Annual Financial Report 2009

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

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Group Management Report

Hypo Group Alpe Adria (HGAA) has drawn up these consolidated financial statements for the financial year ending 31 December 2009 on the basis of the International Financial Reporting Standards (IFRS). At year-end 2009 the group of consolidated companies comprised 117 fully consolidated companies (including the Group parent company), of which 31 are registered in Austria and 86 in other countries.

1. General economic environment

2009 was marked from the outset by the international crisis in the global economy and as such was characterised by extremely strained market conditions. If, throughout 2008, the crisis had largely still been confined to the international financial markets, by the fourth quarter it reached the real economy. For the first time in over 60 years, in 2009 the global economy was confronted with a reduction in economic output in the region of 1 % to 1.5 %. The European and North American markets were particularly hard hit, with China continuing to grow – albeit at a much reduced rate – and thus acting as a stabiliser. By the beginning of the third quarter of 2009, there were discernible signs of recovery from around the world, with the slimmest of growth rates being recorded. For 2010 the International Monetary Fund (IMF) is expecting a modest recovery in global economic output, with growth rates of around 4 %.

In order to support the financial sector and, in turn, the international global economy, many governments put together comprehensive recovery and economic stimulus packages, which drove national debt to record new highs. A more restrictive fiscal policy is therefore to be expected worldwide in the coming years – for example, new public borrowing in the euro zone is to be reduced to 3 % of GDP by 2014. The current monetary policies of the industrialised countries will be maintained – in a weakened form – in the future as well: in response to the financial and economic crisis, the ECB, like many other central banks, reduced its base rate significantly, to 1 %. An increase to 1.5 % is expected in the course of 2010.

As a small, export-oriented country, Austria was particularly hit by the global economic crisis – at the beginning of the year, in particular, the Austrian economy was confronted with a massive decrease in economic output; only in the third quarter were the first, slim rates of growth recorded again. For the year as a whole, GDP shrank by 3.8 %; slight growth of 0.3 % is expected for 2010. This was driven by extensive economic stimulus packages from the federal government, which led as a consequence to a significant increase in national debt. Despite the recovery in the economy, Austria – like every country in Europe – is facing continual growth in unemployment.

The Italian economy was even worse hit by the crisis and its economic output fell by 5.1 % in 2009, with investment activity in particular declining steeply by about 13 %. Although trend indicators have again reached the levels recorded prior to the crisis, modest economic growth of 0.2 % is expected for 2010.

In Eastern and South-Eastern Europe as well, after years of rapid growth, a significant decline in economic output of, on average, 5 % was seen in 2009. This development is attributed primarily to the heavy dependence of this region on Western Europe – the process of catching up had been driven in main part by the inflow of capital from, and the exports to, Western Europe, and those exports now reduced significantly as a result of the crisis. While some countries – such as Montenegro, Bulgaria and Hungary – will continue to face recession in 2010, the majority of countries resumed their growth course towards the end of 2009.

Slovenia recorded a reduction in economic output of 4.7 % in 2009 – this resulted above all from the decline in exports and gross fixed capital formation. Inflation was held at a moderate 0.5 % in 2009. Despite a further increase in unemployment, a rise of 0.6 % in economic output is expected for 2010. Croatia, which is planning to conclude EU accession negotiations in 2010, also recorded a significant reduction in GDP of 5.2 % in 2009. As a result of the sharp increase in state spending, far-reaching reforms, including an increase in value-added tax and the introduction of taxes on mobile telephony and a crisis tax on monthly income. As a result of the Croatian National Bank's prudent monetary policy the financial stability of the country was maintained, even in times of crisis, with the result that Croatian kuna was amongst the top performers in the CEE region. A modest recovery of 0.4 % in Croatian economic output is expected in 2010.

Bosnia and Herzegovina, as a small country dependent on its exports, recorded a reduction of 3.0 % in GDP in 2009. This resulted primarily from a decline in consumer spending and from a downturn in levels of investment. In addition to the measures taken by the government to support the economy, the World Bank also initiated an SME financing programme. The country's economy should grow again by about 0.5 % in 2010. Serbia, too, recorded a decline in GDP of 4.0 % in 2009. Although there were clear signs of stabilisation in economic conditions towards the end of 2009, there was a significant devaluation of the Serbian dinar. In comparison to other European countries, inflation in Serbia reached an above-average level of 9.9 %, with a further increase of 7.3 % expected for 2010. A return to economic growth of 1.5 % is forecast for 2010.
(Source: IMF)

2. Overview of Hypo Group Alpe Adria

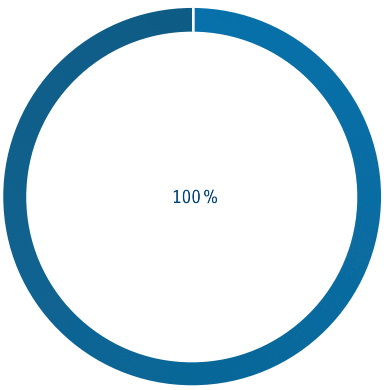
2.1. Shareholder structure

In 2009 HGAA was majority-owned by the Bayerische Landesbank (BayernLB) – which held 67.08 % of the shares in Hypo Alpe-Adria-Bank International AG – and was thus part of the BayernLB group. The other shareholders were Grazer Wechselseitige Versicherung AG (the GRAWE Group), Kärntner Landesholding and the Mitarbeiter Privatstiftung (private staff foundation).

As a result of the worsening economic crisis in 2009, which hit the financing portfolio of HGAA particularly hard, the majority shareholder BayernLB, reacting to pressure from its owner, the Free State of Bavaria, withdrew completely from its equity participation in HGAA as it was not prepared to provide further capital to HGAA.

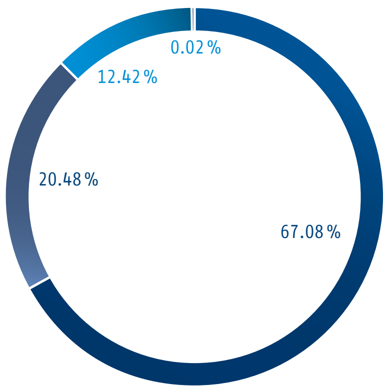
As the other shareholders were also not prepared to take on the emerging requirement for recapitalisation, they too decided to surrender their shares in HGAA and transferred them at the end of December 2009 to the Republic of Austria. As of 30 December 2009, the Republic of Austria therefore became the sole shareholder in Hypo Alpe-Adria-Bank International AG.

Shareholder structure
as of 31 December 2009



100 % Republic of Austria

Shareholder structure
as of 31 December 2008



67.08 % BayernLB
20.48 % GRAWE Group
12.42 % Kärntner Landesholding
0,02 % Staff foundation

2.2. EU proceedings/Restructuring measures

With its decision dated 12 May 2009, the Commission of the European Union instigated joint proceedings against BayernLB and Hypo Alpe-Adria-Bank International AG. In these proceedings, the capital measures taken in December 2008 (capital increase of EUR 700 m and the issue of participation capital with a value of EUR 900 m) are to be investigated with regard to its regulations on state aid. In the course of this, the Commission demanded that Hypo Alpe-Adria-Bank International AG, together with its former owner, BayernLB, submit a far-reaching restructuring plan ("Hypo Fit 2013").

The Group had thus already agreed on a comprehensive restructuring package with the dual aims of concentrating the target market area in the Alps-to-Adriatic region and of reducing the cost base permanently and sustainably, in the first half of 2009.

With the acquisition of all shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria in December 2009, this restructuring project has been intensified, with the objective of restructuring the Group extensively and developing the profitable core areas of the business into a bank able to participate in the capital markets again in the medium term. On 23 December 2009 the European Commission provisionally approved the measures put in place by the Republic of Austria for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan for HGAA, to enable it to judge whether the aid measures are in accord with EU laws on state aid.

As part of the strategic realignment, all the markets in which the Group is currently active are also being evaluated. The results and the plans for the ongoing restructuring project, which is based on a time horizon up to 2014, are to be presented to the Commission of the European Union in the first half of 2010.

3. Development of business in the Group

2009 was marked by the – in part – drastic effects of the economic crisis which affected all the countries in which HGAA has a presence through its operating units. This severe crisis struck nearly every area of the real economy and affected the Group's financing portfolio in particular, although in differing ways.

Those Group units which had geared their local strategy towards the financing of large volume projects and on pure asset-based lending (where the decision to offer finance is based purely on the market value of the object to be financed and not on the cash flows from an operative business) were hardest hit; but those Group companies which have a broad customer base and a well-diversified financing mix have come through the current crisis relatively unscathed.

The business strategy pursued by some of the Group companies – which was certainly very one-sided, and which was combined in the past with very aggressive and volume-driven growth – had drastic, almost existence-threatening effects on the whole Group. Those units which had a sound business model even in this hardest of crises of recent times, and which made a positive contribution to the Group's result, have also suffered damage indirectly. Whereas the Group's banking units were able, in the main, to compensate for weaker earnings and higher risk costs through their very broad customer bases and their extensive branch coverage as well as the fact that they were firmly anchored in the retail segment, this was not the case for the leasing units in particular. Those Group companies which had entered highly competitive markets relatively late (such as in Bulgaria or Ukraine) and were pursuing aggressive growth strategies were equally hard hit. In particular the leasing companies, which focused in essence on an asset-based lending model, were hit on the one hand by the drastic decline in value of the collateral put up for these deals and could not, on the other hand, compensate for this with alternative sources of earnings.

On top of this, the effects of the crisis were exacerbated by the uncovering of fraudulent actions on the part of the management in certain units, particularly in the leasing area; and thus all these factors combined led directly to a requirement for recapitalisation.

3.1. Development of results

The Group income statement reflects very clearly the division of the Group into two, with one part being the sound core of the Group which actually achieved growth in earnings in a year of crisis; and the other part representing volume-driven growth without solid substance but with exorbitantly high risk provisions.

Net interest income increased significantly over the comparable figure for the previous year (1 January to 31 December 2008), from EUR 702 m to EUR 869 m. This was due on the one hand to increased customer margins on new and existing business; to the increase in the average volume of loans and advances to customers compared to the previous year of around EUR 1 bn to EUR 29 bn; as well as to capital measures in the fourth quarter of 2008.

The European Central Bank's reductions in interest rates in the fourth quarter of 2008 had a negative effect on the interest result. Differing interest adjustment dates led to the effects in 2008, which totalled EUR – 44 m, being recorded as expense and accrued in the item Result from hedge accounting. In 2009, there were further negative effects on the interest result because of rates which had not yet been adjusted, particularly those stemming from deferred issues. At the same time, however, there was a positive result from hedge accounting of EUR 43 m, as a result of releasing the accruals which had been created as at 31 December 2008.

Net interest income
in EUR m

Net fee and commission income, at EUR 121 m, was also better than in the previous year (+ 3.1 %). This result is all the more impressive for the fact that substantial additional expenditure to maintain the liquidity reserve was included in this position. The increase resulted largely from the fact that while fee and commission expenses in the securities and custody business reduced significantly, the fee and commission income remained relatively stable. As in the previous year, the subsidiary banks in Croatia, Austria and Serbia were responsible for the majority of the net fee and commission income.

Whereas the result from trading was, at EUR – 38 m, clearly negative in the previous year, as a result of the drastic devaluation of the Serbian dinar (RSD), it was again positive in 2009. The increase, to EUR 28 m, was attributable to the stabilisation of all the southern European currencies against the euro in particular. The Croatian and Serbian banking subsidiaries made the largest contribution to this result.

The result from hedge accounting came to EUR 43 m in 2009 and resulted primarily from the repeated lowering of 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) was recognised with an overall effect of EUR – 37 m, whereas in the previous year a positive contribution of EUR 12 m had been made to the Group result. This includes a valuation result of EUR 20 m (2008: EUR – 56 m) from the portfolio of the HBInt. Credit Management Limited investment company, which is operated by Hypo Alpe-Adria-Bank International AG and a 49 % co-investor. In 2009 the negative measurement effects resulted principally from the measurement at fair value of liabilities resulting from issues underwritten by third parties, which were caused by the reduction of credit spreads in the market for state-underwritten liabilities (EUR –35 m), and from the measurement at fair value of self-issued hybrid capital (subordinated capital) amounting to EUR –15 m.

For financial investments – available for sale (AFS), impairment writedowns on participations led primarily to the negative result of EUR –40 m recorded, while the amount for impairment writedowns on debt instruments, stock and fund shares in this measurement category was low and manageable. In the previous year the insolvency of various Icelandic financial institutions and the impairment writedowns on subprime securities had contributed in great part to the markedly negative result of EUR –114 m. There were no charges from the ABS portfolio of this nature in 2009.

The result from other financial investments improved over the previous year, from EUR –37 m to EUR –10 m. This improvement was mainly due to the non-recurrence of extraordinary impairment writedowns on operating lease assets which had been necessary in 2008.

The other operating result, which at EUR 46 m still represented a positive contribution to the consolidated result in 2008, was, at EUR –142 m, clearly negative in 2009. The main reasons for this were, on the one hand, large impairment writedowns on unleased assets (EUR –92 m), one-off expenses in conjunction with the planned exit from tourism-related activities which was reflected in the result, at EUR –41 m, of the sale of certain assets and disposal groups. In addition, restructuring costs of EUR 24 m in connection with the strategic realignment and cost optimisation measures of and for the Group are included in this item.

There was a more than threefold rise in risk provisions on loans and advances in 2009, from EUR 533 m to EUR 1,672 m. In relation to the volume of outstanding loans and advances to customers of EUR 31.0 bn as at 31 December 2009, this represents a risk cost basis of 539 basis points for the whole year (2008: 174 basis points). The causes can be found in the economic crisis which persisted throughout the whole of 2009. The spread of the crisis to the real economy hit the corporate and retail portfolio of the bank.

During the year there was a severe migration within the financing portfolio of loans rated as good or average to the category of non-performing loans. The latter had doubled in size as at the reporting date. Alongside the noticeable increase in the volume of loans in arrears and the longer average period spent in arrears, the substantially lower valuations for the collateral offered were also decisive factors for the significant increase in risk provisions for loans and advances in 2009.

The main drivers for this were in the area of leasing in Austria, Croatia and Bulgaria: the latter two countries are particularly hard hit by the economic crisis. On the banking side of the business, cross-border financing portfolios in both banking and leasing, which are run from Austria, were affected by this negative development. The negative effects of these activities accounted for 40 % of the Group's total risk provisions on loans and advances.

In general, there was a significant rise in risk provisions made in all countries and all the Group units, although in individual countries – in particular also in Austria – this rise was significantly higher than the amounts budgeted for. The Group's leasing companies were particularly affected and had to create very large risk provisions on loans and advances. Of particular note here are the significant charges to the leasing units in Croatia, Bulgaria and – measured against the total volume of provisions in particular – Ukraine. For the latter, the total volume of provisions by now comes to 60 % of the total financing volume, even if the remaining net commitment, which is in the low double-figure region (in millions), is manageable.

HGAA was able to record positive figures in relation to costs in the 2009 financial year. Operating expenses reduced in 2009 by EUR 44 m or 7 % to EUR 542 m in comparison to the previous year. Personnel expenses were reduced from EUR 269 m in the previous year to EUR 263 m, a reduction of 2 %. This is principally due to the lower number of employees in the Group's core business compared to the previous year (which reduced from 7,552 to 7,195) as well as to the gross settlements still included in the figure in the previous year.

Despite the extraordinarily high consultancy expenses for the Group restructuring project, other administrative expenses were actually slightly lower, thanks to tighter targets for operating expenses placed on the subsidiaries. These fell from EUR 218 m to EUR 216 m, which equates to a reduction of 1 %.

The decrease in depreciation and amortization of tangible and intangible assets from EUR 99 m to EUR 63 m is largely due to impairments in the previous year of production and assembly facilities on the books of a non-core Group company in Croatia as well as on buildings for own use.

Overall, against operating income of EUR 834 m (2008: EUR 645 m), risk provisions on loans and advances of EUR 1,672 m (2008: EUR 533 m) and operating expenses of EUR 542 m (2008: EUR 586 m) were recorded. The resulting operating result came to EUR –1,380 m, which was considerably worse than the comparable figure for the previous year (2008: –474 m).

