segments as well as the intended target rating of the bank.

Building on the framework conditions, business segments and areas carry out their operational planning, which flows into a multi-year plan with a time horizon of three years.

5.3.1. Regulatory adequacy of capital (solvency)

Hypo Group Alpe Adria has defined the following targets, methods and processes to determine the appropriate level of on-balance sheet equity capital for the business segments:

Capital resource planning forms the starting point for an allocation of on-balance sheet equity capital. The liable equity capital, which is made up of Tier 1 and Tier 2 capital, plus third-ranking funds are viewed as capital resources. Tier 1 capital is mainly composed of subscribed capital plus reserves as well as silent contributions. Tier 2 capital includes capital for profit participation and long-term subordinate liabilities. Third-ranking funds consist of short-term subordinate liabilities.

Capital resource planning is mainly based on an internally aimed-for Tier 1 quota (ratio of Tier 1 capital and risk assets) and an internally-determined target ratio for the overall indicator (ratio of capital resources and risk positions) for Hypo Group Alpe Adria. It defines the maximum risk assets and market risk positions that can be generated by business activities over the course of the planning horizon. An internally-developed simulation tool allows for the calculation of this indicator under different conditions or stress scenarios.

5.3.2. Economic capital (risk bearing capacity)
In addition to ensuring regulatory capital requirements, securing the Group's ability to carry economic risks forms a central part of controlling activities within Hypo Group Alpe Adria.

The bank controls its risks as part of an overall bank control process, which provides and imposes limits on the risk capital for the different risk types, in order to implement its strategies.

Risk coverage volumes are uniformly defined across the Group as part of a graduated concept. They are used to derive an upper loss limit. Risk capital made available for covering this upper loss limit is then allocated in accordance with the strategic and operative objectives of the Executive Board at the level of risk types.

Risk coverage volumes provide information about the extent of unexpected losses from risks that may have to be assumed in a real-case scenario. They follow a balance sheet and P&L oriented graduated concept, which is used to classify capital components according to their availability (liquidity) and external effects resulting from changes of the same (capital market effects).

As part of economic risk capital controlling, Hypo Group Alpe Adria monitors the risk profile and ensures risk bearing capacity through comparisons of risk capital and risk capital requirements. The upper loss limit – and hence available risk capital – is defined as the sum of capital components of levels I to IV. Level V of the risk coverage volume is used to provide additional protection to investors and prior-ranking creditors in the (worst) case of an insolvency, and is therefore not allocated to the bank's business activities.

For the purpose of determining risk capital requirements, both Hypo Group Alpe Adria as well as its strategic subsidiaries continuously examine the risk types. Risks from the different parts of the Group as well as those at Group level are combined into an overall assessment of existing risk. This process generally involves the use of Value-at-risk (VaR) methodology with a confidence level of 99.9685 % (at a one-year holding period).

The strategic holdings of Hypo Group Alpe Adria (subsidiary banks and leasing subsidiaries in the core countries of the Group) also undertake their own risk controlling and calculation of risk bearing capacity. In its role as a superordinate institution for the Group, Hypo Group Alpe Adria exercises its guideline competence in particular with regard to processes and methods which include an appropriate consideration of the specific requirements, conditions and business strategies of the subsidiaries.

As part of economic risk capital controlling, risk capital is monitored by the subsidiaries as well as by Hypo Group Alpe Adria at the Group level, and risk bearing capacity is ensured by comparing risk capital and risk capital requirements.

5.4. Credit risk (counterparty default risk)

5.4.1. Definition

Based on their scope, credit risks pose the most significant risks for Hypo Group Alpe Adria. They originate mainly out of the credit business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses in the amount of non-received benefits less utilised securities and reduced by the achieved recovery of unsecured portions are the result. This definition includes debtor and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Other risk types which are also included under counterparty default risk, such as country and participation risks, are separately measured, controlled and monitored.

5.4.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the credit business along with risk control methods, and is supplemented by additional policies, including the "Principles of Identification, Classification and Adjustment of Problem Credits", as well as specific instructions.

Credit decisions are made in line with a Group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, and, dependent on the amount and rating, by the Advisory Board, Executive Board, Credit Committee as well as key staff in the market and analysis units of the Risk Office.

The Credit Committee is a permanent institution of Hypo Group Alpe Adria, and the key credit group below the Executive Board.

The Group Risk Executive Committee (GREC) is responsible for all operational and systematic matters connected to credit risk, unless a decision by the Executive Board is required for matters with far-reaching effects.

5.4.3. Risk measurement

Hypo Group Alpe Adria utilises several statistically-based rating methods for an individualised 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.

All rating methods will be subject to an annual validation process in the future. The validation includes both quantitative as well as qualitative analyses. Rating factors, selectivity and calibration of the method, data quality and model design are examined using statistical and qualitative analyses as well as user feedback.

The further development of these models by Hypo Group Alpe Adria itself, or in conjunction with ""RSU Rating Service Unit GmbH & Co. KG", ensures their adequacy for the correct determination of default probabilities in the respective customer or financing segments.

Internal rating systems

The rating systems currently utilised within Hypo Group Alpe Adria are available to all subsidiaries where required. Rating competence is regulated in the credit process in the relevant policies.

Uniform Group procedures are used in the public finance, banks, special financing, structured products, private clients, SME and corporate segments. Where required, specific regional adaptations are carried out for the ratings. A special rating method is applied in the corporate area of Austria and Slovenia. Italy uses a separate method (Cedacri) which is fully integrated into internal bank processes.

For the risk-relevant business, the middle office is responsible for ensuring the completeness and quality of the rating, while the front office is responsible for the non risk-relevant business (second set of eyes principle). Group credit risk control will regularly monitor quality at the portfolio level and report to the Executive Board.

As part of the validation system developed by Hypo Group Alpe Adria, the performance of the rating systems (subject to the existence of sufficient data) will be examined on an annual basis.

5.4.4. Risk mitigation

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

In the case of financial institutions (mainly banks), limits are determined at the level of individual clients and are binding unless the Executive Board explicitly approves a higher overall commitment than the limit that has been determined.

In all other segments, limit control is carried out through a Group-wide valid authorisation regulation, which transfers commitments that exceed a certain limit into the decision-making jurisdiction of the Group Executive Board.

At the portfolio level, structural limits apply to limits on rating classes, industries, countries, customer segments and foreign currencies. These limits are risk-oriented soft limits, the utilisation of which is reported to the Executive Board as part of reporting procedures.

Another important instrument in risk mitigation in Hypo Group Alpe Adria is the acceptance and crediting of generally accepted securities. The valuation is processed using the securities policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual security types. Usually, framework contracts for netting out mutual risks (close-out netting) are concluded for trading transactions involving derivatives. Security agreements with specific business partners are in place, which limit the default risk with individual trading partners to an agreed-to maximum amount, and provide an entitlement to request additional securities if the amount is exceeded.

The methods used to accept securities (form requirements, conditions) are governed by the internal processing guidelines for each individual security type.

Strategy and procedure to assess and manage securities that have been utilised and are eligible for inclusion

Specifications for the evaluation and processing of securities are governed by the securities policy. Ensuring ongoing legal enforceability generally involves the use of contract standardisations and ongoing legal monitoring – in particular of foreign legislation – by way of cooperation with other institutions.

The calculation and determination of values for the securities are documented in a traceable and plausible manner as per defined specifications. Where appraisals are available, statements regarding the marketability must be in place for the purpose of assessing a liquidation value.

All subsidiaries have access to security management systems which also document the valuation criteria. The system landscape is homogenised in accordance with existing possibilities and required purpose. For example, a uniform securities solution is implemented in the CESEE region.

The securities policy describes all generally accepted securities.

The main types of securities include charges on property (approx. 60 % of securities portfolio), pledges, cessions and guarantees.

5.4.5. Risk controlling and monitoring

All commitments are monitored using defined early-warning indicators and ratings. The utilisation of early-warning criteria is the responsibility of the respective subsidiary, and can be adapted to local requirements.

The principal goal of all activities is to minimise or entirely prevent potential defaults for Hypo Group Alpe Adria through an early initiation of suitable measures in line with providing intensive support or treatment for problem credits, as well as to allow a business partner to transfer back to receive normal support services as soon as possible.

The formation of individual value adjustments (date and amount) is governed by the problem loan policy. The calculation of impairment under IFRS is set out in the Group accounting handbook.

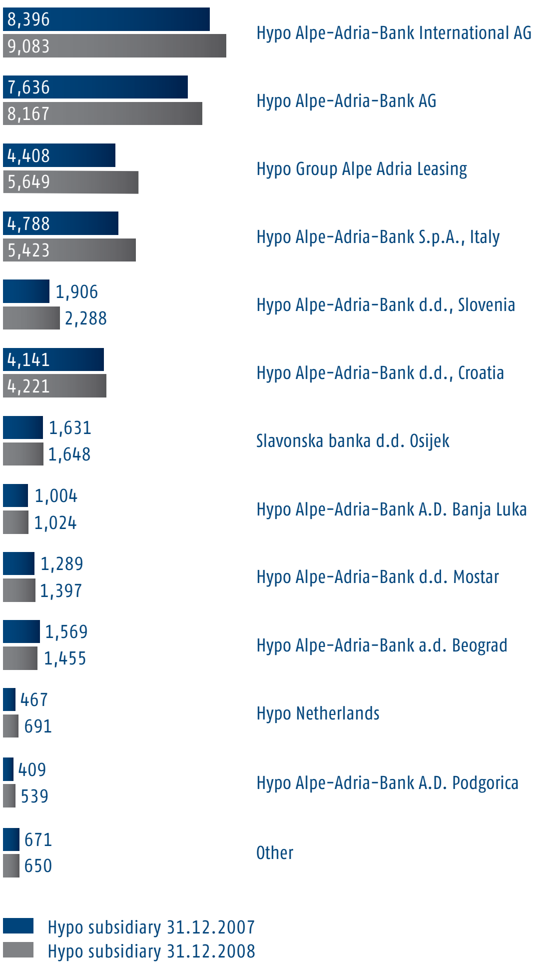
Group risk control monitors limit utilisation, portfolio structure as well as risk bearing capacity. It issues regular credit risk reports. Reporting frequency within the Group is on a quarterly basis, or in the form of ad hoc reports prepared as required.

Group Management Report

5.4.6. Portfolio overview – Credit risk

Total exposure in the Group
In the year under review, overall credit exposure in the Group increased by EUR 3,918 m or 10.2 %*). At present total exposure is divided among the subsidiaries of Hypo Group Alpe Adria as follows:

EUR m



Receivables from BayernLB as parent company are not included. In comparison to the previous year market values are shown regarding securities and derivatives in 2008. Following an internal evaluation for HBA, the 2007 values were adjusted retrospectively, by a minimal amount.

Total exposure by rating classes within the Group
Approximately 30.7 % of total exposure continues to be in the investment grade area (rating classes 1A to 2E).

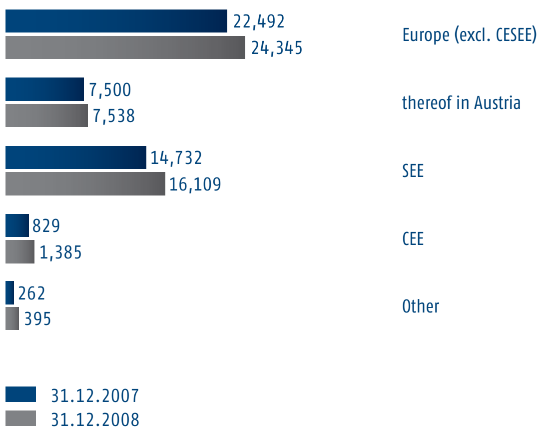
Rating EUR m

	31.12.2008	31.12.2007
1A–2A	8,391	8,168
2B–2E	4,576	4,830
3A–4A	17,107	14,582
4B–4E	4,634	4,108
Default class	3,294	1,507
No rating	4,232	5,121
Grand Total	**42,234**	**38,316**

In contrast to last year's Annual Report, the non-rated volume has been shown here.

Total exposure by regions within the Group
The country portfolio of Hypo Group Alpe Adria is concentrated in the EU and South Eastern European region. The strategic expansion of the portfolio occurred mainly in the fast-growing countries Slovenia and Croatia.

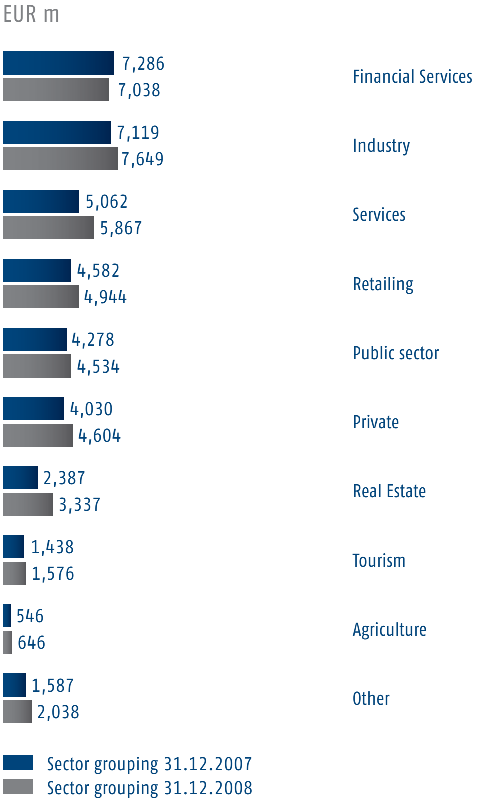
EUR m



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

Total exposure by industry sector within the Group
For the purpose of ensuring the economic direction and strategic orientation of industry exposure, Hypo Group Alpe Adria uses a uniform grouping key, which structures exposure into 21 industry sectors. In this context, lower-risk industry sectors such as credit institutions and the public sector are represented with a share of 27.4 %. The well-diversified private industry segment has a share of 10.9 %.

Total exposure by industry sector is broken down as follows:



The industry portfolio of Hypo Group Alpe Adria – in particular the corporate portfolio – is well diversified. There are no industry-induced concentration risks.

The expansion of the portfolio took place particularly in the per se well-diversified services and real estate management segments.

Maximum credit risk – Loans and advances to customers, by industry and region

The risk driver in Hypo Group Alpe Adria credit portfolio are the loans and advances to customers (private, corporate, public sector etc.). These are broken down as follows (by industry and region):

EUR m

Sector groups	Europe (excl. CESEE)	Thereof in Austria	SEE	CEE	Other	Total
Services	3,094	1,155	2,289	265	61	5,709
Financial service providers	101	1	3	0	0	103
Retailing	1,885	313	2,616	190	20	4,711
Industry	3,657	845	3,425	202	0	7,285
Agriculture	143	78	458	11	0	612
Public sector	3,650	2,205	649	198	35	4,532
Private Entities	1,538	495	2,919	76	2	4,534
Real estate	2,821	546	307	187	0	3,314
Tourism	500	174	971	49	1	1,521
Other	1,454	689	429	25	61	1,969
Grand Total	**18,843**	**6,502**	**14,065**	**1,202**	**180**	**34,290**

The SEE portfolio features extensive portions in the per se well-diversified segments industry, trade and private industry. The expansion of the lower-risk retail business forms an essential component of Hypo Group Alpe Adria's business strategy.

Maximum credit risk -Loans and advances to customers, by volume

EUR m

Size classes	31.12.2008	30.6.2008	31.12.2007
Up to EUR 5 m	17,145	16,649	16,875
> EUR 5 m to EUR 50 m	11,348	10,856	9,635
> EUR 50 m to EUR 100 m	2,630	2,559	1,936
> EUR 100 m to EUR 250 m	2,062	1,772	1,705
> EUR 250 m to EUR 500 m	585	273	460
> EUR 500 m to EUR 1 bn	520	512	0
Total exposure	**34,290**	**32,621**	**30,611**

Approximately 50 % of total exposure can be found in the small-volume segment (≤ EUR 5 m). This volume class also features the highest growth.

5.4.7 Impairment of financial assets

Financial assets which are neither overdue nor impaired

EUR m

Rating classes	Sum of maximum credit risk 31.12.2008	31.12.2007
1A–2A	8,282	8,123
2B–2E	4,412	4,660
3A–4A	15,173	12,971
4B–4E	3,617	3,314
No rating	3,139	3,846
Total	**34,623**	**32,914**

In addition to the rating procedures developed in-house, the German Landesbanken' IRBA-compliant rating procedures are currently being introduced for various partial portfolios, which will reduce considerably the proportion of the total portfolio which is not rated.

Financial assets which are overdue but not impaired

EUR m

	31.12.2008		31.12.2007	
Overdue but not impaired	Maximum credit risk	Fair value collateral	Maximum credit risk	Fair value collateral
Loans to credit institutions	**3**	**0**	**1**	**0**
- overdue up to 30 days	0	0	0	0
- overdue 30 days to 3 months	0	0	0	0
- overdue 3 months to 1 year	2	0	0	0
- overdue more than 1 year	0	0	0	0
Loans to customers	**5,162**	**3,630**	**3,817**	**2,815**
- overdue up to 30 days	1,537	1,176	1,529	1,184
- overdue 30 days to 3 months	1,346	1,009	1,093	753
- overdue 3 months to 1 year	2,109	1,327	1,134	845
- overdue more than 1 year	170	118	62	34
Trading assets	**0**	**0**	**0**	**0**
- overdue up to 30 days	0	0	0	0
- overdue 30 days to 3 months	0	0	0	0
- overdue 3 months to 1 year	0	0	0	0
- overdue more than 1 year	0	0	0	0
Total	**5,165**	**3,630**	**3,818**	**2,816**

Impaired financial assets

EUR m

		31.12.2008	31.12.2007
Financial assets	Max. credit risk	25	0
	Securities	0	0
Loans to credit institutions	Max. credit risk	85	0
	Securities	0	0
Loans to customers	Max. credit risk	1,314	996
	Securities	1,267	804
Max. credit risk		**1,424**	**996**
Securities		**1,267**	**804**

Re-negotiations

As part of renewed negotiations, changes driven by credit worthiness consideration were made to financial assets with a total carrying amount of EUR 220 m in 2008.

Realised collateral

In the financial year 2008 realisations of collateral has been about EUR 43 m.

5.5. Participation risk

5.5.1. Definition

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

5.5.2. General requirements

To achieve its business objectives, Hypo Group Alpe Adria (or a subsidiary) undertakes targeted investments which either serve to expand its business spectrum, provide services for the bank or function as purely financial holdings.

The handling of participation risks is governed by the Group participation policy. The policy governs in particular the differentiation into strategic and non-strategic/quasi-credit/credit-replacing holdings. Another objective is to ensure the development of a uniform process of holdings at Hypo Group Alpe Adria or at its Group-wide strategic or non-strategic holdings, as well as to describe the participation process, controlling and reporting in more detail.

Hypo Group Alpe Adria thereby influences the business and risk policy of an associated company through its representation on shareholder and supervisory committees.

In addition, all holdings are monitored for results and risk on a continuous basis. Hypo Group Alpe Adria pursues the objective of generating appropriate and lasting returns following a consideration of risk provisions. Beyond the centrally prescribed principles of risk management, each company of the Group is responsible for implementing the same as part of meeting its statutory obligations.

5.5.3 Risk measurement

The measurement of participation risk is carried out within Hypo Group Alpe Adria as per the PD/LGD approach for expected losses; the main idea of the standard approach is used for the ICAAP/unexpected loss (practical implementation: ICAAP = book value * risk weighting as per SolvaV [always 100 %] * statutory capital adequacy 8 %).

5.5.4. Risk controlling and monitoring

Hypo Group Alpe Adria has its own central unit with guideline setting competence for all methods and processes of participation risk controlling. The operational implementation of risk controlling instruments is the responsibility of the business units in charge.

A classification method for the purpose of risk assessment and monitoring has been implemented for all holdings (risk classification tool). Essential aspects in this regard are the maximum loss potential as well as an estimate of the risk of the holding. The classification of holdings is based on the obtained loss potential and the form of support. The determination of the form of support is carried out using the result of the risk assessment and early-warning process ("green": normal support, "yellow": intensive support, "red": problem credit treatment) either independently or, if required, with rehabilitation support for non-strategic holdings, and is automatically shown in the risk classification tool.

Risks from holdings are illustrated using the relevant procedures (classification, rating, early-warning) as part of the annual holdings report to the Executive and Supervisory Board. Ad hoc reports are prepared for decision-makers if early warnings signals are detected. Critical holdings are monitored as part of the intensive or problem credit processes.

5.6. Country risk

5.6.1 Definition
Country risk is the risk that a business partner or the government of the country itself no longer meets its obligations on the basis of mandatory measures or economic/political problems in a timely manner, or does not meet them at all.

For example, country risks may be incurred due to a possible deterioration of national economic conditions, a political or social collapse, the nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, measures to control currencies, payment or delivery prohibitions, moratoriums, embargoes, wars, revolutions, or coups in the respective countries.

5.6.2 General requirements
In order to develop new income potentials, Hypo Group Alpe Adria accompanies its clients in international growth markets, whereby independent strategies are formulated for selected countries and regions (example: expansion in Eastern Europe). As part of its business activities, Hypo Group Alpe Adria therefore purposely assumes country risks in limited amounts.

5.6.3 Risk measurement
Country risk is measured pursuant to the credit risk relevant total exposure per country.

An internal concept is used for conducting a country analysis. The model of internal country analysis and internal country rating consists of two models – hard facts and soft facts. The hard facts model consists of two linear regression models, which are linked by a hierarchical regression analysis. The soft facts model consists of a linear regression model. The final model results from the linking of the two models. The linkage is carried out using a hierarchical regression analysis.

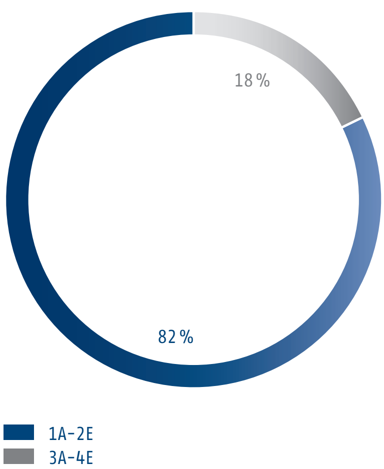
5.6.4 Risk mitigation
A limitation of country risks is carried out by way of limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries.

Cross-border transactions by the Group are subject to these limits, whereby direct financing (refinancing, capital) by subsidiaries are subject to a separate control which emanates directly from the Executive Board.

5.6.5. Risk controlling and monitoring
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports can also be prepared as required.

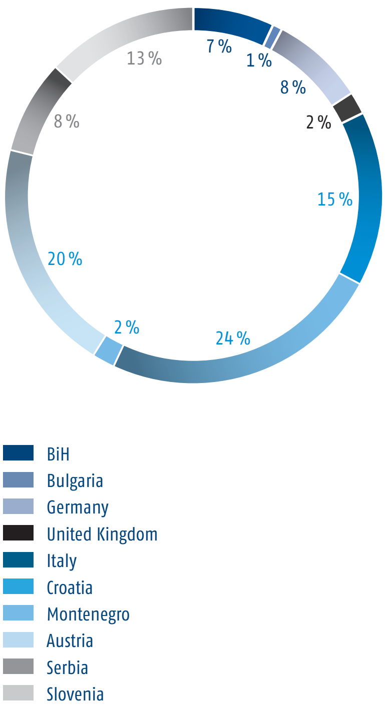
5.6.6 Portfolio overview – Country risk
The portion of total exposure in countries with rating classes 1A–2E is 82 %. At the end of 2008, approximately EUR 7.5 bn of total exposure was placed in countries with a rating below 2E.

Total exposure – Country rating distribution
31.12.2008



The share of the top 10 countries in the overall volume was 91.37 %. Of these, Austria and Croatia held the largest shares

Top 10 countries, by total exposure
31.12.2008



5.7. Market price risk

5.7.1 Definition

Market risks consist of potential losses due to a change in market prices. Hypo Group Alpe Adria classifies market price risks pursuant to the risk factors contained in changes to interest rates, credit, spread, currency and share price risks, as well as risks from alternative investments.

Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, currency exchange and results hedging, assets similar to equity or from active-passive management.

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

5.7.2 General requirements

The bank develops its market risk strategy on the basis of strategic discussions between the treasury units in charge. The results are discussed in the Group Risk Executive Committee (GREC) on the basis of analyses carried out by Group Market Risk Control. Decisions on combined business and risk strategies at Group level are only made in the Group Asset Liability Committee (Group ALCO).

As part of the daily reporting procedure, the Executive Board receives value-at-risk figures for trading transactions. In this vein, value-at-risk at the unit level is compared to the defined limits. Limit breaches initiate defined escalation processes up to Executive Board level.

The subsidiaries of Hypo Group Alpe Adria determine risks as per Hypo Group Alpe Adria specifications for the respective portfolios. The results are presented to the Group Executive Board as part of ongoing reporting for Hypo Group Alpe Adria.

5.7.3 Risk measurement

Hypo Group Alpe Adria determines its market risks 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 percent. The main instrument used in this process is the Monte Carlo simulation with an exponentially weighted history of 250 days. For the purpose of determining risk capital requirements for the risk bearing capacity calculation, values are scaled to the uniform confidence level of 99.895 percent, assuming a liquidation over a time period of 90 days.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also against the background of the increased significance of interest risk in the current market situation.

The reliability of market risk measurement methods is regularly examined with regard to the quality of individual risk methods. As part of back testing, the risk prognosis is compared with the result (profit or loss). In accordance with the Basel ‚traffic light' approach, the forecast quality of the risk model is appropriate.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called stress tests, and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required.

Hypo Group Alpe Adria does not currently use its own internal risk models for regulatory purposes. Instead, it uses the standard method.

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

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

As per Basel II specifications, a 200 basis point interest rate shock scenario is calculated for the interest rate change risk in the investment book. The cash value changes thus determined in relation to the regulatory equity are clearly under the so-called outlier criterion. In addition, a large number of possibly occurring market fluctuations can be calculated and illustrated through a calculation of standard, forward, historic and extreme scenarios.

5.7.4 Risk mitigation

The maximum loss that may be incurred by assuming market risk is limited by the determination of market risk capital. Market risk capital is distributed over individual market risk factors (interest rate, currency, shares, credit spread and alternative investments) by way of defining risk factor limits. In this vein, risk factor limits are also further classified by defined partial portfolios.

Furthermore, a limit system also provides support through defined warning levels, which show negative developments early on.

5.7.5 Risk controlling and monitoring

All market risks are centrally monitored by the trading-independent unit Group Market Risk Control. In addition to regulatory requirements, this unit also ensures risk transparency and regular reporting to the Executive Board in charge. The Board also receives a separate monthly report on the actual market risk situation as well as back testing and stress test results with references to possibly significant developments.

The control of interest risk is carried out on an institutionalised basis in adherence to regulatory requirements related to interest rate risk statistics. The Asset Liability Committee, which consists of the Group Executive Board as well as key staff in Treasury, Risk management and Financial Controlling, analyses and makes decisions as part of regular meetings with regard to measures related to balance sheet structure and liquidity controlling.

5.7.6 Overview of market risk

The following graph illustrates the progression of interest rate change risk for Hypo Group Alpe Adria in 2008. The fixed-interest period statement for Hypo Group Alpe Adria contains all interest rate relevant on and off balance sheet items with their next interest rate fixing date. The stochastic cash flows are illustrated with uniform Group standards, and with local models for country-specific transactions. All fixed-interest period statements of local banks are consolidated at Group level and combined into the Group fixed-interest period statement.

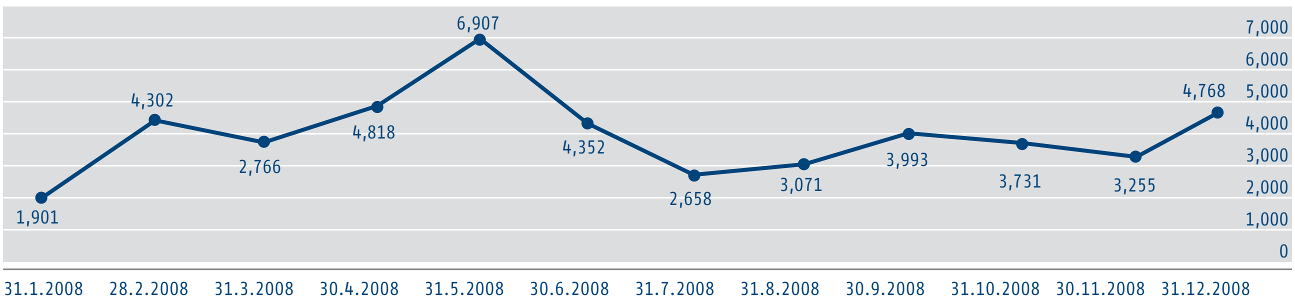
The methodology of the interest risk calculation is oriented to the specifications of the Austrian National Bank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group fixed-interest period statement; a second step calculates the risk equity ratio as a percentage of capital resources.

At no point during the year was there any threat that the regulatory limit of 20 %, and the internal limit of 15 %, might be reached or breached.

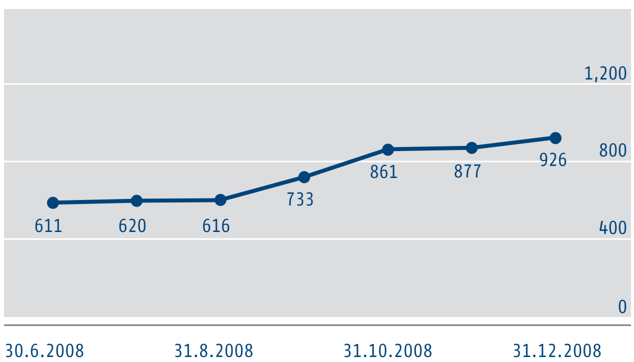
The data basis for determining the value-at-risk for open foreign currency positions at Group level is based on the figures of the OeNB report and contains operational business activities.

The value-at-risk for this foreign currency risk was approximately EUR 0.93 m per day as at December 31 2008, at a confidence interval of 99 %.