Taking into account the negative result from companies accounted for at equity of EUR –14 m (2008: EUR 1 m) which resulted primarily from provisions made for possible negative effects from the liquidation of Alpe Adria Privatbank AG (Liechtenstein), the result before tax for the period came to EUR –1,395 m, which was significantly worse than the figure for the previous year (EUR –472 m).

Taxes on income came to EUR 156 m in the 2009 financial year (2008: EUR 46 m).This significant increase came mainly as a result of the writedown of activated losses carried forward, which resulted in large part from a budget for much lower taxable income in Austria as well as from changed assumptions in relation to the utilisation of these loss carryforwards. As a result of the high degree of uncertainty in connection with the current crisis, a drastic reduction in the period of time allowed for utilisation of the carryforwards to 5 years was set as the new basis.

After allocation of the ongoing share in the results to the Group's minority shareholders of EUR –30 m (2008: EUR –2 m), the consolidated net result for the period is negative, at EUR –1,551 m and has deteriorated further by EUR –1,032 m compared to the result for the previous year (EUR –520 m).

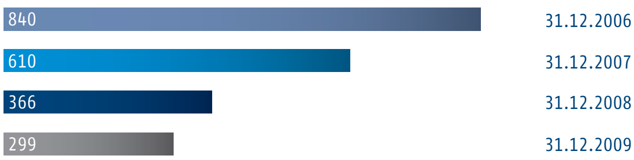
As a result, despite the positive development in total operating income as well as success in containing operating expenses, a negative consolidated net result has again had to be recorded for the financial year, due principally to the drastic increase in risk provisions on loans and advances.

3.2. Structured credit portfolio/ABS

The faltering of asset backed securities which first became apparent in the middle of 2007 – in the US at first and then subsequently in the international financial markets – had a particularly negative effect on HGAA's structured credit portfolio in 2007 and 2008, which, measured against the carrying amount, consists of more than 50 % of credit linked notes referenced to public or corporate names.

As a result of the negative share price developments, actual defaults occurring early on and the sale of securities involved, the structured credit portfolio has reduced drastically over the last three years. Whereas the carrying amount for the amount held by the Group was still EUR 840 m at the end of 2006, it had reduced to EUR 610 m by 31 December 2007 and in 2008 reduced further to EUR 366 m.

Total ABS portfolio/Structured credit portfolio
Carrying amounts
in EUR m



The structured credit portfolio was further reduced in 2009, in particular as a result of disposals and (partial) redemptions. Thanks to the clear recovery in the share prices of many positions during 2009, the available for sale reserves attributable to this portfolio improved from EUR –32.3 m to EUR –5.2 m, which equates to a recovery of EUR 27 m. Nevertheless, additional impairment writedowns of some EUR 18.2 m had to be made on many securities classified as available for sale and identified as being particularly at risk of default or already identified as impaired securities as at 31 December 2008. After taking account of positive effects to be recognised in the profit or loss, the net total effect from this ABS portfolio came to EUR 6.7 m in 2009.

Despite the significant recovery in share prices which had not been budgeted for, HGAA was still able to meet the target set for 31 December 2009 in the restructuring plan of reducing the portfolio value to under EUR 300 m. There are plans to rapidly reduce the portfolio, for which there is currently a carrying amount of EUR 299 m, by selling off further parts, so as to meet the mid-term targets.

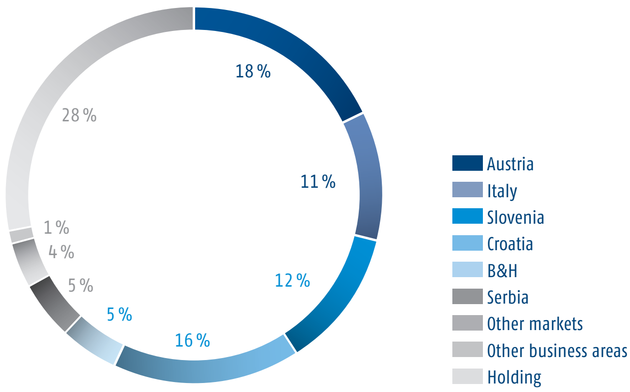
3.3. Development of the balance sheet

In 2009, for the first time in years, the volume of the loans business of HGAA Group companies, which had hitherto grown so strongly, showed a reduction which is directly reflected in the development of total assets.

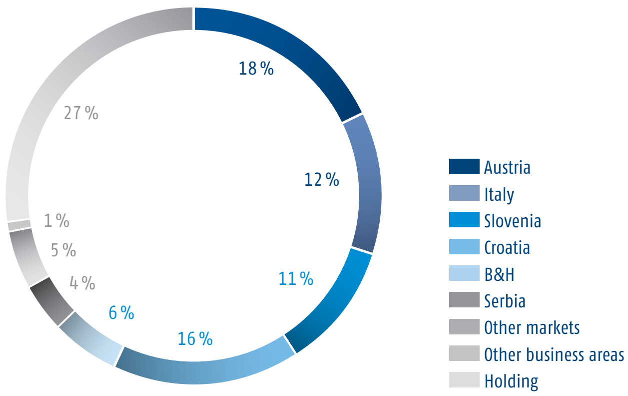
The sum of total assets of HGAA reduced from EUR 43.3 bn as at 31 December 2008 to EUR 41.1 bn, which equates to a reduction of EUR 2.2 bn or 5.2 %. This reduction was caused on the assets side on the one hand by the significant reduction in new financing business as well as the general halt on new business which applied to certain of the Group companies.

Total assets by business segment

as of 31 December 2009

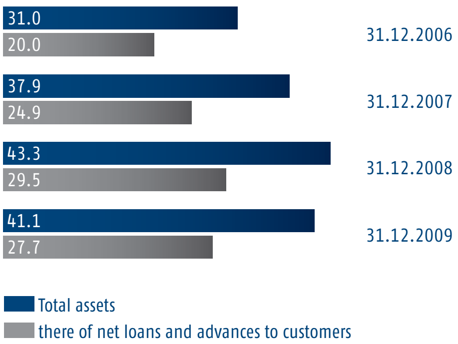


as of 31 December 2008



Net loans and advances to customers (gross receivable following a consideration for risk provisions on loans and advances) thus decreased overall from EUR 29.5 bn to EUR 27.7 bn (a decrease of EUR – 1.8 bn or – 6.2 %). The difficult macroeconomic conditions in the Group's core markets meant that HGAA also had to exercise even more care in the granting of credit, to avoid any additional risk and to preserve liquidity. Accordingly, loans and advances to customers reduced from EUR 30.6 bn to EUR 30.1 bn, which equates to a reduction of 1.5 %.

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



The reduction of EUR 0.4 bn (or – 8.8 %) in loans and advances to credit institutions was, in contrast, greater. It should be borne in mind that the figure at 31 December 2008 was particularly high, as the Group had amassed liquidity reserves. These reserves were then used in the first half of 2009 for the scheduled redemption of a EUR 1 bn benchmark issue. The liquidity reserve increased again in the second half of the year as the result of the issuance of a state-guaranteed issue for EUR 1.35 bn.

As a result of the significant increase in arrears in the financing portfolio in the first half of 2009, as well as the large increase in risk provisions on loans and advances in the interim financial statements as at 30 June 2009, the Executive Board of HGAA together with the then majority shareholder BayernLB decided to commission an auditing company to carry out an extensive "asset screening" exercise. The object of this exercise was to analyse the risk provision potential of individual commitments and at portfolio level throughout the whole Group, with the objective of providing greater transparency through a third-party judgement for the owners and for the regulatory authorities against the background of the most difficult economic crisis in decades.

Resulting from this, the level of risk provisions on loans and advances, which stood at EUR 1.1 bn at 31 December 2008, more than doubled to EUR 2.6 bn as at 31 December 2009. The increase was due to the high impairment write-downs in the credit and leasing portfolios and applied almost entirely to loans and advances to customers.

Development of risk provisions on loans and advances
in EUR m

The Group's trading activities, which had already been very limited, were further reduced in the 2009 financial year. Total trading assets thus reduced from EUR 179 m to EUR 73 m, particularly because of the banking subsidiaries in Croatia and Slovenia.

Financial investments of the category designated at fair value through profit or loss (FVO) reduced by EUR 81 m to EUR 1,040 m in the year under review. This reduction was attributable to partial disposals, which were in part compensated for by the recovery in market values. The value shown in the balance sheet for financial investments – available for sale rose by EUR 0.1 bn to EUR 2.7 bn in the first half of the year, due in part to the acquisition of treasury bonds to sustain liquidity and also to the significant recovery in market values, which was reflected in the reduced available for sale reserve.

Mainly as a result of the very restrictive granting of new operating leasing contracts, a reduction from EUR 1.2 bn in 2008 to EUR 1.1 bn in the year under review was recorded for other financial investments; this equates to a reduction of 4 %.

The value of tangible assets used by the Group for its operations reduced by EUR 0.1 bn to EUR 0.5 bn, in particular as a result of showing assets held for disposal as a separate item (this item increased by EUR 0.1 bn). The latter position also includes all assets from the bank in Liechtenstein, which were disposed of in the second quarter of 2009; as well as those property and tourism projects which are to be sold off as part of the Group's restructuring measures.

A further increase amongst the assets concerned the item deferred taxes on income, which rose by EUR 0.1 bn, whereas deferred tax liabilities moved by EUR 0.2 bn to EUR 0.5 bn. Netted out, deferred taxes therefore reduced by EUR 0.1 bn, attributable almost entirely to the partial writedown of the loss carryforward on the assets side.

A reduction of EUR 0.4 bn was recorded for other assets in the 2009 financial year. As a result of the significantly reduced volume of new business compared to the previous year, there was a corresponding reduction in the amount of leases-to-go, for which very large impairment writedowns also had to be created in order to modify their values to match their expected disposal values.

On the liabilities side, essentially the only increase in the 2009 financial year has been in liabilities to credit institutions, for the most part as a result of the take-up of liquid funds from the former majority shareholder BayernLB. The sum of liabilities to credit institutions rose as a result from EUR 7.3 bn to EUR 7.6 bn.

There was a significant and negative development on liabilities to customers, essentially as a consequence of the uncertainty over the future of the bank that prevailed at the end of 2009, as well as the effects of the economic crisis. Liabilities to customers reduced by EUR 1.1 bn over the prior year, down to EUR 7.6 bn, which equates to reduction of 12.2 %. The reduction in deposits was felt in all areas, but was particularly significant in the public and corporate segments. Particularly in the case of corporate clients, it was clear that, as a result of the economic crisis and the difficulties companies are having with financing, they were using their own liquid funds to pay back existing loans and to finance their business activities. The split by country gives a very differentiated picture: while the greatest outflow of customer deposits – the amount of EUR 0.8 bn – was recorded by the Austrian banking subsidiaries, customer deposits actually rose year-on-year at some subsidiaries. This positive development was evidenced in Serbia, Slovenia and Montenegro.

Despite this drastic reduction in customer deposits in the fourth quarter of 2009, HGAA was able to avoid an existence-threatening liquidity squeeze. This was due to the fact that there were sufficient own liquidity reserves to draw on. In parallel to this, there was an increase in the tender volume at Oesterreichische Nationalbank as a result of the activation of a part of the stress reserve. In addition, there was a reduction in the bank's own lending business. In total, therefore, net liquidity actually rose in 2009 compared to the previous year.

In addition to the high reserves of public sector assets which had not yet been submitted to the ECB as cover, the issue of a state-guaranteed bond with a total value of EUR 1.35 bn in July 2009 helped to contribute positively to the liquidity reserves.

Liabilities evidenced by certificates reduced by EUR 0.6 bn (3.1 %) from EUR 21.4 bn to EUR 20.8 bn in 2009. This reduction was caused by the contractual redemption of liabilities issued by the Mortgage Bond Division of the Austrian State Mortgage Banks. The issue of a state-guaranteed bond also helped this position.

Subordinated capital reduced in 2009 by EUR 0.4 bn (– 24.1 %) from EUR 1.6 bn to EUR 1.2 bn. This reduction was primarily caused by the waiver on the part of the former owner BayernLB of the repayment of subscribed supplementary capital with a value of EUR 0.3 bn and by the apportionment of the supplementary capital held by the State of Carinthia as part of the takeover of Hypo Alpe-Adria-Bank International AG by the Republic of Austria.

As compared with 31 December 2008, equity reduced in the 2009 financial year by EUR – 0.5 bn in total. Factors resulting from the restructuring measures of the previous owners of Hypo Alpe-Adria-Bank International AG had a positive effect on equity (EUR 0.9 bn). This applied principally to the subscription to participation capital of EUR 0.1 bn by two former shareholders and the waiver of claims on the part of BayernLB totalling around EUR 0.8 bn. The recovery in value of securities affecting financial investments available for sale, which led them to improve by EUR 0.1 bn, also had a positive effect on equity. The negative consolidated result for 2009 of EUR – 1.6 bn was the main factor amongst the negative effects on equity.

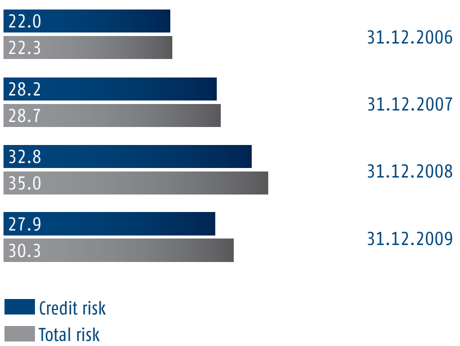
Based on the EU restructuring plan, a further reduction in total assets in conjunction with the redimensioning of the Group is to be expected in the future. The Group will restrict itself to qualitative and risk-adequate financing commitments and, connected to this, will only aim for very moderate growth appropriate to the prevailing economic conditions in the respective countries. Volume-based, quantitative growth, which was the focus in the past, will – regardless of the recovery of the financial markets and economies of the Group's core countries – no longer be part of the Group's strategy.

3.4. Own capital funds

The significantly increased losses shown for the 2009 financial year led to a clear fall in the ratios important for regulatory purposes compared to the previous year. This was also not compensated for by the waiver by the previous owner and the measures introduced to compensate for the risk-weighted assets (RWA). In the case of the latter, the freeze on new business introduced at many of the companies, whose risk provisions had risen drastically and had to be offset against assets, and the efforts to improve the eligibility of collaterals and data quality, led to a significant reduction in the RWA base.

In relation to the credit risk, the risk-weighted assets reduced from EUR 32.8 bn (2008) to EUR 27.9 bn (2009), which equates to a reduction of EUR 4.9 bn or 14.9 %. Taking the market risks and the operational risk into account, total risk-weighted assets reduced from EUR 35.0 bn (2008) to EUR 30.3 bn (2009).

Total risk/Credit risk (RWA)
in EUR bn



This was also as a result of the capital measures taken by the former shareholders in HGAA, which took effect before 31 December 2009. BayernLB's waiver on claims and the apportionment of supplementary capital, which together totalled EUR 885 m, had a positive on the Banking Group's

Tier 1 capital position. The provision of Tier 1 eligible participation capital of EUR 61 m by two former shareholders also had a positive effect. On the other hand, the Tier 1 capital was reduced by the burdens on the result in 2009 caused by the large risk provisions on loans and leasing businesses in particular.

Overall, total eligible own capital funds pursuant to the Austrian Banking Act (BWG) came to EUR 3,000 m as of 31 December 2009 (2008: EUR 4,173 m), with the legal minimum requirement standing at EUR 2,426 m (2008: EUR 2,797 m). This corresponds to a surplus of EUR 574 m (2008: EUR 1,376 m) or to coverage of 123.7 % (2008: 149.2 %).

The own capital funds ratio as related to the banking book (credit risk) came to 10.7 % as of 31 December 2009 (2008: 12.7 %). The corresponding core capital ratio (Tier 1 ratio), following a provision for 50 % of allowances at year-end 2009, came to 7.2 % (31 December 2008: 8.3 %).

In relation to the total capital base (including market and operational risk), the resulting own capital funds ratio stood at 9.9 % as at 31 December 2009 (2008: 11.9 %), which was above Austria's statutory minimum ratio of 8.0 %.

HGAA has been assured of further Tier 1 capital funds of at least EUR 600 m in the first half of 2010. EUR 150 m will come from subscription to participation capital by a former shareholder and at least EUR 450 of further Tier 1 capital funds will be provided by the Republic of Austria.

3.5. Key profit indicators

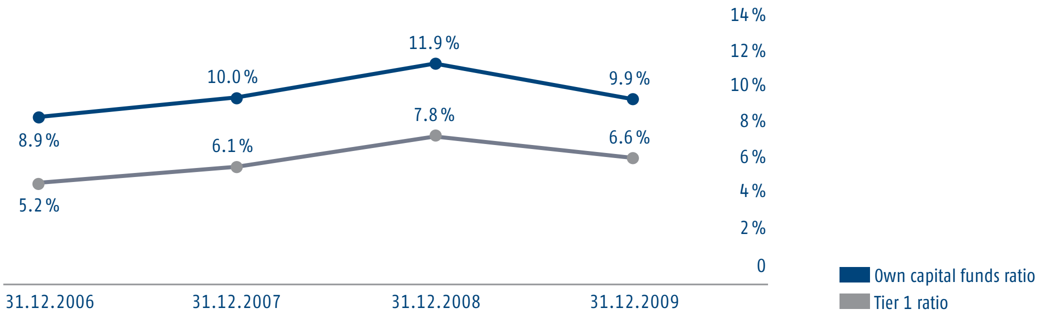
The cost/income ratio, which shows the ratio of operating expenses to operating income, stood at 65.0 % as at 31 December 2009; the writedown items shown in other operating result had a particularly negative effect here. Compared to the previous year's figure (2008: 90.7 %), which was affected by high writedowns of securities, this is an improvement of 25.7 percentage points, due in the main to the significant increase in the net interest and trading results.

Credit risk as expressed in the risk/earnings ratio rose from 75.9 % to 254.7 % compared to the previous year, and was thus approximately ten times higher than the upper limit considered normal for the sector prior to the crisis.

Risk/earnings ratio
in %

As a result of the negative result for the period, due in particular to the high outlay for risk provisions on loans and advances, the return on equity and return on assets indicators are not meaningful. These figures are therefore not shown.

Development of the own capital funds ratio and the Tier 1 ratio
in %



4. Analysis of non-financial key indicators

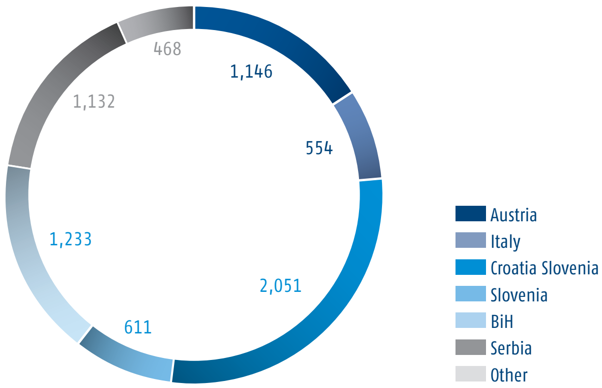
4.1. Employees

With some 7,200 employees, HGAA is one of the most important employers in the region from the Alps to the Adriatic. As at 31 December 2009 7,195 people were employed in the core areas of HGAA. In comparison with 31 December 2008, the numbers employed have reduced by 357. This reduction has come about through natural wastage, through the merger of Hypo Alpe-Adria-Bank d.d. Zagreb and Slavonska Banka d.d. Osijek and to the ongoing restructuring programme.

Employees in the core business
Development 2005 to 2009

At year-end 2009, 1,146 of the 7,195 employees were employed in Austria, of which by far the majority are in Carinthia. HGAA is thus one of the largest employers in Carinthia. The country in which the largest number of staff is employed is Croatia, with 2,051 employees.

Employees
by country as at 31 December 2009



The age profile of the Group is such that the 31 – 40 years age group is the largest group, accounting for 43 % of all employees. A further 28.7 % of employees are in the age range 20 – 30 years. Fewer than 10 % of employees are over 51 years.

Age profile of employees
as at 31 December 2009

The proportion of women stood at 62.7 % as at 31 December 2009 and was thus at the same high level as in the previous year, where the comparable figure was 62.5 %.

The training and development of employees continues to be a fixed part of HGAA's culture and is seen to be of great importance. In addition to the compulsory elements of training for employees there are a large number of targeted, attractive training opportunities available. Management development through the Hypo Management Academy continued on a systematic basis throughout 2009.

The focus of transnational training in the last year has been on aspects of the lending operation. A pilot project on the topic of risk analysis was started in Austria and will be rolled out across the Group in 2010. The objective is to raise technical and professional expertise and to establish a Group-level standard.

In 2009 in the banking divisions, there was an average of 3.6 days training per employee. The comparable average figure for the leasing divisions stood at 2.0 days.

4.2. Customers

The partnership between the bank and its customers as practised for so many years and as captured in the Group's own fundamental philosophy "Banking Business is People's Business" has proved itself, particularly in such a difficult year. HGAA can continue to point to a customer base numbering more than 1.2 million, making it one of the most important financial institutions in the Alps-to-Adriatic region. Mutual respect and face-to-face communication are at the heart of customer orientation, as reflected in the unbureaucratic manner of transacting bank business and the comprehensive customer advice offered. HGAA sees customer contact as a very personal experience and views the customer relationship as a long-term partnership.

4.3. Corporate Social Responsibility

Displaying social responsibility towards the areas in which the Group is present as well as towards employees is part of the HGAA's basic philosophy. Thus, for example, in most parts of the Group again in the year under review there were no presents given out to adults on World Savings Day: instead the money saved was given to various welfare organisations. Numerous health promotion and preventative health action initiatives are made available to employees, including healthy back training programmes, free health check-ups, vaccinations and health information events. A social fund is available for particular cases of hardship brought about by illness or bad fortune, which gives financial support to employees facing particularly difficult situations in life. HGAA is also conscious of its social responsibility in view of the restructuring measures being undertaken and is putting measures in place demonstrating the greatest possible social responsibility.

Protection of the environment and the sparing use of resources have become permanent features of daily work at HGAA. In the spirit of sustainability, it has become a stated objective of the Group to contribute in such a way to keep the environment healthy for future generations. Sustainability has become an integral part of the procurement process, for example. Great importance is attached to the use of environmentally compatible materials in building construction and renovation. Optimal insulation ratings and effective thermal storage measures are taken as a given in renovation and new build projects, as are system solutions which optimise energy use in the area of building technology.

HGAA strives permanently to evaluate internal use of energy and to bring about increases in efficiency. As part of a wide-ranging cost optimisation project, numerous energy usage optimisation sub-projects have been set in motion. Amongst them is a comprehensive plan for optimising heating energy usage in the three largest office locations in Austria as well as the optimisation of lighting management at the headquarters building. In total, the annual electricity consumption in Austria has been reduced from 2,903,850 kWh in 2008 to 2,680,779 kWh in 2009. This equates to a reduction in CO_2 emissions of 152.3 tonnes. In addition, the amount of waste produced was reduced through several qualitative and quantitative measures: the amount of per capita waste lay at 215 kg per employee in 2008; it had been reduced to 198 kg per employee by the end of 2009.

5. Internal control system for accounting procedures

HGAA has an internal control system (Internes Kontrollsystem or IKS) for Group Accounting procedures, in which suitable structures and procedures are defined and implemented. As a result of the implementation of the "new lending procedures" in 2009 there have been organisational changes in the credit administration process, whose related accounting processes have not yet been implemented in full. Reference is therefore made to the final part of this section.

HGAA's IKS is based on the COSO (Committee of the Sponsoring Organisations of the Treadway Commission) Framework, although the Executive Board has determined the scope and direction of the IKS on the basis of the specific requirements of the organisation.

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

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

The particular objectives with regard to the Group Accounting procedures are that the IKS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that legal standards, accounting regulations and the internal Group policy on IFRS and accounting reporting in accordance with the Austrian Enterprise Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the Group financial statements, are upheld.

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

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

The processes, policies and control procedures which are already in place in the Group companies are subjected to ongoing evaluation and development. As a result of these efforts to intensify existing systems in a practical way, further qualitative improvements were achieved during the year under review.

The Group subsidiaries draw up their accounts at a local level on the basis of local accounting regulations and transmit their data – stated in conformity with the rest of the Group in accordance with IFRS – using a standard, Group-wide reporting tool. They are responsible for complying with the Group policies valid throughout the Group and for the proper and timely execution of the processes and systems related to accounting. The local Group subsidiaries are supported throughout the whole Group Accounting process by partners in head office in the Group Accounting division.

The consolidated financial statements are drawn up centrally on the basis of the data from the Group subsidiaries included within the scope of consolidation. The consolidation bookings, any reconciliations required and the monitoring of adherence to deadlines and to regulations relating to procedure and content are carried out by Group Accounting. Staff oversee all checks carried out by the system and supplement these with manual checks.

The senior management in the subsidiaries is responsible for the implementation and monitoring of the local IKS and confirms compliance therewith on a quarterly basis.

The Executive Board of Hypo Alpe-Adria-Bank International AG is responsible for the implementation and monitoring of the IKS in relation to accounting procedures for the consolidated financial statements and is responsible for the correct and timely execution of the accounting processes and systems. The Executive Board uses the Group Audit and Compliance units to assist it in monitoring compliance. Group

Audit and the local audit functions in the subsidiaries check as part of their regular auditing activity the effectiveness of the IKS and the reliability of the accounting function.

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

An on-site audit by Oesterreichische Nationalbank (OeNB) focusing on the credit risk management process and credit risk management at Hypo Alpe-Adria-Bank International AG took place in 2009. On the basis of the findings in the report dated 7 December 2009, some weaknesses with regard to the functional capability of the internal control system in the area of credit risk monitoring were identified. The bank is currently working intensively on correcting the problem areas identified, with the assistance of external support. The main findings in the OeNB audit report were already known to the bank, which had taken appropriate measures to address them.

In the wake of the current crisis it became apparent in 2009 that certain of the bank's and of the Group's processes and systems were not sufficiently resourced to cope with the crisis-induced deterioration of conditions. The Executive Board therefore set in place appropriate measures to reallocate existing resources in a targeted way.

6. Risk report

6.1. Risk strategy, control and monitoring

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

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

6.2. Organisation and 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 the HGAA 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; the reorganisation of problem loans; monitoring the credit-granting process; 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 equity requirements. HGAA has separated the CFO and CRO roles into two independent functions.

The Audit division is a permanent function which audits the business activities of HGAA; 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 HGAA. The Internal Audit division 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 division also acts as Group Auditor in addition to the Internal Audit sections of the subordinate companies of the HGAA group of institutions.

In May 2009 the duties of the risk controlling function for the leasing companies were successfully integrated into those of Group Credit Risk Control und Group Market Risk Control. Risk management and risk monitoring is now carried out by these two units.

The Group Settlement division consisted of the Treasury Middle Office (TMO), Treasury Back Office (TBO) and Settlement Steering departments until 16 November 2009. The duties of Group Settlement were the processing and control of trading transactions at Hypo Alpe-Adria-Bank International level and monitoring of the trade-related activities of Group Treasury (e.g. adherence to limits on positions and volumes). Within the context of the implementation of the "HypoFit 2013" project, the Executive Board decided to dissolve the Group Settlement division as of 16 November 2009 and to integrate the functions in other Hypo Alpe-Adria-Bank International and Hypo Alpe-Adria-Bank AG divisions. The Treasury Middle Office functions (provision and maintenance of market data, data quality assurance and hedge accounting) were allocated to Group Market Risk Control.

External Reporting consisted of the Operative Regulatory Reporting and Capital Management & Processing departments up until 31 December 2009. As part of the "HypoFit 2013" project, the Executive Board decided to dissolve External Reporting division as at 1 January 2010 and to integrate the functions in other Hypo Alpe-Adria-Bank International divisions. The Capital Management & Processing department's functions of own funds planning and provision of data for own funds calculation were allocated to Group Credit Risk Control.

6.3. Reporting

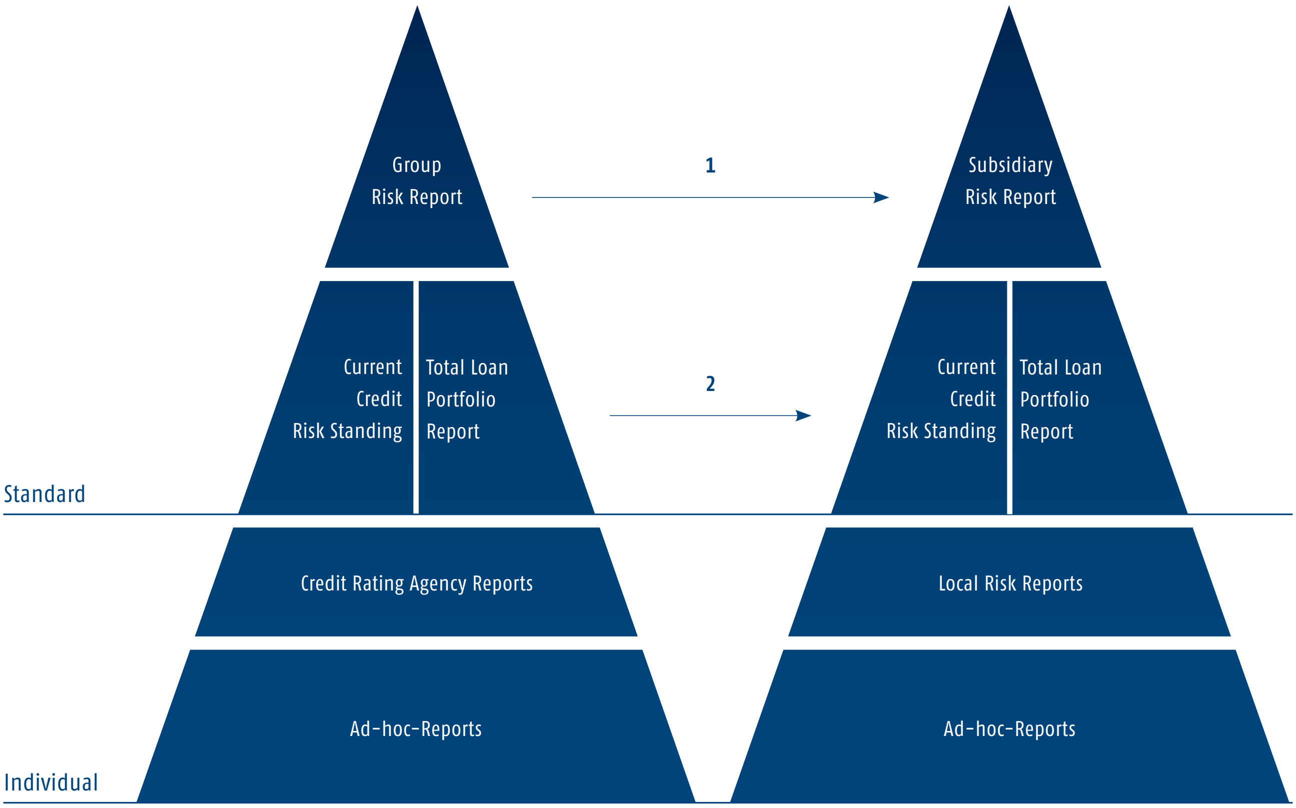
Timely, independent and risk-adequate reporting for decision-makers is guaranteed for all risk types; requests for ad hoc reports are honoured at all times. This is assured through the Group risk report.

In the first half of 2009 a new Group risk report was developed, which presents all the risk types relevant to the Group in a suitable format and gives the Executive Board a comprehensive overview including recommended points for actioning. The risk report is drawn up on a quarterly basis and contains the following sections: Management Summary, Risk-bearing capacity including stress tests, Credit & country risk, Market risk, Liquidity risk, OpRisk and Participations risk.