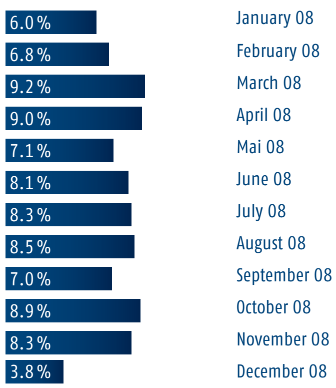
Interest Rate Risk HGAA – VAR (99 %, 1 day)
EUR '000, 31.12.2008



Change in VAR – open foreign currency positions – Group
EUR '000, 31.12.2008

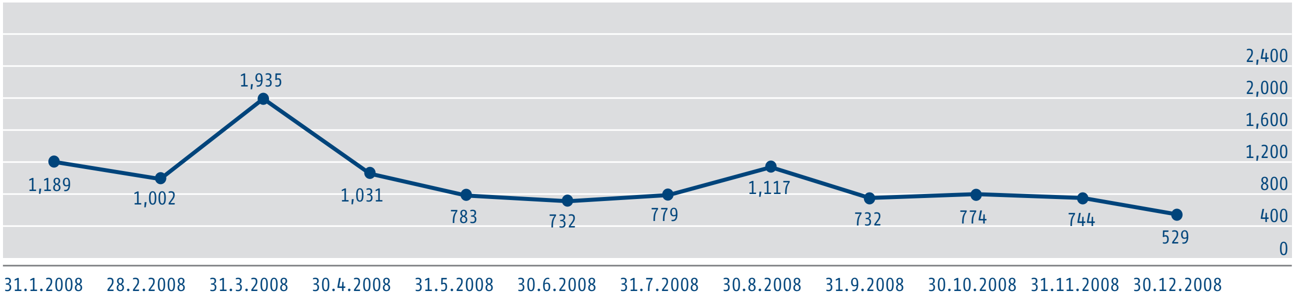


Interest Risk Equity Ratio in %



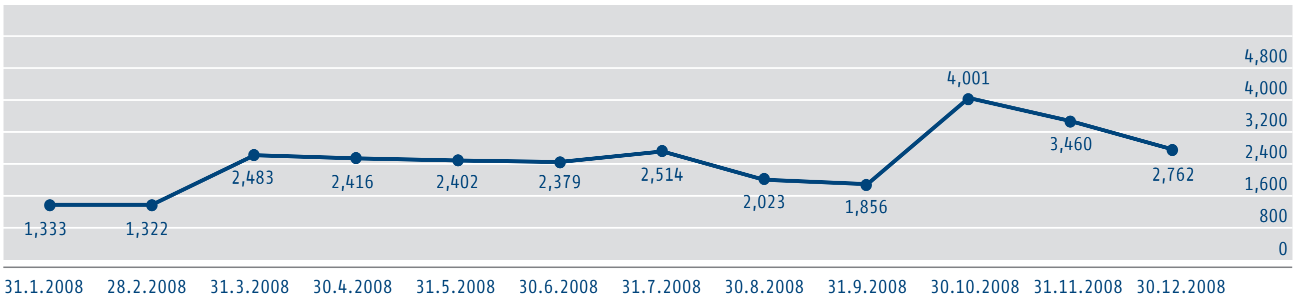
The value-at-risk for share risk at Hypo Group Alpe Adria was at EUR 0.53 m as at 31 December 2008, at a holding period of one day and a confidence level of 99 %.

Change in VAR – Share register EUR '000



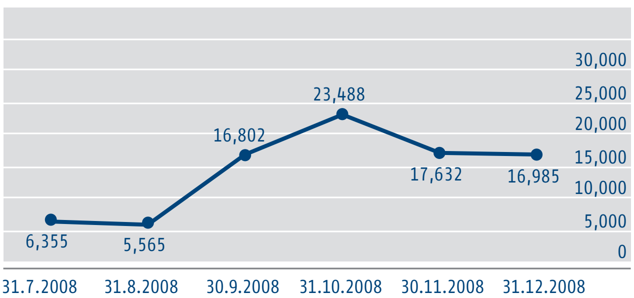
Alternative investment risk within Hypo Group Alpe Adria at the end of the year 2008 was at EUR 2.76 m, at a 1-day value-at-risk and a 99 % confidence level.

Change in VAR Alternative Investments EUR '000



The credit spread risk on the investment book within Hypo Group Alpe Adria at 2008 year-end was EUR 16.98 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in credit spread risk EUR '000



5.8. Liquidity risk

5.8.1 Definition
Hypo Group Alpe Adria views liquidity risks as the risk of not being able to meet due payment obligations in a timely manner or not at all, or – in the case of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

5.8.2 General requirements
The strategic principles of handling liquidity risks at Hypo Group Alpe Adria are defined in the risk strategy. The superordinate 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 controlling of liquidity risks are governed by a liquidity manual which applies across the entire Group.

At the Group level, liquidity controlling and management are the responsibility of the Group Treasury area of Hypo Group Alpe Adria. It is here that the controlling of situational and structural liquidity takes place and funding potentials are coordinated at the Group level. The local treasury units are responsible for operational liquidity controlling and liquidity offsets. At the Group level, liquidity risk controlling is the responsibility of the Group Market Risk Control area at Hypo Group Alpe Adria, and of the respective risk controlling units at the local level. It is here that risk measurement, limitation as well as timely and consistent reporting are carried out.

Hypo Group Alpe Adria 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 or tackle acute crises. In the case of a liquidity crisis, the strict maintenance of a capacity to pay as well as preventing damage to reputation form the major objectives of the bank.

5.8.3 Risk measurement
The main methodological tool to measure, analyse, monitor and report on liquidity risk within Hypo Group Alpe Adria is the liquidity overview. It is used to illustrate liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in firmly defined term bands.

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

1. free access to central bank and interbank funds,
2. other available and eligible securities,
3. issue potential in cover register
4. senior bond issues
5. approved lines of parent company, as well as
6. securitisation potential.

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

On the basis of liquidity overviews, key indicators are determined for the different scenarios, which provide for a compact assessment of the liquidity situation. The maximum utilisation of the liquidity coverage potential for up to one year is used to evaluate the liquidity situation, whereby particular significance is assigned to the utilisation over the first 4 weeks. In addition, liquidity key indicators are calculated for controlling purposes; they illustrate the relationship between liquidity reserves and liquid assets with short-term payment obligations.

For the purpose of limiting structural liquidity, cash value losses in the case of an increase in the funding spread due to a rating deterioration in the risk bearing capacity calculation are compared to the economic equity.

5.8.4 Risk controlling

A bundle of different liquidity reserves ensures that Hypo Group Alpe Adria maintains its ability to pay even during crisis situations. They are subjected to different stresses in order to maintain an overview of available liquidity resources through the respective units even during crisis situations.

While in a normal case the main generating-related focus is on interbank deposits, CP and issues in addition to customer deposits, eligible securities and/or securities that can be quickly liquidated are held for the case of a crisis.

Liquidity controlling for the Group is carried out both at a local level, in particular for HRK (Croatian kunas) and RSD (Serbian dinars), as well as centrally for the Group through the Group holding.

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. The latter are determined directly in the market units on the basis of client business for the purpose of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity coverage potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and stresses, depending on the market situation (as described above).

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

5.8.5 Risk monitoring

Monitoring of liquidity risks is carried out for the maximum utilisation of liquidity coverage potential under normal and stress conditions (see 5.8.3.) on the basis of key indicators, as well as through the integration of the structural liquidity risks into overall bank controlling (risk bearing capacity). Besides a structural examination of the cash flow, a simulation of new business (5-year business plan) is also taken into account.

To ensure that existing liquidity gaps can be closed at any time through the mobilisation of the liquidity coverage potential, capacity utilisation for all scenario analyses classified as relevant must always be under 100 % for the stress-relevant time periods. As soon as certain thresholds are reached, measures to reduce the identified liquidity risks are implemented.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the controlling segments in charge.

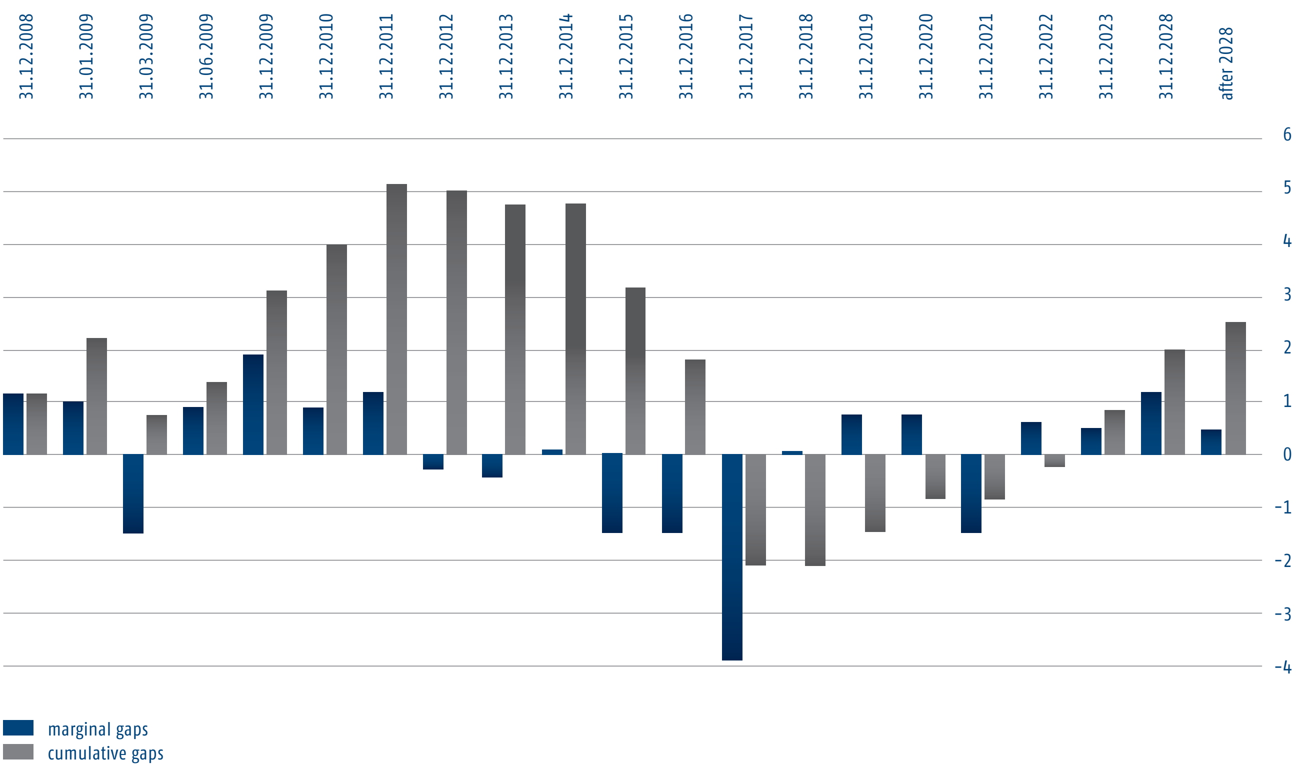
5.8.6 Overview – Liquidity situation

The following illustration shows a liquidity profile for Hypo Group Alpe Adria as at 31 December 2008, for which liquidity gaps were determined from balance sheet items partly on the basis of their contract due dates (deterministic cash flow) as well as uniform modelling assumptions (stochastic cash flows).

As the illustration shows, the refinancing structure has been configured on a long-term basis. The main currencies of the Group consist of the euro, Swiss franc as well as the local currencies of the South Eastern European countries.

The situation in international money and capital markets in 2008 was characterised strong distrust between individual market participants. In accordance with these difficult conditions, Hypo Group Alpe Adria implemented measures as part of its emergency liquidity plan and increasingly drew on existing liquidity reserves. This not only served to ensure the Group's uninterrupted ability to pay, but also allowed it to extend the coverage of liquidity resources for the expected and stressed outflows to over 52 weeks. Capital injections provided by BayernLB as well as the Republic of Austria also provided support in this regard.

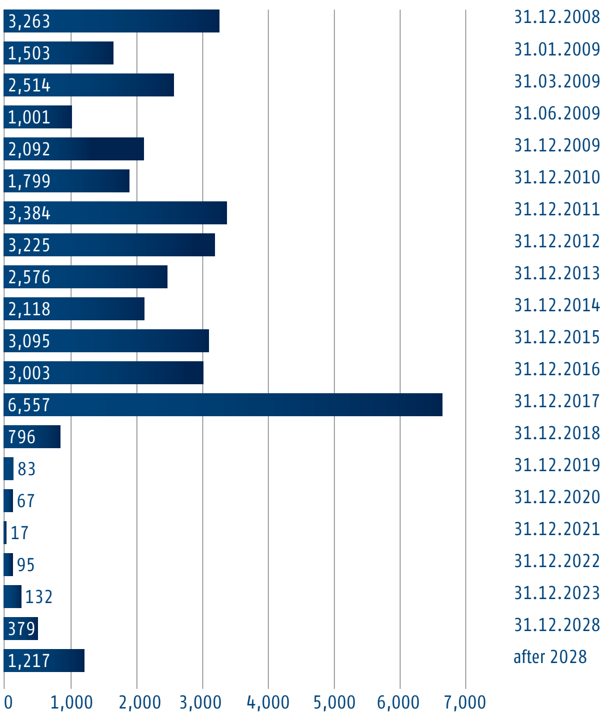
Hypo Group Alpe Adria Liquidity GAP Balance per Time Bucket
EUR bn



Below is a listing of due dates for the financial liabilities of Hypo Group Alpe Adria, based on the following conservative assumptions:

1. Current accounts, call monies and cash collaterals are due on the next working day
2. Modelled stabel/volatil cash flows (primary funds) are excluded (only legal due date is decisive)
3. Cancellable positions are due at the next possible cancellation date
4. Equity components and accruals and value adjustments are not represented

Hypo Group Alpe Adria
due dates for financial liabilities
EUR m



To ensure that the Group can react accordingly to changed conditions related to liquidity controlling, liquidity controlling at Hypo Group Alpe Adria has already been reviewed in 2007 together with an external partner. Its implementation within Hypo Group Alpe Adria and the individual Group subsidiaries was mostly completed in 2008.

In addition, emphasis was also placed on the broadening of liquidity resources and developing measures or defining conditions in order to maintain the Group's uninterrupted payment capacity in a changed environment in the future.

5.9. Operational risk

5.9.1 Definition

Hypo Group Alpe Adria defines operational risk as follows:

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.

5.9.2 General requirements

The objective of operational risk management at Hypo Group Alpe Adria is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). Subsidiaries which are part of the consolidation must implement operational risks on the basis of the Basel II standard approach ("STA") as part of the project agreements. Operational risks are identified and evaluated, so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined.

5.9.3 Implementation

Essential banking institutions and leasing subsidiaries, as well as subsidiaries which must be consolidated, must be fully taken into account in the implementation of operational risk.

Other subsidiaries are required to separately arrange the scope of the implementation with the Group.

Sub-organisations of subsidiaries are the responsibility of the subsidiary.

To ensure synergy effects, arrangements have been made with Group Legal Services that the operational risk management software ("Inform") will also include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

5.9.4 Responsibilities

Based on the current structure of Hypo Group Alpe Adria, the main areas of responsibility for Operational Risk are defined as follows:

1. The Chief Risk Officer (CRO) is responsible for the implementation of fundamental operational risk decisions. On the instruction of the CRO, Group Credit Risk Control implements the methods for OpRisk management.
2. Operational risk officers in the area Group Credit Risk Control of Hypo Alpe-Adria-Bank International AG ("HBInt") are responsible for directing the Group and support its subsidiaries.
3. The operational risk officers of the subsidiaries are responsible for the local implementation of operational risks and reporting to the Group.
4. With the support of the decentralised operational risk officer, department managers are responsible for the implementation in their areas, as well as quality assurance.
5. The decentralised operational risk officer is also responsible for the monitoring and implementation of standards and methods within the departments and areas.

5.9.5 Instruments and methods

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

1. The operational risk management software ("inFORM") forms the platform for implementing the instruments at Hypo Group Alpe Adria.
2. The Hypo Group employs the following methods to support the strategy:
   a. loss data bank for a systematic gathering of operational risks in the entire organisation;
   b. qualitative instruments and risk inventories to determine and evaluate risks inside business processes;
   c. regular reports as an instrument for communicating essential risks to the Executive Board.

5.9.6 Thresholds for loss data gathering

The current threshold for the reporting of losses within Hypo Group Alpe Adria has been set at EUR 1,000.

The current threshold for the reporting of losses to BayernLB has been set at EUR 5,000.

Losses from 1 January 2006 onwards must be recorded.

5.10. Summary and outlook

During the year under review, Hypo Group Alpe Adria has further expanded its risk controlling and management instruments. Significant progress was made in a number of areas. The requirements resulting from the new equity agreement pursuant to Basel II were a main factor in this development. Furthermore, the bank's control systems were successively adapted to BayernLB standards.

Hypo Group Alpe Adria possesses a capable risk management and controlling system, which is continuously adapted to internal and external requirements in a future-oriented manner. The further development of methods which are used to represent and control risk also tries to ensure that they meet not only regulatory requirements but also the strategic direction of the Group.

The organisation of Hypo Group Alpe Adria is tailored to its risk profile, and takes into account the complex marketing environment in which the bank operates. Control and monitoring of all risk types, including all reporting requirements for the Hypo Group Alpe Adria Executive Board, form a central tasks of risk controlling.

In the year under review, Hypo Group Alpe Adria also focused on expanding the methods and processes for risk representation and control at its strategic subsidiaries. By focusing on the consistent implementation of requirements and expansion of risk instruments also within the Group, Hypo Group Alpe Adria's risk management made an important contribution towards value-oriented overall controlling. This process will continue to be implemented in a targeted manner as part of a project to implement the internal rating based approach (IRBA).

The currently difficult market environment is addressed with the introduction of a new credit process.

Hypo Group Alpe Adria views these activities as a significant success factor and hence competitive advantage for the Group, in order to create lasting values for shareholders and investors, as well as its employees.

Additional information on risk management, the organisational structure and risk capital situation can be found in the Group's own disclosure report which is published in accordance with Section 26 and 26a BWG. The disclosure report can be found on the Group's home page (www.hypo-alpe-adria.com) in the Investor Relations area.

6. Other information

Information pursuant to Section 267 UGB (Austrian Enterprise Code) as regards events following the closing date (supplementary report), as well as explanations regarding the use of financial instruments are given in the notes to the consolidated annual financial statements, since this information concerns obligatory notes information pursuant to IFRS.

7. Outlook

Economic researchers are all forecasting only slight growth in the core Hypo Group Alpe Adria markets in 2009. However, in view of the continued financial crisis during first months of the new financial year and a lack of indicators suggesting a quick recovery of the real economy, the Executive Board is assuming that 2009 will be a difficult financial year throughout. In the medium term, several national economy indicators even suggest that the economy of South Eastern Europe may also enter into a recession. The potential impact of such a scenario on currencies, in particular on the currencies of importance to Hypo Group Alpe Adria – the Croatian kuna and Serbian dinar – cannot be predicted with any measure of certainty at this time.

In the area of operations, reduced credit growth in the corporate area can be expected, and demand in the retail area will likely increase at a slower pace. The main factors in this decline are a reluctancy to invest on the part of companies and private clients.

The intention is to continue utilising the potential of core markets as part of a selective and risk-adequate use of liquidity for new financing, on a regional and business segment-spanning basis, whereby the focus of new business acquisition will be on smaller and medium-sized businesses (SME) and retail clients rather than on large-volume corporate business. At the same time the Group also plans to expand its product offering in the financing and investment area, whereby the development of tailored product packages will be a major focus.

Against this backdrop, Hypo Group Alpe Adria will continue to adapt its internal organisation to the new conditions and implement further restructuring and strategic realignment measures in 2009.

As a part of the BayernLB Group, Hypo Group Alpe Adria will also meet its responsibilities within the Group-wide efficiency and structural optimisation project. The project envisions a comprehensive reorganisation and market strategy which is adapted to current conditions; it is to be approved by the Supervisory Board of Hypo Alpe-Adria-Bank International AG in April 2009.

Overall, the year 2009 will be characterised by the newly-aligned risk policy and more particularly the hedging of credit risk. Corresponding analysis, settlement and recovery processes will be newly aligned, with a main focus on the active management of the existing portfolio as well as achieving restructuring targets for individual commitments. There will be particular challenges in the area of securities realisation in the future, as the amounts that can be realised from selling finance collaterisation will decrease markedly as a result of the low levels of investment. In such circumstances, the management of Hypo Group Alpe Adria is therefore assuming that higher than average risk provision costs will continue to be incurred on the loan and leasing portfolio in 2009 and 2010.

In view of the considerable uncertainties surrounding the main parameters of economic and currency developments in Hypo Group Alpe Adria's core markets, management is not able to provide a reliable results forecast for the 2009 financial year.

At the same time, as a result of the capital-strengthening measures which were quickly implemented during the last quarter of 2008, the Hypo Group feels that at an own capital funds ratio of 11.9 % and a Tier 1 ratio (related to credit risk) of 8.3 % it is well prepared to face the upcoming challenges.

Income Statement

EUR '000

	Note	1.1.– 31.12.2008	1.1.– 31.12.2007
Interest and similar income	(35)	2,394,066	1,999,021
Interest and similar expense	(36)	–1,691,864	–1,399,828
Net interest income		**702,202**	**599,193**
Fee and commission income	(37)	145,145	156,694
Fee and commission expenses	(38)	–27,577	–35,361
Net fee and commission income		**117,569**	**121,333**
Result from trading	(39)	–37,675	22,366
Result from hedge accounting	(40)	–44,085	–1,481
Result from fin. investments – designated at fair value through profit or loss	(41)	11,751	–152,451
Result from fin. investments – available for sale	(42)	–114,053	5,801
Result from fin. investments – held to maturity	(43)	14	6
Result from other financial investments	(44)	–36,747	10,758
Other operating result	(45)	46,358	45,804
Operating income		**645,334**	**651,328**
Risk provisions on loans and advances	(46)	–533,258	–274,140
Operating income after risk provisions		**112,076**	**377,188**
Personnel expenses	(47)	–268,701	–240,905
Other administrative expenses	(48)	–218,264	–201,373
Depreciation and amortization of tangible and intangible assets	(49)	–98,619	–48,862
Operating expenses		**–585,584**	**–491,141**
Operating result		**–473,507**	**–113,953**
Result from the disposal of group companies	(50)	0	56,786
Result from companies accounted for at equity	(51)	1,075	1,034
Result before tax		**–472,433**	**–56,132**
Taxes on income	(52)	–45,821	–14,205
Result after tax		**–518,254**	**–70,337**
Minority interests	(53)	–1,486	73,474
Consolidated net result (after minority interests)		**–519,740**	**3,137**

Consolidated net result (after minority interests)	EUR '000	–519,740	3,137
Average number of shares outstanding	Number	6,132,852	4,822,296
Earnings per share	(in EUR)	**–84.75**	**0.65**

Earnings per share are calculated by dividing the consolidated net income (after minority interests) of EUR –519,740 thousand (2007: EUR 3,137 thousand) by the weighted average number of ordinary shares outstanding during the fiscal year, namely 6,132,852 shares (2007: 4,822,296 shares).

In December 2008 Hypo Alpe-Adria-Bank International AG issued participation capital, as defined in Section 23 (3)(8) BWG (Austrian Banking Act), to the value of EUR 900,000 thousand to the Republic of Austria (see also Note 99). Under the terms of the agreement, the Republic of Austria may convert the participation certificates into ordinary shares at any time: the conversion price will be determined at the point of conversion.

For this reason diluted earnings per share cannot be determined.

Balance Sheet

EUR '000

	Note	31.12.2008	31.12.2007
ASSETS			
Cash and balances with central banks	(54)	999,207	997,864
Loans and advances to credit institutions	(55)	4,483,271	3,932,772
Loans and advances to customers	(56)	30,566,667	25,650,736
Risk provisions on loans and advances	(57)	−1,086,231	−705,266
Trading assets	(58)	179,181	127,163
Positive fair value from hedge accounting derivatives	(59)	581,682	156,621
Financial investments – designated at fair value through profit or loss	(60)	1,120,532	1,384,468
Financial investments – available for sale	(61)	2,565,532	2,735,469
Financial investments – held to maturity	(62)	41,940	42,570
Investments in companies accounted for at equity	(63)	5,360	21,948
Other financial investments	(64)	1,134,960	960,064
Intangible assets	(66)	66,691	64,343
Tangible assets	(67)	583,190	636,063
Tax assets	(69)	559,924	536,220
Assets held for disposal	(70)	10,200	0
Other assets	(71)	1,523,945	1,397,467
Total assets		**43,336,051**	**37,938,501**
LIABILITIES & EQUITY			
Liabilities to credit institutions	(72)	7,287,995	4,456,962
Liabilities to customers	(73)	8,716,894	8,473,574
Liabilities evidenced by certificates	(74)	21,415,340	20,282,581
Trading liabilities	(75)	27,902	8,444
Negative fair value from hedge accounting derivatives	(76)	107,356	392,596
Provisions	(77)	107,608	64,965
Tax liabilities	(78)	380,256	376,094
Other liabilities	(79)	1,172,418	890,873
Subordinated capital	(80)	1,590,448	1,333,342
Equity	(81)	2,529,835	1,659,071
thereof shareholders' equity		2,020,713	1,154,484
thereof minority interests		509,122	504,588
Total liabilities & equity		**43,336,051**	**37,938,501**

Statement of Changes in Equity

	Issued capital	Additional paid-in capital	Available for sale-reserve	Foreign currency translation
Equity on 01.01.2008	**48,367**	**940,337**	**–4,972**	**359**
Capital increases	914,107	680,643	0	0
Dividends paid	0	0	0	0
Consolidated result	0	0	0	0
Change in available for sale-reserve	0	0	–156,545	0
Other changes	0	–739,924	2	–977
Equity on 31.12.2008	**962,474**	**881,057**	**–161,515**	**–618**

As of 31 December 2008, the additional paid-in capital in the separate accounts of Hypo Alpe-Adria-Bank International AG amounts to EUR 900,257 thousand (2007: EUR 959,883 thousand). The participation capital issued in 2008 is shown under issued capital.

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

Revenues and expenses directly recognised in equity are shown below:

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Recognised directly in equity	**–165,512**	**–29,195**
Valuation result on available for sale-reserves	–164,792	–38,370
Foreign exchange differences (change in foreign currency reserve)	–990	200
Taxes on items directly recognised in equity	271	8,975
Result after tax	**–518,254**	**–70,337**
Total income and expenses recognised in the reporting period	**–683,765**	**–99,532**
thereof shareholders' equity	–677,247	–25,050
thereof minority interests	–6,518	–74,482

EUR '000

	Retained earnings	Net consolidated result	Shareholders' equity	Minority interests	Total
	120,392	**50,000**	**1,154,484**	**504,588**	**1,659,071**
	0	0	1,594,750	245,029	1,839,779
	0	−50,000	−50,000	−35,160	−85,160
	0	−519,740	−519,740	1,485	−518,256
	0	0	−156,545	−7,976	−164,521
	218,924	519,740	−2,235	−198,844	−201,079
	339,315	**0**	**2,020,713**	**509,122**	**2,529,835**

EUR '000

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

Cash Flow Statement

EUR '000

	31.12.2008	31.12.2007
Result after tax	**–518,254**	**–70,337**
Non-cash items included in result and adjustments to reconcile result to net cash flow from operating activities:		
Depreciation and amortisation of tangible fixed assets and financial investments	**241,269**	**101,327**
Financial investments	142,656	52,465
Tangible and intangible assets	98,612	48,862
Change in risk provisions	474,579	267,641
Change in provisions	57,681	9,886
Gains (losses) from disposals of tangible fixed assets and financial investments	**–6,386**	**–19,575**
Financial investments	–633	–12,422
Tangible and intangible assets	–5,753	–7,154
Subtotal	**248,888**	**288,941**
Change in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	–5,560,044	–6,059,360
Financial investments – current investments	276,555	–192,674
Trading assets	–52,018	35,411
Other assets	–551,540	–276,812
Liabilities to credit institutions and customers	3,074,353	2,598,266
Liabilities evidenced by certificates	1,132,760	2,677,890
Trading liabilities	19,458	–127
Provisions	–15,037	–6,749
Other liabilities	–3,695	387,125
Tax assets / liabilities	–19,543	–64,862
Net cash from operating activities	**–1,449,862**	**–612,951**
Proceeds from sales of:	**239,484**	**352,012**
Financial investments and participations	196,674	275,863
Tangible and intangible fixed assets	42,810	76,149
Payments for purchases of:	**–590,485**	**–788,165**
Financial investments and participations	–491,882	–612,949
Tangible and intangible fixed assets	–98,603	–175,217
Proceeds from sale of subsidiaries (less cash disposed of)	1,291	8,385
Payments for acquisitions of subsidiaries (less cash acquired)	–8,478	–13,280
Other changes	–5,704	–1,074
Net cash from investing activities	**–363,892**	**–442,122**
Capital contributions / disbursements	1,839,779	924,274
Subordinated capital and other financing activities	57,003	224,018
Dividends paid	**–85,160**	**–35,627**
thereof dividends paid to shareholders of the parent company	–50,000	–9,627
thereof dividends paid to minority interests	–35,160	–26,000
Net cash from financing activities	**1,811,622**	**1,112,665**

EUR '000

	31.12.2008	31.12.2007
Cash and cash equivalents at the end of previous period	**997,864**	**931,447**
Net cash from operating activities	–1,449,862	–612,951
Net cash from investing activities	–363,892	–442,122
Net cash from financing activities	1,811,622	1,112,665
Effect of exchange rate changes	3,476	8,824
Cash and cash equivalents at the end of period	**999,207**	**997,864**

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

Cash and cash equivalents includes the balance sheet item cash reserves, which covers cash and balances with central banks.

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

Notes to the Consolidated Financial Statements

Group and Activities

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

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

The Hypo Group Alpe Adria currently operates in twelve countries or regions, namely Austria, Northern Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Southern Germany, Hungary, Bulgaria, Macedonia and the Ukraine. In banking and leasing, Hypo Group Alpe Adria now has approximately 7,500 employees at more than 380 sites, who serve over 1.3 million customers.

As of 31 December 2008, ownership of Hypo Alpe-Adria-Bank International AG was as follows:

67.08 %	Bayerische Landesbank (BayernLB)
20.48 %	BVG Beteiligungs- und Verwaltungsgesellschaft mbH (GRAWE Group)
12.42 %	Kärntner Landes- und Hypothekenbank-Holding (Kärntner Landesholding)
0.02 %	Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation)

Hypo Alpe-Adria-Bank International AG has been included as a subsidiary in the consolidated financial statements according to IFRS of BayernLB Group since 9 October 2007.

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

Significant Accounting Policies

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

These consolidated financial statements for the financial year ended 31 December 2008 were prepared in accordance with the International Financing Reporting Standards (IFRS) and feature comparative figures for 2007 that have been prepared according to the same accounting principles.

The consolidated financial statements of Hypo Group Alpe Adria as of 31 December 2008 were prepared in conformity with Section 245a of the Austrian Enterprise Code (UGB) and Section 59a of the Austrian Banking Act (BWG) according to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002, on the basis of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC).

The consolidated financial statements consist of the income statement, the balance sheet, the changes in statement of equity, the cash flow statement and the notes. As a general rule, segment reporting is contained within the notes, and further explanations are found in the management report. The group management report according to Section 267 of the Austrian Enterprise Code includes the risk report.

The consolidated financial statements are based on separate or partially consolidated financial statements of all fully consolidated companies for the period ended 31 December 2008, prepared in accordance with IFRS. As required by IAS 27, Hypo Group Alpe Adria applies uniform accounting principles throughout the group. The consolidated financial statements are prepared on a going concern basis.

In accordance with IFRS 7, mandatory information relating to the nature and extent of risks arising in connection with financial instruments is provided in the risk report (pages 26–46), which is part of the Group Management Report.

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

The consolidated financial statements 2008 are to be approved by the Supervisory Board on 23 April 2009.

Significant Accounting Policies

The consolidated financial statements for the financial year 2008 are based exclusively on IFRSs / IASs and their interpretations that have been approved for application and published by the European Union as per 31 December 2008.

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

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

The IASB published a change to the IAS 39 standard in the fourth quarter of 2008, which allows the reclassification of certain financial instruments to a different measurement category. The Group did not make use of this reclassification option in 2008.