The risk report was first produced at Group level in June 2009 and presented to the relevant committees for information purposes. The roll-out of the report to subsidiaries began in the fourth quarter of 2009. As a result of this, there is now a standardised risk report available to all supervisory committees and management boards for managing risk; and a basis for comparison has been established throughout the Group.

6.3.1. Credit risk reporting structure

The following ongoing reports are produced for reporting on credit risk:



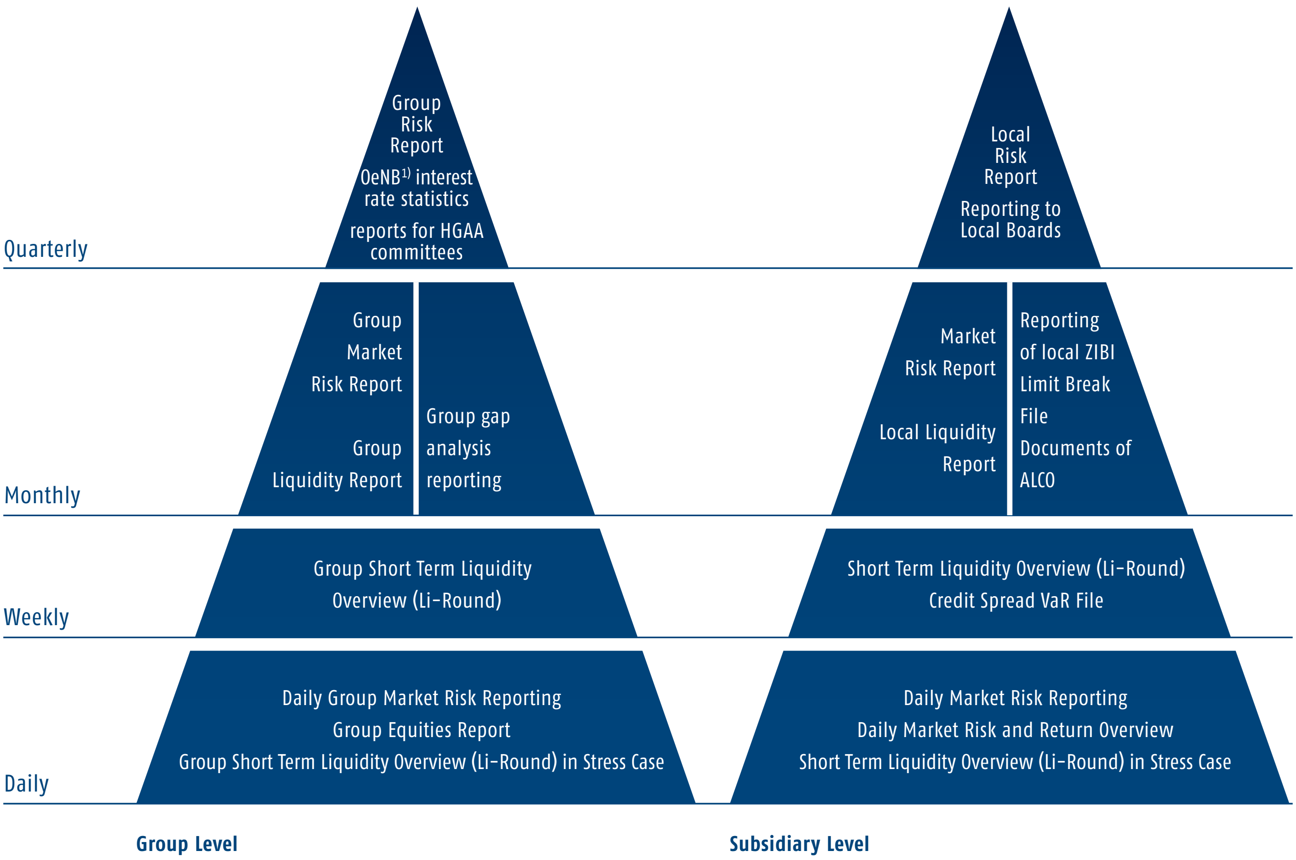
Group Level
1 Produced by the subsidiary, standard template and data supplied by the Group

Subsidiary Level
2 Produced in the Group, for transmitting the report to the subsidiary, Management Summary sent by the subsidiary to the Group

The primary objective, apart from standardising reporting, was to standardise the data used for credit risk reporting. Working together with Group Organisation & IT, a Group data warehouse was created for this purpose. Every subsidiary is now obliged to report the data to go to the Group using BusinessObjects and to use this for local credit risk reporting as well. As a result of this every credit risk report is based on uniform data. Work will continue on optimising reporting possibilities and on assimilating local reporting requirements into the Group data warehouse in 2010.

6.3.2. Market and liquidity risk reporting structure

The main risk reports compiled on market and liquidity risk in HGAA are shown below:



[1] Oesterreichische Nationalbank

For stress scenarios the reporting frequency can be increased, if required. In addition to the Group reports shown above, there are relevant daily reports produced at local level which are sent to the Group.

6.4. Capital management

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

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

Risk Controlling then prepares a risk limit for HGAA on the basis of the strategy approved, which then, working together with the business segments, is transposed onto the bank's individual operating units. The risk limit covers the framework conditions for the business strategy of the business segments as well as the intended target rating of the bank.

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

6.4.1. Regulatory adequacy of capital (solvency)

HGAA 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. Supplementary 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 internal target for the Tier 1 ratio (ratio of Tier 1 capital to risk assets) and an internally set ratio for the overall indicator (ratio of capital resources to risk positions) for HGAA. 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.

6.4.2 Economic capital (risk-bearing capacity)

In addition to ensuring regulatory capital requirements are met, securing the Group's ability to carry economic risks forms a central part of controlling activities within HGAA. Further optimisation thereof forms part of the work of an ongoing project.

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

These limits provide a framework within which the decision-makers can act and ensure, in a methodical and procedural manner, that sufficient risk coverage volumes are in place to cover the risks incurred.

Risk coverage volumes are uniformly defined across the Group. 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, HGAA monitors the risk profile and ensures risk bearing capacity through comparisons of risk capital and risk capital requirements.

As part of economic risk capital controlling, risk capital is monitored by the subsidiaries as well as by HGAA at the Group level, and risk bearing capacity is ensured by comparing risk capital and risk capital requirements. The upper loss limit – and hence available risk capital – is defined as the sum of capital components.

The composition of the risk coverage volumes stems from a mixture of balance sheet and P&L items. The regulatory requirements and limitations are applied equally to capital components which form part of own funds, such as silent contributions and participation rights. In addition to these, other items such as the projected annual profits for the year in question are included in the determination of the risk coverage volumes. The possible losses identified through economic risk measurement must be set against the actual net asset value to hand.

For the purpose of determining risk capital requirements, both HGAA and its strategic subsidiaries continuously examine the risk types as determined in the risk strategy. 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 99.9 % (at a one-year holding period).

The strategic holdings of HGAA (subsidiary banks and leasing subsidiaries in the core countries of the Group) also have their own risk controlling functions. In its role as an overarching institution for the Group, HGAA exercises its executive authority, in particular with regard to processes and methods. These take appropriate account of the subsidiaries' specific requirements, conditions and business strategies.

6.5. Credit risk (counterparty default risk)

6.5.1. Definition

In terms of scale, credit risks constitute the most significant risks for HGAA. They mainly comes out of the lending 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.

6.5.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the credit business as well as for the risk control methods to be used, and is supplemented by further policies such as the monitoring policy or problem loan policy, 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 – by the Advisory Board, Executive Board, and Credit Committee, as well as by key staff in the front office and the analysis units of the risk office.

The Credit Committee is a permanent institution of HGAA and the highest credit decision committee below the Executive Board.

The Group Risk Executive Committee (GREC) is responsible for all operational and methodological matters relating to credit risk, unless a decision by the Executive Board is required for issues of fundamental importance.

6.5.3. Risk measurement

HGAA 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 HGAA itself, working together with RSU Rating Service Unit GmbH & Co. KG, will ensure that they remain equal to the task of calculating default probabilities in the various customer and/or financing segments.

6.5.4. Internal rating systems

The rating systems currently used within HGAA are available to all subsidiaries where required. Authority to assign ratings is regulated as part of the credit process in the relevant policies.

Uniform Group procedures are followed in the public finance, banks, special financing, structured products, private clients, SME and corporate segments.

Specific regional modifications are made to the ratings where required.

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.

The back office is responsible for ensuring the completeness and quality of ratings for risk-relevant transactions, while the front office is responsible for the same for non-risk-relevant transactions (four-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 HGAA, the performance of the rating systems (subject to the existence of sufficient data) is examined on an annual basis.

6.5.5. Risk mitigation

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

For the banks, limits are set and monitored independently by Risk Controlling. If limits are exceeded, this is communicated immediately to the CRO and reported to Group ALCO.

In all other segments, limit control is carried out through a Group-wide ruling on authorisation levels ("Pouvoir-Ordnung").

At portfolio level there are country limits to prevent the formation of concentrations; breaches of limits are escalated to Executive Board level, and the operational areas are required to work together with the back office functions to define measures to control these concentrations.

At the level of the individual customer, an upper limit on concentration has been introduced. The instruction states that HGAA will not enter into an exposure greater than EUR 50 m with any customer. The only exceptions are strategic partners, for whom HGAA manages day-to-day refinancing affairs, and certain local government authorities. Exceptions must be approved at least once a year by the Executive Board. For all concentrations falling under the new definition, medium-term strategies to reduce the concentration must be defined by the market units. These will be monitored by the Group Credit Risk Control unit.

In addition there are soft limits (for example, by rating class), the objective of which is to balance out the risk profile of the bank. Any breaches of these limits are reported to the Executive Board by way of the normal risk reporting process.

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

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

6.5.6. Strategy and procedure to assess and manage collateral that has been applied and is eligible for inclusion

The stipulations for the evaluation and processing of collateral are governed by the collateral policy. Ensuring ongoing legal enforceability generally involves the use of standardised contracts and ongoing legal monitoring – in particular of foreign legislation – through cooperation with other institutions.

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

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

A description of all generally accepted collateral is given in the collateral policy.

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

6.5.7. Risk controlling and monitoring

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

The principle goal of all activities is to minimise or prevent potential defaults for HGAA by initiating suitable measures to give intensive customer support or deal with a potential bad debt and – if possible – to guide the customer back to a stable situation requiring standard support.

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 Credit 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.

6.5.8. Portfolio overview – credit risk

There are differences in the treatment of exposure between the accounting and risk controlling functions. Accounting takes the bookvalues and risk controlling the market value as the basis for reporting. Moreover, in assessing risk, it is the present value and not the book value which is applied.

The definition of credit risk was extended in the area of leasing in the first half of 2009. Risk reporting, which had previously shown finance leases, has now been extended to include the operative lease, leases to go and operative rent products. As a result of the changes in principal owner from BayernLB to the Republic of Austria, loans and advances pertaining to BayernLB are no longer shown as consolidated figures. Furthermore, internal guarantees for Group subsidiaries with no reference to Austria are also now shown as consolidated. For this reason, the figures for 2008 have been retrospectively modified and can therefore no longer be compared with the previous year’s figures.

Gross exposure in the Group
Breakdown in accordance with IAS 7.36 a

in EUR m

	31.12.2008	31.12.2009
Cash and cash equivalents	999	1,020
Loans and advances to credit institutions	4,483	4,087
Loans and advances to customers	30,567	30,117
Risk provisions on loans and advances	–1,086	–2,450
Trading assets	179	73
Positive market value from hedge accounting derivatives	582	933
Financial investments – designated at fair value through profit or loss	1,121	1,040
Financial investments – available for sale	2,566	2,714
Financial investments – held to maturity	42	42
Investments in companies accounted for at equity	5	2
Other financial investments		
thereof operate leases	471	363
thereof investment properties	719	726
Contingent liabilities	1,154	888
Other liabilities – irrevocable credit commitments	2,298	1,553
	44,099	41,108

All collateral shown in the risk report is valued in accordance with the internal standards for collateral value set out in the Group's collateral policy.

Information to be supplied in accordance with IFRS 7.36(b):
Only collateral which has been explicitly listed in the HGAA's collateral policy may be valued as collateral. Collateral is divided into collateral types (e.g. mortgages). Each collateral type (e.g. mortgages) displays different characteristics, e.g. maximum sum mortgages, fixed amount mortgages, land register deposit etc.

The Group collateral policy splits collateral as follows: personal guarantees, real estate, securities, cash and cash equivalents, rights and claims, insurances, movable assets.

Information to be supplied in accordance with IFRS 7.37(c):
Each item of collateral must be assigned a maximum collateral value. The section collateral monitoring sets the frequency of the monitoring for each collateral type. Both points are part of the Group collateral policy.

Information in accordance with IFRS 7 37(b) on factors leading to the establishment of impairment
In order to assess the need for risk provisions, the customer relationships must be examined at regular intervals. Value adjustments will be made on individual credit commitments if there is objective evidence of the existence of an impairment that would have an impact on future payments to be received.

The potential indicators of impairment are:
- a rating of 4C or worse;
- payment arrears of more than 90 days;
- enforced extension;
- liquidity-related restructuring;
- standstill agreements;
- deterioration in the value of the collateral; or
- debtor experiencing other financial difficulties.

The value of specific risk provisions are calculated on the basis of the difference between the book amount of the loan and the net present value of the payments due in the future, calculated according to the discounted cash flow method and applying the original effective interest rate. Changes to the expected payments will lead to a change in the present value and thus to increased or decreased value adjustment.

Uncovered receivables are written of; this is basically treated as utilization of previously booked risk provisions. Risk provisions to a portfolio can be made in two cases according to IAS § 39. In one case, receivables which are not individually significant, are examined regarding impairments at portfolio level. In the other case, receivables for which no single risk provisions exist, are added together and examined once again on portfolio basis referring the existence of impairment. (Portfolio risk provision)

Portfolio risk provisions are calculated on partial portfolio level, which display a homogenous risk structure. The amount of the portfolio risk provision is calculated by using an "incurrent-loss-model" and is based on the following
- estimated probability of default on the basis of arrears status (PD)
- cure rate
- loss given default (LGD)
- loss identification period (LIP)

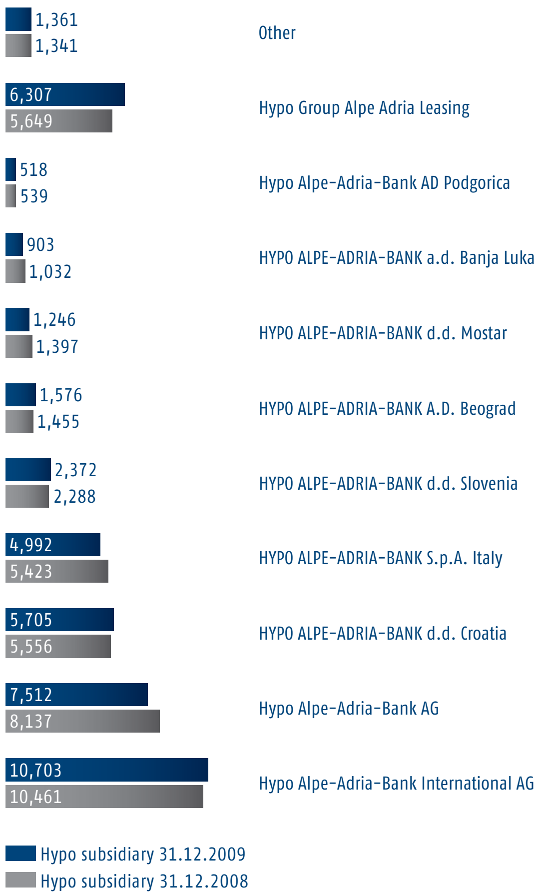
Portfolio risk provisions are calculated using the following formula:

IL = (EAD-Coll)*PD*(1-cure rate)*LGD_blanco*LIP

Gross exposure in the Group

In the year under review, gross exposure in the Group decreased by EUR 81 m or 0.2 %. If not displayed differently, the amounts in the following tables are in EUR m. At present gross exposure is divided among the subsidiaries of HGAA as follows:

in EUR m

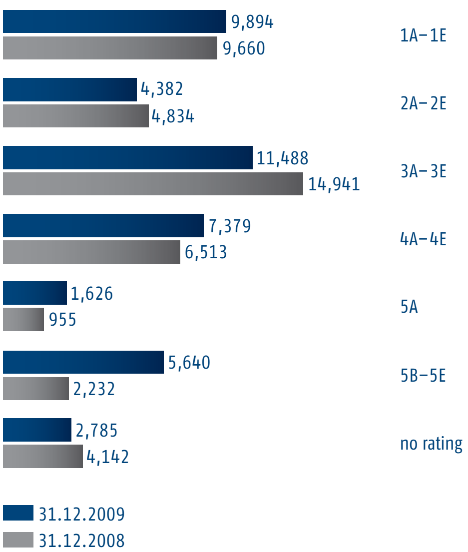


(Changes from the previous year: the receivables from BayernLB are shown. Internal guarantees are now shown as consolidated for subsidiaries as well without reference to Austria.)