The following standards were not considered, as no transactions of that nature occurred within the Group:

Standard	Description
IFRS 4	Insurance Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IAS 11	Construction Contracts
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures

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

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

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

Standard	Description	compulsory as of
IFRS 8	Operating Segments	01. January 2009
IAS 1	Amendment to IAS 1 – Presentation of Financial Statements	01. January 2009
IAS 23	Amendment to IAS 23 – Borrowing Costs	01. January 2009
IFRS 3	Amendment to IFRS 3 – Business Combinations	01. January 2010
IAS 27	Amendments to IAS 27 – Consolidated and Separate Financial Statements	01. January 2010

As from financial year 2009, IFRS 8 (Operating Segments) shall replace the previously applied standard IAS 14 (Segment Reporting). Operating segments are components of a company for which separate financial information is available that is regularly checked by the chief executive of the relevant operating segment (management approach) for the purpose of deciding the allocation of resources and assessing performance. Hypo Group Alpe Adria has elected not to apply IFRS 8 ahead of time. Consequently, there shall be reporting changes in external reporting as from 2009, which will also lead to alignments in reporting of comparable figures for 2008.

As is permitted, the amended IAS 1, IFRS 3 and IAS 27 has also not been applied early.

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

(2) Use of estimates and assumptions

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

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

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

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

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

All entities that are directly or indirectly controlled by Hypo Alpe-Adria-Bank International AG and that are material for the presentation of the financial situation and earnings position of the group are included in the consolidated financial statements. The full list of included subsidiaries is found in Notes (108).

These consolidated financial statements comprise 32 Austrian companies (2007: 31) – including Hypo Alpe-Adria-Bank International AG – and 86 (2007: 88) foreign subsidiaries.

	31.12.2008		31.12.2007	
	Fully consolidated	Equity method	Fully consolidated	Equity method
At the end of previous period	**114**	**5**	**110**	**7**
Included for the first time in the period under review	11	–	22	–
Merged in the period under review	–10	–	–3	–
Excluded in the period under review	–1	–1	–14	–3
Reclassified	–1	1	–1	1
At the end of period	**113**	**5**	**114**	**5**
thereof Austrian enterprises	30	2	29	2
thereof foreign enterprises	83	3	85	3

According to the Austrian Banking Act, the fully consolidated entities are nine banks, 42 financial services providers, 22 providers of banking-related services, two investment firms, one fund which, in line with SIC 12 must be fully consolidated, and 36 other enterprises.

Significant Accounting Policies

In the 2008 financial year, the following 11 fully consolidated subsidiaries were included for the first time:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Reason
HYPO INVESTMENTS a.d. Beograd	Belgrade	100.00 %	99.91 %	fully consolidated	Acquisition
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Belgrade	100.00 %	99.91 %	fully consolidated	Foundation
NORICA INVESTMENTS LIMITED	St. Helier	51.00 %	51.00 %	fully consolidated	Foundation
HYPO TC-BB DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation
HYPO KASINA DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation
Hypo 111	Klagenfurt	98.54 %	98.54 %	fully consolidated	Materiality
HYPO DVA d.o.o.	Ljubljana	100.00 %	75.24 %	fully consolidated	Materiality
HYPERIUM DOOEL Skopje	Skopje	100.00 %	75.24 %	fully consolidated	Foundation
HYPO ULAGANJA d.o.o.	Zagreb	100.00 %	75.24 %	fully consolidated	Foundation
HYPO SINĐELIĆ DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation
HYPO PB DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Foundation

Because of their minor importance, 82 subsidiaries in total are not included in the consolidated financial statements. Essentially, these are real estate companies and other companies operating outside the core business segments. Outside the scope of consolidation, Hypo Group Alpe Adria does not maintain any special purpose vehicles within the meaning of Structured Investment Vehicles (SIV's for short; these are special purpose vehicles engaging in off-balance sheet credit arbitrage).

According to current available annual financial statements, the cumulated result after tax of non-consolidated entities amounted to EUR –5.2 m. For the purposes of inclusion or non-inclusion, the criterion of the balance sheet total is of no relevance to us because these companies are almost entirely financed by the Group.

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

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

In the financial year 2008, the following 11 fully consolidated subsidiaries have been excluded from the scope of consolidation:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Reason for exclusion
VIVATINVEST d.o.o.	Ljubljana	100.00 %	75.24 %	fully consolidated	Sale
HYPO CENTAR SIBENIK d.o.o.	Zagreb	100.00 %	75.24 %	fully consolidated	Merger
HYPO AC ADA DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO RK ALEKSANDAR DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO PP CENTAR DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO MARSOL DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO MY PLACE DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO ŽALJEVO DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO CINEMA DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO SINĐELIĆ DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger
HYPO PB DOO BEOGRAD	Belgrade	100.00 %	75.24 %	fully consolidated	Merger

(4) Business combinations

In financial year 2008, one company was acquired which falls, in principle, within the scope of application of IFRS 3. This company is a Serbian investment fund company. From the purchase price allocation, the following overview is obtained:

	HYPO INVESTMENTS a.d. Beograd
Date of acquisition	30.04.2008
Acquired share (direct)	100 %
Assets	0.2
Fair value adjustment	0.0
Revalued assets	**0.2**
Liabilities	0.0
Fair value adjustment	0.0
Revalued liabilities	**0.0**
Net assets	**0.2**
Acquisition costs	0.4
Remaining goodwill	**0.2**
Impairment goodwill	–0.2
Resulting assets as of 31.12.2008	**0.0**

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

(5) Consolidation methods

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

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

According to IFRS 1, there is no requirement to apply IFRS 3 to business combinations which occurred prior to the transition to IFRS 1 (1 January 2006): consequently, the consolidation method set out in the Austrian Enterprise Code (UGB) was applied. With this method, the cost of the interest is set off against the carrying amount for equity at the time of the first consolidation. Asset-side differences from the consolidation were set off against liabilities-side differences, and the balance was set off against the revenue reserves.

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

If a further interest is acquired in a company in which there was an interest of less than 100 % but which is already fully consolidated, any differences in value are recognised as transactions with minority shareholders in equity, without impact on profit or loss.

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

Minority interests in equity and in profit or loss of included subsidiaries are recognised separately in the item Minorities in equity, or in the income statement in the item Minority interests.

(6) Effects of changes in foreign exchange rates

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

Open forward transactions are translated at forward rates.

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

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

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

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

Rates in units per EUR	Closing Date 31.12.2008	Average 1-12/2008	Closing Date 31.12.2007	Average 1-12/2007
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.35550	7.22170	7.33400	7.33080
Swiss franc (CHF)	1.48500	1.57860	1.65470	1.64590
Serbian dinar (RSD)	88.60100	81.90920	79.23620	80.08580
Hungarian forint (HUF)	266.70000	251.04830	253.73000	251.37420
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	10.85550	7.90700	7.41950	6.95900
Macedonian denar (MKD)	61.41230	61.28310	61.20160	61.19100

(7) Financial instruments: recognition and measurement

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

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

In general, the fair value of a financial asset is determined by reference to stock exchange quotations. If no stock exchange quotation exists, the discounted cash flow calculation is used. A standard calculation is used for the measurement. When measuring options, option price models are used that take into account actual market parameters. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
2. the hybrid instrument is not measured at fair value through profit or loss; and
3. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Gains and losses of the embedded derivative are recognised in profit or loss. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

(8) Hedging/hedge accounting

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

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

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

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

A similar effect can be achieved for the item to be hedged – without having to fulfil the rigid rules of hedge accounting – if the fair value option (FVO) of IAS 39 is used. The adoption of the fair value option is irrevocable and requires documentation of the offsetting of risks. The prerequisites for a possible designation in the fair value option category are found in Note (7).

Positive market values of derivatives which are used for hedging are stated as financial investments – designated at fair value through profit or loss, while negative market values were stated as other liabilities.

(9) Leasing

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

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

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

Except for leased real estate, leased assets are reported in other financial investments. Lease income less scheduled depreciation is presented as interest and similar income. Gains or losses on disposal are reported in result from other financial investments.

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

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

(10) Investment properties

Investment properties are land and buildings held to earn rental income or to benefit from expected value increases. Provided that material parts of mixed-use property can be let or sold separately, these parts are also treated as investment property. Investment properties are recognised as other financial investments.

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

(11) Repos

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

(12) Fiduciary transactions

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

(13) Cash and balances with central banks

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

(14) Loans and advances

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

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

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

(15) Risk provisions on loans and advances

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

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

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

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

Losses identified after the realisation of collateral are charged against an existing provision or written off against income.

Recoveries of written-off receivables are recorded as income. Additions to and releases from risk provisions are recognised in the income statement in risk provisions on loans and advances.

(16) Trading assets

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

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

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

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

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

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

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

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

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

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

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

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

(19) Financial investments – available for sale

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

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

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

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

(20) Financial investments – held to maturity

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

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

(21) Investments in companies accounted for at equity

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

The impact of the ongoing at equity valuation as well as any revenue of disposal or impairment loss is shown in the item result from companies measured at equity.

(22) Other financial investments

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

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

(23) Tangible and intangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are recognised at (acquisition or manufacturing) cost less amortisation and impairment losses. Self-developed software is recognised in accordance with the provisions of IAS 38, always providing that the conditions for recognition pursuant to the standard are fulfilled.

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

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

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

Depreciation/amortisation rate

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

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

(24) Taxes on income

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

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

Changes to the tax rate are taken into account with respect to the determination of deferred taxes, always providing that they are known at the time of establishing the consolidated financial statements. No discounts are made for long-term deferred taxes according to IAS 12.

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

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

From 1 January 2005 the group taxation option was exercised, with Hypo Alpe-Adria-Bank International AG acting as the lead company.

The group taxation agreement drawn up to this end contains the rights and duties of the lead company and group members as well as the compulsory ruling on tax equalisation as laid down by Section 9 (8) of the Austrian Corporation Tax Act (KStG). This includes, in particular, the procedure for making the group taxation application, the determination of the individual group members' tax results, rights/duties to receive/provide information, elimination from the group, dissolution and duration of the group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/credit rate.

(25) Assets held for disposal

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

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

If interests, which had previously been accounted for at equity in the consolidated financial statement, are classified as assets held for disposal, the equity method should be discontinued at this point and the assets assessed in accordance with IFRS 5.

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

In the balance sheet, the assets put up for sale and the liabilities associated therewith shall be shown in a separate main item each. In the income statement, it is not compulsory to report the associated expenses and income separately.

(26) Other assets

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

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

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

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

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

(27) Liabilities

Liabilities to credit institutions and customers, including those evidenced by certificates, are recognised at amortised cost unless they are designated as at fair value through profit or loss. Costs of issues as well as premiums and discounts for liabilities evidenced by certificates are spread over the term of the debt.

When using hedge accounting, the fair value changes of the underlying transactions attributable to the hedged risk are recognised in income statement.

(28) Trading liabilities

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

(29) Long-term employee provisions

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

In the former case, a fixed contribution is paid to an external entity. Except for the aforesaid, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit plans exist in respect of retirement and severance obligations as well as provisions for anniversary payment. These schemes are unfunded, i. e. all of the funds required for coverage remain with the company.

Provisions for long-term employee benefits are measured in accordance with IAS 19 using the projected unit credit method. The determination of the value of the future commitment is based on an actuarial expert opinion prepared by independent actuaries. The value shown in the balance sheet is stated as the cash value of the defined benefit obligation. Actuarial gains and losses are recognised immediately in profit or loss.

The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate, as of 31 December 2008, of 6.0 % (2007: 5.5 %) as well as the consideration of wage and salary increases – unchanged compared to the previous year – of the active employees as a rate of 3.0 % p.a. and wage and salary increases of already retired former employees at a rate of 2.0 % p.a. Fluctuation deductions are considered individually, the maximum deduction being 6.0 %. The basic biometric data are taken from the Generations Life Expectancy Tables of the AVÖ (Austrian Actuarial Society) 2008 P for employees.

Provisions for long-term employee benefits are calculated on the basis of the legal retirement age. For employees from Austria, it is 60 years for men and 55 for women. Local rules are applied in the case of employees working abroad.

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

(30) Other provisions

Other provisions are accrued if a past event is likely to translate into a present liability towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, long-term provisions are discounted. Provisions for uncertain liabilities and impending losses are measured on a best-estimate basis in accordance with IAS 37.36 et seq.

Provisions are recorded for restructuring if the general criteria for creating provisions are fulfilled. In particular, the company must have committed itself demonstrably to such action, as evidenced by the existence of a detailed and formal restructuring plan and the announcement of the measures set out in it to those affected. The cost associated with the restructuring measures is not reported in Other operating result but in the relevant cost categories.

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

(31) Other liabilities

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

(32) Subordinated capital

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

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

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

As a general rule, hybrid capital is provided for the entire term of the enterprise and subordinated to all other liabilities. It is subordinated in rank to subordinated capital. In the Group consolidated financial statements in accordance with IFRS, because of the fact that, despite being dependent on certain conditions being fulfilled, coupons are essentially compulsory, hybrid capital is classified as debt and not as equity.

(33) Equity (shareholders' equity and minorities)

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

Subscribed capital represents the amounts paid in by shareholders in accordance with the Memorandum and Articles of Association, as well as any amounts of participation capital issued.

Additional paid-in capital contains the premiums achieved when shares are issued for more than their nominal value. The directly related external costs of share offerings are deducted from additional paid-in capital.

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

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

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

Notes to the Income Statement

(34) Segment reporting

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

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

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

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

Refinancing costs of participations in the parent company are allocated to the related segments. The interest rate used is that of long-term debt capital (roll-over estimation) and amounted, in the financial year 2008, to 4.77 % (2007: 4.52 %).

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

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

Primary Segment

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

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

Notes to the Income Statement

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

The segment denominated as Austria comprises all income and expenses of entities located in Austria, of which Hypo Alpe-Adria-Bank International AG, the parent of Hypo Group Alpe Adria, which is particularly engaged in the cross-border loan business with customers in SEE (South and Eastern Europe), is an important part. Apart from the traditional Austrian business in which the second bank, Hypo Alpe-Adria-Bank AG, engages, there are also several leasing companies. Hypo Alpe-Adria-Immobilien AG (AAI) and Carinthian tourism entities (in particular Kärntner Holding Beteiligungs-AG und Schlosshotel Velden GmbH) also contribute considerably to this segment. The entity HBInt. Credit Management Limited, as well as Norica Investments Limited, founded in 2008, were also included in the Austrian segment as they are managed though Hypo Alpe-Adria-Bank International AG.

The clearly negative result of the segment Austria is primarily attributable to very high credit risk provisions, in particular for non-domestic financing for corporate customers in Germany and SEE. As a result of the financial crisis, impairment writedowns were necessary on securities classed as available for sale, as well as on long-term securities investments made by HBInt. Credit Management Limited, in which Hypo Alpe-Adria-Bank International AG holds a 51 % stake, leading to significant charges against the result. In addition, the segment's performance in 2008 was impacted negatively both by costs arising from hedge accounting inefficiencies as well as the final settlement of the "DAB" case, which had made a positive contribution to the result in 2007.

Italy refers geographically to Northern Italy, where the Group is represented by a bank and a leasing company. Whereas the leasing company is specialised in financing boats/launches and has generally reduced its new business activities, the bank, which is considerably larger, also conducts leasing business on a larger scale (in particular real estate financing) and makes a constant and positive contribution to the results of the Group.

The Slovenian segment consists of two central subsidiaries and is a significant segment for the Group, in a region in which Hypo Group Alpe Adria was active from a very early stage. The most important contributors to earnings here are Hypo Alpe-Adria-Bank d.d. Ljubljana and die Hypo Leasing d.o.o. Ljubljana.

Croatia is an important segment for the Group, The Group is represented in the banking market there by two banks, one each in Zagreb and Osijek, which will be merged into one legal entity in the first quarter of 2009. The Group is also represented here by Hypo Leasing Kroatien d.o.o., which is the largest leasing company in the country, as well as by the packaging manufacturer Aluflex-pack d.o.o. (fully consolidated) and by various property companies. The negative segment result for Croatia has been greatly affected by very high credit risk provisions for the leasing area and by the negative results of non-core interests.

Bosnia and Herzegovina, in which Hypo Group Alpe Adria has a very high market share, consists primarily of two banks, in Mostar and Banja Luka, as well as a leasing company in Sarajevo. The segment's results were impacted negatively, both by the leasing subsidiary, which had an extremely difficult year, and by the decrease in value of two funds.

Serbia consists of the business segments banking, leasing and other, all based in Belgrade. The operating and finance leasing activities are handled by two separate entities, respectively. The negative result for the Serbian segment is significantly impacted by the devaluation of the local currency (RSD), which then leads to negative currency results in the income statement through the application of the functional currency concept.

The Other regions segment covers the Group's activities in Germany, Hungary, Montenegro, Bulgaria, Ukraine and Macedonia, as none of these countries individually exceeds the 10 % materiality limit as defined in IAS 14.35. The Hypo Alpe-Adria-Bank (Liechtenstein) AG business had been included in this segment up until its disposal at the end of December 2007 in the previous year's figures.

Secondary Segment

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

- Banking
- Leasing
- Other

Banking comprises the holding company, Hypo Alpe-Adria-Bank International AG, and nine subsidiaries. Subsidiaries directly involved in banking activities and managed by the parent bank are also included. This comprises investment companies, valuation services and insurance brokers as well as other providers of banking-related services. As they are managed by Hypo Alpe-Adria-Bank International AG, Banking also covers HBInt. Credit Management Limited and Norica Investments Limited, founded in 2008, which, with the involvement of the co-investor, who holds 49 % of the shares, make long-term investments. The segment's results in 2008 were impacted in particular by the need for high credit risk provisions and by the effects of the crisis in the financial markets.

Leasing covers all leasing entities including their fully consolidated special purpose companies. Main activities refer to real estate, movables, cross-border and ship leasing. Although Hypo Alpe-Adria-Bank S.p.A., Udine also engages in the leasing business, it is not shown here but in the banking segment. The result of the leasing business in 2008 suffered from a decrease in the interest margin; drastically higher risk provisions on loans to customers; writedowns of leasing assets; negative currency effects resulting from exchange rate developments (particularly with regard to the CHF) on operating leasing assets; and other effects of reclassification on operating leasing assets.

The segment denominated as Other comprises the entities that belong neither to banking nor to leasing. In particular, these are tourism entities (in particular Kärntner Holding Beteiligungs-AG and Schlosshotel Velden GmbH), real estate companies (especially the AAI Group as well as Croatian real estate companies), the Croatian packaging enterprise Aluflexpack d.o.o. and other Group companies. The clearly negative result for the segment in 2008 was mainly due to the negative performance of non-core Group companies as well as to impairment writedowns on property and equipment for own use and on investment properties.

Notes to the Income Statement

Segment reporting by geographical markets

Financial period 2008

	Austria	Italy	Slovenia
Net interest income	268,947	104,564	61,297
Net fee and commission income	25,761	9,191	7,413
Result from trading	–13,276	–2,427	3,210
Result from hedge accounting	–43,831	–254	0
Result from financial investments – afvtpl	21,840	–954	0
Result from financial investments – afs	–113,539	0	–2,781
Result from financial investments – htm	0	0	14
Result from other financial investments	–5,349	109	2,971
Other operating result	9,921	5,233	11,039
Operating income	**150,474**	**115,463**	**83,163**
Risk provisions on loans and advances	–290,685	–28,822	–14,051
Operating income after risk provisions	**–140,211**	**86,641**	**69,113**
Personnel expenses	–89,950	–30,969	–21,989
Other administrative expenses	–61,368	–23,721	–16,756
Depreciation and amortization of tangible and intangible assets	–38,099	–5,542	–3,799
Operating expenses	**–189,417**	**–60,232**	**–42,544**
Segment result (Operating result)	**–329,627**	**26,408**	**26,569**
Unallocated corporate income/expenses			
Result before tax			
Taxes on income			
Result after tax			
Minority interests			
Consolidated net result (after minority interests)			
Average assets	18,351,621	4,828,741	4,361,929
Loans and advances to credit institutions	3,444,062	60,116	21,445
Loans and advances to customers	12,128,716	4,546,904	3,768,196
Risk provisions on loans and advances	–526,033	–53,810	–41,023
Sum financial investments	3,111,536	838	611,384
Liabilities to customers	3,989,551	795,131	428,319
Average risk-weighted assets (RWA)	10,872,211	4,239,074	3,970,414
Allocated average equity	739,380	288,284	270,014
Return on equity (ROE) before tax	n.a.	9.2 %	9.8 %
Cost/income ratio	125.9 %	52.2 %	51.2 %
Risk/earnings ratio	108.1 %	27.6 %	22.9 %
Return on assets (ROA) before tax	n.a.	0.55 %	0.61 %
Average number of employees (capacity)	1,292	532	560

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

EUR '000

Croatia	BiH	Serbia	Other regions	Consolidation	Total
106,054	63,923	62,552	34,865	0	702,202
43,890	12,023	17,000	913	1,376	117,569
894	623	−21,599	86	−5,187	−37,675
0	0	0	0	0	−44,085
0	−9,135	0	0	0	11,751
4,017	392	−2,602	−1,291	1,750	−114,053
0	0	0	0	0	14
−28,551	2,446	0	−5,927	−2,446	−36,747
18,971	785	4,446	1,097	−5,134	46,358
145,276	**71,057**	**59,798**	**29,743**	**−9,641**	**645,334**
−83,701	−23,434	−22,271	−70,295	0	−533,258
61,576	**47,624**	**37,527**	**−40,552**	**−9,641**	**112,076**
−72,043	−21,449	−22,288	−10,014	0	−268,701
−61,252	−28,470	−26,200	−16,794	16,296	−218,264
−38,183	−4,897	−6,176	−1,923	0	−98,619
−171,477	**−54,815**	**−54,664**	**−28,731**	**16,296**	**−585,584**
−109,901	**−7,192**	**−17,137**	**−69,283**	**6,655**	**−473,507**
					1,075
					−472,433
					−45,821
					−518,254
					−1,486
					−519,740
6,912,686	2,493,088	2,004,092	1,667,890	0	40,620,046
700,108	204,844	36,147	16,549	0	4,483,271
5,078,041	2,132,660	1,221,451	1,690,698	0	30,566,667
−229,496	−111,124	−51,481	−73,263	0	−1,086,231
881,405	14,464	214,801	33,894	0	4,868,324
2,026,168	900,905	490,717	86,102	0	8,716,894
5,439,877	2,147,423	1,652,176	2,476,708	0	30,797,883
369,946	146,039	112,359	168,432	0	2,094,453
n.a.	n.a.	n.a.	n.a.		n.a.
118.0 %	77.1 %	91.4 %	96.6 %		90.7 %
78.9 %	36.7 %	35.6 %	201.6 %		75.9 %
n.a.	n.a.	n.a.	n.a.		n.a.
2,408	1,230	1,115	435		7,572

Notes to the Income Statement

Financial period 2007

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

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

EUR '000

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

Segment reporting by business

Financial period 2008

EUR '000

	Bank	Leasing	Other	Consolidation	Total
Net interest income	611,090	117,394	–26,282	0	702,202
Net fee and commission income	115,021	4,736	–648	–1,540	117,569
Result from trading	–22.148	–21,341	–5,604	11,418	–37,675
Result from hedge accounting	–44,085	0	0	0	–44,085
Result from financial investments – afvtpl	9,933	0	1,818	0	11,751
Result from financial investments – afs	–111,870	1,067	–3,574	324	–114,053
Result from financial investments – htm	14	0	0	0	14
Result from other financial investments	–4,603	–13,416	–16,283	–2,446	–36,747
Other operating result	13,250	24,515	52,506	–43,913	46,358
Operating income	**566,602**	**112,956**	**1,933**	**–36,157**	**645,334**
Risk provisions on loans and advances	–386,450	–146,130	–677	0	–533,258
Operating income after risk provisions	**180,152**	**–33,175**	**1,255**	**–36,157**	**112,076**
Personnel expenses	–210,024	–36,158	–22,520	0	–268,701
Other administrative expenses	–197,561	–43,663	–24,312	47,272	–218,264
Depreciation and amortization of tangible and intangible assets	–56,746	–15,553	–26,319	0	–98,619
Operating expenses	**–464,331**	**–95,374**	**–73,151**	**47,272**	**–585,584**
Segment result (Operating result)	**–284,179**	**–128,549**	**–71,895**	**11,115**	**–473,507**
Unallocated corporate income/expenses					1,075
Result before tax					**–472,433**
Taxes on income					–45,821
Result after tax					**–518,254**
Minority interests					–1,486
Consolidated net result (after minority interests)					**–519,740**

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

Financial period 2007

EUR '000

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

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

(35) Interest and similar income

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Interest income	**1,868,339**	**1,598,870**
from loans and advances to credit institutions	142,368	209,914
from loans and advances to customers	1,480,382	1,167,972
from bonds, treasury bills and other fixed-interest securities	165,760	149,813
from derivative financial instruments, net	0	26,087
other interest income	79,829	45,084
Current income	**525,727**	**400,151**
from shares and other not fixed income securities	5,584	5,278
from leasing business	483,851	366,421
from investment properties	36,292	28,451
Total	**2,394,066**	**1,999,021**

Interest income also includes unwinding revenue of EUR 20,286 thousand (2007: EUR 10,912 thousand) as well as income with distinctive interest character. A significant part of the other interest income is the interest on the minimum reserve. In 2008, this also includes interest income of EUR 968 thousand (2007: EUR 11,606 thousand) relating to other periods. Income from the leasing business includes interest income from finance leases and the results from operating leases, consisting of hire payments less scheduled depreciation. The revenue from investment properties also represents the balance of rental income and scheduled depreciation on property for future sale.

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

EUR '000

	IAS 39 Measurement category	1.1.-31.12.2008	1.1.-31.12.2007
Interest income		**1,868,339**	**1,604,149**
from loans and advances to credit institutions and customers	LAR	1,621,676	1,366,599
from trading assets	HFT	2,866	4,773
from derivative fin. instruments	HFT / Fair Value Hedges	0	26,087
from fin. investments – designated at fair value through profit or loss	FVO	55,824	62,779
from fin. investments – available for sale	AFS	119,200	112,931
from fin. investments – held to maturity	HTM	1,645	1,735
from balances at central banks	Fin. Assets At Cost	45,973	17,639
other interest income	–	21,155	11,606
Current income		**525,727**	**394,872**
from shares and other not fixed income securities	AFS	5,487	0
from shares and other not fixed income securities	HFT	97	0
from leasing business	LAR / –	483,851	366,421
from investment properties	–	36,292	28,451
Total		**2,394,066**	**1,999,021**

(36) Interest and similar expenses

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Interest expenses	**–1,671,425**	**–1,376,049**
for liabilities to credit institutions	–283,183	–173,233
for liabilities to customers	–353,931	–289,433
for liabilities evidenced by certificates	–882,509	–836,971
for subordinated capital	–80,843	–63,193
from derivative financial instruments, net	–68,252	0
for other liabilities	–2,707	–13,219
Other interest expenses	**–20,439**	**–23,779**
commissions for statutory guarantee	–20,439	–23,779
Total	**–1,691,864**	**–1,399,828**

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

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

EUR '000

	IAS 39 Measurement category	1.1.–31.12.2008	1.1.–31.12.2007
Interest expenses		**–1,671,425**	**–1,376,049**
for trading liabilities	HFT	–68,252	0
for fin. liabilities – designated at fair value through profit or loss	FVO	–74,116	–78,633
for fin. liabilities – at cost	Fin. Liabilities At Cost	–1,528,443	–1,295,488
for fin. liabilities to central banks	Fin. Liabilities At Cost	–424	–1,921
other	–	–190	–7
Other interest expenses		**–20,439**	**–23,779**
commissions for statutory guarantee	–	–20,439	–23,779
Total		**–1,691,864**	**–1,399,828**

Notes to the Income Statement

(37) Fee and commission income

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Credit business	52,520	44,260
Securities and custodian business	21,029	50,352
Bank transfers incl. payment transactions	41,995	37,972
Other financial service business	29,601	24,110
Total	**145,145**	**156,694**

(38) Fee and commission expenses

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Credit business	-2,881	-3,114
Securities and custodian business	-9,271	-17,571
Bank transfers incl. payment transactions	-9,993	-9,441
Other financial service business	-5,433	-5,235
Total	**-27,577**	**-35,361**

(39) Result from trading

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Interest related transactions	-48,525	-202
Shares and index related transactions	2,873	1,192
Foreign exchange transactions	7,976	16,708
Other trading result (credit derivatives, commodities, etc.)	1	4,667
Total	**-37,675**	**22,366**

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

(40) Result from hedge accounting

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Valuation result from secured underlying transactions	-764,285	251,106
Valuation result from hedging derivatives	720,200	-252,587
Total	**-44,085**	**-1,481**

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

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

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Loans and advances (to customers and credit institutions)	28,876	–19,028
Equity instruments	–13,503	4,826
Debt instruments	2,297	–137,490
Liabilities (incl. subordinated capital)	119,457	70,203
Fair value option (FVO) derivatives *)	–125,375	–70,962
Total	**11,751**	**–152,451**

*) this includes the result from fair value option derivatives relating to foreign currency valuation.

The fair value option (FVO) covers financial assets and liabilities that include embedded derivatives. By designating the entire instrument in the category at fair value through profit or loss, the compulsory separation of hedging instruments is not required.

Furthermore, this category is also used to avoid accounting mismatches. The fair value option is used for financial assets if related liabilities are already carried at fair value. Furthermore, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

(42) Result from financial investments – available for sale

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Income from financial investments available for sale	**19,278**	**24,118**
Capital gains	18,018	24,027
Income from write-up	1,260	91
Expenses from financial investments available for sale	**–133,331**	**–18,317**
Losses from disposal	–12,778	–11,637
Expenses from impairment	–120,553	–6,680
Total	**–114,053**	**5,801**

(43) Result from financial investments – held to maturity

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Income from financial investments held to maturity	14	6
Total	**14**	**6**

(44) Result from other financial investments

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Result from investment properties (IP)	**–22,213**	**10,327**
Other income	5,608	18,811
Other expenses	–27,821	–8,484
Result from operating leasing assets	**–9,913**	**405**
Other income	18,472	4,968
Other expenses	–28,384	–4,564
Remaining result from financial investments	**–4,621**	**26**
Total	**–36,747**	**10,758**

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

EUR 26,902 thousand (2007: EUR 8,724 thousand) of other expenses from investment properties in 2008 relate to impairment, of which more than half relates to properties in Croatia.

Other expenses from operating leasing of EUR 17,057 thousand in 2008 (2007: EUR 4,564 thousand) resulted from impairments on operating leasing assets, the majority of which relate to Croatian leasing unit, but which also relates to the Snow Fun Park project (Germany).

(45) Other operating result

EUR '000

	1.1.–31.12.2008	1.1.–31.12.2007
Other rental income	**10,102**	**1,418**
Net capital gains/losses from	**6,621**	**9,260**
Sale of tangible and intangible assets	2,330	–2,293
Sale of real estate projects (assets)	3,424	9,446
Sale of property development companies	868	2,106
Result from allocation/release of other provisions	**–2,729**	**–357**
Other tax expenses (except corporate income tax)	**–5,406**	**–9,967**
Impairment loss for vacant assets	**–1,976**	**–41,614**
Revenue from the utilisation of guarantees	**0**	**22,710**
Compensation DAB law case	**–8,967**	**33,283**
Remaining other result	**48,714**	**31,071**
Remaining other income	148,776	131,776
Remaining other expenses	–100,062	–100,705
Total	**46,358**	**45,804**

Other rental revenue results from subletting minor parts of buildings used for own activities. The increase from 2007 stems in the main from the headquarters in Zagreb, which is let out in part to third parties on a medium-term basis.