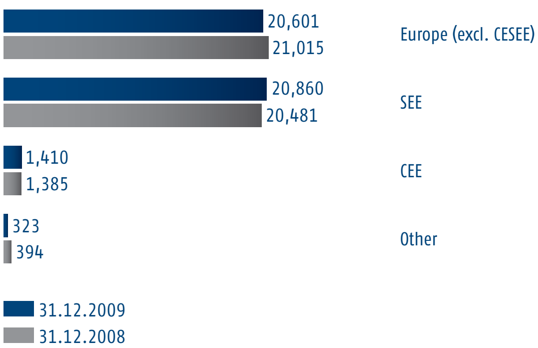
Gross exposure by rating classes within the Group
Approximately 33 % of the gross exposure is investment grade (rating classes 1A to 2E). The exposure through rating classes 5B–5E and 5A has risen significantly, amongst other factors, the results of the completed asset screening exercise and the difficult economic conditions. In total the sum of the value of non-performing loans reached EUR 7.3 bn in 2009

Gross exposure by regions within the Group
The country portfolio of HGAA is concentrated in the EU and South-Eastern Europe. The expansion of the portfolio has occurred mainly in Slovenia and Croatia.

in EUR m



in EUR m



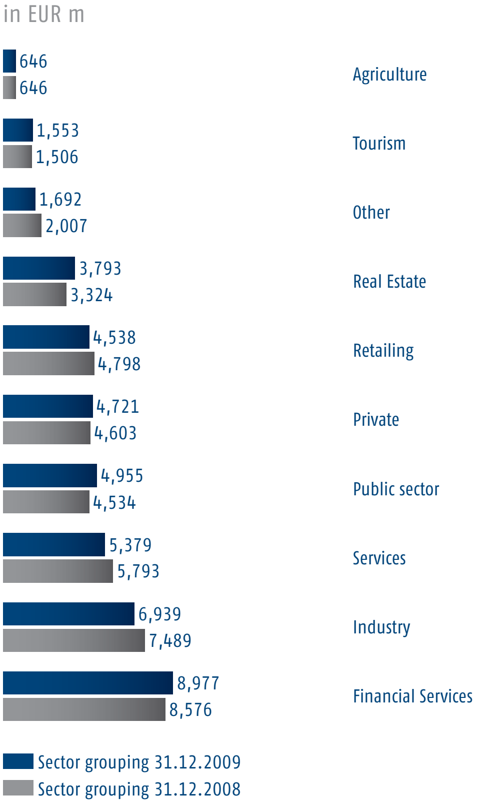
Gross exposure by industry sector within the Group

So that it can manage industry exposure economically and align it to strategy, HGAA 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 32.2 %. The well-diversified private industry segment has a share of 10.9 %.

Gross exposure by industry sector is broken down as follows:

HGAA's industry portfolio – in particular the corporate portfolio – is essentially well-diversified. There will be increased focus on breaking down certain concentrations in the corporate portfolio. Concentration risk management was introduced in 2009 to ensure this aim is achieved.

The expansion of the portfolio took place primarily in the areas of financial services and the public sector.



Gross exposure by sector and region
The risk driver in the HGAA credit portfolio on the loans and advances to customers (private, corporate, public sector etc.). These are broken down as follows (by industry and region):

Gross Exposure **Region** EUR m

Sector groups	Europe (excl. CESEE)	SEE	CEE	Other	Total
Service	1,982	3,075	241	80	5,379
Financial Services	7,036	1,667	122	151	8,977
Trade-Commercial business	1,034	3,295	190	19	4,538
Industry	2,512	4,213	213	0	6,939
Agriculture	115	496	36	0	646
Public entities	3,561	1,166	217	11	4,955
Private	804	3,844	70	3	4,721
Real estate business	2,571	971	252	0	3,793
Others	673	950	11	58	1,692
Tourism	313	1,183	57	0	1,553
Grand Total	**20,601**	**20,860**	**1,410**	**323**	**43,194**

The industry, trade and private sectors have large shares of the SEE portfolio. The expansion of the retail business is an important part of HGAA's business strategy.

The breakdown of gross exposure by sector and region at the end of 2008 was as follows:

Gross Exposure **Region** EUR m

Sector groups	Europe (excl. CESEE)	SEE	CEE	Other	Total
Service	2,211	3,226	268	88	5,793
Financial Services	6,461	1,762	168	184	8,576
Trade-Commercial business	1,221	3,360	197	20	4,798
Industry	2,895	4,389	205	0	7,489
Agriculture	124	511	11	0	646
Public entities	3,409	891	198	35	4,534
Private	813	3,711	76	3	4,603
Real estate business	2,377	759	188	0	3,324
Others	1,189	731	25	62	2,007
Tourism	314	1,142	49	1	1,506
Grand Total	**21,015**	**20,481**	**1,385**	**394**	**43,276**

Gross exposure by size classes

Approximately 41.7 % of gross exposure can be found in the small-volume segment (<= EUR 5 m). The growth in the large-volume segment came about as a result of the assessment of the liquidity reserve.

EUR m

Size classes	31.12.2008	31.12.2009
up to EUR 1 m	12,298	10,716
> EUR 1 m – 5 m	7,791	7,332
> EUR 5 m – 10 m	4,364	4,006
> EUR 10 m – 20 m	4,392	4,210
> EUR 20 m – 50 m	5,240	5,264
> EUR 50 m – 100 m	3,174	3,015
> EUR 100 m – 250 m	3,384	3,339
> EUR 250 m – 500 m	2,113	2,292
> EUR 500 m – 1 bn	520	1,085
> EUR 1 m – 2.5 bn	0	1,934
Total	**43,276**	**43,194**

6.5.9. Impairment of financial assets

As a result of the changes in principal owner from BayernLB to the Republic of Austria, loans and advances pertaining to BayernLB are no longer shown as consolidated figures. Furthermore, internal guarantees for Group subsidiaries with no reference to Austria are also now shown as consolidated. For this reason, the figures for 2008 have been retrospectively modified and can therefore no longer be compared with the previous year's figures.

Financial assets which are neither overdue nor impaired

EUR m

	31.12.2008		31.12.2009	
Rating class	Gross exposure	Collateral	Gross exposure	Collateral
1A–1E	9,554	1,151	9,893	960
2A–2E	4,667	1,533	4,345	1,462
3A–3E	13,293	7,339	10,437	6,076
4A–4E	5,268	2,894	6,025	3,632
no rating	3,054	1,712	2,154	1,229
Total	**35,836**	**14,629**	**32,854**	**13,360**

Financial assets which are overdue but not impaired

EUR m

	31.12.2008		31.12.2009	
Loans and advances class	Gross exposure	Collateral	Gross exposure	Collateral
Financial assets	**0.0**	**0.0**	**0.3**	**0.0**
– 181 to 365 days	0.0	0.0	0.0	0.0
– over 1 year	0.0	0.0	0.3	0.0
Loans and advances to credit institutions	**2.6**	**0.1**	**1.4**	**0.7**
– overdue up to 30 days	0.5	0.0	0.1	0.1
– overdue 61 to 90 days	0.1	0.1	0.0	0.0
– overdue 91 to 180 days	0.0	0.0	0.3	0.3
– overdue 181 to 365 days	2.1	0.0	1.0	0.4
– overdue more than 1 year	0.0	0.0	0.0	0.0
Loans and advances to customers	**5,131.8**	**3,614.1**	**5,107.3**	**3,559.8**
– overdue up to 30 days	1,536.0	1,174.9	878.5	589.4
– overdue 31 to 60 days	911.2	705.4	745.6	558.9
– overdue 61 to 90 days	410.0	292.2	224.1	151.7
– overdue 91 to 180 days	1,182.2	825.6	1,681.1	1,278.0
– overdue 181 to 365 days	922.8	498.0	1,281.9	775.6
– overdue more than 1 year	169.5	118.0	296.1	206.3
Total	**5,134.4**	**3,614.1**	**5,109.0**	**3,560.5**

Impaired financial assets

EUR m

		31.12.2008	31.12.2009
Financial assets	Gross exposure	25	0
	Provisions	126	0
	Collateral	0	0
Loans and advances to credit institutions	Gross exposure	94	59
	Provisions	9	25
	Collateral	0	8
Loans and advances to customers	Gross exposure	2,186	5,172
	Provisions	927	2,275
	Collateral	1,180	2,552
Gross exposure total		**2,305**	**5,231**
Total individual value adjustments		**1,062**	**2,300**
Total collateral		**1,180**	**2,559**

Renegotiations
Within the framework of renegotiations, a change in conditions relating to creditworthiness was achieved for financial assets with a total carrying amount of EUR 97.6 m in 2009.

Realised collateral
There were realisations of collateral totalling EUR 44.6 m in 2009.

6.6. Participation risk

6.6.1. 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. letters of comfort) or profit/loss transfer agreements (loss absorption).

6.6.2. General requirements

In previous years, to achieve its business objectives, HGAA (or a subsidiary) invested in companies which either served to expand its business spectrum, provide services for the bank or function as purely financial holdings. 2009, in contrast to the previous years, was characterised more by portfolio rationalisation and in individual cases by disposals.

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

HGAA thereby influences the business and risk policy of an associated company through its representation on shareholder and supervisory committees.

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

6.6.3. Risk measurement

The measurement of participation risk is carried out within HGAA for the ICAAP using the standard approach (practical implementation: ICAAP = book value * risk weighting as per SolvaV (always 100 %) * statutory capital adequacy 8 %).

6.6.3.1. Risk controlling and monitoring

HGAA has, in the Group Credit Risk Control function, its own independent, central unit with the authority to set guidelines on all methods and processes connected with management of participation risk. 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 participations (risk classification tool). Essential aspects in this regard are the maximum loss potential as well as an estimate of the risk of the participation. The classification of participations is based on the loss potential determined 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 participations, and is automatically shown in the risk classification tool.

The risks from participations are presented using the risk classification procedures (RKV) as part of the annual participations report to the Executive and Supervisory Boards. Ad hoc reports are prepared for decision-makers if early warning signals are detected. Critical holdings are monitored as part of the intensive or problem credit processes.

6.7. Country risk

6.7.1. Definition

Country risk is the risk that a business partner in a given country or the government of the country itself, because of sovereign measures taken or economic/political problems, no longer meets its obligations 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, moratoria, embargoes, wars, revolutions, or coups in the respective countries.

6.7.2. General requirements

As part of its business activities and in pursuit of its long-term strategy HGAA knowingly assumes country risks which are limited in size.

6.7.3. Risk measurement

Country risk is measured in relation to the total credit risk exposure for each country. An internally-designed model is used for country analysis. The model for internal country analysis and for the internal country rating consists of two models: a hard facts model and a soft facts model. The hard facts model consists of two linear regression models, which are linked through a hierarchical regression analysis. The soft facts model consists of a single linear regression model. The final model results from linking the hard facts and soft facts models together. The linkage is achieved with the help of a hierarchical regression analysis.

6.7.4. Risk mitigation

A limitation of country risk 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.

6.7.5. Risk controlling and monitoring

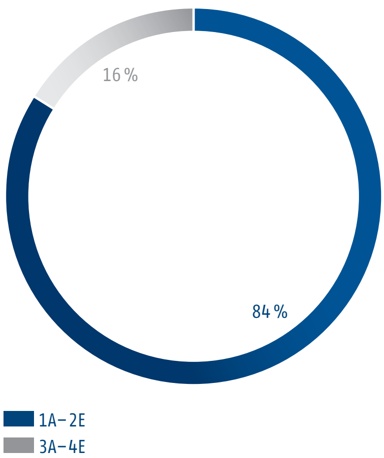
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports can also be prepared as required.

6.7.6. Portfolio overview – country risk

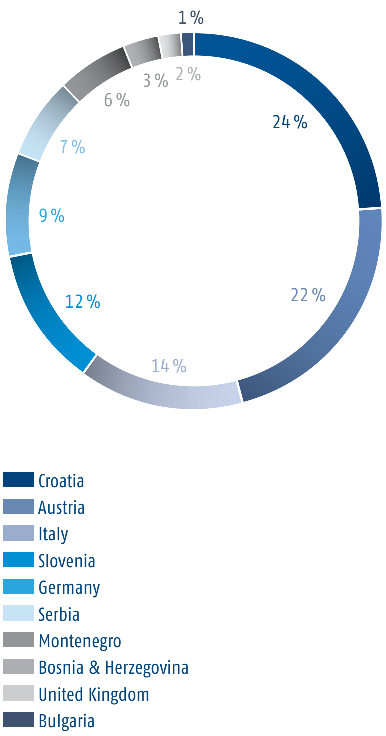
The portion of gross exposure in countries with rating class 1A–2E is 83.6 %. Approximately EUR 7.1 bn of gross exposure was in countries with a rating worse than 2E at the end of 2009. The largest portfolios in this group were in Serbia (EUR 2.9 bn exposure) and Bosnia & Herzegovina (EUR 2. 5 bn exposure).

The share of the top 10 countries in the overall volume is 92 %. Of this, Croatia and Austria have the largest share. The country ratings used were those of the former holding company, BayernLB. In 2010 a new source will be found and implemented.

Gross exposure – country rating distribution
31.12.2009



Top 10 countries, by gross exposure
31.12.2009



6.8. Market price risk

6.8.1. Definition

Market risks consist of potential losses due to a change in market prices. HGAA classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility 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 management of assets and liabilities.

Besides market risks, market liquidity risks may also be incurred if, in the event 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, these are taken into account as part of the risk limitations for market risks.

6.8.2. 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 and performance figures for trading transactions on a daily basis and figures on banking book investments and market risk steering on a weekly basis. There is also a daily report to the Executive Board in which the key risk and performance figures of the subsidiaries are communicated. In these, the value-at-risk at the subsidiary level is compared to the defined limits. Limit breaches initiate defined escalation processes up to Executive Board level.

The subsidiaries of HGAA calculate risk as per HGAA specifications for the respective portfolios. The results are presented to the Group Executive Board as part of ongoing reporting for HGAA.

6.8.3. Risk measurement

HGAA calculates its market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99 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 liquidation over a time period of 126 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.

HGAA 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 HGAA. 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 positions are accounted for 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 calculated in relation to the regulatory equity are well below 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.

6.8.4. Risk mitigation

In accordance with the new risk strategy for the Group, which was signed off in August 2009, a limit of ten per cent of risk capital has been set for market risk. The amount of risk capital set represents the maximum loss that may be incurred for absorbing market risk. Market risk capital is distributed over individual market risk factors (interest rate, currency, shares, credit spread, volatility and alternative investments) by setting risk factor limits. Risk factor limits are also further defined and differentiated through defined partial portfolios.

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

6.8.5. Risk controlling and monitoring

All market risks are centrally monitored by Group Market Risk Control which is independent of all trading activities. In addition to regulatory requirements, this unit also ensures risk transparency and regular reporting to the Executive Board member responsible for this area. The Board also receives a separate monthly report on the actual market risk situation as well as on back testing and stress test results with a commentary on potentially significant developments.