With regard to the “DAB” legal proceedings please refer to note (102). The entries in remaining other result refer to other income and expenses from non-banking activities. The income includes the sales revenue of production enterprise Aluflexpack d.o.o. of EUR 93,876 thousand (2007: EUR 86,536 thousand); expenses include the related cost of manufacture in an amount of EUR –66,294 thousand (2007: EUR –73,194 thousand). Furthermore, the sales and the direct other expenses of Schlosshotel Velden are also reported in this item.

(46) Risk provisions on loans and advances

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

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Allocation to	**–682,842**	**–421,963**
Risk provisions for loans and advances	–633,448	–412,990
Provisions for commitments and guarantees	–49,394	–8,973
Releases from	**163,311**	**154,087**
Risk provisions for loans and advances	158,869	142,131
Provisions for commitments and guarantees	4,442	11,955
Recoveries of loans and advances previously written-off	**3,245**	**3,431**
Direct write-offs	**–16,972**	**–9,695**
Total	**–533,258**	**–274,140**

Details on risk provisions can be found in Note (57).

(47) Personnel expenses

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Personnel cost from core business	–256,248	–229,083
Personnel cost from non-core business	–12,453	–11,822
Total	**–268,701**	**–240,905**

Notes to the Income Statement

(48) Other administrative expenses

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Premises expenses	–32,902	–30,917
IT expenses	–25,658	–24,139
Office costs	–9,591	–9,563
Advertising costs	–35,609	–33,257
Communication expenses	–11,550	–10,383
Legal and advisory costs	–43,221	–43,833
Insurance	–6,846	–5,113
Vehicle and fleet cost	–4,205	–4,079
Staff training cost	–4,451	–4,159
Remaining general administrative expenses	–44,232	–35,929
Total	**–218,264**	**–201,373**

(49) Depreciation and amortisation of tangible and intangible assets

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Buildings	–39,539	–11,826
Plant and equipment	–46,052	–28,128
Intangible assets	–13,028	–8,909
Total	**–98,619**	**–48,862**

In financial year 2008, impairment writedowns of EUR –38,934 thousand (2007: EUR –389 thousand) were made. These resulted primarily from the impairment writedown of production plant in a consolidated company as well as of tourism real estate, which was necessary due to their permanent nature.

(50) Result from the disposal of group companies

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Consultants Group	0	57,208
Hypo Alpe-Adria-Bank (Liechtenstein) AG *	0	–422
Total	**0**	**56,786**

*) now operating under the name of Alpe Adria Privatbank AG

(51) Result from companies accounted for at equity

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Share of profits	1,351	1,203
Share of losses	-277	-169
Total	**1,075**	**1,034**

(52) Taxes on income

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
Current tax	-65,770	-62,762
Deferred tax	19,949	48,556
Total	**-45,821**	**-14,205**

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

EUR '000

	31.12.2008	31.12.2007
Result before tax	-472,433	-56,132
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 %	118,108	14,033
Tax effects arising from:		
divergent foreign tax rates	-2,909	-38,157
previous years	4,096	-281
tax-exempt income and other tax-exempt income	2,089	20,254
investment incentives	19,310	5,134
non-tax-deductible expenses and withholding taxes	-62,934	-26,724
non recognition of deferred taxes on losses carried forward	-147,648	-10,711
other	23,527	22,247
Effective tax burden	**-45,821**	**-14,205**
Effective tax rate	**-23.7 %**	**-25.3 %**

(53) Minority interests

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

EUR '000

	1.1.-31.12.2008	1.1.-31.12.2007
HBInt. Credit Management Limited	**12,963**	**86,281**
Share in interest income	–19,084	–16,577
Share in measurement gains / losses	32,046	102,859
Norica Investments Limited	**–10,572**	**0**
Hypo-Alpe-Adria-Leasing Holding AG	**–2,500**	**–12,250**
Dividends preference shares 1st tranche (2004)	–1,250	–6,250
Dividends preference shares 2nd tranche (2006)	–1,250	–6,000
Minority interests of other co-owners	**–1,377**	**–557**
Total	**–1,486**	**73,474**

At HBInt. Credit Management Limited, the total 2008 result stemming from the measurement of asset-backed securities and other investments amounted to EUR –65,401 thousand (2007: EUR –209,916 thousand). In the consolidated financial statements, EUR 32,046 thousand (2007: EUR 102,859 thousand) thereof is assigned to the 49 % minority shareholder as a loss covered by the equity contribution.

The minority interest in Norica Investments Limited derives from the formation of the company at the end of June 2008 with a co-investor taking a 49 % stake.

The sums of EUR 2,500 thousand shown for Hypo Alpe-Adria-Leasing Holding AG result from additional dividends paid out in April 2008 to a preference shareholder. Due to the notice given to exercise the call option in December 2008, the preference shares were reclassified in the actual financial statements as borrowings (liabilities evidenced by certificates) with the result that any shareholder claims will no longer be shown at Minority interests.

Notes to the Balance Sheet

(54) Cash and balances with central banks

EUR '000

	31.12.2008	31.12.2007
Cash on hand	113,841	107,011
Balances with central banks (daily due)	885,366	890,852
Total	**999,207**	**997,864**

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

Balances with central banks also serve to satisfy the minimum reserve requirements. On the balance sheet date, the daily due minimum reserve held amounted to EUR 494,117 thousand (2007: EUR 619,047 thousand).

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

(55) Loans and advances to credit institutions

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

EUR '000

	31.12.2008	31.12.2007
Minimum reserve (not daily due)	502,196	832,774
Giro and clearing business	341,445	202,856
Money market placements	3,013,667	2,020,692
Loans	595,111	514,996
Finance lease receivables	632	1,149
Other receivables	30,219	360,304
Total	**4,483,271**	**3,932,772**

(55.2) Loans and advances to credit institutions – by regions

EUR '000

	31.12.2008	31.12.2007
Austria	607,505	471,744
Central and Eastern Europe (CEE)	873,352	1,437,791
Other countries	3,002,413	2,023,238
Total	**4,483,271**	**3,932,772**

(56) Loans and advances to customers

(56.1) Loans and advances to customers – by products

EUR '000

	31.12.2008	31.12.2007
Current account credits	1,831,700	1,844,584
Bank loans	11,765,021	9,024,581
Mortgage loans	4,434,031	4,573,665
Municipal loans	2,803,063	2,403,017
Finance lease receivables	6,849,922	5,422,512
Other receivables	2,882,930	2,382,378
Total	**30,566,667**	**25,650,736**

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

EUR '000

	31.12.2008	31.12.2007
Public sector	5,033,944	4,471,118
Corporate clients	18,813,540	15,708,441
Retail clients	6,719,182	5,471,176
Total	**30,566,667**	**25,650,736**

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

EUR '000

	31.12.2008	31.12.2007
Austria	5,256,676	4,766,102
Central and Eastern Europe (CEE)	18,230,014	14,874,486
Other countries	7,079,976	6,010,148
Total	**30,566,667**	**25,650,736**

(57) Risk provisions

(57.1) Risk provisions – movement during the year

EUR '000

	On 1.1.2008	Exchange differences	Allocation	Release	Use	On 31.12.2008
Specific risk provisions	**–635,502**	**–4,179**	**–536,499**	**136,749**	**74,845**	**–964,585**
Loans and advances to credit institutions	–1,820	–12	–6,520	102	0	–8,250
Loans and advances to customers	–629,090	–4,178	–526,529	134,452	74,311	–951,034
to public sector	–1,167	29	–2,373	1,033	0	–2,477
to corporate clients	–566,807	–4,630	–477,563	117,272	72,021	–859,707
to retail clients	–61,117	423	–46,592	16,147	2,290	–88,850
Other financial assets	–4,592	11	–3,450	2,196	534	–5,301
Portfolio-based risk provisions	**–69,764**	**2,618**	**–96,950**	**42,406**	**44**	**–121,646**
Subtotal	**–705,266**	**–1,561**	**–633,448**	**179,156**	**74,889**	**–1,086,231**
Provisions for credit commitments and guarantees	**–13,013**	**320**	**–49,394**	**4,442**	**300**	**–57,345**
Total	**–718,279**	**–1,241**	**–682,842**	**183,597**	**75,189**	**–1,143,576**

(57.2) Risk provisions – by regions

EUR '000

	31.12.2008	31.12.2007
Austria	–201,113	–128,378
Central and Eastern Europe (CEE)	–706,255	–449,041
Other countries	–178,863	–127,847
Total	**–1,086,231**	**–705,266**

(58) Trading assets

EUR '000

	31.12.2008	31.12.2007
Bonds and other fixed-interest securities	38,838	53,189
Shares and other non fixed-interest securities	61,333	68,912
Positive market value of derivative financial instruments (trading)	79,011	5,062
Total	**179,181**	**127,163**

(59) Positive fair value from hedge accounting derivatives

EUR '000

	31.12.2008	31.12.2007
Positive market values of fair value hedge instruments	581,682	156,621
Total	**581,682**	**156,621**

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

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

EUR '000

	31.12.2008	31.12.2007
Loans and advances to customers and credit institutions	577,216	629,009
Bonds and other fixed-interest securities	352,136	527,914
Shares and other non fixed-interest securities	51,814	52,364
Positive market value of derivative financial instruments at fair value option (FVO)	139,366	175,181
Total	**1,120,532**	**1,384,468**

(61) Financial investments – available for sale

EUR '000

	31.12.2008	31.12.2007
Bonds and other fixed-interest securities	2,379,536	2,261,744
Shares and other non fixed-interest securities	86,012	380,942
Participations without intention for sale (< 20 %)	11,326	9,794
Other participations (associated companies 20 % – 50 %)	43,191	42,910
Shares in affiliated, non-consolidated companies (> 50 %)	45,467	40,079
Total	**2,565,532**	**2,735,469**

(62) Financial investments – held to maturity

EUR '000

	31.12.2008	31.12.2007
Bonds and other fixed-interest securities	41,940	42,570
Total	**41,940**	**42,570**

(63) Investments in companies accounted for at equity

EUR '000

	31.12.2008	31.12.2007
Shares in credit institutions	0	17,944
Shares in other associated companies	5,360	4,004
Total	**5,360**	**21,948**

The associated companies included at equity are listed in note (108).

(64) Other financial investments

EUR '000

	31.12.2008	31.12.2007
Investment properties	663,640	576,697
Assets used for operating leases (moveable assets)	471,321	383,367
Total	**1,134,960**	**960,064**

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

(65) Development of financial assets and other financial investments

	Costs of acquisition 01.01.2008	Foreign exchange-differences	Additions
Financial investments – held to maturity	**42,570**	**0**	**3,139**
Bonds, treasury bills and other fixed-interest securities	42,570	0	3,139
Financial investments – available for sale	**96,126**	**-397**	**13,435**
Shares in affiliated, non-consolidated companies (> 50 %)	40,261	-13	8,478
Other participations in associated companies (20 %–50 %)	46,033	-381	3,374
Participations without intention for sale (< 20 %)	9,832	-2	1,583
Companies accounted for under the equity method	**22,837**	**0**	**0**
Investment properties	**607,552**	**927**	**156,211**
Operating lease assets (moveables)	**468,710**	**-3,490**	**327,575**
Total	**1,237,795**	**-2,960**	**500,360**

(66) Intangible assets

EUR '000

	31.12.2008	31.12.2007
Goodwill	3,502	3,502
Software	33,797	23,724
Other intangible assets	27,685	37,117
Prepayments for intangible assets	1,708	0
Total	**66,691**	**64,343**

The reported goodwill of EUR 3,502 thousand (2007: EUR 3,502 thousand) still refers to the takeover of the RBB Bank Aktiengesellschaft Wolfsberg business by Hypo Alpe-Adria-Bank AG, Klagenfurt in 2001. The entire goodwill was allocated to the branch office in Wolfsberg as the cash generating unit. Hypo Group Alpe Adria makes an impairment test at least once per year and whenever indicated. The annual impairment test did not result in any permanent impairment for this goodwill.

(67) Tangible assets

EUR '000

	31.12.2008	31.12.2007
Land and buildings	468,352	498,119
Plant and equipment	114,839	137,944
Total	**583,190**	**636,063**

EUR '000

Disposals	Other changes	Costs of acquisition 31.12.2008	Cumulative depreciation 31.12.2008	Carrying amount 31.12.2008	Carrying amount 31.12.2007
-3,768	**0**	**41,940**	**0**	**41,940**	**42,570**
-3,768	0	41,940	0	41,940	42,570
-4,783	**3,835**	**108,215**	**-8,231**	**99,984**	**92,783**
-1,291	2,084	49,518	-4,051	45,467	40,079
-3,443	1,751	47,334	-4,142	43,191	42,910
-50	0	11,363	-38	11,326	9,794
0	**-17,355**	**5,481**	**-122**	**5,360**	**21,948**
-44,319	**16,350**	**736,720**	**-73,081**	**663,640**	**576,697**
-205,107	**1,832**	**589,520**	**-118,199**	**471,321**	**383,367**
-257,978	**4,661**	**1,481,877**	**-199,633**	**1,282,244**	**1,117,365**

Notes to the Balance Sheet

(68) Fixed assets table

(68.1) Development of fixed assets

	Costs of acquisition 01.01.2008	Exchange differences	Additions
Intangible assets	**102,532**	**–878**	**28,730**
Goodwill	7,545	0	0
Software	44,186	–739	17,857
Other intangible assets	50,800	–138	9,147
Prepayments for intangible assets	0	0	1,726
Tangible assets	**793,877**	**–5,902**	**69,873**
Land and buildings	**543,674**	**–1,590**	**40,719**
Land	59,456	–54	2,848
Buildings	448,890	–936	12,955
Assets under construction	35,328	–600	24,916
Plant and equipment	**250,203**	**–4,312**	**29,154**
Total	**896,409**	**–6,780**	**98,603**

(68.2) Development of fixed assets depreciation

	Cumulative depreciation 01.01.2008	Exchange differences	Disposals
Intangible assets	**–38,188**	**239**	**2,838**
Goodwill	–4,044	0	0
Software	–20,462	189	2,733
Other intangible assets	–13,683	51	105
Prepayments for intangible assets	0	0	0
Tangible assets	**–157,814**	**2,251**	**13,876**
Land and buildings	**–45,555**	**216**	**1,675**
Land	–322	0	0
Buildings	–45,233	216	1,675
Assets under construction	0	0	0
Plant and equipment	**–112,259**	**2,035**	**12,201**
Total	**–196,003**	**2,490**	**16,714**

EUR '000

Disposals	Other changes	Costs of acquisition 31.12.2008	Cumulative depreciation 31.12.2008	Carrying amount 31.12.2008	Carrying amount 31.12.2007
–18,526	**2,960**	**114,818**	**–48,127**	**66,691**	**64,343**
0	0	7,545	–4,044	3,502	3,502
–5,932	9,896	65,268	–31,472	33,797	23,724
–12,594	–6,918	40,297	–12,612	27,685	37,117
0	–19	1,708	0	1,708	0
–35,245	**–12,361**	**810,241**	**–227,051**	**583,190**	**636,063**
–19,371	**–12,346**	**551,086**	**–82,734**	**468,352**	**498,119**
–2,033	–3,198	57,018	–322	56,696	59,134
–11,687	4,128	453,350	–82,238	371,112	403,657
–5,651	–13,277	40,717	–173	40,543	35,328
–15,874	**–16**	**259,156**	**–144,317**	**114,839**	**137,944**
–53,771	**–9,402**	**925,059**	**–275,178**	**649,881**	**700,406**

EUR '000

Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2008
–11,822	**–1,205**	**5**	**7**	**–48,127**
0	0	0	0	–4,044
–9,865	–1,205	–2,868	7	–31,472
–1,957	0	2,873	0	–12,612
0	0	0	0	0
–47,863	**–37,729**	**228**	**0**	**–227,051**
–10,253	**–29,286**	**470**	**0**	**–82,734**
0	0	0	0	–322
–10,253	–29,286	643	0	–82,238
0	0	–173	0	–173
–37,609	**–8,443**	**–242**	**0**	**–144,317**
–59,685	**–38,934**	**233**	**7**	**–275,178**

(69) Tax assets

EUR '000

	31.12.2008	31.12.2007
Current tax assets	32,183	32,659
Deferred tax assets	527,741	503,561
Total	**559,924**	**536,220**

Of the indicated carrying amount for deferred tax assets, EUR 180 m (25 % of EUR 720 m) refers to tax losses carried forward by Hypo Alpe-Adria-Bank International AG including its Austrian taxation group members (2007: EUR 190 m; 25 % of EUR 760 m). Compared with the actual loss (incl. pending valuation differences which can be capitalised) carried forward of approximately EUR 1.5 bn, however, only that amount was recognised as a deferred tax asset whose utilisation in accordance with the tax regulations is expected to be possible over the next 9-10 years. The assessment of the ability to utilise the tax losses carried forward is performed on the basis of the current business plans, which are prepared once a year in autumn. In this respect, reference is made to note (2). For the years until 2003, Hypo Alpe-Adria-Bank International AG has already received the legally valid tax assessment notices. The assessment for corporation tax 2004 and 2005 pursuant to Section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature.

(70) Assets held for disposal

The amount shown under Assets held for disposal is the carrying amount for the 49 % stake in Alpe Adria Privatbank AG, Schaan (previously operating under the name of Hypo Alpe-Adria-Bank (Liechtenstein) AG) which has been included in the consolidation since the 51 % majority holding was given up using the equity method in December 2007. The active search for a buyer was started formally in August 2008 and, once the other requirements of IFRS 5 were met, the at-equity inclusion in the consolidation ended and a special posting was made in the balance sheet.

(71) Other assets

EUR '000

	31.12.2008	31.12.2007
Prepaid expenses	**83,490**	**94,212**
Other assets	**1,367,312**	**1,267,660**
Shares in property development companies, short term	0	8,984
Assets under construction (project development), short term	100,118	113,369
Finished property projects held as current assets	62,087	21,189
Leases to go (lease assets not yet leased out)	670,844	604,453
Remaining receivables and other assets, not specific to banking	65,089	117,869
Other assets	395,760	278,187
Value added taxes and other tax assets	73,414	123,609
Positive market values of hedging instruments of economic hedges (banking book)	**73,144**	**35,596**
Total	**1,523,945**	**1,397,467**

(72) Liabilities to credit institutions

(72.1) Liabilities to credit institutions – by type

EUR '000

	31.12.2008	31.12.2007
To central banks	**32,299**	**66,745**
To credit institutions	**7,255,696**	**4,390,216**
Daily due	73,938	243,140
Time deposits	4,026,014	941,633
Loans from banks	2,257,573	2,113,629
Money market liabilities	189,080	247,634
Other liabilities	709,092	844,181
Total	**7,287,995**	**4,456,962**

(72.2) Liabilities to credit institutions – by region

EUR '000

	31.12.2008	31.12.2007
Austria	1,267,224	1,240,079
Central and Eastern Europe (CEE)	1,612,880	1,789,160
Other countries	4,407,891	1,427,723
Total	**7,287,995**	**4,456,962**

(73) Liabilities to customers

(73.1) Liabilities to customers – by customer type

EUR '000

	31.12.2008	31.12.2007
Saving deposits	**1,645,169**	**1,563,034**
Sight and time deposits	**7,071,725**	**6,910,540**
from public sector	939,320	1,021,534
from corporate clients	3,690,153	3,545,620
from retail clients	2,442,253	2,343,387
Total	**8,716,894**	**8,473,574**

(73.2) Liabilities to customers – by region

EUR '000

	31.12.2008	31.12.2007
Austria	2,190,309	2,211,328
Central and Eastern Europe (CEE)	3,901,879	3,728,495
Other countries	2,624,706	2,533,751
Total	**8,716,894**	**8,473,574**

Liabilities to customers include liabilities designated at fair value through profit or loss of EUR 43,088 thousand (2007: EUR 40,647 thousand) (see also note (94)).

(74) Liabilities evidenced by certificates

EUR '000

	31.12.2008	31.12.2007
Issued bonds	**18,638,358**	**17,821,530**
Mortgage-linked bonds and municipal bonds	1,367,066	1,082,499
Bonds	17,123,038	16,042,187
Other certificates of deposit and money market papers	148,253	696,844
Liabilities issued via "Pfandbriefstelle"	**2,564,775**	**2,410,692**
Other liabilities evidenced by certificates	**212,207**	**50,359**
Total	**21,415,340**	**20,282,581**

Liabilities to customers evidenced by certificates include liabilities designated at fair value through profit or loss of EUR 1,450,875 thousand (2007: EUR 1,691,581 thousand) (see also note (94)).

Hypo Alpe-Adria-Bank International AG gave notice at the end of December 2008 of its intention to avail itself of the right, as laid down in the conditions of the agreement made with the preference shareholders of Hypo Alpe-Adria-Leasing Holding AG, to exercise a call option in January 2009. As a result of this, the preference share capital which has up until now been classified as shareholders' equity, was reclassified as borrowings and is presented as liabilities evidenced by certificates in the balance sheet.

(75) Trading liabilities

EUR '000

	31.12.2008	31.12.2007
Negative market value of derivative financial instruments (trading)	27,902	8,444
Total	**27,902**	**8,444**

(76) Negative fair value from hedge accounting derivatives

EUR '000

	31.12.2008	31.12.2007
Negative market values of Fair Value Hedge instruments	107,356	392,596
Total	**107,356**	**392,596**

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

(77) Provisions

(77.1) Provisions – Detail

EUR '000

	31.12.2008	31.12.2007
Pensions	9,466	9,916
Severance payments	15,626	15,009
Provisions for anniversary payments	1,510	1,351
Provisions for credit commitments and guarantees	57,345	13,013
Other provisions	23,662	25,676
Total	**107,608**	**64,965**

Provisions for legal costs and miscellaneous other provisions are included in item, Other provisions.

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

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

EUR '000

	31.12.2008	31.12.2007
Provisions at end of previous period	**24,870**	**24,931**
+ Current service costs	1,210	1,154
+ Interest costs	1,142	855
+/– Actuarial gains/losses	–550	–588
– Payments in reporting year	–1,595	–1,407
+ past service cost	57	0
+/– Other changes	–43	–21
Provisions as at the end of period	**25,092**	**24,925**

(77.3) Provisions – Development of other provisions

Other provisions during the year under review developed as follows:

EUR '000

	On 01.01.2008	Exchange differences	Additions	Utilization	Releases	Other changes	Carrying amount 31.12.2008
Anniversary provisions	1,351	–1	184	–13	–6	–6	1,510
Provisions for credit commitments and guarantees	13,013	–320	49,394	–300	–4,442	0	57,345
Remaining provisions	25,676	–97	15,411	–12,826	–4,502	0	23,662
Total	**40,041**	**–418**	**64,989**	**–13,139**	**–8,950**	**–6**	**82,517**

(78) Tax liabilities

EUR '000

	31.12.2008	31.12.2007
Current tax liabilities	36,294	35,336
Deferred tax liabilities	343,961	340,758
Total	**380,256**	**376,094**

(79) Other liabilities

EUR '000

	31.12.2008	31.12.2007
Deferred income	**498,041**	**375,273**
Accruals und other obligations	**329,264**	**368,044**
Negative market values of hedging instruments	**345,113**	**147,556**
of economic hedges (banking book)	122,644	46,816
of derivatives wich were designated at fair value option (FVO)	222,469	100,740
Total	**1,172,418**	**890,873**

(80) Subordinated capital

EUR '000

	31.12.2008	31.12.2007
Subordinated liabilities	949,296	854,334
Supplementary capital	523,840	272,265
Hybrid capital	117,311	206,743
Total	**1,590,448**	**1,333,342**

Subordinated liabilities and supplementary capital include liabilities designated at fair value through profit or loss of EUR 138,608 thousand (2007: EUR 223,339 thousand) (see also note (94)).

Subordinated capital (supplementary capital) with a total value of EUR 300,000 thousand was issued in the 2008 financial year. Please refer to note (98) for details of its structure.

Interest expense of EUR 80,843 thousand was included in 2008 (2007: EUR 63,193 thousand).

(81) Equity

EUR '000

	31.12.2008	31.12.2007
Shareholders' equity	**2,020,713**	**1,154,484**
Issued capital	962,474	48,367
Additional paid-in capital	881,057	940,337
Available for sale-reserves	-161,515	-4,972
Foreign currency translation	-618	359
Retained earnings (incl. net consolidated income)	339,315	170,392
Minority interests	**509,122**	**504,588**
Total	**2,529,835**	**1,659,071**

Following approval at the Hypo Alpe-Adria-Bank International AG shareholders' meeting, a dividend totalling EUR 50,000 thousand for the 2007 financial year was distributed in May 2008.

The issued capital as of 31 December 2008 of EUR 962,474 thousand (2007: EUR 48,367 thousand) represents the equity capital of Hypo Alpe-Adria-Bank International AG. It is divided into 7,809,276 (2007: 6,045,891) bearer shares with voting rights. EUR 900 m of this is participation capital issued by Hypo Alpe-Adria-Bank International AG in December 2008 and subscribed by the Republic of Austria (see note 99).

A capital increase of EUR 700,000 thousand took effect on 13 December 2008, with the newly issued shares being subscribed by existing shareholders of the Bank, BayernLB and Hypo Alpe Adria Mitarbeiter Privatstiftung.

Supplementary Information

(82) Breakdown of remaining contractual maturities

Breakdown of remaining terms to maturity as per 31.12.2008

	Daily due or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	465,053	2,691,809
Loans and advances to customers	1,969,763	1,596,486
Trading assets	135,743	31,015
Positive fair value from hedge accounting derivatives	0	2,514
Financial investments – designated at fair value through profit or loss	51,814	19,238
Financial investments – available for sale	589,712	153,909
Financial investments – held to maturity	0	1,165
Other assets	354,232	235,407
Liabilities to credit institutions	499,177	622,346
Liabilities to customers	2,324,665	1,943,574
Liabilities evidenced by certificates	16,046	716,209
Trading liabilities	10,725	13,307
Negative fair value from hedge accounting derivatives	0	0
Other liabilities	76,064	163,549
Subordinated capital	0	0

Breakdown of remaining terms to maturity as per 31.12.2007

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

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

EUR '000

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	Total
341,876	873,853	110,680	**4,483,271**
3,811,686	10,849,609	12,339,122	**30,566,667**
5,420	3,145	3,858	**179,181**
93	190,048	389,027	**581,682**
18,976	95,292	935,213	**1,120,532**
222,506	1,077,403	522,002	**2,565,532**
0	5,759	35,017	**41,940**
281,396	615,684	37,227	**1,523,945**
780,971	3,151,211	2,234,290	**7,287,995**
1,507,140	1,202,884	1,738,631	**8,716,894**
1,342,350	8,163,964	11,176,771	**21,415,340**
3,869	0	0	**27,902**
294	79,025	28,037	**107,356**
173,836	153,010	605,960	**1,172,418**
20,072	153,459	1,416,917	**1,590,448**

EUR '000

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

(83) Deferred taxes

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

(83.1) Deferred tax assets – tax amount

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	6,908	6,908
Loans and advances to customers	10,215	8,805
Risk provisions on loans and advances	15,638	10,005
Trading assets	7,939	97
Financial investments	27,720	36,801
Tangible assets	342	874
Intangible assets	429	118
Other assets	110,105	96,372
Tax losses carried forward	196,721	196,639
Liabilities to credit institutions	451	0
Liabilities to customers	556	0
Trading liabilities	133	133
Provisions	1,306	1,066
Other liabilities	149,278	145,743
Subordinated capital	0	0
Total	**527,741**	**503,561**

Of the reported deferred taxes, EUR 196,721 thousand (2007: EUR 196,639 thousand) result from the capitalisation of tax claims due to utilisable losses carried forward. Deferred tax assets of EUR 240,303 thousand (2007: EUR 20,378 thousand) from tax losses carried forward and valuation differences (in each case tax amount) were not capitalised as there is no possibility of utilisation in the foreseeable future by the respective group companies.

In the year under review, deferred taxes on valuation results of available for sale financial instruments that do not affect net income were reported directly in the equity. In financial year 2008, the change of equity including deferred taxes not affecting net income amounts to EUR 273 thousand (2007: EUR 8,975 thousand). The deferred tax resulting from the initial consolidation of the subsidiaries listed in note (4) was also considered in the consolidated financial statements without affecting net income.

(83.2) Deferred tax liabilities – tax amount

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	11	11
Loans and advances to customers	11,234	9,261
Risk provisions on loans and advances	14,051	17,373
Trading assets	2,290	129
Financial investments	52,932	50,436
Tangible assets	2,492	7,001
Intangible assets	1,567	3,882
Other assets	75,993	61,383
Liabilities to credit institutions	13,993	13,993
Liabilities to customers	2,331	2,331
Liabilities evidenced by certificates	112,590	112,590
Provisions	1,351	1,556
Other liabilities	40,331	46,490
Subordinated capital	12,795	14,322
Total	**343,961**	**340,758**

(84) Finance leases

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

EUR '000

	31.12.2008	31.12.2007
Gross investment in the lease	**8,774,605**	**7,195,679**
Minimum lease payments	8,765,125	7,195,679
up to 1 year	1,556,389	1,243,348
from 1 year up to 5 years	3,992,628	3,033,182
over 5 years	3,216,109	2,919,149
Unguaranteed Residual Value	9,480	0
Unrealized financial income	**1,924,050**	**1,772,018**
up to 1 year	368,866	278,222
from 1 year up to 5 years	875,227	712,961
over 5 years	679,957	780,836
Net investment in the lease	**6,850,555**	**5,423,661**

The cumulated risk provision for uncollectible outstanding minimum leasing payments for 2008 is EUR –40,469 thousand (2007: EUR –32,138 thousand).

Assets let under finance leases broke down as follows:

EUR '000

	31.12.2008	31.12.2007
Real estate leases	3,772,267	3,152,891
Vehicle leases	1,659,619	1,210,833
Boat leases	214,056	132,245
Other movables	1,204,614	927,691
Total	**6,850,555**	**5,423,661**

(85) Operating leases

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

EUR '000

	31.12.2008	31.12.2007
up to 1 year	125,285	113,672
from 1 year to 5 years	333,053	298,026
more than 5 years	334,113	166,361
Total	**792,451**	**578,059**

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

EUR '000

	31.12.2008	31.12.2007
Real estate leases	440,370	334,428
Vehicle leases	285,226	223,332
Boat and other movables leases	66,855	20,298
Total	**792,451**	**578,058**

(86) Borrowing costs

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

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

		31.12.2008	31.12.2007
Borrowing costs capitalized during the period	EUR '000	6,037	7,960
Financing cost rate	in %	4.4	4.1

(87) Assets / liabilities in foreign currency

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

EUR '000

	31.12.2008	31.12.2007
Assets	19,620,654	12,769,112
Liabilities	11,319,599	8,926,071

(88) Fiduciary transactions

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

EUR '000

	31.12.2008	31.12.2007
Loans and advances to customers	169,280	172,900
Fiduciary assets	**169,280**	**172,900**
Liabilities to credit institutions	169,280	172,900
Fiduciary liabilities	**169,280**	**172,900**

(89) Repurchase agreements

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

EUR '000

	31.12.2008	31.12.2007
Liabilities to credit institutions	270,906	239,624
Liabilities to customers	13,126	129,417
Repurchase agreements	**284,031**	**369,041**

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions	51,552	16,189
Loans and advances to customers	6,073	6,936
Reverse repurchase agreements	**57,625**	**23,125**

(90) Assets given as collateral

Assets with a value of EUR 1,161,824 thousand (2007: EUR 612,770 thousand) were transferred to third parties as collateral for own debts. These assets continue to be shown in the balance sheet of Hypo Group Alpe Adria.

(91) Subordinated assets

The following assets shown in the balance sheet are subordinated:

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit instituitions	0	121,165
Loans and advances to customers	22,725	12,661
Financial investments – designated at fair value through profit or loss	4,854	6,533
Financial investments – available for sale	39,412	33,486
Total	**66,991**	**173,844**

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

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

EUR '000

	31.12.2008	31.12.2007
Contingent liabilities	**1,154,108**	**1,715,015**
Credit guarantees	709,024	1,111,423
Letters of credit	65,710	39,579
Other guarantees	298,361	283,955
Other contingent liabilities	81,012	280,058
Other commitments	**2,506,541**	**2,917,752**
Irrevocable credit commitments	2,298,042	2,443,608
Other obligations	208,499	474,144
Total	**3,660,648**	**4,632,767**

Other obligations include obligations from the acquisition and/or construction of investment properties and tangible assets totalling EUR 205,940 thousand (2007: EUR 386,529 thousand).

(93) Breakdown of securities admitted to stock exchange trading

EUR '000

	31.12.2008	31.12.2007
Trading Assets		
Bonds and other fixed-interest securities	38,838	53,189
thereof listed	38,838	53,189
thereof unlisted	0	0
Shares and other non fixed-interest seccurities	61,333	68,912
thereof listed	49,386	59,126
thereof unlisted	11,946	9,786
Financial investments – designated at fair value through profit or loss		
Bonds and other fixed-interest securities	352,136	527,914
thereof listed	294,352	436,949
thereof unlisted	57,784	90,965
Shares and other non fixed-interest seccurities	51,814	52,364
thereof listed	13,456	21,718
thereof unlisted	38,357	30,646
Financial investments – available for sale		
Bonds and other fixed-interest securities	2,379,536	2,261,744
thereof listed	1,937,442	1,833,858
thereof unlisted	442,094	427,886
Shares and other non fixed-interest seccurities	86,012	380,942
thereof listed	46,708	91,918
thereof unlisted	39,304	289,024
Financial investments – held to maturity		
Bonds and other fixed-interest securities	41,940	42,570
thereof listed	41,940	42,570
thereof unlisted	0	0

Supplementary Information

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

On 31 December 2008 the breakdown of the balance sheet according to the measurement categories of IAS 39 is as follows:

EUR '000

	LAR / LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	financial assets / liabilities at (amortised) costs	31.12.2008
Cash and balances with central banks							999,207	**999,207**
Loans and advances to credit institutions	3,981,075						502,196	**4,483,271**
Loans and advances to customers	30,566,667							**30,566,667**
Risk provisions on loans and advances	–1,086,231							**–1,086,231**
Trading assets		179,181						**179,181**
Positive fair value from hedge accounting derivatives						581,682		**581,682**
Financial investments – afvtpl			1,120,532					**1,120,532**
Financial investments – afs				2,565,532				**2,565,532**
Financial investments – htm					41,940			**41,940**
Investments in companies accounted for at equity							5,360	**5,360**
Other assets / banking book derivatives		1,134,960						**1,134,960**
Other financial assets							140,016	**140,016**
Total financial assets	**33,461,511**	**1,314,142**	**1,120,532**	**2,565,532**	**41,940**	**581,682**	**1,646,779**	**40,732,117**
Liabilities to credit institutions	7,287,995							**7,287,995**
Liabilities to customers	8,673,806		43,088					**8,716,894**
Liabilities evidenced by certificates	19,964,466		1,450,875					**21,415,340**
Trading liabilities		27,902						**27,902**
Negative fair value from hedge accounting derivatives						107,356		**107,356**
Subordinated capital	1,451,840		138,608					**1,590,448**
Other liabilities / banking book derivatives		122,644						**122,644**
Other liabilities / FVO derivatives			222,469					**222,469**
Other financial liabilities							827,305	**827,305**
Total financial liabilities	**37,378,107**	**150,546**	**1,855,039**	**0**	**0**	**107,356**	**827,305**	**40,318,353**

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

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

EUR '000

	LAR / LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	financial assets / liabilities at (amortised) costs	31.12.2007
Cash and balances with central banks							997,864	**997,864**
Loans and advances to credit institutions	3,099,998						832,774	**3,932,772**
Loans and advances to customers	25,650,736							**25,650,736**
Risk provisions on loans and advances	-705,266							**-705,266**
Trading assets		127,163						**127,163**
Positive fair value from hedge accounting derivatives						156,621		**156,621**
Financial investments – afvtpl			1,384,468					**1,384,468**
Financial investments – afs				2,735,469				**2,735,469**
Financial investments – htm					42,570			**42,570**
Investments in companies accounted for at equity							21,948	**21,948**
Other assets / banking book derivatives		35,596						**35,596**
Other financial assets				8,984			211,676	**220,660**
Total financial assets	**28,045,468**	**162,759**	**1,384,468**	**2,744,454**	**42,570**	**156,621**	**2,064,262**	**34,600,601**
Liabilities to credit institutions	4,456,962							**4,456,962**
Liabilities to customers	8,432,927		40,647					**8,473,574**
Liabilities evidenced by certificates	18,591,000		1,691,581					**20,282,581**
Trading liabilities		8,444						**8,444**
Negative fair value from hedge accounting derivatives						392,596		**392,596**
Subordinated capital	1,110,003		223,340					**1,333,342**
Other liabilities / banking book derivatives		46,816						**46,816**
Other liabilities / FVO derivatives			100,740					**100,740**
Other financial liabilities							743,317	**743,317**
Total financial liabilities	**32,590,892**	**55,260**	**2,056,307**	**0**	**0**	**392,596**	**743,317**	**35,838,372**

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

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

As of 31 December 2008, the maximum potential default risk for loans and advances designated at fair value affecting income statement is EUR 577,216 thousand (2007: EUR 629,009 thousand). The change in the fair value that is attributable to changes in the credit risk is EUR –6,501 thousand in financial year 2008 (2007: EUR –686 thousand), since the designation the cumulated change amounts to EUR –6,708 thousand (2007: EUR 177 thousand). The solvency-induced fair value changes were estimated by calculating differences, comparing the fair value based on the credit rating spreads at the end of the reporting period to that at the beginning of the reporting period.

Fair value changes to financial liabilities accounted for at fair value and resulting from the change in own credit spread or the increase in liquidity spread, came to EUR 84,510 thousand in the 2008 financial year (2007: EUR 0 thousand). Positive value changes arising from own third-party liabilities and requiring recognition in the income statement, came to EUR 63,809 thousand in total in the 2008 financial year (2007: EUR 0 thousand).

There is a difference of EUR 162,710 thousand (2007: EUR 86,922 thousand) between the carrying amount of the financial liabilities accounted for at fair value and the repayment amount at maturity.

(96) Fair value information

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

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

EUR '000

	31.12.2008			31.12.2007		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	4,483,271	4,483,271	0	3,932,772	3,932,772	0
Loans and advances to customers	30,612,035	30,566,667	45,368	25,632,992	25,650,736	−17,744
Financial investments – held to maturity	41,971	41,940	30	41,314	42,570	−1,256
Other financial investments (investment properties)	1,199,526	1,134,960	64,566	1,003,188	960,064	43,125
Total	**36,336,803**	**36,226,838**	**109,965**	**30,610,266**	**30,586,141**	**24,125**
Liabilities						
Liabilities to credit institutions	7,295,056	7,287,995	7,060	4,458,765	4,456,962	1,803
Liabilities to customers	8,731,017	8,716,894	14,123	8,469,504	8,473,574	−4,070
Liabilities evidenced by certificates	21,514,354	21,415,340	99,014	20,282,914	20,282,581	334
Subordinated capital	1,600,138	1,590,448	9,691	1,131,325	1,126,599	4,726
Total	**39,140,565**	**39,010,677**	**129,888**	**34,342,509**	**34,339,715**	**2,794**

Where available, quotations or prices on other representative markets (Reuters, Bloomberg, etc.) for the corresponding financial instruments were used for valuation purposes. The fair value of financial instruments not listed on the stock exchange was determined according to generally accepted valuation models applying market-based assumptions, especially by means of cash value models. The fair values of investment properties were determined on the basis of external and internal valuation opinions and in most cases revised by an internal committee of experts.

For loans and advances, there is generally no active market. Therefore, a valuation of the loans and advances with variable interest rate is required. As the carrying amount of the loans and advances already takes into account market changes within the meaning of market interest rate changes, the difference between the carrying amount and the fair value is not substantial, and the fair values were not estimated separately.

Within the scope of hedge accounting, Hypo Group Alpe Adria uses only fair value hedges to hedge the market values of financial instruments. Loans and advances hedged according to IAS 39 are reported in the balance sheet in accordance with the hedged fair value, i. e. the carrying amount plus the change of the market value assignable to the hedged part of the loan. The hedge is to minimize above all the market value risk caused by interest rate changes. With regard to change-of-interest-rate risk hedging, no separate calculation of the fair value was carried out.

As the carrying amount of unhedged fixed-interest loans and advances according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method. For this purpose, Hypo Group Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

(97) Derivative financial instruments

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

EUR '000

	31.12.2008			31.12.2007		
	Nominal amounts	Fair values Positive	Fair values Negative	Nominal amounts	Fair values Positive	Fair values Negative
a) Interest-related business						
OTC products:						
Interest rate swaps	17,466,667	673,563	236,329	16,886,978	299,705	469,159
Forward rate agreements (FRAs)	0	0	0	166,077	0	153
Interest options	0	0	0	10,000	0	0
Caps, floors	3,833	57	0	5,000	101	0
Other interest derivatives	54,000	17	2,615	48,723	2,469	2,281
b) Currency-related business						
Exchange traded products:						
Foreign exchange futures	23,078	8,283	0	151,847	329	335
OTC products:						
Currency swaps	1,710,347	77,213	200,846	2,793,452	50,931	58,239
Cross currency swaps	2,303,951	46,247	10,295	1,888,348	3,479	8,815
Forward exchange contracts – purchase contracts	533,479	8,383	8,105	292,407	1,672	945
Forward exchange contracts – sales contracts	423,417	26,733	11,127	189,606	161	2,975
Currency swaptions	233,017	7,528	380	132,903	514	484
c) Transactions linked to share prices & other indices						
Exchange traded products:						
Share / indices linked options	0	0	0	54,259	2,863	4,414
d) Credit linked derivatives						
OTC products:						
Credit default swaps	35,000	34	4,376	104,632	49	796
Total return swaps	0	0	0	254,000	10,186	0

Most derivative transactions serve the purpose of hedging interest rate, foreign currency rate or market price fluctuations. In most cases, micro-hedges were relied upon to hedge individual transactions on the assets and liabilities side directly. With regard to the statement and assessment of the derivatives, reference is made to note (7) and (8).

(98) Related party disclosures

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

EUR '000

Balance as of 31.12.2008	Parent company	Companies with substantial influence	Affiliated companies	Associated companies	Joint Ventures	Key management personnel
Total assets	**1,527,090**	**33,136**	**133,208**	**280,517**	**52,413**	**3,506**
Loans and advances to credit institutions	1,527,090	16,259	0	1,175	0	0
Loans and advances to customers	0	0	164,251	330,519	55,383	3,506
Risk provisions	0	0	−32,263	−51,200	−2,976	0
Other assets	0	16,877	1,220	23	6	0
Total liabilities	**3,449,017**	**51,921**	**5,648**	**63,710**	**12**	**4,336**
Liabilities to credit institutions	3,134,591	16,303	0	60,365	0	0
Liabilities to customers	0	16,717	5,231	3,345	12	4,326
Other financial liabilities	0	18,900	0	0	0	10
Subordinated capital	314,426	0	416	0	0	0

EUR '000

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

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

Companies with substantial influence in 2008 and 2007 are BVG Beteiligungs- und Verwaltungsgesellschaft mbH (from November 2008 onwards; prior to this, Hypo-Bank Burgenland AG. Both are companies of Grazer Wechselseitige Versicherungs AG), Kärntner Landes- und Hypothekenbank-Holding, Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation) as well as in 2007 Berlin & Co Capital S.à.r.l.

Supplementary Information

Following the completion of closing on the acquisition of a majority holding in Hypo Alpe-Adria-Bank International AG by Bayerische Landesbank (BayernLB), business relations between Hypo Group Alpe Adria and its main shareholder were significantly extended in the 2008 financial year. Particularly when it came to the refinancing of Group activities, the Group drew on BayernLB's sources of funding, resulting in an increase in liabilities to banks (holding companies) from EUR 170 m (as at 31 December 2007) to EUR 3,135 m (as at 31 December 2008). Additionally, BayernLB subscribed to EUR 300 m of supplementary capital in accordance with section 23 (7) BWG (Austrian Banking Act) in June 2008, issued by Hypo Alpe-Adria-Bank International AG within the framework of a public placement. This subscription, denominated in EUR, has a term of 8 years and a variable interest model (the 12-month EURIBOR rate plus 400 basis points).

The Province of Carinthia is guarantor for certain commitments of Hypo Alpe-Adria Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) entered into prior to 1 April 2007. In return for the statutory guarantee and with respect to the commitments covered by it, the Province of Carinthia is paid a guarantee commission in an amount of 1 per mille (10 basis points) p. a. of the outstanding amount. In the years 2004 and 2005, the Province of Carinthia was paid guarantee commission advances for the periods 2004 to 2007 and 2005 to 2010 respectively, namely EUR 50,904 thousand in total, the relevant amounts having been estimated on discounted basis applying the then applicable interest curves. As of 31 December 2008, the amount of the capitalised advance payments was EUR 13,854 thousand (2007: EUR 16,877 thousand) and is shown in the balance sheet in the item other assets. The item loans and advances to companies with substantial influence, totalling EUR 17,040 thousand (2007: EUR 13,229 thousand), related to the payment to the Province of Carinthia from the annual settlement for guarantor's liability, which is liable for payment on 31 January of the year following at the latest.

Affiliated companies are understood to be those direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG that are not consolidated in the consolidated financial statements because their importance is negligible. Key management personnel are defined as Executive Board members of subsidiary banks and the Executive Board members of significant leasing companies as well as the division managers of Hypo Alpe-Adria-Bank International AG.

Additions to risk provisions on loans to affiliated but not consolidated subsidiaries requiring recognition in the income statement come to EUR –5,912 thousand in the 2008 financial year (2007: EUR –3,371 thousand). Expenses associated with the risk provision on loans to associated companies come to EUR –23,250 thousand in the 2008 financial year (2007: EUR 25,000 thousand).

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

The relationships to members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (105).

(99) Participation capital

Once resolutions had been passed by the appropriate committees, the Executive Board availed itself of the government-sponsored package of measures (BGBl I 136/2008) in December 2008 and issued participation capital.

In accordance with the principle agreement in principle with the Federal Republic of Austria dated 29 December 2008 on subscription to investment capital, the conditions attached to the principle agreement and the subscription agreement, the Federal Republic subscribed to 18,000 participation certificates, each with a nominal value of EUR 50,000.00, resulting in a total participation capital of EUR 900,000 thousand.

The Federal Republic is entitled to apply Section 102 BWG and to convert all participation certificates held into ordinary shares at a conversion price to be agreed in accordance with the conditions attached to the participation capital issue.

The owners of the participation capital are entitled to a share of profits of 8.0 % p. a., which will rise to 8.5 % or 9.0 % p. a. in the 6^{th} and 7^{th} year, and to 9.75 % and 10.75 % p. a. for the 8^{th} and 9^{th} year respectively. This dividend payment is limited at a rate equivalent to the 12-month EURIBOR rate plus 10.0 % p. a. The existence of sufficient retained profit in the financial statements of Hypo Alpe-Adria-Bank International AG prepared in accordance with the UGB/BWG is considered as a necessary condition for the payment of dividends.

In the event of reimbursement of the issued participation capital, the repayment value is measured at 110 % of nominal value (for apportionment from the 10^{th} year onwards 150 %) provided that this increase of 10 % (50 % from the 10^{th} year) is covered by a corresponding increase in the company value of Hypo Group Alpe Adria.

The participation capital of EUR 900,000 thousand is shown in both the separate annual financial statement and the consolidated financial statements of Hypo Alpe-Adria-Bank International AG under the item Subscribed capital.

Dividends paid on the participation capital will be shown as appropriation of net income.

(100) Statutory guarantee

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

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

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

(101) Own capital funds according to the Banking Act

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

EUR '000

	31.12.2008 BASEL II	31.12.2007 BASEL I
Core capital (TIER 1)	**2,746,534**	**1,769,361**
Paid-in capital	962,474	48,367
Reserves (incl. minority interests in equity as well as hybrid capital)	1,627,844	1,753,659
Funds for general banking risks	200,700	700
Intangible assets	-44,484	-33,365
Supplementary elements (TIER 2)	**1,429,980**	**1,106,653**
Supplementary capital	493,205	203,179
Revaluation reserve for real estate (weighted with 45 %)	30,712	18,793
Subordinated liabilities	906,063	884,681
Deductions persuant to Section 23 (13) of the Banking Act	**-23,271**	**-39,696**
TIER 3 (reclassified TIER 2 capital)	**20,000**	**35,900**
Own capital funds acc. to BWG	**4,173,243**	**2,872,218**
Own capital funds requirements acc. to BWG	**2,796,800**	**2,295,630**
Surplus capital	**1,376,443**	**576,588**
Coverage	149.2 %	125.1 %

EUR '000

	31.12.2008 BASEL II	31.12.2007 BASEL I
Risk-weighted assessment basis pursuant to Section 22 of the Banking Act (banking book)	**32,831,625**	**28,246,620**
thereof 8 % capital requirement	2,626,530	2,259,730
Capital requirement pursuant to Section 22b of the Banking Act (securities trading book)	4,660	104
Capital requirement pursuant to Section 26 of the Banking Act (open foreign exchange position)	30,135	35,796
Capital requirement pursuant to operational risk	135,475	–
Total own capital funds requirement	**2,796,800**	**2,295,630**

EUR '000

	31.12.2008 BASEL II	31.12.2007 BASEL I
Assessment basis banking book (risk-weighted):	**32,831,625**	**28,246,620**
Core capital ratio (TIER 1 ratio)	8.3 %	6.3 %
Own capital funds ratio	12.7 %	10.2 %
Assessment basis incl. market risk:	**34,960,000**	**28,695,370**
Core capital ratio (TIER 1 ratio)	7.8 %	6.2 %
Own capital funds ratio (solvency ratio)	11.9 %	10.0 %

In the financial year under review 2008 Hypo Group Alpe Adria was in compliance with the minimum capital requirements according to the Austrian Banking Act.

(102) Important law cases

In the "DAB proceedings", which were explained in some detail last year's annual report and which arose out of the acquisition of Slavonska banka d.d. Osijek (SBO), the London Court of International Arbitration (LCIA) in December 2007 in the final instance found in favour of the plaintiff, Hypo Alpe-Adria-Bank International AG, and against the Croatian State Agency for Deposit Insurance and Bank Rehabilitation (DAB).

Negotiations took place with the Republic of Croatia throughout 2008 with a view to reaching a consensus agreement acceptable to both sides; and agreement was reached in December 2008. The effect of this agreement on the claim against DAB, which was capitalised in the 2007 financial year, was recognised in the 2008 financial year with a charge of EUR –9 m against the item other operating result.

(103) Employees

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

	31.12.2008	31.12.2007
Employees at closing date	**8,114**	**7,447**
thereof in Austria	1,328	1,272
thereof abroad	6,786	6,175
Employees average	**7,867**	**7,135**
thereof in Austria	1,332	1,168
thereof abroad	6,535	5,967

Without apprentices and employees on unpaid leave

(104) Severance pay, pension payments

The outlay of the parent company for severance pay and pension payments in 2008 is indicated in the following table:

EUR '000

	2008	2007
Senior employees	109	52
Other employees	255	695
Total	**364**	**747**

Supplementary Information

(105) Relationship with members of management bodies

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

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

The account relationships between the management bodies of the Austrian Group holding company and Hypo Alpe-Adria Bank AG (Austria) are common. As of 31 December 2008, the loans and advances to Members of the Executive Board came to EUR 82 thousand (2007: EUR 283 thousand), and to members of the Supervisory Board to EUR 57 thousand (2007: EUR 426 thousand). The liabilities to members of the Executive Board amounted to EUR 638 thousand (2007: EUR 404 thousand), and to members of the Supervisory Board to EUR 326 thousand (2007: EUR 371 thousand).

Apart from this, one member of the Executive Board has a finance lease contract with a Group leasing company, which shows an amount of EUR 14 thousand outstanding as at 31 December 2008 (2007: EUR 101 thousand, relating to two members of the Executive Board).

(105.2) List of the emoluments of members of corporate bodies of the parent company

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

EUR '000

	2008	2007
Executive Board	3,471	2,562
Supervisory Board	125	369
Remuneration of former members of the Executive and Supervisory Board and their surviving dependants	442	617
Total	**4,038**	**3,548**

The remuneration for 2008 contains variable elements totalling EUR 778 thousand which were paid out during the course of the year but which are being reclaimed by Hypo Alpe-Adria-Bank International AG because of agreements with the Republic of Austria in connection with the issuance of participation capital. The repayment claim relating to this is shown under Other assets.

The members of the Executive Board and Supervisory Board acting in this capacity during the year under review are stated in note (106).

(106) Management bodies 1 January to 31 December 2008

Supervisory Board

Chairman:
Werner SCHMIDT, Munich, until 1 March 2008
Michael KEMMER, Munich, since 30 April 2008
(member of the Supervisory Board from 18 March 2008 to 30 April 2008)

1st Deputy Chairman:
Othmar EDERER, Graz

2nd Deputy Chairman:
Hans-Jörg MEGYMOREZ, Klagenfurt-Wölfnitz

Members:
Kurt FALTLHAUSER, Munich, until 30 April 2008
Siegfried GRIGG, Graz
Rudolf HANISCH, Munich
Siegfried NASER, Munich
Ralph SCHMIDT, Munich, since 30 April 2008
Klaus WEIGERT, Munich, since 30 April 2008
Gert XANDER, Klagenfurt, until 18 March 2008

Appointed by the Works Council:
Erich CLIMA, Chairman, Klagenfurt
Edith ENENGEL, Klagenfurt
Markus RUSSLING, Klagenfurt
Mario ZOLLE, Klagenfurt

Federal Supervisory Authorities

State commissioner:
Angelika SCHLÖGEL, Vienna

Deputy state commissioner:
Monika HUTTER, Vienna

Province – Supervisory function

Jörg HAIDER, Governor of the Province of Carinthia, Klagenfurt, until 11 October 2008
Harald DOBERNIG, Provincial Minister, Maria Saal, since 12 October 2008
Horst FELSNER, Klagenfurt

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

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

Executive Board

Tilo BERLIN, Chairman of the Executive Board, Maria Saal
Andreas DÖRHÖFER, Member of the Executive Board, Erding, since 1 May 2008
Josef KIRCHER, Member of the Executive Board, Liebenfels, until 31 May 2008
Paul A. KOCHER, Member of the Executive Board, Vienna
Thomas MORGL, Member of the Executive Board, Viktring, until 31 December 2008
Wolfgang PETER, Member of the Executive Board, Breitenbrunn
Božidar ŠPAN, Member of the Executive Board, Ljubljana, since 1 June 2008

Supplementary Information

(107) Material subsidiaries as of 31 December 2008

*) 100 % of voting rights; 75.24 % directly or indirectly owned by the Group. Remaining interest: non-voting preference shares

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

(108) Scope of consolidation as of 31 December 2008

The consolidated financial statements according to IFRS as per 31 December 2008 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG according to the full consolidation method:

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	100 %	100 %	31.12.2008	KI
Hypo 111	Klagenfurt	98.540 %	98.540 %	31.12.2008	*)
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
MAGUS d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
ALPE ADRIA CENTAR d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100 %	100 %	31.12.2008	FI
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	100 %	100 %	31.12.2008	FI
PROJEKT NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
Slavonska banka d.d. Osijek	Osijek	100 %	100 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK d.d.	Mostar	99.998 %	99.998 %	31.12.2008	KI
HYPO-ALPE-ADRIA-INVEST d.o.o.	Mostar	100 %	99.998 %	31.12.2008	FI
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice d.o.o.	Sarajevo	100 %	99.998 %	31.12.2008	WP
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	99.600 %	31.12.2008	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	99.912 %	99.912 %	31.12.2008	KI
BROKERSKO-DILERSKO DRUŠTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	100 %	99.768 %	31.12.2008	WP
HYPO INVESTMENTS a.d. Beograd	Belgrade	100.00 %	99.910 %	31.12.2008	FI
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Belgrade	100.00 %	99.910 %	31.12.2008	FI
Hypo Alpe-Adria Jersey Ltd.	St.Helier	100 %	100 %	31.12.2008	FI
Hypo Alpe-Adria (Jersey) II Ltd.	St.Helier	100 %	100 %	31.12.2008	FI
HBInt. Credit Management Limited	St.Helier	51 %	51 %	31.12.2008	FI
Carinthia I Limited	St.Helier	100 %	51 %	31.12.2008	FI
Carinthia II Limited	St.Helier	100 %	51 %	31.12.2008	FI
NORICA INVESTMENTS LIMITED	St.Helier	51 %	51 %	31.12.2008	FI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.72 %	99.930 %	31.12.2008	KI
Hypo Group Netherland Holding B.V.	Amsterdam	100 %	100 %	31.12.2008	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100 %	100 %	31.12.2008	FI
Hypo Group Netherlands Finance B.V.	Amsterdam	100 %	100 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING HOLDING AG	Klagenfurt	68.25 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	100 %	75.24 %	31.12.2008	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	100 %	75.26 %	31.12.2008	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt	100 %	75.26 %	31.12.2008	FI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	100 %	75.51 %	31.12.2008	FI
HYPO Wohnbau GmbH	Klagenfurt	100 %	75.49 %	31.12.2008	FI

[1] Type (according to the Banking Act): KI: Banking HI: Services SU: Other FI: Financial services WP: Investment firm *) funds

Supplementary Information

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	100 %	75.49 %	31.12.2008	FI
HYPO Projektentwicklungs GmbH	Klagenfurt	100 %	75.24 %	31.12.2008	HI
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	100 %	75.24 %	31.12.2008	FI
HYPO LEASING d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	FI
HYPO CENTER – 3 d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
MM SIGMA d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
NAGELE NEPREMICNINE d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
HYPO CENTER – 2 d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
HYPO PC d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
S.P.C. 03 d.o.o.	Ljubljana	67 %	50.41 %	31.12.2008	SU
HYPO DVA d.o.o.	Ljubljana	100 %	75.24 %	31.12.2008	SU
MM THETA d.o.o	Ljubljana	100 %	75.24 %	31.12.2008	SU
MM ZETA d.o.o	Ljubljana	100 %	75.24 %	31.12.2008	SU
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	FI
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	HI
JADRAN JAHTE d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	FI
ALFA CAR PROJEKT d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
NIVA GRADNJA d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
BETA NEKRETNINE d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING D.O.O. – PODGORICA	Podgorica	100 %	75.24 %	31.12.2008	FI
HYPO HOUSE D.O.O. – PODGORICA	Podgorica	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100 %	75.24 %	31.12.2008	SU
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	100 %	75.24 %	31.12.2008	HI
HYPO ALPE-ADRIA-LEASING GmbH	Munich	100 %	75.24 %	31.12.2008	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	100 %	75.24 %	31.12.2008	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	100 %	75.24 %	31.12.2008	FI
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100 %	75.24 %	31.12.2008	FI
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6 %	5 %	31.12.2008	FI
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100 %	75.24 %	31.12.2008	FI
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	0 % (VR 51 %)	0 % (VR 51 %)	31.12.2008	FI
HYPO Alpe-Adria Leasing Zrt.	Budapest	100 %	75.24 %	31.12.2008	FI
HYPO Alpe-Adria Leasing Kft.	Budapest	100 %	75.24 %	31.12.2008	FI
HYPO INGATLAN Kft.	Budapest	100 %	75.24 %	31.12.2008	SU
ORGOVANYI IMMO Ingatlanforgalmazo Kft.	Budapest	100 %	75.24 %	31.12.2008	SU
HYPO ALPE-ADRIA-LEASING EOOD	Sofia	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	100 %	75.24 %	31.12.2008	FI
HYPO ALPE-ADRIA-LEASING DOOEL	Skopje	100 %	75.24 %	31.12.2008	FI
HYPERIUM DOOEL Skopje	Skopje	100 %	75.24 %	31.12.2008	SU

[1] Type (according to the Banking Act): KI: Banking HI: Services SU: Other FI: Financial services WP: Investment firm

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	SU
HYPO TC-BB DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	SU
HYPO KASINA DOO BEOGRAD	Belgrade	100 %	75.24 %	31.12.2008	SU
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100 %	75.24 %	31.12.2008	FI
HYPO ULAGANJA d.o.o.	Zagreb	100 %	75.24 %	31.12.2008	SU
HYPO Consultants Holding GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO Alpe-Adria-Consultants Aktiengesellschaft in Liquidation	Schaan	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-CONSULTANTS S.R.L.	Udine	100 %	100 %	31.12.2008	HI
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	99.27 %	99.27 %	31.12.2008	HI
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	100 %	100 %	31.12.2008	HI
SINGULUS d.o.o.	Umag	100 %	100 %	31.12.2008	SU
HILLTOP Holding Anstalt	Vaduz	100 %	100 %	31.12.2008	SU
PIPER d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
D.S. car d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
ALUFLEXPACK d.o.o.	Zadar	82.31 %	82.31 %	31.12.2008	SU
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100 %	100 %	31.12.2008	HI
Schlosshotel Velden GmbH	Klagenfurt	100 %	100 %	31.12.2008	SU
Schloss Velden Appartementerrichtungs GmbH	Klagenfurt	100 %	100 %	31.12.2008	SU
Lamplhof Betriebs GmbH	Klagenfurt	95 %	95 %	31.12.2008	SU
TRP Projektentwicklungs GmbH	Klagenfurt	98 %	100 %	31.12.2008	SU
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	100 %	100 %	31.12.2008	HI
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.2008	HI
CASTELLUM d.o.o.	Zagreb	100 %	100 %	31.12.2008	SU
HYPO Facility Services GmbH	Klagenfurt	70 %	100 %	31.12.2008	HI
Alpe-Adria Investments d.o.o.	Zagreb	100 %	100 %	31.12.2008	HI
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100 %	100 %	31.12.2008	HI
ZAJEDNICKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	100 %	100 %	31.12.2008	HI
ZAJEDNICKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100 %	100 %	31.12.2008	HI
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.2008	HI
WS Liegenschaftsverwaltungs GmbH	Klagenfurt	100 %	100 %	31.12.2008	SU

[1] Type (according to the Banking Act): KI: Banking HI: Services SU: Other FI: Financial services WP: Investment firm

Supplementary Information

The following companies are included with their respective financial statements as per 31 December 2008 in the consolidated financial statements using the equity method:

EUR '000

Company	Seat	Ownership interest direct in %	Ownership interest indirect in %	Carrying amount of the participation as of 31.12.2008	Profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.50 %	29.52 %	3,470	103
DOSOR d.o.o.	Radenci	50.00 %	37.62 %	589	−210
HYPO-BA Leasing Süd GmbH	Klagenfurt	50.00 %	37.63 %	1,301	664
Pramollo S.p.A.	Udine	47.56 %	60.69 %	0	−21
REZIDENCIJA SKIPER d.o.o.[*)]	Umag	25.00 %	25.00 %	0	−1,086

*) The current results of Rezidencija Skiper d.o.o. are not recorded any more. As of 31 December 2008, the aliquot share in the (negative) equity of the company amounted to EUR −2.915 thousand (2007: EUR −1,856 thousand).