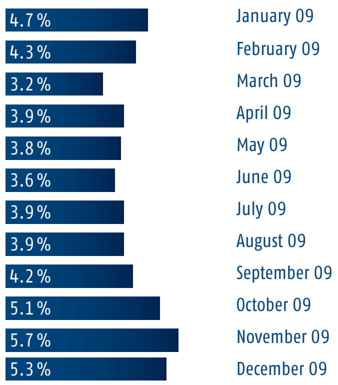
The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Group Asset Liability Committee, which consists of the Group Executive Board as well as key staff in Treasury, Risk Control and Financial Controlling, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity controlling

6.8.6. Overview of market risk

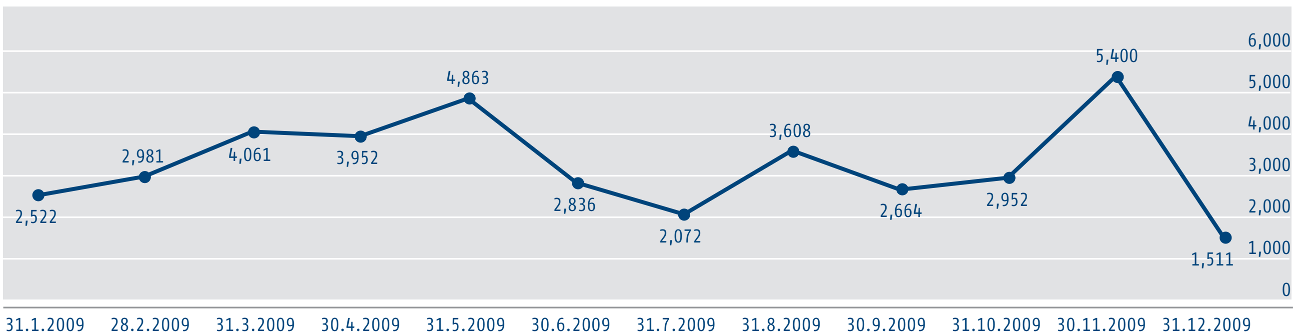
The table shows the progression of interest rate risk (including the interest rate risk of the trading book) for HGAA in 2009. The fixed-interest period statement for HGAA contains all interest rate relevant on and off balance sheet items with their next interest rate fixing date. The stochastic cash flows are illustrated with uniform Group standards, 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 graph shows the interest rate change risk for HGAA at overall bank level (trading book and banking book).

Interest Risk Equity Ratio in %



Interest Rate Risk (Trading Book + Bank Book) – VAR (99 %, 1 day)
EUR '000, 31.12.2009

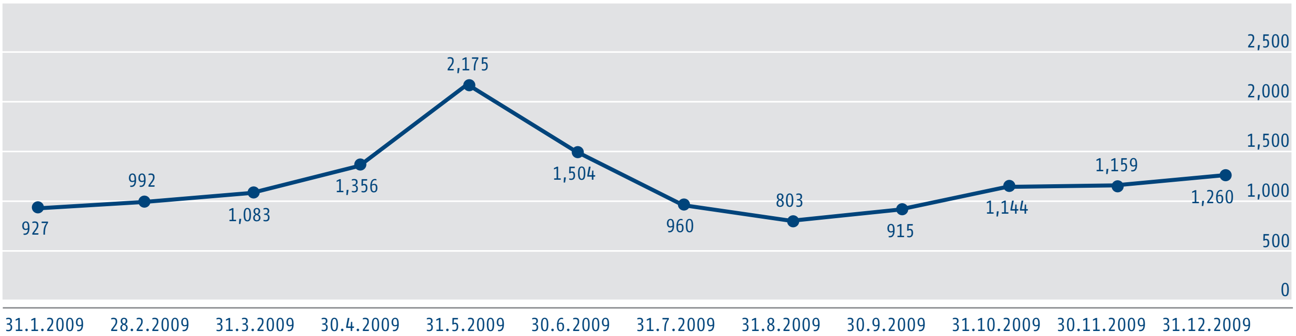


The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the Group fixed interest period statement; 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 1.26 m per day as at December 31 2009, at a confidence interval of 99 %.

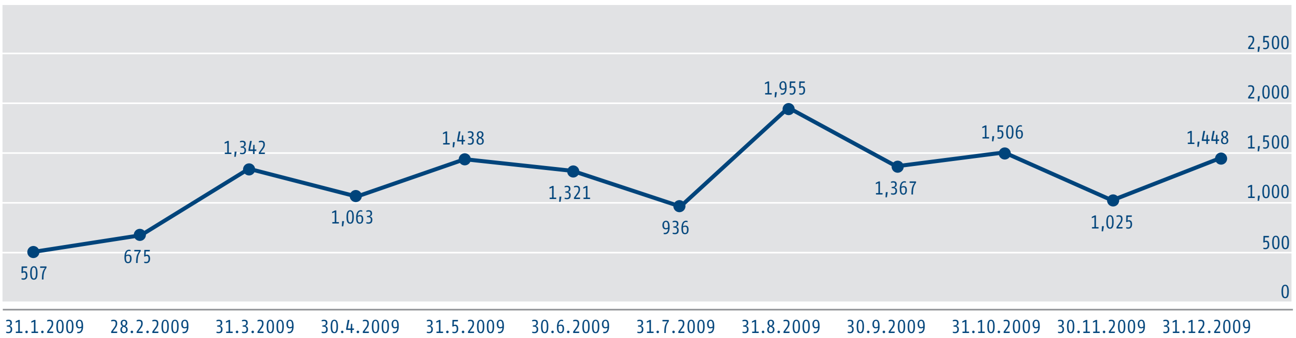
Change in VAR – open foreign currency positions
EUR '000, 31.12.2009



A further foreign currency risk results from the effect of consolidating the equity of HBC and HBSe. Hedging measures have already been put in place and limits set, to manage this risk actively. About 49 % of the RSD risk arising from the strategic participation had been hedged by 31 December 2009.

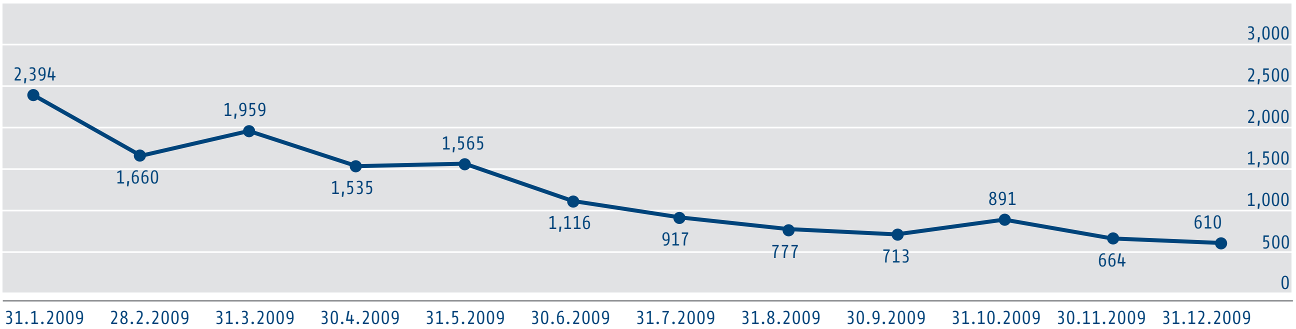
The value-at-risk for share risk at HGAA stands at EUR 1.45 m as at 31 December 2009, with a holding period of one day and a confidence level of 99 %.

Change in Equity Risk
EUR '000, 31.12.2009



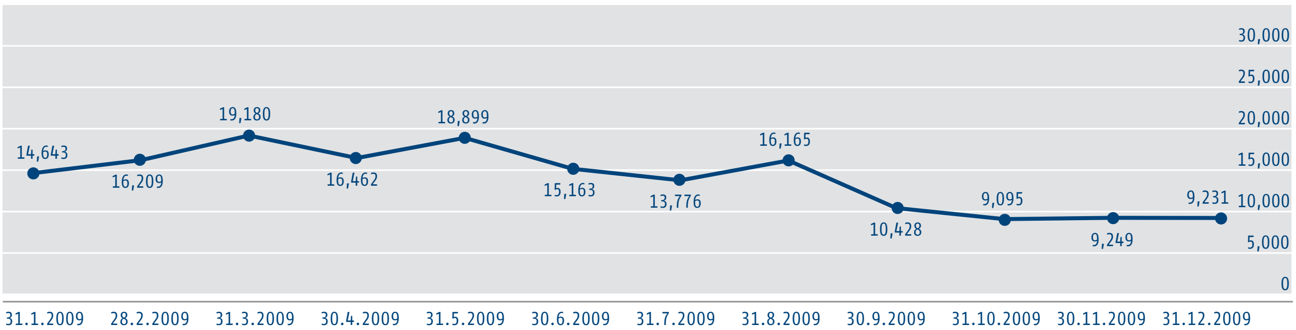
The Alternative Investment risk within HGAA at year-end 2009 stands at EUR 0.61 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in VAR – Alternative Investments
EUR '000, 31.12.2009



The credit spread risk for HGAA at year-end 2009 stands at EUR 9.23 m, with a 1-day value-at-risk and a confidence level of 99 %.

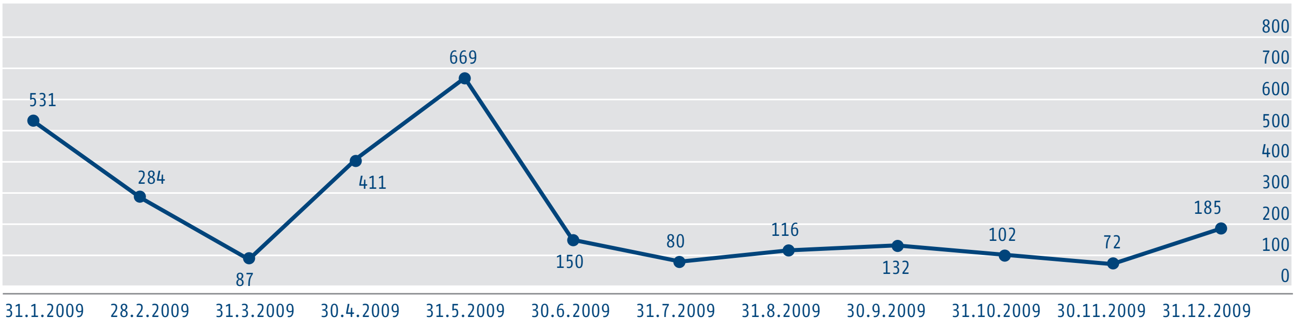
Change in Credit Spread Risk
EUR '000, 31.12.2009



The volatility risk for HGAA at year-end 2009 stands at EUR 0.19 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in Volatility Risk

EUR '000, 31.12.2009



Volatility risk is defined within HGAA as the risk of changes in the net present value of open positions held by the Treasury unit through the change in implicit volatility.

6.9. Liquidity risk

6.9.1. Definition

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

6.9.2. General requirements

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

At the Group level, liquidity steering and management are the responsibility of the Group Treasury function of HGAA. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at Group level, takes place. The local treasury unit is responsible for operational liquidity steering and liquidity offsets. At Group level, liquidity risk controlling is the responsibility of the Group Market Risk Control division of HGAA, and of the respective risk controlling unit at local level. It is here that risk measurement, limitation as well as timely and consistent reporting are carried out.

HGAA 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 event of a liquidity crisis, the priorities of the bank are to rigorously maintain the capacity to pay and to prevent damage to the bank's reputation.

6.9.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within HGAA 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 time bands.

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

- free access to central bank and interbank funds,
- other available and eligible securities,
- issue potential in cover register
- senior bond issues
- committed lines of parent company, as well as
- securitisation potential.

In addition to the normal scenario, 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 the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation. Liquidity ratios (showing tightest liquidity position) and "time-to-wall" key figures (showing maximum liquidity time horizon) for up to one year are calculated to evaluate the liquidity situation – although particular importance is attached to the utilisation over the first 4 weeks.

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

6.9.4. Risk controlling

A bundle of different liquidity reserves ensures that HGAA 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.

Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and/or securities that can be quickly liquidated as well as guaranteed interbank lines of credit.

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. Short term forecast data is elicited directly from client transactions by the operating units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity 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

6.9.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and "time-to-wall" key indicators under normal and stress conditions (see 6.9.3), and on the other hand, through the integration of the structural liquidity risk into overall bank controlling (risk-bearing capacity).

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilisation of the liquidity potential, threshold values are being defined for all scenarios and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the controlling units responsible for liquidity risk.

6.9.6 Overview – liquidity situation

At the beginning of 2009, the situation in the international money and capital markets was still heavily influenced by the events in 2008. The markets only functioned in a limited way at the beginning; the situation improved in the course of the year, trust between the banks grew and investors were also prepared to make liquid funds available for longer periods of time. HGAA's situation was made more difficult in this environment, because of the discussions about its shareholder structure and the charges arising on the lending business.

In particular, between November and the end of the year there were increased outflows of primary funds, above all from the Austrian banking subsidiary Hypo Alpe Adria Bank AG.

In keeping with the difficult conditions HGAA initiated various measures from its emergency liquidity plan and drew on its liquidity reserves more strongly than before. As a result, the Group was able to ensure its ability to pay at all times and, towards the end of the year, also to increase the liquidity coverage for the expected, stressed outflows to over 52 weeks.

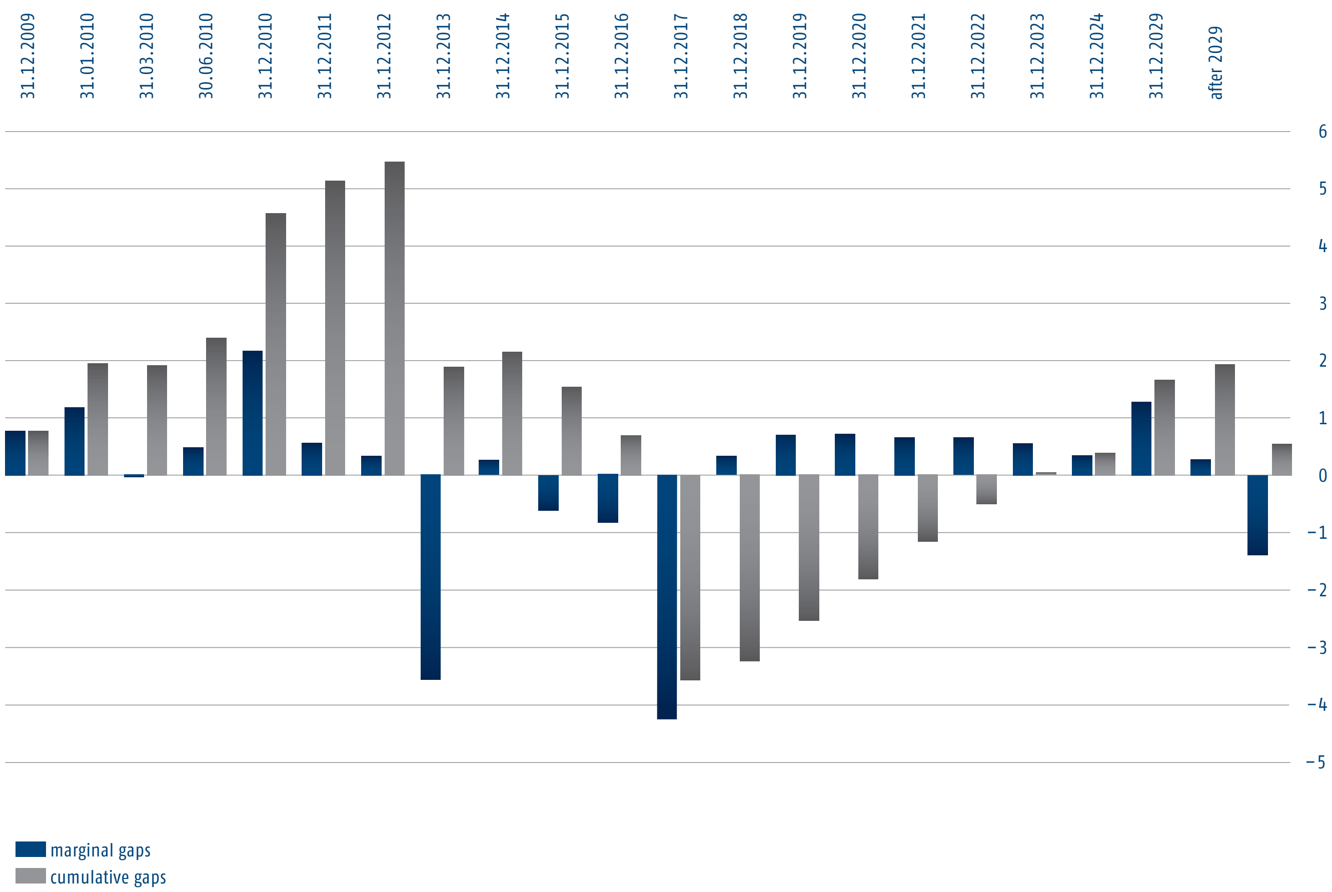
When the Republic of Austria became sole shareholder and the existing owners exited the business, measures to secure mid-term liquidity and the own funds situation were agreed.