The 49 % interest in Alpe Adria Privatbank AG, Schaan, was included in the consolidation using the equity method of valuation, up until its classification in August 2008 as Assets held for disposal; and is therefore recognised according to the provisions of IFRS 5 in the balance sheet from this date onwards.

(109) Events after the balance sheet date

Dr. Tilo Berlin announced on 18 March 2009 that he will resign as Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG on 30 April 2009. The authority to appoint a successor lies with the Bank's Supervisory Board, which holds its next meeting on 23 April 2009.

Klagenfurt am Wörthersee, 24 March 2009
Hypo Alpe-Adria-Bank International AG

The Executive Board

Tilo Berlin

Božidar Špan

Paul A. Kocher

Wolfgang Peter

Andreas Dörhöfer

Statement of all Legal Representatives

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

Klagenfurt am Wörthersee, 24 March 2009
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Tilo Berlin

Božidar Špan

Paul A. Kocher

Wolfgang Peter

Andreas Dörhöfer

Auditors' Report

We have audited the accompanying consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG**, Klagenfurt am Wörthersee for the financial year from January 1, 2008 to December 31, 2008. These consolidated financial statements comprise the balance sheet as of December 31, 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2008 and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as well as for the preparation of the consolidated management report in accordance with the Austrian regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement and to state whether the management report for the Group is in accordance with the consolidated financial statements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. An audit involves procedures to obtain evidence about amounts and disclosures in the consolidated financial statements predominantly on a sample basis. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG** present fairly, in all material respects, the financial position of the Group as of December 31, 2008 and of its financial performance and its cash flows for the financial year from January 1, 2008 to December 31, 2008 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Vienna, on 2 April 2009

Deloitte
Audit Wirtschaftsprüfungs GmbH

Thomas Becker Peter Bitzyk
Certified Public Accountants

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

Management Report 2008 Hypo Alpe-Adria-Bank International AG

1. General economic environment

In 2008 the development of the global economy was adversely affected by the crisis in the financial markets. If the crisis can be said to have been limited at first in the main to the international financial markets, by the fourth quarter of 2008 at the latest it was also affecting real economies around the world.

In the USA the sustained weakness of the banking and financial system led the US economy into its deepest recession since 1982. European economic development was also greatly affected by the financial turbulence and by the downturn in nearly every European country.

Austria, as a small, export-orientated country, could not escape this downward trend. The Austrian economy resisted the downward spiral until the autumn of 2008, but was then hit badly by the effects of the crisis. Despite the wholesale measures taken by the Federal Government to counteract the effects of the crisis, Austrian GDP (gross domestic product) will decline in 2009, according to forecasts which have already been published.

The global scarcity of financial capital has, above all, presented a huge challenge to those regions of eastern and southern Europe which had shown such strong growth in recent years.

2. Overview

The consolidated financial statements for the year ended 31 December 2008 are drawn up in accordance with the International Financial Reporting Standards (IFRS) and are published both in printed form as well as on the internet (www.hypo-alpe-adria.com). These separate financial statements for Hypo Alpe-Adria-Bank International AG have been prepared in accordance with Austrian law (the Austrian Enterprise Code (UGB)/Austrian Banking Act (BWG)).

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

3. Analysis of financial key indicators

Hypo Alpe-Adria-Bank International AG, through its subsidiaries, is successfully pursuing its business activities, primarily in the two segments banking and leasing, in 12 countries in the extended Alps to Adriatic region. With over 7,500 employees and 380 branches and offices, it was again in 2008 one of the leading financial services providers in that region.

The geographical reach of the Group's financial activities extends to economic regions with starkly differing political and economic development: from states at the heart of Europe (Austria, Germany, Italy) through dynamic "new" EU member states (Slovenia, Hungary, Bulgaria) to the emergent countries in the future EU enlargement regions (Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Ukraine).
As a pioneer in this region, Hypo Alpe-Adria-Bank International AG embodies an equally unique philosophy, combining trans-regional thinking and cross-border operating, which for many years has been a definitive element of the corporate culture.

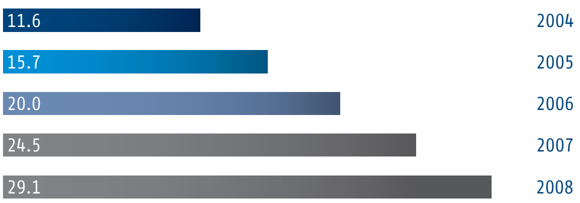
3.1. Balance sheet growth

The continuing strong growth in lending by the Hypo Group Alpe Adria companies is directly reflected in the increase in Hypo Alpe-Adria-Bank International AG's total assets, which is responsible for the majority of the banking group's capital market borrowings.

The Bank's total assets grew by a further 18.6 %, or EUR 4.6 bn, totalling EUR 29.1 bn at 31 December 2008. The comparable figure a year earlier was EUR 24.5 bn. The growth in total assets in 2008 was largely due to a significant increase in loans and advances to banks and customers, as well as to subsidiary companies increasing capital.

Total assets

EUR bn



Loans and advances to customers, at EUR 12.1 bn, were 25.9 % or EUR 2.5 bn higher than in the previous year (EUR 9.6 bn). This increase is mainly attributable to the growth of the leasing companies and other Group companies, which refinance their lending through Hypo Alpe-Adria-Bank International AG.

Loans and advances to banks in 2008 rose from EUR 9.8 bn to EUR 11.6 bn, an increase of 18.5 % or EUR 1.8 bn. This was due to the increased volume of financing with regard to the Group's banking subsidiaries, but also to the business relationship with the main shareholder, BayernLB.

Interests in associated companies in the year under review rose from EUR 2.9 bn to EUR 3.3 bn. The EUR 0.4 bn change resulted principally from capitalisation measures totalling EUR 0.6 bn taken by associated Group companies and writedowns of investments totalling EUR 0.2 bn.

Primary funds (customer deposits and the Bank's own issues of debt evidenced by certificates) totalled EUR 19.9 bn in the financial year (EUR 19.7 bn in 2007), equating to 68 % of total equities and liabilities.

Whereas in previous years the funding activities of the bank had been conducted almost exclusively through the capital markets, in 2008 the funds for refinancing were made available by BayernLB. As a result there was a significant increase in liabilities to banks, totalling EUR 2.8 bn to EUR 4.8 bn at the end of 2008.

In 2008, EUR 0.2 bn was allocated to a fund for general banking risks, which is accounted for as a separate liabilities item. The purpose of this fund, which is allocated through the income statement, is to cover future general business risks. For regulatory purposes, however, the total sum is classed as eligible Tier 1 capital.

As a result of the issuance of supplementary capital totalling EUR 0.3 bn in the first half of 2008, the total sum for supplementary capital shown in the balance sheet has approximately doubled.

The total equity for the Bank shown in the balance sheet (including the specially itemised fund for general banking risks) amounted to EUR 2.3 bn as of the balance sheet date and was thus significantly above the previous year amount of EUR 1.3 bn. Included in this change was the increase in capital of EUR 0.7 bn undertaken in December 2008, the subscription in investment capital of EUR 0.9 bn by the Republic of Austria, the payment of dividends totalling EUR 50.0 m paid in the second quarter of 2008 by the Bank to its shareholders, as well as the negative result for the year 2008 of EUR 0.5 bn (before the allocation of funds for general banking risks).

Management Report 2008

Balance sheet structure
EUR m

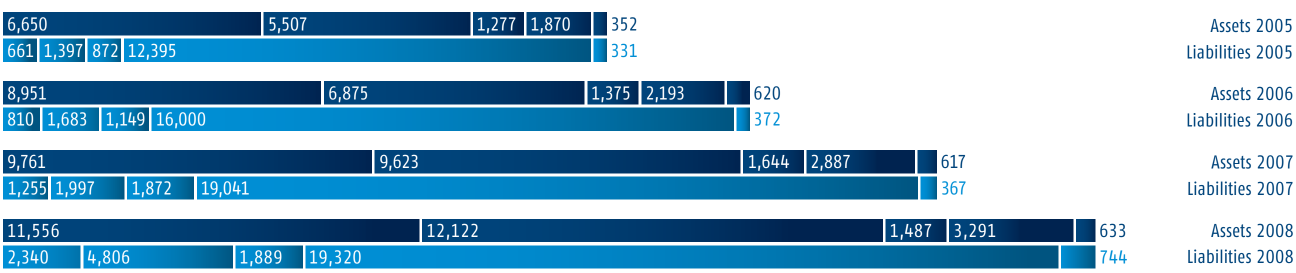
Assets

	2005	2006	2007	2008
Loans and advances to credit institutions	6,650	8,951	9,761	11,566
Loans and advances to customers	5,507	6,875	9,623	12,122
Fixed income securities, shares and investment funds	1,277	1,375	1,644	1,487
Investments in affiliated and associated companies	1,870	2,193	2,887	3,291
Other assets	352	620	617	633
Total assets	15,656	20,014	24,532	29,099

Liabilities

	2005	2006	2007	2008
Equity (incl. fund for general banking risks)	661	810	1,255	2,340
Liabilities to credit institutions	1,397	1,683	1,997	4,806
Liabilities to customers	872	1,149	1,872	1,889
Debt evidenced by certificates and subordinated capital	12,395	16,000	19,041	19,320
Other liabilities	331	372	367	744
Total equity and liabilities	15,656	20,014	24,532	29,099

Balance sheet structure
EUR m



3.2. Own capital funds

At the 31 December 2008 balance sheet date the total eligible own capital funds as per the Austrian Banking Act (BWG) were EUR 3,835 m, therefore EUR 1,735 m more than compared with the previous year's figure (2007: EUR 2,100 m). The legal minimum requirement stood at EUR 1,795 m (2007: EUR 1,000 m), resulting in surplus coverage of EUR 2,040 m (2007: EUR 1,100 m) or 213.6 % (2007: 209.9 %).

A capital increase of EUR 700 m in the fourth quarter of 2008, as well as the subscription in participation capital of EUR 900 m by the Republic of Austria, increased the Bank's statutory Tier 1 capital, while the continuing negative result in 2008 correspondingly reduced it.

In relation to the bank book (credit risk), the Tier 1 capital ratio as of 31 December 2008 came to 10.6 %. In relation to the total basis for measuring own capital funds (including market and operating risk), the Tier 1 capital ratio as of 31 December 2008 came to 10.4 % and the solvency ratio to 17.1 %, significantly higher than the Austrian legally required minimum of 8.0 %.

3.3. Earnings

Hypo Alpe-Adria-Bank International AG's earnings in the financial year just ended were significantly affected by writedowns of investments, the negative effects of the crisis in the financial markets on the securities portfolio held, greater loan loss provisions as well as other negative effects.

Net interest income in 2008 compared to the previous year reduced by EUR 22 m to EUR 12 m. This reduction came principally as a result of the refinancing costs for the carrying amounts for the investments held. While the resulting refinancing costs formed part of interest expense, the dividend income was recognised as a separate item disclosed separately below net interest income.

A reduction of EUR 65 m to EUR 105 m had to be recorded for the item operating income from securities and investments. It should not be forgotten, however, that an increased profit distribution of EUR 50 m resulting from the sale of Consultants-Gruppe formed part of the previous year's figure.

Net income from commissions, the difference between fee and commission income (EUR 28 m) and fee and commission expenses (EUR 7 m), came to EUR 21 m in 2008, up EUR 2 m or 10.9 % on the previous financial year (EUR 19 m).

Other operating income of EUR 13 m was at the same level as in 2007 and resulted principally from reimbursement for internal corporate services.

Operating income declined by EUR 83 m from EUR 233 m to EUR 150 m in the 2008 financial year.

Under operating expenses, personnel costs, at EUR 27 m, were only slightly higher than the previous year's costs (2007: EUR 27 m) despite an increase of 58 in the headcount total, in particular because of a significant reduction in employee bonuses.

The remaining administrative expenses came to EUR 67 m, which was slightly lower than the previous year's figure.

Other operating expenses increased from EUR 2 m (2007) to EUR 12 m (2008): the largest part of this negative variance resulted from a settlement with the Croatian government arising out of a court case.

In total, Hypo Alpe-Adria-Bank International AG's operating profit, being the difference between operating income and operating expenses, decreased from EUR 136 m to EUR 42 m. This equates to a reduction of EUR 94 m or 69.1 % compared to the previous year.

The loss on the valuation and disposal of receivables, contingent liabilities as well as securities held as current assets came to EUR 220 m in 2008 (2007: EUR 300 m).

Particularly affected by the negative developments in international capital markets in 2008 were those holdings in our own securities portfolio which were classified as current assets and therefore recognised at market value. Additionally, some permanent impairment writedowns, deriving in particular from the default of some bank securities from Iceland, had to be recognised. In total, the charge to the income statement as a result of the valuation of securities classified as current assets came to around EUR –82 m.

Loan loss provisions increased by EUR 91 m in total in the course of the year, of which EUR 10 m was accounted for by portfolio risks and EUR 34 m by provisions for associated companies.

This item also included charges totalling EUR 26 m for negative market values from derivative positions, of which EUR 19 m was allocated to a provision for anticipated losses on "stand-alone interest derivatives" at 31 December 2008.

The loss on the valuation and disposal of securities and of investments in associated companies came to EUR 272 m in 2008. Of this, EUR 192 m was accounted for by writedowns on investments because of permanent impairment. Other associated costs from investments were provided for with a sum of EUR 34 m.

The other expenses resulting from financial investments were due in the main to requirements to write down the value of securities classified as fixed assets, as a result of the current financial markets crisis.

Taking into account all the above mentioned effects, a loss from ordinary activities of EUR 450 m was therefore recorded.

Deduction of extraordinary expenses of EUR 207 m, incurred through the appropriation of EUR 200 m to the fund for general banking risks and through capital transactions tax of EUR 7 m in connection with the capital increase, as well as the mainly foreign withholding tax expense, brought the loss for the financial year 2008 to EUR 666 m.

After provision for the transfer of EUR 95 m to the liability reserve as well as for the release of EUR 6 m of free revenue reserves and EUR 740 m of appropriated capital reserves, Hypo Alpe-Adria-Bank International AG has balanced the result to record net income of EUR 0.

3.4. Earnings ratios

The cost/income-ratio is the ratio of operating costs to operating income. For the year ended 31 December 2008 it was 72.2 %. As a result of posting a loss for the year, meaningful return on equity (ROE) and return on assets (ROA) ratios cannot be calculated for the 2008 financial year.

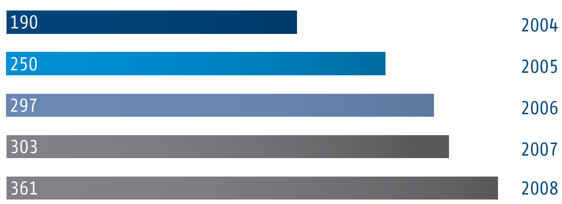
4. Analysis of non-financial key indicators

4.1. Employees

As of 31 December 2008, Hypo Alpe-Adria-Bank International AG employed 361 people, 58 more than a year earlier.

Staff training and education across the region continued to receive special emphasis in 2008. For an international financial services provider like Hypo Alpe-Adria-Bank International AG with strong customer orientation, a cornerstone of the corporate culture is the targeted development of both recently recruited and longstanding employees through attractive training propositions. For this reason, the training of the potential managers of the future through our Management Academy programme continued last year, despite the difficult economic environment. Training for new recruits joining directly from school or university is given through trainee programmes, on-the-job training and internal training events.

Employees
at balance sheet date



4.2. Customers

In the markets of South Eastern Europe, served transnationally by Hypo Alpe-Adria-Bank International AG's subsidiaries, an intimate knowledge of the markets and a profound understanding of customers' needs, also on an emotional level, are critical factors for success. Against this background, the Bank sees itself in a long-term partnership role that extends far beyond mere financial transactions: its work with its customers is shaped by face-to-face communication and mutual respect. This is based on an unwavering commitment to delivering customer-driven services, especially reflected in ease of access to banking facilities and rapid attainment of personal goals. With distinctive, reliable and easy-to-understand products on both the investment and the financing sides, the Group is making its contribution towards the success and prosperity of its more than 1.3 million customers.

4.3. Environmental and corporate social responsibility

As a responsible organisation, Hypo Alpe-Adria-Bank International AG is constantly challenging itself to take a holistic view of economic, social and ecological issues and to balance the interests of the different stakeholders involved. Priority is given to tailored, decentralised projects in the country markets themselves, in order to meet the different needs of the countries in the best possible way. Transnational projects addressing themes of social responsibility, the arts and culture are also sponsored. Thus, for example, Hypo Alpe-Adria-Bank International AG supported socially disadvantaged groups in different countries in 2008 and sponsored a wide range of differing cultural initiatives, such as exhibitions of young artists' work, across the regions.

The strong sense of environmental and social responsibility can be observed in the day-to-day work of all our employees and can be found in our management guidelines, as well. Sustainability and social engagement are therefore important elements in our collaboration with customers, business partners and shareholders.

A separate section on Corporate Social Responsibility (CSR) can be found in the Hypo Group Alpe Adria annual report.

5. Risk report

5.1. Overall bank management

Organisation / internal risk reporting / Internal Audit

The Executive Boards of Hypo Alpe-Adria-International AG and its key strategic interests are responsible for ensuring that the risk management system is structurally and procedurally sound. The "Chief Risk Officer" (CRO) is operationally responsible for risk management.

The back office at Hypo Alpe-Adria-Bank International AG is responsible for the operational implementation of risk control and risk monitoring. The core duties of the back office are management of individual default risks, as well as risk control and risk monitoring of credit (default), market, liquidity and operational risk at portfolio level.

The CRO of Hypo Alpe-Adria-Bank International AG is responsible for monitoring risk-bearing capacity and for the management of the risk capital required from an economic standpoint. Executive Board responsibility for ensuring compliance with the regulatory own capital funds requirement within Hypo Alpe-Adria-Bank International AG lies with the Chief Financial Officer (CFO).

A timely, independent and appropriate system of reporting to the Executive Board and to the committees is in place for the credit, market, liquidity, country, participation and operational risk types. The necessary information is supplied through, amongst others, the Credit and Country Market Risk Report, the Market and Liquidity Risk Report, the Risk-Bearing Capacity Report and the Report on Operational Risk.

The Audit function audits Hypo Alpe-Adria-Bank International AG's operations and reports to the Chairman of the Executive Board. In principle, all the activities and processes of Hypo Alpe-Adria-Bank International AG – including those outsourced – may be audited, on the basis of a risk-orientated audit approach. The function always takes into account the legal and regulatory supervisory requirements in force at the time when carrying out its duties, irrespective of the activity, process or function to be audited. The Audit function also acts in its capacity as the Group Audit function as a support to the internal auditing of the Hypo Alpe-Adria-Bank International AG's subsidiaries.

Risk management and monitoring
Hypo Alpe-Adria-Bank International AG manages and monitors its risks at a cross-segment level, with the aim of optimising its risk/earnings profile and of ensuring its risk-bearing capability at all times. Through representation in holding and supervisory committees, it can influence the business and risk policies of its key strategic interests and other interests. Compatible risk management processes, strategies and procedures are implemented in key strategic interests.

The following principles are applied by Hypo Alpe-Adria-Bank International AG with regard to overall risk management:

1. Clearly defined processes and organisational structures exist for all types of risk, and the tasks, responsibilities and authority of all involved are aligned to these.
2. In order to avoid any conflicts of interest, front and back office functions as well as trading and processing/monitoring units are functionally separated.
3. The Group has determined and implemented appropriate and compatible processes for identifying, measuring, aggregating, managing and monitoring the different types of risk.
4. Appropriate limits are set and effectively monitored for material risks.

5.2. Strategic bank management

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

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

In operative terms, business and risk strategy represent the combined result of the planning and management process of Hypo Alpe-Adria-Bank International AG, based on the business policy guidelines laid down by the Executive Boards of Hypo Alpe-Adria-Bank International AG.

This planning is supplemented with a risk review and collated in the risk strategy. The risk strategy is prepared by Group Credit Risk Control und Group Market Risk Control taking the the business planning as a basis, and then finalised in the Group Risk Executive Committee. Resolutions on combined business and risk strategy at Group level are formulated exclusively by the Group Asset Liability Committee (ALCO).

5.2.1 Risk categories

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

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

Market risk

Market risk refers to potential losses deriving from changes in market prices. Hypo Alpe-Adria-Bank International AG categorises market price risks into risks from interest rate changes, credit spread, currency and stock price risks, as well as risks from Alternative Investments. Market price risks can arise with securities (and products similar to securities), money and currency products, derivatives, exchange rate and earnings assurance transactions, funds similar to equity or from management of assets and liabilities.

At times of market risk, market liquidity risks can also come into play if, when there is a liquidity squeeze (or a requirement to close out a position for reasons of risk), the Bank is not able to sell trading positions at short notice because of minimal demand. This is taken into account for existing positions within the framework of risk limitation.

Liquidity risk

Hypo Alpe-Adria-Bank International AG defines liquidity risk as the risk of not being able to meet payment obligations in full or on time, or – in the case of a liquidity crisis – only being able to secure refinancing funds at increased market rates, or only being able to sell assets at discounted rates.

Credit risk

Credit risks occur in the traditional lending business as a result of partial or total losses on agreements, resulting from deterioration in the borrower's creditworthiness. Counterparty, equity and securitisation risks are also included in this risk category.

Country risk

Country risk is understood to be, in particular, the risk of losses as a result of a country (the country's central bank) being unwilling to provide foreign exchange for repayment and interest payment obligations. It is also taken, in a broader sense, to mean the economic and political risks which have an effect on customer creditworthiness.

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

Concentration risk

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

Business risk
Business risk is understood to mean the possibility of a negative variance on the Bank's profits (to be precise: the operating profit) from the expected result. The influencing factors, which must be considered individually, can be summarised as follows:

1. Business volumes
2. Margins and commissions earnings; and
3. Costs

When planning the operating result, these influencing factors are assigned forecast values, on the basis of which the expected operating result is estimated. A negative variance for any of the factors from the forecast values leads to a reduction in the operating result to below the budgeted value. This unexpected variance is quantified within the scope of the business risk.

Operational risk
Hypo Alpe-Adria-Bank International AG defines operational risk as involving the risk that ongoing processes will not achieve their given performance objectives. This failure can result from (i) human error, (ii) process or organisational failures, (iii) system or infrastructure failure or (iv) external factors. Legal risk is regarded as part of operational risk and quantified.

5.2.2 Risk-bearing capacity
The risk-bearing capacity of Hypo Alpe-Adria-Bank International AG is calculated on a regular basis, taking into account all the relevant risk types and the determination of the extent of economic risk coverage. Risks are established on the basis of (partly simplified) value-at-risk models. The calculation of the risk coverage dimensions depends on the regulatory definition of Tier 1 capital and also contains economic elements, which cannot be reported as regulatory own capital funds (e.g. forecast profit).

Notes concerning methodology
The following types of risk flow into the risk-bearing capacity calculation:

1. Business risk: assumption of a normal distribution model for the Bank's gross earnings
2. Operational risk: use of an exponential distribution model for the losses from operational risk
3. Market price risk: use of a value-at-risk model for market price risk
4. Liquidity risk: employment of a stress scenario for the cost of the closing of the gap in the committed capital balance
5. Credit risk: on the basis of a modified IRB model, which includes the collateral to the amount of its economic valuation
6. Investment risk: using the PD/LGD approach from Basel II

A correlation matrix is employed to provide a combined key risk figure.

5.3. Risk management organisation

Credit risk management

There are four business units independent of the front office, which are responsible for back office lending issues at Hypo Alpe-Adria-Bank International AG: Group Credit Risk Control, Group Processing and Group Rehabilition take care of operational issues; the Group Credit Risk Control unit is responsible for strategic issues.

The following process steps are covered by back office operations – and are kept strictly separate from the relevant front office duties:

1. Commercial analysis
2. Credit administration
3. Restructuring
4. Monitoring

The instruments, methods and processes which have been developed by Group Credit Risk Control are deployed in the back office lending operations. The strategic credit unit is responsible for the following themes:

1. Coordinating data quality
2. Back office methods (rating) and processes (e.g. implementation of MSK, Basel II)
3. Credit risk reporting
4. Strategic loan portfolio management

All the above units report to the same Executive Board, the Bank Risk Executive Board, thereby guaranteeing the separation of front office from back office/risk control activities throughout the organisation.

The reliable management of the lending business on an individual transaction basis is made possible through the precise regulation of roles and responsibilities.

The main steps of the credit-granting process are as follows:

1. Initiation/origination (i.e. customer contact) through the front office
2. Checking of material creditworthiness
3. Checking of formal creditworthiness
4. Decision by the appropriate decision-making body, as determined by the Group's instruction on pouvoirs
5. Loan start

The loan start process leads into the process for continual customer monitoring:

1. Annual rating
2. Collateral re-evaluation, depending on the frequency and size of the commitment and other criteria (e.g. the gravity of the problem case)
3. Checking of the customer margin, customer data and payment history

On the basis of the loss definition employed in the Group, customers are passed from front office to back office for intensive surveillance or restructuring. The handover takes place within the framework of a discussion process between the front and back office, in which the amount of bad debt provision is determined according to IFRS principles and taking into account collateral and other returns from the commitment.

As part of an exercise to optimise the credit-granting process, the credit management process was updated to take account of the changed framework conditions.

Internal risk reporting

A comprehensive risk reporting system at both individual transaction and portfolio level ensures that management is provided with the relevant information for its decisions.

The reports are drawn up regularly on the basis of a suitable Group-wide, standardised process. They correspond in scope and frequency to the minimum standards laid down for lending businesses.

Independently of this, ad-hoc reports can be drawn up at short notice and made available, with a commentary, to the Executive Board to aid in their decision-making.

Internal rating systems
Customer ratings are a central part of the Hypo Alpe-Adria-Bank International AG risk management process. Highly developed rating systems are available for

a. Corporate customers (with balance sheets, cash accounting)
b. Special financing (project financing)
c. The public sector (local authorities, provinces)
d. Credit institutions
e. Retail customers

These systems are adapted to the special needs of the countries covered by the Group. The rating systems conform to Basel II requirements and are thus able to build on comprehensive default case histories as a basis for the validation and further development of rating systems.

In addition, a special rating procedure for small and medium sized enterprises (SMEs), start-ups and agricultural customers was developed in 2008.

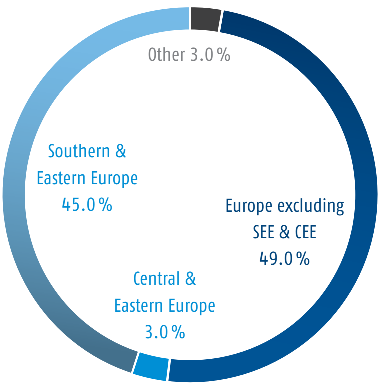
As part of the harmonisation process with the majority shareholder BayernLB, further rating procedures, which already comply with the IRB model from Basel II, will be introduced successively.

Due to the constantly changing customer environment, ratings systems need permanent and appropriate further development in order to cope with new challenges. The Group Credit Risk Control function, with its highly-trained resource, manages the whole complex for the entire Group.

Collateral management
Hypo Alpe-Adria-Bank International AG has undertaken comprehensive changes for the entire Group in the collateral management sector. These modifications meet the demands of internal risk management and regulatory requirements.

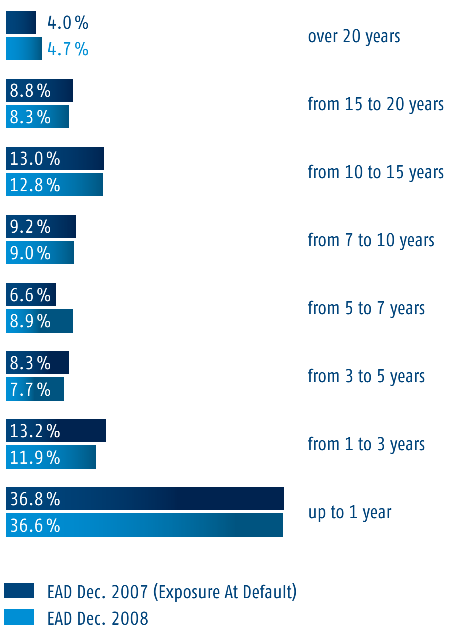
On a conceptual level, a collateral catalogue, which is valid throughout the Group, defines evaluation principles and internally accepted values.

Total exposure by region 2008*



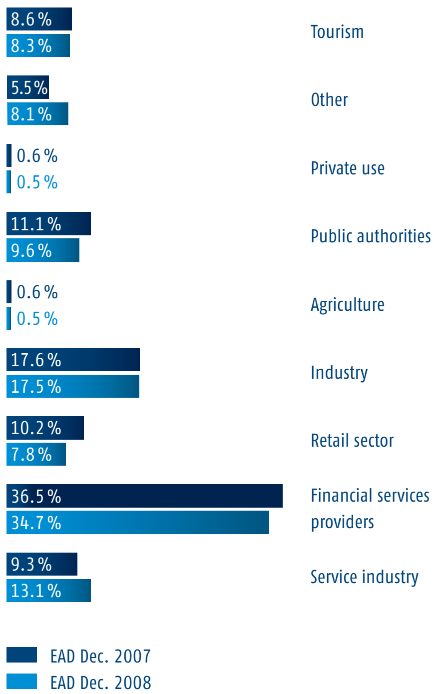
More than half of the exposure relates to low-risk countries in the European Union. Around 45 % is concentrated in Hypo Alpe-Adria-Bank International AG's core markets in the SEE region, in which it enjoys an excellent market position and extensive market knowledge.

Customer exposure by maturity**



The majority of the lending volume relates to short-term financing (up to 1 year). Very long maturities are granted with regard to loans to the Austrian federal government and mortgages.

Customer exposure by sector**



Significant concentrations are not apparent. The largest share is to be found in the financial services sector. The second largest share is to be found in the industrial sector, which in turn is divided into sub-branches, which do not demonstrate an especially high level of correlation.

*) Loans and advances to Hypo Alpe-Adria-Bank International AG subsidiaries and with regard to the BayernLB Group holding company are excluded.
**) Loans and advances to banks, securities and derivatives were not shown in the previous year.

Loan portfolio
Risk Controlling undertakes the active management of the Hypo Alpe-Adria-Bank International AG loan portfolio by means of a comprehensive package of regular risk reports. The frequency and detail of reporting correspond with both internal and external requirements (such as in conjunction with the Minimum Standards (MSK)). The reports show the temporal development of the portfolio, rating class distribution, branches, customer segments, currencies, regions and maturities. The separate presentation of new business allows an up-to-date picture of portfolio development to be presented.

The possible exposure at default is subjected to measurement, which includes both actual outstanding and committed lines, contingent claims and derivative contracts.

Risk provisions
Risk provisions are made in accordance with the stipulations of the accounting standard being applied (Austrian Enterprise Code, IFRS).

Risk provisions (both in accordance with the Austrian Enterprise Code and with the IFRS) are made on the basis of calculating the expected loss resulting from a default. This calculation takes into account collateral, possible other returns and phased returns (realisation period).

In the case of IFRS, a value adjustment specific to the portfolio is also calculated. In so doing, the risk structure of the portfolio is taken into account, in order to calculate the so-called incurred loss (losses already sustained, but not yet recognised by the bank).

Market risk presentation

Risk measurement
Hypo Alpe-Adria-Bank International AG calculates its market risk within the framework of the daily monitoring system, using the value-at-risk calculation on the basis of a one day retention period with a confidence level of 99 %. A Monte Carlo simulation with an exponentially weighted 250-day history is primarily used. In order to calculate the risk capital requirement for the risk-bearing capacity calculation, the values are scaled to a uniform confidence level of 98.895 % and an assumption of a 90-day liquidation period is made.

The models calculate potential losses, taking into account historical market movements (volatility) and market correlations. The calculation of specific interest risks – against the background of the increased significance of interest risk in the current market conditions - was further refined in the year under review.

The reliability of the market risk measurement procedure is checked regularly with regard to the quality of the individual risk processes. Backtesting is used to compare the risk forecast with the result (profit or loss). The forecast integrity of the risk model is measure using the Basel traffic-light approach.

While the value-at-risk calculations support the forecasting of potential losses in normal market conditions, other analyses are carried out to test assumptions of possible extreme scenarios in the future. In these, market positions are tested for possible extraordinary market price changes, crisis situations and worst case scenarios using so-called stress tests and analysed for risk potential using the simulated results. The stress test scenarios are regularly checked to ensure they are still appropriate and are adjusted if required.

Hypo Alpe-Adria-Bank International AG does not yet currently use internal risk models to meet regulatory requirements: standard methods are still applied.

In the same way as all market risks are treated within Hypo Group Alpe Adria, the interest rate risk in the bank book is calculated as a present value risk. The interest rate risk in the bank book is in essence integrated into ongoing risk monitoring in the same way as value-at-risk in market risk controlling.
Contractual termination rights are modelled as options and incorporated in the risk calculation. All stochastic positions are accounted for in accordance with the internal modelling.

For the calculation of the interest rate risk in the bank book, a 200 base point interest rate shock scenario, in line with the Basel II guideline, is used. The changes in present value relative to regulatory own capital are clearly below the so-called „outlier criterion". Additionally, through the calculation of standard, forward, historical and extreme scenarios, a large number of possible market fluctuations can be calculated and presented.

Risk limitation
The maximum loss when taking on market risk is limited by the fixing of market risk capital. The definition of risk factor limits facilitates the allocation of market risk capital to the individual market risk factors (interest, currency, stocks, credit spread and Alternative Investments). At the same time the risk factor limits are further differentiated between defined portfolios.

A limit system gives additional support through defined warning levels, which highlight negative developments at an early stage.

Risk management and risk monitoring
All market risks are monitored centrally by the Group Market Risk Control unit, which is independent of the trading functions. The unit ensures regulatory requirements are fulfilled and is also responsible for ensuring there is risk transparency, and for regular reporting to the Executive Board responsible for this area. In addition, the overall Group Executive Board receives a separate monthly report on the current market situation for risk as well as on the results of backtesting and stress tests, with comments on possible exceptional developments.

Interest risk management is effected on an institutionalised basis through the maintenance of interest risk statistics as dictated by legal supervisory requirements. The Asset Liability Committee, composed of members of the Group Executive Board as well as senior employees from the Treasury, Risk Management and Financial Controlling units, analyses and decides on measures to manage balance sheet structure and liquidity in the course of regular meetings.

Liquidity risk
Liquidity risk measurement takes place on the basis of the results of the monthly capital commitment balance prepared at Group level. Incoming and outgoing cash flows in the capital commitment balances are produced by the local risk controlling units using uniform standards comprised of maturity bands, currencies and assumed maturities for stochastic cash flows and are then reported to Group Market Risk Control (GMRC) for the drawing up of the Group review. Management and planning measures are deduced from the gap distributions by Group Treasury and the established risk key figures are determined by GMRC. A differentiation is made between short, medium and long-term key figures when measuring liquidity risk.

The short-term view of the liquidity risk focuses on solvency at all times through the availability of sufficient liquidity reserves. The key figures for liquidity enable a compressed judgement of the liquidity situation in both normal conditions as well as under stress conditions to be arrived at.

In order to evaluate the liquidity situation, the maximum utilisation of liquidity coverage potential is taken, although particular weighting is given to the utilisation in the first four weeks. Apart from this, key figures for liquidity, which show the relationship between liquidity reserves and funds to short-term payment commitments in defined areas of the Group, are compiled regularly for the purposes of managing liquidity.

In all scenario analyses for stress-relevant periods which are classed as relevant, the degrees of utilisation must at all times be less than 100 %. As soon as certain trigger points are reached, measures to reduce the identified liquidity risk are implemented. If these do not have the desired effect, an established escalation process commences, which evolves into an emergency liquidity plan.

The long-term funding risk is seen as a cash risk key figure, subject to the assumption of a rating deterioration and higher funding costs due to the shift in our liquidity spread on the market. The funding structure is influenced by the calculation of the key figures and the long term funding gap is limited.

Operational risk
In view of the demands emanating from Basel II and EU CAD, the OPRISK project was launched by Hypo Alpe-Adria-Bank International AG within the scope of an overall bank management project. The following was addressed by the project:

1. The demands contained in Basel II/EU CAD relating to equity calculation and internal risk management were defined
2. A framework for the implementation of Hypo Alpe-Adria-Bank International AG OPRISK management
3. A schedule for the implementation of OPRISK in Hypo Alpe-Adria-Bank International AG
4. The development of standardised instruments and methods for adequate OPRISK reporting, measurement and presentation.

The following methods are implemented within Hypo Alpe-Adria-Bank International AG in the course of the development of internal OPRISK management:

1. The reporting and evaluation of OPRISK losses in a loss database defined according to Basel II standards. In the case of OPRISK events, this collates the date, duration, classification, origin and directly related losses or correction costs. Evaluations from the loss database form a basis for the avoidance of OPRISK occurrences (risk mitigation).
2. The subjective assessment of OPRISK using a standardised risk assessment process. The primary objective is the establishment of better understanding and heightened awareness among the organisational units with respect to the various operational risks relating to their business activities. The intention is that this should lead to improvements in the systems and processes area.

Legal risks
Legal risks are modelled and understood as part of OPRISK. Losses derived from legal risk are collated in the loss database and subjected to an appropriate classification. The established consequences are then used to create standards which are applied to other OPRISK losses.

Emergency planning
Emergency plans are drawn up and implemented in all Group units on the basis of local conditions. They take account of Group requirements and major support is given by the parent company.

Realisation of regulatory requirements
The comprehensive process of change in Hypo Alpe-Adria-Bank International AG risk management derives from the Basel II realisation project initiated at the beginning of 2000. In 2004, this preparatory process led to an overall bank management project, which involved discussions, decisions and implementation measures relating to the topic of internal management and the fulfilment of regulatory requirements. The following questions were addressed in particular in the course of the overall bank management:

1. Assessment of the market price risk on the basis of an adequate and uniform Group risk measurement system
2. Preparation of sensitivity gap analyses (interest rate risk and liquidity) for the entire Group
3. The definition and implementation of standards, systems and processes for collateral management, customer rating, the measurement of total exposure to customers and groups of associated customers and the reporting of defaults and the resulting losses
4. The definition and implementation of standards, systems and processes relating to operational risk
5. Measurement of earnings on an individual transaction basis for all business areas and in all subsidiaries.

Completion of the overall bank management project is imminent and will provide specialist areas with all the relevant instruments, systems and models of relevance to the realisation of overall bank management.

Accordingly, the regulatory requirements have largely been met. With the introduction of Basel II, Hypo Alpe-Adria-Bank International AG will employ the simple approaches. The internal standards either already correspond with or exceed the standards prescribed by Basel II. This also applies to the realisation of the MSK minimum standards for credit transactions and the MAH minimum requirements for trading transactions.

5.4. Summary and outlook

Hypo Alpe-Adria-Bank International AG continued to develop its risk controlling and management instruments in the year in review. Significant advances were made in many areas. The requirements stemming from the Basel II agreement on equity were important in this respect. Furthermore, the Bank's management systems were successively adapted to the standards of BayernLB.

Hypo Alpe-Adria-Bank International AG has a high-performing risk management and controlling system, which can be adapted to future internal and external requirements on an ongoing basis. Future development of the related processes will take account both of regulatory requirements and the strategic direction to be taken by the Group.

Hypo Alpe-Adria-Bank International AG's organisation is tailored to its risk profile and takes account of the complex market environment in which the Bank is operating. The core duties of Risk Controlling are the management and monitoring of all risk types, including all reporting to the Executive Board of Hypo Alpe-Adria-Bank International AG.

In the year in review Hypo Alpe-Adria-Bank International AG also placed special emphasis on extending the processes and procedures at strategically important subsidiaries for mapping and managing risk. Through its focus on systematically meeting requirements and developing risk instruments throughout the Group as well, Hypo Alpe-Adria-Bank International AG's risk management function is making a major contribution to value-orientated management overall. This process will be further developed as part of a project to introduce the IRBA internal rating based approach.

The introduction of a new credit-granting process takes account of, and strengthens the Bank in, the difficult current market conditions.

Hypo Alpe-Adria-Bank International AG believes that these activities will give the Group a significant factor for success and a competitive advantage in the future, as well as creating lasting value for the shareholders, investors and employees.

6. Important events after balance sheet date 2008

Dr. Tilo Berlin announced on 18 March 2009 that he will resign as Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG on 30 April 2009. The authority to appoint a successor lies with the Bank's Supervisory Board, which holds its next meeting on 23 April 2009.

7. Outlook

Economic researchers are all forecasting only slight growth in the core Hypo Group Alpe Adria markets in 2009. However, in view of the continued financial crisis during first months of the new financial year and a lack of indicators suggesting a quick recovery of the real economy, the Executive Board is assuming that 2009 will be a difficult financial year throughout.

In the medium term, several national economy indicators even suggest that the economy of South Eastern Europe may also enter into a recession. The potential impact of such a scenario on currencies, in particular on the currencies of importance to Hypo Group Alpe Adria – the Croatian kuna and Serbian dinar – cannot be predicted with any measure of certainty at this time.

In the area of operations, reduced credit growth in the corporate area can be expected, and demand in the retail area will likely increase at a slower pace. The main factors in this decline are a reluctancy to invest on the part of companies and private clients.

The intention is to continue utilising the potential of core markets as part of a selective and risk-adequate use of liquidity for new financing, on a regional and business segment-spanning basis, whereby the focus of new business acquisition will be on smaller and medium-sized businesses (SME) and retail clients rather than on large-volume corporate business. At the same time the Group also plans to expand its product offering in the financing and investment area, whereby the development of tailored product packages will be a major focus.

Against this backdrop, Hypo Group Alpe Adria will continue to adapt its internal organisation to the new conditions and implement further restructuring and strategic realignment measures in 2009.

As a part of the BayernLB Group, Hypo Group Alpe Adria will also meet its responsibilities within the Group-wide efficiency and structural optimisation project. The project envisions a comprehensive reorganisation and market strategy which is adapted to current conditions; it is to be approved by the Supervisory Board of Hypo Alpe-Adria-Bank International AG in April 2009.

Overall, the year 2009 will be characterised by the newly-aligned risk policy and more particularly the hedging of credit risk. Corresponding analysis, settlement and recovery processes will be newly aligned, with a main focus on the active management of the existing portfolio as well as achieving restructuring targets for individual commitments. There will be particular challenges in the area of securities realisation in the future, as the amounts that can be realised from selling finance collaterisation will decrease markedly as a result of the low levels of investment. In such circumstances, the management of Hypo Group Alpe Adria is therefore assuming that higher than average risk provision costs will continue to be incurred on the loan and leasing portfolio in 2009 and 2010.

In view of the considerable uncertainties surrounding the main parameters of economic and currency developments in Hypo Group Alpe Adria's core markets, management is not able to provide a reliable results forecast for the 2009 financial year.

At the same time, as a result of the capital-strengthening measures which were quickly implemented during the last quarter of 2008, Hypo Alpe-Adria-Bank International AG feels that at an solvency ratio of 17.1 % and a Tier 1 ratio (related to credit risk) of 10.6 % it is well prepared to face the upcoming challenges.

Balance sheet as of 31 December 2008

	EUR	2008 EUR	2007 EUR '000
ASSETS			
1. Cash in hand and balances with central banks		33,201,795.67	47,738
2. Treasury bills and other bills eligible for refinancing with central banks			
Treasury bills and similar securities		244,944,775.81	244,174
3. Loans and advances to credit institutions			
a) Repayable on demand	608,640,636.50		516,734
b) Other loans and advances	10,958,097,695.95		9,244,328
		11,566,738,332.45	9,761,062
4. Loans and advances to customers		12,122,002,328.44	9,623,282
5. Bonds and other fixed income securities			
a) Public sector issuers	72,640,822.11		98,845
b) Other issuers	999,949,214.82		1,169,865
thereof: own debt securities EUR 50,498,371.20 (previous year EUR '000: 87,588)		1,072,590,036.93	1,268,710
6. Shares and other non-interest-bearing securities		168,646,468.90	131,368
7. Investments in associated companies		13,041,316.51	22,073
thereof: credit institutions EUR 8,677,905.45 (previous year EUR '000: 17,486)			
8. Shares in affiliated companies		3,278,017,470.34	2,864,699
thereof: credit institutions EUR 1,978,282,768.22 (previous year EUR '000: 1,776,325)			
9. Intangible fixed assets		3,032,468.28	3,745
10. Tangible fixed assets		1,568,223.65	1,389
thereof: Land and buildings used by the company for its own activities EUR 628,253.68 (previous year EUR '000: 615)			
11. Other assets		540,771,193.47	496,829
12. Deferred assets		54,666,306.76	67,595
Total assets		**29,099,220,717.21**	**24,532,664**
Below-the-line memo items:			
1. Foreign assets		24,507,133,730.39	20,225,355

EUR		2008 EUR	2007 EUR '000
LIABILITIES			
1. Liabilities to banks			
a) Repayable on demand	692,696,039.10		402,716
b) With agreed maturities or periods of notice	4,113,071,180.99		1,594,231
		4,805,767,220.09	1,996,947
2. Liabilities to customers			
a) Savings deposits, thereof:			
aa) Repayable on demand	2.00		
bb) With agreed maturities or periods of notice	54,401.97	54,403.97	54
b) Other liabilities, thereof:			
aa) Repayable on demand	93,124,062.21		184,253
bb) With agreed maturities or periods of notice	1,795,962,404.16		1,687,554
		1,889,086,466.37	1,871,861
3. Debt evidenced by certificates			
Bonds issued		18,005,836,003.28	17,844,027
4. Other liabilities		310,111,099.45	177,383
5. Deferred liabilities		88,859,250,30	105,321
6. Provisions			
a) Provisions for severance payments	2,536,098.97		2.207
b) Provisions for pensions	5,241,401.06		5.546
c) Tax provisions	12,271,805.01		2.495
d) Other	78,813,971.66		32.824
		98,863,276.70	43,072
7. A Fund for general banking risks		200,000,000.00	0
8. Subordinated liabilities		915,457,500.30	914,762
9. Supplementary capital		645,428,628.81	324,044
10. Issued capital		962,474,208.00	48,367
11. Capital reserves, appropriated		905,852,418.12	959,883
12. Revenue reserves			
a) Statutory reserve	24,264,994.40		24,265
b) Other reserves	0.00		5,595
		24,264,994.40	29,860
13. Liability reserves under Section 23 (6) BWG		247,165,247.42	152,637
14. Retained profit		0	64,500
Total equity and liabilities		**29,099,220,717.21**	**24,532,664**
Below-the-line-items:			
1. Contingent liabilities		1,643,801,483.58	1,753,429
thereof: Guarantees and other collateral securities	1,643,801,483.58		
(previous year EUR '000: 1,753,429)			
2. Loan exposures		1,657,058,540.44	1,423,546
3. Eligible own capital funds under Section 23 (14) BWG		3,835,482,195.04	2,100,048
thereof: Capital pursuant to Section 23 (14)(7) BWG	11,940,189.71		
(previous year EUR '000: 142)			
4. Required own capital funds pursuant to Section 22 (1) BWG		1,794,574,352.81	1,000,411
thereof: Capital pursuant to Section 22 (1)(1) and (4) BWG	1,782,634,163.10		
(previous year EUR '000: 1,000,269)			
5. Foreign liabilities		5,908,536,173.56	2,938,650

Income statement for the period from 1 January to 31 December 2008

	EUR	2008 EUR	2008 EUR	2007 EUR '000
1. Interest and similar income			2,068,400,695.38	1,825,460
thereof: fixed income securities	EUR 62.460.864,11 (previous year EUR '000: 69.506)			
2. Interest and similar expenses			(2,056,877,870.43)	(1,791,661)
I. NET INTEREST INCOME			**11,522,824.95**	**33,799**
3. Income from equity interests and investments				
a) shares, other equity interests and non-interest-bearing securities		611,413.86		614
b) associated companies		2,397,049.63		2,354
c) affiliated companies		101,873,746.35		167,001
			104,882,209.84	169,969
4. Fee and commission income			27,729,002.97	25,934
5. Fee and commission expenses			(6,572,909.73)	(6,868)
6. Net income from trading activities			(414,584.74)	(2,101)
7. Other operating income			12,729,589.48	12,635
II. OPERATING INCOME			**149,876,132.77**	**233,368**
8. General administrative expenses				
a) Staff costs				
aa) Wages and salaries	(19,793,012.86)			(21.317)
bb) Cost of statutory social security contributions and other pay-related contributions	(5,123,583.04)			(4.140)
cc) Other social welfare expenditures	(679,913.62)			(678)
dd) Expenses for pensions and other retirement benefits	(501,149.64)			(122)
ee) Expenses for severance payments and contributions to employee severance funds	(1,119,297.07)			(517)
		(27,216,956.23)		(26,774)
b) Other administrative expenses		(67,031,656.61)		(67,231)
			(94,248,612.84)	(94,005)
9. Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)			(1,744,208.29)	(1,329)
10. Other operating expenses			(12,270,777.28)	(2,097)
III. OPERATING EXPENSES			**(108,263,598.41)**	**(97,431)**
IV. OPERATING PROFIT			**41,612,534.36**	**135,937**

EUR		2008 EUR	2007 EUR '000
11./12. +/- Net gain/loss on disposal or valuation of receivables, contingent liabilities, loan exposures and securities held as current assets		(219,593,310.72)	(299,953)
13./14 +/- Net gain/loss on disposal or valuation of securities held as financial investments and of investments in associated and affiliated companies		272,172,096.20	82,214
V. RESULT FROM ORDINARY ACTIVITIES		**(450,152,872.56)**	**(246,230)**
15.Extraordinary expenses = extraordinary result		(207,000,000.00)	(17,454)
thereof: Allocation to fund for general banking risk	EUR 200,000,000.00 (previous year EUR '000: 0)		
16. Taxes on income		(8,333,893.81)	(6,292)
17. Other taxes not shown in item 16		(3,861.04)	(4)
VI. PROFIT/LOSS FOR THE YEAR		**(665,490,627.41)**	**(269,980)**
18. Changes in reserves, thereof:		650,990,627.41	334,480
Allocation to liability reserve	EUR 94,528,000.00 (previous year Allocation EUR '000: 29,315)		
Retransfer of capital reserves	EUR 739,923,640.56 (previous year EUR '000: 0)		
Retransfer of revenue reserves	EUR 5,594,986.85 (previous year Release EUR '000: 363,795)		
VII. PROFIT/LOSS CARRIED FORWARD		**14,500,000.00**	
VIII.NET PROFIT FOR THE YEAR = RETAINED PROFIT		**0.00**	**64,500**

Notes to the 2008 financial statements

I. General statutory provisions

The separate financial statements of Hypo Alpe-Adria-Bank International AG were prepared in accordance with the provisions of the Austrian Banking Act (BWG), as amended, and where applicable with the provisions of the Austrian Enterprise Code (UGB), as amended. The balance sheet and income statement are presented in the form prescribed in Schedule 2 to Section 43 BWG. Except where otherwise stated, all amounts are shown in EUR thousand.

II. Accounting and valuation policies

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

The principle of individual valuation is applied to the valuation of assets and liabilities and the going concern principle is applied to the valuation of the enterprise as a whole.

The principle of prudence is applied, paying particular attention to the special features of the banking business: only profits and gains realised at balance sheet date are recognised, and all recognisable risks and impending losses have been taken into account. The assessment methods applied in the past continue to be applied.

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

Loans and advances to credit institutions and customers are in general included at their nominal value. Premiums and discounts on issue are recognised under accrued assets and liabilities respectively and written back over the life of the security. Recognisable risks in relation to receivables are the subject of specific risk provisions. Portfolio risk provisions have been created in the course of the financial year for default risks which have occurred but have not yet been individually identified.

Securities earmarked for permanent use in the business are shown on the balance sheet as financial investments in accordance with Section 56 (1) BWG and valued according to the modified lower of cost or market principle. Impairment writedowns of financial assets are made where the loss in value is expected to be permanent. All other securities (liquidity reserves) form part of current assets and, to the extent that they are stock exchange listed securities, they are shown at market value in

accordance with Section 56 (5) BWG. Unlisted securities are valued strictly at the lower of cost or market value. Securities forming part of the trading book are included are included at market value as of 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 instrument are discounted to present value using the applicable interest rate. The calculation applies the standard investment mathematics procedures.

The provisions of Section 56 (1) and (2) BWG were applied to securities considered to be financial investments. The alternative treatment option allowed in Section 56 (3) has not been exercised.

Investments in associated companies and shares in affiliated companies are recognised at the cost of acquisition, provided that there were no permanent losses that would require a writedown.

Intangible fixed assets, together with **tangible fixed assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less writedowns for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable property are between 2 and 4 %, for movable property they range from 5 to 33 %, and for software they are 25 %. Low-value items for which the cost of acquisition is less than EUR 400 are written off immediately during the year of acquisition.

Liabilities are shown either at original nominal values or at the amounts repayable. Issue costs, such as premiums and discounts, are written off over the life of the debt.

Provisions for pensions were calculated actuarially using the unit credit method in accordance with the provisions of IAS 19 in the year under review. The so-called corridor method of distributing the actuarial gains and losses was not used. The calculation assumed an interest rate of 6.0 % (2007: 5.5 %) and an unchanged annual pension increase of 2 %.

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were calculated actuarially also using the unit credit method in accordance with the provisions of IAS 19 (without applying the corridor method). The calculation uses an interest rate of 6.0 % (2007: 5.5 %) and assumes an unchanged salary increase rate of 3 % p. a., taking into account a deduction of 6 % to reflect staff turnover (2007: 6 %). 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 etc.) are allocated either to the bank book or to the trading book, depending on their purpose. Pending transactions, as a matter of principle, are not recognised in the balance sheet. 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 value options and financial instruments with similar characteristics.

III. Notes to the balance sheet

1. Relations with affiliated and associated companies

The following balance sheet items include receivables and payables in respect of affiliated and associated companies as follows:

EUR '000

	31.12.2008	31.12.2007
A3. Loans and advances to credit institutions	**11,566,738**	**9,761,062**
of which: to affiliated companies	8,320,670	7,729,568
of which: to associated companies	1,175	17,320
of which: to non-Group companies	3,244,893	2,014,174
A4. Loans and advances to customers	**12,122,002**	**9,623,282**
of which: to affiliated companies	7,479,346	5,629,691
of which: to associated companies	0	0
of which: to non-Group companies	4,642,656	3,993,591
P1. Liabilities to credit institutions	**4,805,767**	**1,996,947**
of which: to affiliated companies	389,380	167,202
of which: to associated companies	59,664	196,746
of which: to non-Group companies	4,356,723	1,632,999
P2. Liabilities to customers	**1,889,141**	**1,871,861**
of which: to affiliated companies	230,490	142,418
of which: to associated companies	0	0
of which: to non-Group companies	1,658,651	1,729,443
P7. Subordinated liabilities	**915,457**	**914,762**
of which: to affiliated companies	76,198	76,198
of which: to associated companies	0	0
of which: to non-Group companies	839,259	838,564

2. Maturities of the balance sheet items

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

EUR '000

	31.12.2008	31.12.2007
A3: Loans and advances to credit institutions	**11,566,738**	**9,761,062**
- Payable on demand	608,641	516,734
- Up to three months	2,534,809	1,165,870
- Three months to one year	758,046	188,647
- One to five years	4,034,574	2,718,236
- Over five years	3,630,668	5,171,575
A4: Loans and advances to customers	**12,122,002**	**9,623,282**
- Payable on demand	379,225	949,573
- Up to three months	1,242,006	113,284
- Three months to one year	2,601,293	187,240
- One to five years	5,465,781	2,050,337
- Over five years	2,433,697	6,322,848
P1: Liabilities to credit institutions	**4,805,767**	**1,996,947**
- Payable on demand	692,696	402,716
- Up to three months	233,669	585,527
- Three months to one year	401,023	331,627
- One to five years	1,931,313	24,391
- Over five years	1,547,066	652,686
P2: Liabilities to customers	**1,889,141**	**1,871,861**
- Payable on demand	93,124	184,307
- Up to three months	250,353	103,965
- Three months to one year	24,500	60,880
- One to five years	10,011	24,933
- Over five years	1,511,153	1,497,776

Notes to the 2008 financial statements

3. Securities

EUR '000

	31.12.2008	31.12.2007
2. Treasury bills and other bills eligible for refinancing with central banks	**244,945**	**244,174**
of which: listed	244,945	244,174
of which: unlisted	0	0
of which: fixed assets	219,052	24,930
of which: deferred interest (FA)	4,486	249
of which: current assets	21,366	214,681
of which: deferred interest (CA)	41	4,314
3. Loans and advances to credit institutions (evidenced by certificates)	**4,000**	**117,791**
of which: listed	0	0
of which: unlisted	4,000	117,791
of which: fixed assets	0	90,965
of which: current assets	4,000	26,826
4. Loans and advances to customers (evidenced by certificates)	**112,186**	**28,479**
of which: listed	0	0
of which: unlisted	112,186	28,479
of which: fixed assets	104,177	0
of which: deferred interest (FA)	28	0
of which: current assets	7,920	28,479
of which: deferred interest (CA)	61	0
5. Bonds and other fixed-income securities	**1,072,590**	**1,268,710**
of which: listed	1,023,526	1,182,618
of which: unlisted	49,064	86,092
of which: fixed assets	793,583	38,870
of which: deferred interest (FA)	11,111	1,191
of which: current assets	264,725	1,218,241
of which: deferred interest (CA)	3,171	10,408
6. Shares and other variable-yield securities	**168,646**	**131,368**
of which: listed	42,360	41,458
of which: unlisted	126,286	89,910
of which: fixed assets	0	0
of which: deferred interest (FA)	0	0
of which: current assets	168,646	131,368
of which: deferred interest (CA)	0	0
7. Investments in associated companies	**13,041**	**22,073**
of which: listed	0	0
of which: unlisted	13,041	22,073
8. Shares in affiliated companies	**3,278,017**	**2,864,699**
of which: listed	0	0
of which: unlisted	3,278,017	2,864,699

Additional securities information:

The difference between the higher market value at which bank book securities are disclosed (Section 56 (5) BWG) and their cost of acquisition is EUR 6,329 thousand (2007: 15,538 thousand).

In 2009 fixed income securities from the Bank's own holdings shall fall due as follows: an amount of EUR 115,784 thousand (2008: EUR 242,573 thousand) from euro-denominated securities and EUR 0 (2008: EUR 0) from foreign-denominated securities.

Non-public issue fixed-income securities, which were eligible as of the balance sheet date for refinancing by the Austrian National Bank (OeNB), amount to EUR 581,014 thousand.

As of 31 December 2008, holdings of subordinated securities within the meaning of Section 45 (3) BWG amounted to EUR 39,606 thousand (2007: EUR 31,149 thousand).

In the year under review, fixed-interest securities with a value of EUR 804,362 thousand were reclassified as of 30 June 2008 from current assets to fixed assets (financial investments).

Financial investments itemised at above their fair value (section 237a (1)(2) UGB [Austrian Enterprise Code]) fall into the following categories:

EUR '000

	Carrying amount 31.12.2008	Hidden accounting losses 31.12.2008	Carrying amount 31.12.2007	Hidden accounting losses 31.12.2007
Treasury bills	219,052	−20,322	25,179	−262
Loans and advances to credit institutions (financial investments)	0	0	90,965	0
Loans and advances to customers (financial investments)	104,177	−8,169	0	0
Bonds and other fixed income securities	793,583	−87,747	40,061	−885
Investment in associated companies	0	0	0	0
Shares in affiliated companies	0	0	0	0
	1,116,812	**−116,238**	**156,205**	**−1,147**

No write-up was made of securities classified as financial assets in the financial year. The Bank checks as necessary, and at any rate at least once a year, whether a permanent impairment has arisen amongst the fixed assets (financial investments). It was not found that the creditworthiness of the issuers had deteriorated on a permanent basis.

*) prior year figure amended

4. Investments in associated and affiliated companies

Details of interests in associated and affiliated companies as required under Section 238 (2) UGB are shown in Annex 3 to these notes.

In the 2008 financial year, impairment writedowns totalling EUR 192,498 thousand were made on the carrying amounts for affiliated companies. These were necessary as a result of permanent impairments.

5. Tangible and intangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Annex 1).

As of December 31 2008, the value of land included in land and buildings was EUR 74 thousand (2007: EUR 74 thousand).

6. Other assets

Other assets include interest receivable of EUR 216,433 thousand (2007: EUR 230,026 thousand), of which EUR 125,526 thousand falls due after the balance sheet date. They also include miscellaneous offsetting receivables of EUR 11,022 thousand (2007: EUR 15,593 thousand), receivables in respect of income from affiliated companies of EUR 94,157 thousand (2007: EUR 157,537 thousand), receivables of EUR 150,122 thousand (2007: EUR 28,855 thousand) from the foreign exchange valuation of banking book derivatives, and trade receivables of EUR 69,036 thousand (2007: EUR 93,673 thousand).

7. Liabilities to credit institutions

This item includes the fixed payment streams resulting from off-balance-sheet transactions that were included in the balance sheet at present value in the 2004 financial year.

The present value at 31 December 2008 was EUR 139,388 thousand (2007: EUR 125.9 m), after discounting at the prevailing rate for comparable transactions. The change in present value in the 2008 financial year is recognised in the item interest expense.

8. Other liabilities

In addition to clearing account balances of EUR 1,014 thousand (2007: EUR 29,182 thousand), other liabilities include interest expense of EUR 71,874 thousand (2007: EUR 71,778 thousand), of which EUR 45,358 thousand falls due after the balance sheet date. They also include fees and levies of EUR 3,497 thousand (2007: EUR 1,746 thousand), trade payables of EUR 4,365 thousand (2007: EUR 5,129 thousand), liabilities of EUR 194,457 thousand (2007: EUR 51,983 thousand) from the foreign exchange valuation of banking book derivatives, statutory guarantee liabilities of EUR 15,296 thousand (2007: EUR 10,362 thousand), and other liabilities of EUR 19,609 thousand (2007: EUR 59,186 thousand).

9. Deferred liabilities

This item includes income whose recognition as such requires to be spread over its maturity, consisting predominantly of upfront payments received.