The illustration below shows a liquidity profile for HGAA as of 31 December 2009, 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 on the basis of uniform modelling assumptions (stochastic cash flows).

As the illustration shows, the refinancing structure has been configured on a long-term basis: the main due dates for issues go out as far as 2017; the due dates for refinancing by the Bayerische Landesbank have been extended to 2013. These due dates will be taken into account in the planning of future possible funding potential and new business accordingly aligned.

The main currencies of the Group consist of the Euro, Swiss franc as well as the local currencies of the South Eastern European countries.

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



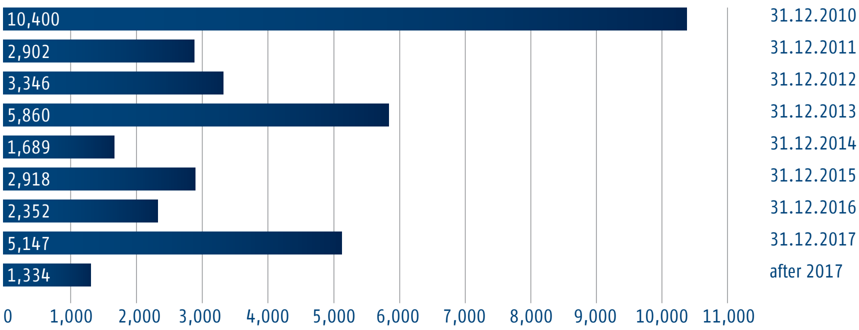
Below is a listing of due dates for the financial liabilities of HGAA, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day.
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day
- Cancellable positions are due at the next possible cancellation date
- Equity components and accruals and value adjustments are not represented

As the graph shows, in addition to the conservative modelling of liabilities in the first maturity band, the main due dates for issues and refinancing stretch out to 2017. This is taken account of in the funding planning, with special focus directed at broadening the liquidity resources and defining measures and a framework for ensuring the finance base for HGAA's business activities.

In the year under review the liquidity controlling and risk measurement systems were audited by Oesterreichische Nationalbank working together with the German regulatory authorities. The findings from this extensive audit are being integrated into the ongoing improvements to the systems and rolled out across the Group.

HGAA due dates for financial liabilities
in EUR m



6.10. Operational risk

6.10.1. Definition

HGAA 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.

6.10.2. General requirements

The objective of operational risk management at HGAA 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 Risk 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.

6.10.3 Implementation

All banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidation, are fully taken into account in the implementation of the operational risk management processes.

Other non-consolidated subsidiaries are required to agree the scope of implementation separately with the Group.

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

In order to ensure synergy effects are achieved, 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.

6.10.4. Responsibilities

Based on the current structure of HGAA, the main areas of responsibility for operational risk are defined as follows:

- 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.
- Operational risk officers in the Group Credit Risk Control division of Hypo Alpe-Adria-Bank International AG ("HBInt") are responsible for directing the Group and supporting its subsidiaries.

The operational risk officers of the subsidiaries are responsible for the local implementation of operational risks and for reporting to the Group.

- With the support of the decentralised operational risk officer, divisional managers are responsible for the implementation in their areas, as well as quality assurance.
- The decentralised operational risk officer is also responsible for the monitoring and implementation of standards and methods within the divisions and departments.

6.10.5. 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.

The operational risk management software ("inFORM") forms the platform for implementing the instruments at HGAA.

The following methods are used to support the strategy:

- loss database for the systematic data capture of operational risks throughout the organisation;
- qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes;
- regular reports as an instrument for communicating material operational risks to the Executive Board.

6.10.6. Thresholds for the data capture of losses
The current threshold for the reporting of losses within HGAA has been set at EUR 1,000.

6.10.7. Outlook
Several cases of fraud were uncovered within HGAA in 2009. The majority of these arose in the leasing arm of the business. In order to minimise, or rather, to prevent these in the future, the "Fraud Prevention Program" was established in the fourth quarter of 2009. This is composed of ten modules, including processes and controls, fraud management and fraud prevention training.

6.10.8. Organisation & IT
The reduction of operational risk was a high priority in 2009 for the Organisation & IT division as well. The successful merger of the two banking institutions in Croatia on the basis of a new core banking system led to significant operational stability in this area. In addition, the Executive Board commissioned a holistic review of the operational IT and Facility Management risk within the Group, which in turn led to the immediate implementation of various measures to ensure operational security within the Group, such as the further strengthening of preventative measures in the area of disaster recovery.

As a further step towards reducing operational risk, concrete measure were set in motion to bring about complete outsourcing of the IT operation in South Eastern Europe, following the successful resolution of this issue in Austria and Italy in the past. The first step was to hand over the operation and further development of the Group's leasing system for SEE to a professional international service provider. At the same time a project was started to implement a comprehensive, professional outsourcing solution along the same lines as that implemented for Austria and Italy, within the next eighteen months.

Important groundwork has been laid for this in the context of the roll-out of state of the art, international core banking application software for the SEE region. With the successful launch of the system in Montenegro the foundation has been laid for the progressive replacement of the old system in the region. Due to the volatile environment in the SEE and the Group, this project will continue to present a challenge in the future. In compliance with the EU restructuring plan and the future strategic alignment of the Group, this project will be analysed together with an external partner in order to define how the project should proceed in the second quarter of 2010.

6.11 Summary and outlook
HGAA has further expanded its risk controlling and management instruments in 2009. Significant progress has been made in a number of areas. The requirements resulting from the new equity agreement pursuant to Basel II and MaRisk were a major factor in this development. Furthermore, the bank's control systems have been successively adapted to BayernLB standards. Work on improving and optimising these standards will be carried out as part of a larger project in 2010. HGAA possesses a forward-looking risk management and controlling system, which is being continuously adapted to internal and external requirements. Attention will be paid both to compliance with regulatory requirements and to alignment with the Group's strategy in the future development of processes to map and control risk.

A risk reduction strategy has been implemented for all of HGAA's portfolios with the exception of Norica, the Credit Management positions and the liquidity protection portfolios. A continuation of the de-risking strategy for the operative treasury transactions is planned for 2010.

The organisation of HGAA is tailored to its risk profile, and takes into account the complex market conditions in which the bank operates. There is ongoing work on the continual improvement of risk systems and processes. Control and monitoring of all risk types, including all reporting requirements for the HGAA Executive Board, constitute the central tasks of risk controlling.

In the year under review, HGAA also focused on rolling out the methods and processes for risk identification and control to its strategic subsidiaries. By focusing on the consistent implementation of requirements and the development of risk instruments within the Group as well, HGAA's risk management function has made an important contribution towards value-oriented management of the Group.

In the area of liquidity risk management, a system giving greater assurance of data quality, liquidity measurement and controlling (Liquidity Ratio Tool LRT 2.0) is on the verge of being completed and rolled out across the Group.

Account has been taken of the current difficult market conditions through the introduction of a new credit-granting process in March 2009.

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

7. Other information

Information in accordance with section 267 of the Austrian Enterprise Code (UGB) on events after the balance sheet date (subsequent report) as well as information on the use of financial instruments is presented in the Notes to the consolidated annual financial statements, since this information concerns obligatory notes information pursuant to IFRS. HGAA does not pursue any research and development activities.

8. Outlook

Although forecasts for the economy in particular in comparison to the crisis years 2007 to 2009 can be deemed to be cautiously optimistic, economic experts are warning that it cannot yet be safely assumed that the economic and financial crisis will end in 2010. This is evidenced by the volatility of forecasts from renowned economic research institutions in recent months. The Executive Board is therefore assuming that the 2010 financial year will continue to be difficult.

Many of the real economies of CEE/SEE, which prospered greatly in recent years, have in part had to record significant reductions in their economic output in 2009. The economic experts are, however, not in agreement over the length and intensity of the economic and financial crisis. The International Monetary Fund's (IMF) current forecasts assume that the economies of the "old" EU countries will, almost across the board, revive slightly in 2010; but for non-EU countries such as Montenegro or for "new" EU countries such as Hungary or Bulgaria positive economic growth is only forecast for the mid-term. In Croatia and Slovenia, markets important for HGAA because of its property and tourism portfolio, weak but positive stimuli for the economy are expected.

Of all the economies in the countries covered by HGAA, probably Ukraine has been hit the hardest by the financial crisis. It must be assumed that there will be no rapid recovery of Ukraine's economy; however, the effects on HGAA, which has a remaining exposure of some EUR 35 m in this country, can be seen as slight.

The Group is expecting that the main macroeconomic parameters such as unemployment rate, the number of overnight stays in the tourist industry (in particular in Croatia), the change in GDP and the strength of industrial order books, which are all relatively volatile at the moment, will continue to have a negative effect in 2010.

The Group sees the negative effects of this crisis, which has scarcely left any sector untouched, continuing to impact on its customers for the foreseeable future as well. Falling demand is leading to falling sales and ultimately profits for companies, with a consequent negative influence on their short and mid-term liquidity. Companies and customers, in turn, are increasingly only getting through their financial difficulties by making late payments on their loans. As a rapid recovery of those sections of the economy which are important for the Group back to the levels prior to the beginning of the crisis in 2007/08 is not evident in the IMF forecasts, a significant easing of the situation is not to be expected in 2010.

The Executive Board is of the opinion that the default risks in the Group's financing portfolio, which became apparent as a result of the "asset screening" exercise, have been accounted for prudently. However, depending on how long the current economic crisis lasts and whether there are even stronger repercussions on the real economies of South-Eastern Europe, a further deterioration of the quality of the portfolio cannot be ruled out.

An important factor in 2010 will be the future development of the market prices of those objects which were impaired as a result of failure to honour the financing contracts underpinning them. There was a discernible and general trend to lower market prices for property as well as for second-hand vehicles, ships and equipment in 2009.

Against this background, HGAA will continue to push ahead speedily with the efficiency and structural optimisation project started in April 2009, which envisages a far-reaching reorganisation of the Group and a market strategy which has been modified to adapt to current conditions. The year 2010 will be given over to the analysis and evaluation of the markets and business segments in which HGAA is active. On the basis of the results, the Group will focus its future activities on markets in which it has accumulated expertise and which offer the greatest potential for increased value, in order to ensure a healthy business mix for the future.

Following the efforts already made in 2009 to implement the findings of the OeNB 2009 audit report, the focus in 2010 will be on drawing up further measures to take account of the findings.

The high level of losses recorded in 2009 led to a significant reduction in own capital funds, which was in part compensated for by the contributions to restructuring made by the former shareholders. Taking into account a significant reduction in risk-weighted assets of around EUR 4.6 bn, the own capital funds ratio stood at 9.9 % at 31 December 2009. In keeping with the current restructuring measures, HGAA is planning a further, incremental reduction in its RWA base in the planning period.

The injection of EUR 600 m Tier 1 capital planned for the first half of 2010, of which EUR 150 m is to come from the former shareholders and EUR 450 m from the Republic of Austria, will give a sound basis from the regulatory point of view. After the turbulence of recent months the new shareholder structure, with the Republic of Austria as a dependable owner, will have a further stabilising effect.

With regard to the consolidated Group result that can be expected for the 2010 financial year, Management cannot give a firm forecast, due to the high degree of uncertainty surrounding the important parameters for economic and exchange rate development in HGAA's markets. On the basis of the current planning in March 2010, a return to profitability is not expected for 2010.

In subsequent years, and on the basis of the new restructuring plan, a further, significant reduction in the total assets of HGAA is planned. As part of the focus on a much smaller number of core activities and countries, HGAA will not only withdraw from certain business activities (such as cross-border financing) and forms of financing (such as asset-based lending), but will also look to withdraw completely from certain geographic regions.

In connection with this withdrawal, high restructuring and exit costs must be expected which – dependent on the point in time and state of the market at exit – may depress results in future periods. The exit will be executed in an orderly manner; and the effects of the exit will be felt in places as early as the 2010 financial year.

These far-reaching measures, which will change the composition of the Group significantly, are an integral part of the restructuring plan which will be presented to the Commission of the European Union in the first half of 2010. On the basis of the plan the Commission will judge whether the planned measures form the basis for restoring the Group to long-term profitability, whether sufficient own funds are being generated and whether sufficient measures are being taken to limit distortions to competition caused by state aid. The implementation and achievement of the aims of the restructuring plan will be decisive in ensuring the continuation of HGAA.

On the basis of the restructuring measures introduced in the past year, which are already having a positive effect, and of the extensive provisions made for recognisable risks in the financing portfolio as well as the current EU restructuring plan, which goes even further in its measures, the Executive Board believes it has been diligent in playing its part in stabilising the position of the bank, as well as setting out a sustainable strategic direction for the positive future development of HGAA.

Klagenfurt am Wörthersee, 16 March 2010
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Franz Pinkl

Andreas Dörhöfer

Wolfgang Peter

Božidar Špan

Anton Knett

Statement of Comprehensive Income

Income statement

EUR m

	Note	1.1.– 31.12.2009	1.1.– 31.12.2008
Interest and similar income	(40)	2,080.8	2,394.1
Interest and similar expense	(41)	–1,211.8	–1,691.9
Net interest income		**869.0**	**702.2**
Fee and commission income	(42)	147.4	145.1
Fee and commission expenses	(43)	–26.2	–27.6
Net fee and commission income		**121.2**	**117.6**
Result from trading	(44)	28.3	–37.7
Result from hedge accounting	(45)	43.1	–44.1
Result from fin. investments – designated at fair value through profit or loss	(46)	–36.7	11.8
Result from fin. investments – available for sale	(47)	–40.0	–114.0
Result from other financial investments	(48)	–9.8	–36.8
Other operating result	(49)	–141.7	46.4
Operating income		**833.5**	**645.3**
Risk provisions on loans and advances	(50)	–1,672.3	–533.3
Operating income after risk provisions		**–838.8**	**112.1**
Personnel expenses	(51)	–262.6	–268.7
Other administrative expenses	(52)	–215.8	–218.3
Depreciation and amortisation of tangible and intangible assets	(53)	–63.0	–98.6
Operating expenses		**–541.5**	**–585.6**
Operating result		**–1,380.3**	**–473.5**
Result from companies accounted for at equity	(54)	–14.3	1.1
Result before tax		**–1,394.6**	**–472.4**
Taxes on income	(55)	–155.9	–45.8
Result after tax		**–1,550.6**	**–518.3**
thereof minority interests	(56)	30.5	1.5
thereof attributable to equity holders of the parent entity		–1,581.0	–519.7

Income and expenses recognised directly in equity (comprehensive income)

EUR m

	1.1. – 31.12.2009	1.1. – 31.12.2008
Result after tax	**–1,550.6**	**–518.3**
Gains/losses on available for sale-reserves	105.6	–164.8
Foreign exchange differences (change in foreign currency reserve)	–15.9	–1.0
Taxes on items directly recognised in equity	2.1	0.3
Total gains and losses recognised directly in equity	**91.8**	**–165.5**
Total comprehensive income	**–1,458.8**	**–683.8**
thereof minority interests	35.6	–6.5
thereof shareholders' equity	–1,494.4	–677.2