In addition an amount of EUR 84,800 thousand was disclosed in the 2008 financial year, based on the unwinding of hedged swaps forming part of other transactions and requiring recognition in the income statement. This accrued liability will also be recognised over the term of the issues.

10. Provisions

The main provisions included in the item other provisions are:

EUR '000

	31.12.2008	31.12.2007
Unconsumed vacation	1,827	1,411
Long-service bonuses	274	223
Employee performance bonuses	1,330	3,650
Legal and consultancy fees	5,828	4,398
Litigation costs in accordance with BWG	0	5,477
Risks from the lending business	12,678	0
Capital transactions tax	0	6,000
Provision for negative market values relating to bank book derivatives	19,199	0
Letter of comfort / Guarantee for subsidiaries	34,100	0
Other	3,578	11,665
Total	**78,814**	**32,824**

The provision created in prior years for procedural costs were used in accordance with Section 97 BWG in 2008.

Risk provisions worth EUR 34,100 thousand were created at year-end 2008 for two guarantees issued with regard to subsidiary companies.

Further, a risk provision with a value of EUR 19,199 thousand was created to cover negative market values for stand-alone interest derivatives on the bank book.

11. Fund for general banking risks

An Executive Board resolution led to the allocation of EUR 200,000 thousand as of 31 December 2008 to a fund for general banking risks in accordance with Section 57 (3)(4) BWG. These funds are allocated via the income statement and serve to cover the Bank's future general business risks.

12. Supplementary and subordinated capital

The carrying amount of supplementary capital (excluding deferred interest) as of December 2008 was EUR 628,577 thousand (2007: EUR 321,521 thousand). The carrying amount of subordinated capital (excluding deferred interest) was EUR 904,420 thousand (EUR 2007: 903,861 thousand).Own issue capital contains nominal amounts of EUR 2,843 thousand (2007: EUR 0). Supplementary and subordinated capital has a maturity of two to five years.

Supplementary and subordinated capital cannot be repaid prematurely, nor can it be pledged or assigned. In the event of liquidation or insolvency, the entitlements rank behind all other creditors' claims, and may not be set off against receivables of the Bank.

In accordance with the provisions of Section 23 (7) BWG, Hypo Alpe-Adria-Bank International AG issued supplementary capital with a nominal value of EUR 300,000 thousand within the framework of a public placement in the first half of 2008. This euro-denominated issue has a term of 8 years and variable interest rates (based on the 12-month-Euribor rate plus 400 base points).

Interest expense for supplementary and subordinated capital amounted to EUR 63,998 thousand (2007: EUR 47,476 thousand) in 2008.

13. Equity

A capital increase of EUR 700,000 thousand (of which EUR 14,107 thousand equity and EUR 685,893 thousand as capital reserves) took effect on 13 December 2008. The newly issued shares were subscribed by existing shareholders, by BayernLB and by Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation).

Once resolutions had been passed by the appropriate committees, the Executive Board availed itself of the government-sponsored package of measures (BGBII 136/2008) in December 2008 and issued investment capital.

In accordance with the agreement in principle with the Federal Republic of Austria dated 29 December 2008 on subscription to investment capital, the conditions attached to the investment capital issue and the agreement on subscription, the Federal Republic subscribed to 18,000 participation certificates, each with a nominal value of EUR 50,000.00, therefore to total investment capital of EUR 900,000 thousand.

The Federal Republic is entitled to apply Section 102 BWG and to convert all participation certificates held into ordinary shares at a conversion price to be agreed in accordance with with the conditions attached to the investment capital issue.

The investment capital is recognised in Hypo Alpe-Adria-Bank International AG's financial statements as equity in the item issued capital, with a value of EUR 900,000 thousand.

The issued share capital of Hypo Alpe-Adria-Bank International AG as of the balance sheet date amounts to EUR 62,474 thousand (2007: EUR 48,367 thousand) and is divided into 7,809,276 (2007: 6,045,891) no par value bearer shares.

As of 31 December 2008, Hypo Alpe-Adria-Bank International AG is owned by Bayerische Landesbank (BayernLB) with an interest of 67.08 %; BVG Beteiligungs- und Verwaltungsgesellschaft mbH (a member of the Grawe Group) with an interest of 20.48 %; Kärntner Landes- und Hypothekenbank-Holding with an interest of 12.42 %; and Hypo Alpe Adria Mitarbeiter Privatstiftung (staff foundation) with an interest of 0.02 %.

14. Reserves

Changes in capital, revenue and liability reserves were as follows:

EUR '000

	01.01.2008	Additions	Releases	31.12.2008
Capital reserves	959,883	685,893	–739,924	905,852
Revenue reserves	29,860	0	–5,595	24,265
Liability reserves	152,637	94,528	0	247,165

The additions to the capital reserves correspond to the premiums paid in connection with the capital increase in 2008 totalling EUR 700 m.

There were no untaxed reserves in the year under review.

IV. Off-balance sheet items

15. Derivative financial instruments

The following transactions were unsettled on 31 December 2008:

EUR '000

	Nominal Purchase contracts	Nominal Sales contracts	Fair value positive	Fair value negative
a) interest related business				
OTC products:				
- interest rate swaps	18,962,029	18,962,029	773,304	278,180
- interest swaptions	0	0	0	0
- forward rate agreements	0	0	0	0
Exchange-traded products:	**0**	**10,000**	**0**	**69**
- futures bonds	0	10,000	0	69
b) currency related business				
OTC products:				
- currency swaps	2,250,225	2,250,225	97,757	201,173
- cross currency swaps	2,063,229	1,990,385	83,896	11,415
- forward exchange contracts	66,613	66,618	2,362	2,367
- currency swaptions	0	0	0	0
Exchange-traded products:	**0**	**0**	**0**	**0**
c) securities related business				
OTC products:	**0**	**0**	**0**	**0**
d) other				
OTC products:				
- credit default swaps	35,000	35,000	34	4,376
- total return swaps	0	0	0	0
Exchange-traded products:	**0**	**0**	**0**	**0**

The comparative values as of 31 December 2007 were:

EUR '000

	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
a) interest related business				
OTC products:				
– interest rate swaps	18,650,397	18,650,397	379,474	488,671
– interest swaptions	0	0	0	0
– forward rate agreements	98,147	98,147	108	153
Exchange-traded products:	**0**	**0**	**0**	**0**
b) currency related business				
OTC products:				
– currency swaps	1,504,735	1,504,735	55,636	60,772
– cross currency swaps	1,670,266	1,671,836	9,205	8,827
– forward exchange contracts	93,364	93,344	876	855
– currency swaptions	24,715	25,217	217,480	217,480
Exchange-traded products:	**0**	**0**	**0**	**0**
c) securities related business				
OTC products:	**0**	**0**	**0**	**0**
d) Other				
OTC products:				
– Credit Default Swaps	104,632	104,632	49	796
– Total Return Swaps	254,000	254,000	10,185	0
Exchange-traded products:	**0**	**0**	**0**	**0**

16. Other off-balance-sheet items

Contingent liabilities consist of EUR 1,570,957 thousand (2007: EUR 1,649,941 thousand) in guarantees and other collateral securities, EUR 42,844 thousand (2007: EUR 48,856 thousand) in letters of credit and EUR 30,000 thousand (2007: EUR 54,632 thousand) in credit derivatives. Loan exposures comprise unused credit lines of EUR 1,657,059 thousand (2007: EUR 1,423,546 thousand).

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

There is also another financial obligation consisting of a joint surety for the mortgage bonds issued by the Pfandbriefstelle (Mortgage Bond Division of the Austrian State Mortgage Banks).

Obligations arising in connection with the use of fixed assets (renting and leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank International AG will amount to EUR 450 thousand in the 2009 financial year (EUR 469 thousand stated in the 2007 financial statement for the financial year 2008) and EUR 985 thousand in total for the years 2009 to 2013 (2007: EUR 1,308 thousand).

V. Notes to the income statement

Interest and similar income was as follows:

EUR '000

	31.12.2008	31.12.2007
Loans and advances to credit institutions and customers	**1,212,683**	**976,931**
Austria	132,892	129,748
International	1,079,791	847,183
Fixed-income securities	**62,461**	**69,506**
Austria	6,309	5,068
International	56,152	64,438
Other assets	**793,257**	**779,023**
Austria	793,257	779,023
International	0	0

Interest and similar expense was as follows:

EUR '000

	31.12.2008	31.12.2007
Liabilities to credit institutions and customers	**396,888**	**227,326**
Austria	57,513	28,050
International	339,375	199,276
Debt evidenced by certificates	**809,629**	**773,586**
Austria	809,629	773,586
International	0	0
Other liabilities	**850,361**	**790,748**
Austria	850,361	790,748
International	0	0

Income from affiliated companies for the purposes of Section 238 (4) UGB was as follows :

EUR '000

	31.12.2008	31.12.2007
Dividends recognised in parent's accounts during the year earned, rather than the year of the resolution of the profit distribution:		
Norica Investments Ltd.	3,621	0
Hypo Vermögensverwaltung GmbH	0	27,000
Hypo Alpe-Adria-Bank s.r.l., Udine	19,869	30,358
Hypo Alpe-Adria-Bank d.d., Ljubljana	15,983	10,731
Hypo Alpe-Adria-Bank d.d., Zagreb	38,360	0
Hypo Alpe-Adria-Bank d.d., Mostar	0	6,280
Slavonska banka d.d., Osijek	10,512	11,550
Hypo Alpe-Adria-Bank a.d., Banja Luka	0	3,565
Hypo Consultants Holding GmbH, Klagenfurt	0	55,000
Hypo Alpe-Adria-Immobilien AG, Klagenfurt	0	5,000
HBInt. Credit Management Limited, Jersey	5,812	0
Subtotal	**94,157**	**149,484**
Other dividends:		
Hypo Alpe-Adria-Bank d.d., Zagreb	4,836	0
HBInt. Credit Management Limited, Jersey	12,000	17,517
Subtotal	**17,812**	**17,517**
Total	**110,993**	**167,001**

The income from associated companies of EUR 2,397 thousand includes a dividend of EUR 2,340 thousand from Lead Equities Mittelstandsfinanzierungs AG.

Expenses of EUR 9,575 thousand arising in connection with the repayment obligations on Hypo Alpe-Adria-Leasing Holding AG preference shares were recognised in the year under review.

Notes on other items in the financial statement:

Expenses include EUR 18,695 thousand (2007: EUR 20,912 thousand) liability commission payable to the Province of Carinthia in respect of the statutory guarantee.

The item extraordinary expenses consists of EUR 200,000 thousand allocated to the fund for general banking risks and EUR 7,000 thousand for expenses directly connected to the capital increase (1 % capital transactions tax).

A portfolio risk provision in the amount of EUR 9,581 thousand was created in the 2008 financial year for default risks which have occurred but have not yet been individually identified.

VI. Supplementary information

17. Assets pledged as collateral pursuant to Section 64 (1)(8) BWG

Assets classed as other current assets and with a value of EUR 756,823 thousand (2007: EUR 734,793 thousand) were pledged as collateral for liabilities to credit institutions, in accordance with Section 64 (1)(8) BWG.

EUR '000

	2008	2007
Loans and advances to credit institutions	108,421	267,023
Securities	648,402	467,770

18. Debt securities in issue falling due in the following year

In 2009, debt securities of Hypo Alpe-Adria-Bank International AG in issue amounting to EUR 1,288,024 thousand (2008: EUR 1,034,423 thousand) shall fall due (Section 64 (1)(7) BWG).

19. Important law cases

In the “DAB proceedings” arising out of the acquisition of Slavonska banka d.d. Osijek (SBO), in December 2007 the London Court of International Arbitration in the final instance found in favour of the plaintiff, Hypo Alpe-Adria-Bank International AG, and against the Croatian State Agency for Deposit Insurance and Bank Rehabilitation (DAB).

Negotiations took place with the Republic of Croatia throughout 2008 with a view to finding a consensus solution acceptable to both sides; and agreement was reached in December 2008. The effect of this agreement on the claim against DAB, which was capitalised in the 2007 financial year, will be recognised with a charge of EUR –9 m against the item other operating result in the 2009 financial year.

20. 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, Klagenfurt, which provides for fees to be charges in respect of certain shared back office activities.

Hypo Alpe-Adria-Bank International AG has concluded refinancing agreements with its subsidiaries. These constitute the basis of the group financing activities of Hypo Alpe-Adria-Bank International AG.

On 1 January 2005, the option for group taxation was exercised, 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 (Austrian Corporation Tax Law), the respective rights and duties of the lead company and group members. This covers in particular the procedure for filing the group application, calculation of each of the group members' tax results, rights to receive/duty to provide information, ceasing to be a member of the group, duration and dissolution of the group. The 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.

21. Group Holding company

Since 9 October 2007, Hypo Alpe-Adria-Bank International AG has been included as a subsidiary in the consolidated financial statements of BayernLB Group, prepared according to IFRS.

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

22. Other supplementary information

Liabilities to customers do not include any trustee savings accounts. There were no interests in leasing business within the meaning of Section 64 (1) (1) BWG.

Deferred tax assets not disclosed separately in the balance sheet and whose capitalisation is required according to the Austrian Enterprise Code (UGB) amounted to EUR 0 (2007: EUR 0):

Mortage bond activities pursuant to the Mortage Bond Act (PfandBG):

EUR '000

	Debt evidenced by certificates		Covering loans		Surplus / shortfall in cover	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Public sector mortgage bonds	339,360	171,085	1,389,226	523,035	1,056,600	351,950

In the year under review, a trustee framework agreement in accordance with Section 2 (1a) (7) PfandBG was concluded between Hypo Alpe-Adria-Bank AG and Hypo Alpe-Adria-Bank International AG, which became effective on 15 October 2008. Under the terms of this agreement, a communal cover loan for the sum of EUR 830,824 thousand was made available by Hypo Alpe-Adria-Bank AG (Austria) to Hypo Alpe-Adria-Bank International AG for its underlying stock.

The balance sheet contains the following foreign currency amounts (equivalent value in EUR '000):

	31.12.2008	31.12.2007
Assets	6,238,357	5,047,457
Liabilities	5,948,264	4,420,104

The greater part of the EUR 290,093 thousand difference (2007: EUR 586,180 thousand) is hedged with currency and cross-currency swaps and forward rate agreements.

23. Employees
The average number of employees for the purposes of Section 239 UGB was as follows:

	2008	2007
Salaried staff	341	283

24. Expenses for severance payments and pensions
The Bank paid the following severance pay and pensions amounts, as well as made provisions for the same:

EUR '000

	2008	2007
Executive Board	683	0
Senior employees	99	52
Other employees	270	695
Total	**1,052**	**747**

Expenses for severance payments and contributions to employee severance funds split as follows: expenses for severance payments amounted to EUR 933 thousand and contributions to employee severance funds amounted to EUR 186 thousand.

25. Information about members of the management bodies

25.1 Advances, loans and guarantees in respect of members of the management bodies
As of year-end, the members of the Executive Board had not received any advances, loans or guarantees from Hypo Alpe-Adria-Bank International AG.

As of year-end, the members of the Supervisory Board had not received, either for themselves or on behalf of the companies for which they are personally liable, loans or guarantees from Hypo Alpe-Adria-Bank International AG.

All transactions relating to members of the Executive and Supervisory Boards are carried out through Hypo Alpe-Adria-Bank AG, Klagenfurt.

25.2 Compensation for members of the Executive and Supervisory Boards:

EUR '000

	2008	2007
Executive Board	3,471	2,562
Supervisory Board	125	180
Remuneration of former members of the Executive and Supervisory Boards and their surviving dependents	442	617
Total	**4,038**	**3,359**

The remuneration for 2008 contains variable elements totalling EUR 778 thousand which were paid out during the course of the year but which have been reclaimed by Hypo Alpe-Adria-Bank International AG because of agreements with the Republic of Austria in connection with the issuance of participation capital. The repayment claim relating to this is shown under Other assets.

Members of the Executive and Supervisory Boards who served during the year are detailed in Annex 2 to these notes.

Klagenfurt am Wörthersee, 24 March 2009
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Tilo Berlin

Andreas Dörhöfer

Paul A. Kocher

Wolfgang Peter

Božidar Špan

Fixed assets movement schedule Annex 1

Asset	Acquisition costs 01.01.2008	Additions 2008	Disposals 2008
2. Treasury bills			
Financial investments	25,179,277.87	198,358,120.95	0.00
3. Loans and advances to credit institutions			
Financial investments	90,965,098.16	0.00	0.00
4. Loans and advances to customers			
Financial investments	0.00	40,820,056.01	0.00
5. Bonds and other fixed income securities			
Financial investments	40,060,784.31	812,944,277.54	–1,101,595.10
7. Investments in associated companies	22,072,507.97	0.00	–9,031,191.46
8. Shares in affiliated companies	2,947,068,406.10	606,465,685.66	–649,888.54
9. Intangible fixed assets	6,952,059.96	796,640.71	–77,833.61
10. Tangible fixed assets	2,417,283.00	499,726.89	–131,579.19
Total	**3,134,715,417.37**	**1,659,884,507.76**	**–10,992,087.90**

Transfers 2008	Acquisition costs 31.12.2008	Accumulated depreciation	Carrying amount 31.12.2008	Carrying amount 31.12.2007	Depreciation 2008
0.00	223,537,398.82	0.00	223,537,398.82	25,179,277.87	0.00
-90,965,098.16	0.00	0.00	0.00	90,965,098.16	0.00
90,965,098.16	131,785,154.17	-27,579,492.48	104,205,661.69	0.00	-27,579,492.48
0.00	851,903,466.75	-47,210,193.82	804,693,272.93	40,060,784.31	-47,210,193.82
0.00	13,041,316.51	0.00	13,041,316.51	22,072,507.97	0.00
0.00	3,552,884,203.22	-274,866,732.88	3,278,017,470.34	2,864,699,215.22	-192,497,542.00
0.00	7,670,867.06	-4,638,398.78	3,032,468.28	3,745,085.15	-1,436,190.58
0.00	2,785,430.70	-1,217,207.05	1,568,223.65	1,388,676.07	-308,017.71
0.00	**4,783,607,837.23**	**-355,512,025.01**	**4,428,095,812.22**	**3,048,110,644.75**	**-269,031,436.59**

Management bodies Annex 2 to the notes to the financial statements

1 January 2008 to 31 December 2008

Supervisory Board

Chairman of the Supervisory Board:
Werner SCHMIDT, Munich, until 1 March 2008
Michael KEMMER, Munich, from 30 April 2008
(member of the Supervisory Board
from 18 March 2008 to 30 April 2008)

First Deputy Chairman of the Supervisory Board:
Othmar EDERER, Graz

Second Deputy Chairman of the Supervisory Board:
Hans-Jörg MEGYMOREZ, Klagenfurt-Wölfnitz

Members of the Supervisory Board:
Kurt FALTLHAUSER, Munich, until 30 April 2008
Siegfried GRIGG, Graz
Rudolf HANISCH, Munich
Siegfried NASER, Munich
Ralph SCHMIDT, Munich, from 30 April 2008
Klaus WEIGERT, Munich, from 30 April 2008
Gert XANDER, Klagenfurt, until 18 March 2008

Delegated by the Works Council:
Erich CLIMA, Chairman of the Works Council, Klagenfurt
Edith ENENGEL, Klagenfurt
Markus RUSSLING, Klagenfurt
Mario ZOLLE, Klagenfurt

Federal Supervisory Authorities

State Commissioner:
Angelika SCHLÖGEL, Vienna

Deputy State Commissioner:
Monika HUTTER, Vienna

Province – Supervisory function

Jörg HAIDER, Governor of the Province of Carinthia,
Klagenfurt, until 11 October 2008
Harald DOBERNIG, Provincial Minister, Maria Saal,
since 12 October 2008

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

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

Executive Board

Tilo BERLIN,
Chairman of the Executive Board, Maria Saal
Andreas DÖRHÖFER,
Member of the Executive Board, Erding, from 1 May 2008
Josef KIRCHER,
Member of the Executive Board,
Liebenfels, until 31 May 2008
Paul KOCHER,
Member of the Executive Board, Vienna
Thomas MORGL,
Member of the Executive Board, Viktring,
until 31 December 2008
Wolfgang PETER,
Member of the Executive Board, Breitenbrunn
Božidar ŠPAN,
Member of the Executive Board, Ljubljana,
from 1 June 2008

List of shareholdings Annex 3 to the notes to the financial statements

pursuant to Section 238 (2) of the Austrian Enterprise Code (UGB)

1. Direct participations of Hypo Alpe-Adria-Bank International AG

The following list shows the direct participations (more than 20 %) of Hypo Alpe-Adria-Bank International AG pursuant to Section 238 (2) of the Austrian Enterprise Code:

Name of the enterprise	Registered office	Capital share 1)	Equity in EUR '000 2)	Result in EUR '000 3)	Date of closing	Line of business of the company
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	100.00 %	196,807	–159,742	31.12.2008	Banking
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.00 %	387,494	20,376	31.12.2008	Banking
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.00 %	205,908	12,126	31.12.2008	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Zagreb	100.00 %	676,706	6,480	31.12.2008	Banking
Slavonska banka d.d. Osijek	Osijek	100.00 %	266,953	13,582	31.12.2008	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Mostar	99.998 %	130,555	12,121	31.12.2008	Banking
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	110,734	6,732	31.12.2008	Banking
HYPO ALPE-ADRIA-BANK AD BEOGRAD (subgroup)	Belgrade	99.912 %	304,259	25,785	31.12.2008	Banking
NORICA INVESTMENTS LIMITED	St. Helier	51.00 %	516,630	16,630	31.12.2008	Financial services
Hypo Alpe-Adria Jersey Ltd.	St. Helier	100.00 %	0	0	31.12.2008	Financial services
Hypo Alpe-Adria (Jersey) II Ltd.	St. Helier	100.00 %	0	0	31.12.2008	Financial services
HBInt Credit Management Limited (subgroup)	St. Helier	51.00 %	581,957	–67,330	31.12.2008	Financial services
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.93 %	54,179	4,231	31.12.2008	Banking
Hypo Group Netherland Holding B.V. (subgroup)	Amsterdam	100.00 %	5,777	1,306	31.12.2008	Financial services
HYPO Consultants Holding GmbH	Klagenfurt	100.00 %	15,234	2,774	31.12.2008	Service
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	99.27 %	10,313	–1,853	31.12.2008	Service
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100.00 %	48,614	–64	31.12.2008	Service
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100.00 %	–1,390	–924	31.12.2008	Service
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100.00 %	331	9	31.12.2008	Service
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100.00 %	47,909	–20,328	31.12.2008	Service
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	100.00 %	8,411	660	31.12.2008	Service
HYPO Facility Services GmbH	Klagenfurt	100.00 %	77	50	31.12.2008	Service
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100.00 %	3,799	–53	31.12.2008	Service
Alpe-Adria-Projekt AG	Munich	100.00 %	41	2	31.12.2007	Other enterprise
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt	100.00 %	–148	–154	31.12.2007	Other enterprise
IT-INVEST SEE AG	Vaduz	100.00 %	–173	–53	31.12.2007	Other enterprise
Puris Verwaltungs- und Beteiligungs GmbH	Villach	100.00 %	–18,596	–17,024	31.12.2007	Other enterprise
Alpe Adria Privatbank AG	Schaan	49.00 %	20,943	324	31.12.2008	Banking

As a general rule, the stated amounts for equity and results have been disclosed on the basis of UGB/BWG valuation rules applied consistently throughout the Group. Therefore, they may differ from the figures published in the separate financial statements, which are prepared in accordance with the applicable national laws. The information is based on unconsolidated data.

Subgroups: the amounts shown for equity and the result take into account included subsidiaries.
1) Calculated percentage from the point of view of Hypo Alpe-Adria-Bank International AG. Minority shareholders with an interest smaller than 0.001 % are disregarded
2) Equity = as defined in Section 229 UGB, plus untaxed reserves
3) Result = profit/loss for the year before reserve movements and minority interests

List of shareholdings in associated and affiliated companies

2. Consolidation scope according to UGB/BWG

Hypo Alpe-Adria-Bank International AG prepares its official consolidated financial statements as of 31 December 2008 according to the International Financial Reporting Standards (IFRS).

The published consolidated financial statements are based on the scope of consolidation according to IFRS and are disclosed separately. For regulatory purposes. Hypo Alpe-Adria-Bank International AG is the superordinated credit institution. according to Section 30 of the Banking Act (BWG). of the domestic group of credit institutions.

The scope of consolidation for regulatory purposes is based on the regulations of the Austrian Enterprise Code (UGB)/ Austrian Banking Act (BWG). As of 31 December 2008 it is as follows:

Name of the associated enterprise	Registered office	C	Capital share [1] indirect	Line of business of the company
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	F	100.00 %	Banking
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	F	100.00 %	Banking
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	F	100.00 %	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Zagreb	F	100.00 %	Banking
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	AE	100.00 %	Financial services
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	AE	100.00 %	Financial services
Slavonska banka d.d. Osijek	Osijek	F	100.00 %	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Mostar	F	99.998 %	Banking
HYPO-ALPE-ADRIA-INVEST d.o.o.	Mostar	AE	99.998 %	Financial services
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice d.o.o.	Sarajevo	AE	99.998 %	Securities company
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	F	99.600 %	Banking
HYPO ALPE-ADRIA-BANK AD BEOGRAD (subgroup)	Belgrade	F	99.912 %	Banking
BROKERSKO-DILERSKO DRUSTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	AE	99.768 %	Securities company
HYPO INVESTMENTS a.d. Beograd	Belgrade	F	99.912 %	Financial services
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Belgrade	F	99.912 %	Financial services
Alpe Adria Privatbank AG	Schaan	AE	49.00 %	Banking
NORICA INVESTMENTS LIMITED	St. Helier	F	51.00 %	Financial services
Hypo Alpe-Adria Jersey Ltd.	St. Helier	F	100.00 %	Financial services
Hypo Alpe-Adria (Jersey) II Ltd.	St. Helier	F	100.00 %	Financial services
HBInt Credit Management Limited (subgroup)	St. Helier	F	51.00 %	Financial services
Carinthia I Limited	St. Helier	F	51.00 %	Financial services
Carinthia II Limited	St. Helier	F	51.00 %	Financial services
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	F	99.93 %	Banking
Hypo Group Netherland Holding B.V. (subgroup)	Amsterdam	F	100.00 %	Financial services
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	F	100.00 %	Financial services
Hypo Group Netherlands Finance B.V.	Amsterdam	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING HOLDING AG	Klagenfurt	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	F	75.24 %	Financial services

Name of the associated enterprise	Registered office	C	Capital share [1] indirect	Line of business of the company
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	F	75.26 %	Financial services
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H. (subgroup)	Klagenfurt	F	75.26 %	Financial services
HYPO-BA Leasing Süd GmbH	Klagenfurt	AE	37.63 %	Financial services
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	F	75.51 %	Financial services
HYPO Wohnbau GmbH	Klagenfurt	F	75.49 %	Financial services
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	F	75.49 %	Financial services
HYPO Projektentwicklungs GmbH	Klagenfurt	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING S.R.L.	Udine	F	75.24 %	Financial services
HYPO LEASING d.o.o.	Ljubljana	F	75.24 %	Financial services
HYPO-LEASING KROATIEN d.o.o.	Zagreb	F	75.24 %	Financial services
Alpe-Adria poslovodstvo d.o.o.	Zagreb	F	75.24 %	Financial services
JADRAN JAHTE d.o.o.	Zagreb	F	75.24 %	Financial services
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	F	75.24 %	Financial services
HYPO HOUSE D.O.O. - PODGORICA	Podgorica	F	75.24 %	Financial services
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	F	75.24 %	Service
HYPO-ALPE-ADRIA-LEASING GmbH (subgroup)	Munich	F	75.24 %	Financial services
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	F	75.24 %	Financial services
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	F	75.24 %	Financial services
Verwaltungsgesellschaft HLG Achilles mbH	Munich	F	75.24 %	Financial services
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	F	4.51 %	Financial services
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	F	75.24 %	Financial services
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	F	0 % (VR 51 %)	Financial services
HYPO Alpe-Adria Leasing Zrt. (subgroup)	Budapest	F	75.24 %	Financial services
HYPO Alpe-Adria Leasing Kft.	Budapest	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING EOOD (subgroup)	Sofia	F	75.24 %	Financial services
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING DOOEL	Skopje	F	75.24 %	Financial services
HYPO ALPE-ADRIA-LEASING TOV	Kiev	F	75.24 %	Financial services
HYPO Consultants Holding GmbH	Klagenfurt	F	100.00 %	Service
HYPO Alpe-Adria Consultants AG	Schaan	F	100.00 %	Service
HYPO ALPE-ADRIA CONSULTANTS S.R.L.	Udine	F	100.00 %	Service
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	F	99.27 %	Service
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	F	100.00 %	Service
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	F	100.00 %	Service
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	F	100.00 %	Service
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	F	100.00 %	Service
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	F	100.00 %	Service
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	F	100.00 %	Service

List of shareholdings in associated and affiliated companies

Name of the associated enterprise	Registered office	C	Capital share [1] indirect	Line of business of the company
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	F	100.00 %	Service
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	F	100.00 %	Service
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	F	100.00 %	Service
HYPO Facility Services GmbH	Klagenfurt	F	100.00 %	Service
Alpe-Adria Investments d.o.o.	Zagreb	F	100.00 %	Service
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	F	100.00 %	Service
ZAJEDNICKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	F	100.00 %	Service
ZAJEDNICKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	F	100.00 %	Service
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	F	100.00 %	Service

C = method of consolidation used in the consolidated financial statements for regulatory purposes. F = full consolidation. AE = At Equity

[1] Percentage from the point of view of Hypo Alpe-Adria-Bank International AG.
Minority shareholders with an interest smaller than 0.001 % are disregarded.

Material Subsidiaries
Annex 4 to the notes to the financial statements

at 31 December 2008

*) 100 % of voting rights; 75.24 % directly or indirectly owned by the Group. Remaining interest: non-voting preference shares.

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

Declaration of the legal representatives

"We confirm to the best of our knowledge that the separate financial statments give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company 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 and the position of the company, together with a description of the principal risks and uncertainties the company faces."

Klagenfurt am Wörthersee, 24 March 2009
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Tilo Berlin

Andreas Dörhöfer

Paul A. Kocher

Wolfgang Peter

Božidar Špan

Auditors' Opinion

»We have audited the financial statements, including the accounting records of **Hypo Alpe-Adria-Bank International AG**, Klagenfurt, for the fiscal year from 1 January 2008 to 31 December 2008. The Company's management is responsible for the preparation and content of the financial statements and the accounting records and the management report in accordance with Austrian regulations as well as with the articles of association. Our responsibility is to express an opinion on these financial statements based on our audit and to state whether the management report is in accordance with the financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from misstatement and whether we can state that the management report is in accordance with the financial statements. In determining audit procedures we considered our knowledge of the business, the economic and legal environment of the company and as well as the expected occurrence of errors.

The audit involves procedures to obtain evidence about amounts and disclosures in the financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements are in accordance with legal requirements as well as with the articles of association and present fairly in all material respects, the financial position of the **Hypo Alpe-Adria-Bank International AG** as of 31 December 2008 and of the results of its operations for the fiscal year from 1 January 2008 to 31 December 2008 in accordance with Austrian generally accepted accounting principles. The management report is in accordance with the financial statements.«

Vienna, 24 March 2009

Deloitte
Wirtschaftsprüfungs GmbH

Thomas Becker Peter Bitzyk
Certified Public Accountants

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