Balance Sheet

EUR m

	Note	31.12.2009	31.12.2008
ASSETS			
Cash and balances with central banks	(57)	1,019.9	999.2
Loans and advances to credit institutions	(58)	4,086.6	4,483.3
Loans and advances to customers	(59)	30,116.6	30,566.7
Risk provisions on loans and advances	(60)	−2,450.1	−1,086.2
Trading assets	(61)	72.9	179.2
Positive fair value from hedge accounting derivatives	(62)	933.3	581.7
Financial investments – designated at fair value through profit or loss	(63)	1,039.6	1,120.5
Financial investments – available for sale	(64)	2,714.2	2,565.5
Financial investments – held to maturity	(65)	42.1	41.9
Investments in companies accounted for at equity	(66)	1.7	5.4
Other financial investments	(67)	1,088.5	1,189.8
thereof investment properties		725.8	718.5
thereof operate lease		362.8	471.3
Intangible assets	(69)	63.6	66.7
Tangible assets	(70)	484.8	583.2
Tax assets	(72)	635.4	559.9
thereof current tax assets		49.4	32.2
thereof deferred tax assets		586.0	527.7
Assets held for disposal	(73)	138.3	10.2
Other assets	(74)	1,091.2	1,469.1
Total assets		**41,078.7**	**43,336.1**
LIABILITIES & EQUITY			
Liabilities to credit institutions	(75)	7,556.6	7,288.0
Liabilities to customers	(76)	7,649.8	8,716.9
Liabilities evidenced by certificates	(77)	20,761.0	21,415.3
Trading liabilities	(78)	4.8	27.9
Negative fair value from hedge accounting derivatives	(79)	126.7	107.4
Provisions	(80)	215.9	107.6
Tax liabilities		543.2	380.3
thereof current tax liabilities		29.4	36.3
thereof deferred tax liabilities		513.7	344.0
Liabilities in asset groups held for disposal	(81)	44.9	0.0
Other liabilities	(82)	978.6	1,172.4
Subordinated capital	(83)	1,207.1	1,590.4
Equity	(84)	1,990.1	2,529.8
thereof shareholders' equity		1,465.6	2,020.7
thereof minority interests		524.5	509.1
Total liabilities & equity		**41,078.7**	**43,336.1**

Statement of Changes in Equity

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation
Equity on 01.01.2009	**962.5**	**881.1**	**–161.5**	**–0.6**
Capital increase	60.8	880.3	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Total comprehensive income for the period	0.0	0.0	102.5	–15.8
Other changes	0.0	–1,761.4	0.0	–0.3
Equity on 31.12.2009	**1,023.2**	**0.0**	**–59.0**	**–16.7**

The subscribed capital is based on the separate financial statements for Hypo Alpe-Adria-Bank International AG and also includes the existing participation capital which was issued in 2008 and 2009 and has a nominal value of EUR 960.8 m (2008: EUR 900.0 m).

The additional paid-in capital shown in the separate financial statements for Hypo Alpe-Adria-Bank International AG stood at EUR 0 m (2008: EUR 900.3 m) as at 31 December 2009. The increase of EUR 880.3 m in the additional paid-in capital is as a result of the waiver of claims agreed with the previous owners in December 2009 and the early apportionment of supplementary capital containing them.

Other changes came to EUR –1,761.4 m (2008: EUR –739.9 m) and reflect the release of the additional paid-in capital for Hypo Alpe-Adria-Bank International AG as at the reporting date of 31 December 2009.

	Issued capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation
Equity on 01.01.2008	**48.4**	**940.3**	**–5.0**	**0.4**
Capital increase	914.1	680.6	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Total comprehensive income for the period	0.0	0.0	–156.5	–1.0
Other changes	0.0	–739.9	0.0	0.0
Equity on 31.12.2008	**962.5**	**881.1**	**–161.5**	**–0.6**

EUR m

Retained earnings	Net consolidated result	Shareholders' equity	Minority interests	Total
339.3	**0.0**	**2,020.7**	**509.1**	**2,529.8**
0.0	0.0	941.1	0.0	941.1
0.0	0.0	0.0	-16.8	-16.8
0.0	-1,581.1	-1,494.4	35.6	-1,458.8
178.7	1,581.1	-1.8	-3.5	-5.3
518.0	**0.0**	**1,465.6**	**524.5**	**1,990.1**

EUR m

Retained earnings	Net consolidated result	Shareholders' equity	Minority interests	Total
120.4	**50.0**	**1,154.5**	**504.6**	**1,659.1**
0.0	0.0	1,594.7	245.0	1,839.8
0.0	-50.0	-50.0	-35.2	-85.2
0.0	-519.7	-677.2	-6.5	-683.8
218.9	519.7	-1.3	-198.8	-200.1
339.3	**0.0**	**2,020.7**	**509.1**	**2,529.8**

Cashflow Statement

EUR m

	2009	2008
Result after tax	**–1,550.6**	**–518.3**
Non-cash items included in profit and adjustments to reconcile profit to net cash flow from operating activities:		
Depreciation and amortisation of tangible fixed assets and financial investments	**220.0**	**241.3**
Financial investments	153.1	142.7
Tangible assets	66.9	98.6
Change in risk provisions	1,597.1	474.6
Change in provision	117.2	57.7
Gains (losses) from disposals of tangible fixed assets and financial investments	**–1.4**	**–6.4**
Financial investments	3.9	–0.6
Tangible and intangible assets	–5.3	–5.8
Subtotal	**382.4**	**248.9**
Change in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	577.8	–5,560.0
Financial investments – current investments	6.0	276.6
Trading assets	106.3	–52.0
Other assets	–6.4	–551.5
Liabilities to credit institutions and customers	–765.1	3,074.4
Liabilities evidenced by certificates	–653.4	1,132.8
Trading liabilities	–23.1	19.5
Provisions	–8.9	–15.0
Other liabilities	–164.2	–3.7
Tax assets/liabilities	87.8	–19.5
Net cash from operating activities	**–460.9**	**–1,449.9**
Proceeds from sales of:	**244.6**	**239.5**
Financial investments and participations	249.6	196.7
Tangible and intangible fixed assets	–5.1	42.8
Payments for purchases of:	**–359.6**	**–590.5**
Financial investments and participations	–296.8	–491.9
Tangible and intangible fixed assets	–62.7	–98.6
Proceeds from sale of subsidiaries (less cash disposed of)	0.3	1.3
Payments for acquisitions of subsidiaries (less cash acquired)	–0.4	–8.5
Other changes	70.5	–5.7
Net cash from investing activities	**–44.6**	**–363.9**
Capital contributions/disbursements	941.1	1,839.8
Subordinated capital and other financing activities	–388.0	57.0
Dividends paid	**–16.8**	**–85.2**
thereof dividends paid to shareholders of the parent company	0.0	–50.0
thereof dividends paid to minority interests	–17.0	–35.2
Net cash from financing activities	**535.9**	**1,811.6**

EUR m

	2009	2008
Cash and cash equivalents at the end of previous period	**999.2**	**997.9**
Net cash from operating activities	−460.9	−1,449.9
Net cash from investing activities	−44.6	−363.9
Net cash from financing activities	535.9	1,811.6
Effect of exchange rate changes	−9.7	3.5
Cash and cash equivalents at the end of period (31.12.)	**1,019.9**	**999.2**

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

The cashflow from operating activities of HGAA includes in and outflows from loans and advances to credit institutions and customers, liabilities to credit institutions and customers as well as liabilities evidenced by securities. Changes in trading assets and liabilities are also included.

The cashflow from investing activities shows payment inflows and outflows for securities and participations, intangible assets and fixed assets, as well as payments received from the sale of, and payments made for the acquisition of, subsidiaries.

The payments made and received in connection with own capital funds and subordinated capital are shown in cashflow from financing activities. This affects primarily capital increases, dividend payments and changes in subordinate capital.

The cash and cash equivalents at the end of the period consists of the balance sheet item cash reserves, which cover cash and balances due on demand with central banks.

The significance of the cashflow statement for banks is held to be limited. HGAA does not therefore use it as a controlling instrument.

Notes to the Consolidated Financial Statements

Group and Activities

Hypo Alpe-Adria-Bank International AG was founded in 1896 as Landes- und Hypothekenbankanstalt. It operates as the parent company of Hypo Group Alpe Adria (HGAA). It is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under company registration number FN 108415i. The registered office and headquarters of the Group are located at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, Austria.

HGAA is one of the leading banking groups in the extended Alps-to-Adriatic region and is represented by nine banks and twelve leasing companies. On the banking side of the business, HGAA offers a range of banking services from classical financing products, payment transaction and documentation services through saving and deposits to complex investment products and asset management services. The products offered by the leasing side of the business cover all types of leasing for the vehicle, property, equipment, cross-border, airplane and ship leasing segments.

HGAA is present in twelve countries – Austria, Northern Italy, Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Southern Germany, Hungary, Bulgaria, Macedonia and Ukraine. HGAA employs 7,200 staff at more than 350 locations in its core banking and leasing businesses, who serve more than 1.2 m customers.

The European Commission opened a state aid investigation in May 2009. As a result of the proceedings and of the investment in the bank by the Republic of Austria in December 2009 and the connected exit by the previous majority shareholder, the Bayerische Landesbank (BayernLB), HGAA is currently undergoing a comprehensive restructuring exercise and realignment of its strategy. This realignment and related change in strategy required by the new owner will be completed in March 2010. During the restructuring exercise, a detailed evaluation was carried out of the markets in which the Group is active. On the basis of these evaluations HGAA will in future focus its activities on those markets in which there is already considerable experience and which show the potential for growing in value, in order to ensure a sustainable and healthy portfolio mix for the future.

Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria since 30 December 2009. On this date, the bank ceased to belong to the Bayerische Landesbank (BayernLB) and its inclusion in the latter's scope of consolidation also ended on this date.

Hypo Alpe-Adria-Bank International AG is now the ultimate parent company for the HGAA group. The consolidated financial statements for the Group will be published in the official gazette (Wiener Zeitung) as well as on the www.hypo-alpe-adria.com (→ Investor Relations → Financial reports) website. Disclosure is made in the commercial register as well as at the address of Hypo Alpe-Adria-Bank International AG, at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee.

Accounting policies and basis of consolidation

(1) Significant accounting policies

The consolidated financial statements of HGAA as at 31 December 2009 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and include comparative figures for 2008 which were drawn up according to the same accounting principles. Please refer to note (2) with regard to estimates and assumptions in accordance with IAS 8.

The consolidated financial statements of HGAA as at 31 December 2009 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 (the IAS Directive) 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 statement of changes in 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 annual report. The Group management report in accordance with section 267 of the Austrian Enterprise Code includes the risk report.

The consolidated financial statements are based on the reporting packages of all fully consolidated subsidiaries prepared in accordance with Group standards and the IFRS. All fully consolidated subsidiaries have drawn up their financial statements for the period ended 31 December. As required by IAS 27, HGAA applies uniform accounting principles throughout the Group. The consolidated financial statements are prepared on a going concern basis. With regard to the continuance of HGAA as a going concern, the Executive Board has made the same assumptions that underpin the Group's restructuring plan drawn up for the purposes of the EU state aid investigation, although the future development of the business is accompanied by a high degree of uncertainty given the current global financial crisis and the economic crisis which is particularly acute in certain regions and is, above all, dependent on the further capital injection of EUR 600 m to strengthen the equity base contained in the restructuring plan and due by 30 June 2010.

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 24–53), which is part of the Group management report.

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

The consolidated financial statements as at 31 December 2009 are scheduled to be approved by the Supervisory Board on 23 March 2010.

Notes to the Consolidated Financial Statements

The consolidated financial statements are based exclusively on IFRS/IAS and their interpretations that have been approved for application in the financial year 2009 and published by the European Union.

Apart from the IASB framework, the following new IFRS/IAS are relevant for the HGAA:

Standard	Description
IFRS 7	Financial instruments: disclosure
IFRS 8	Operating segments
IAS 1	Presentation of Financial Statements
IAS 1R	Amendments to IAS 1 – capital disclosures
IAS 1R	Amendment to IAS 1 – Presentation of Financial Statements
IAS 23	Borrowing Costs
IAS 32	Financial Instruments: Disclosure and Presentation

The following IFRS/IAS standards were adopted by HGAA for the first time with effect from 1 January 2009: IAS 1 »Presentation of Financial Statements (revised 2007)«, IFRS 8 »Operating Segments« as well as IFRS 7 »Financial Instruments (revised 2009)«. There are no substantial changes resulting from the modified IAS 1 – which provides for an extension to the income statement by way of recording the direct earnings / losses from equity to give a comprehensive income statement – as the information to be presented was already shown in the statement of changes in equity. With regard to the effects of the newly-applied IFRS 8 standard, please refer to the comments given in note (39). The revised IFRS 7, which calls for more detailed information on the fair values of financial instruments in the so-called fair value hierarchy as well as a more detailed presentation and explanation of market risks, has led to the information in notes and the risk report accompanying the consolidated financial statements for HGAA being accordingly expanded.

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

Standard	Description
IAS 11	Construction Contracts
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 31	Interests in Joint Ventures
IAS 41	Agriculture
IFRS 2	Share-based Payments
IFRS 4	Insurance Contracts
IFRS 6	Exploration and evaluation of mineral resources

The following IFRIC and SIC interpretations with relevance for HGAA 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
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
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
SIC 32	Intangible Assets – Website Costs

HGAA is applying SIC 32 "Intangible assets – web site costs", as internet pages created by the Group are being used both for internal and external use. Internal use results from the posting of work instructions, policies and a general exchange of information. Once they have been completed and made available online, the web pages can therefore be classified as intangible assets, with an estimation made of their useful life

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

Standard	Description	compulsory as of
IFRS 3	Business combinations	01.01.2010
IAS 27	Consolidated and separate financial statements	01.01.2010
IAS 39	Financial Instruments: Recognition and measurement – eligible hedged items	01.01.2010
IFRIC 17	Distribution of non-cash assets to owners	01.01.2010
IFRIC 18	Transfer of assets from customers	01.01.2010
IFRS 9	Financial instruments part 1: Classification and measurement	01.01.2013

The revised IFRS 3 "Business Combinations" standard features some significant changes. The standard stipulates that all assets acquired and all debts assumed as part of business combination must be recognised at their fair value on the date of acquiring the assets and debts (including goodwill). In future, information must be published which makes it possible to place a value on the business combination and its financial impact. IFRS 3 enables goodwill to be recognised in full.

The revised IAS 27 "Consolidated and separate financial statements" relates to all transactions with non-controlling interests which must be recorded in equity, in the event no change in control takes place and these transactions do not generate a profit or loss. The standard also specifies the accounting when control of a company is lost and states that the remaining interest must be re-measured to fair value and any gain or loss recognised in profit or loss.

The revised standard relating to hedging relationships gives guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk cannot be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations.

IFRIC 17 was issued in November 2008 and addresses how non-cash dividends to shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss.

HGAA is expecting to have to make some major changes in conjunction with the classification of financial instruments as a result of the new IFRS 9 "Financial instruments: classification and measurement". In future, instead of the four measurement categories used to date under IAS 39 (see note (8)), there will only be two measurement categories under IFRS 9, and classification will depend either on the entity's business model or the characteristics of the instrument. Measurement of these instruments will in the main be at amortised cost if the objective of entity's business model is to hold the assets to collect contractually agreed cash flows or the asset's contractual cash flows represent only payments of principal and interest at certain points in time. If it is not possible to demonstrate these two factors, then the finance instruments are to be measured at fair value through profit or loss. All equity instruments to which IFRS 9 applies must be measured at fair value, with changes in value recognised in profit or loss. Exceptions are only possible for those equity instruments which the company has decided to measure at fair value through other comprehensive income (FVTOCI). If an equity instrument is not to be held for trading, the company may elect irrevocably at initial recognition to recognise at fair value through other comprehensive income (FVTOCI), although only dividends earnings may be recognised in profit or loss. Moreover, it will no longer be compulsory to separate embedded derivatives; they can be recognised as a single instrument at fair value in profit or loss.

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

Important uncertainties concern primarily the establishment of risk provisions on loans and advances, of fair values, measurement of participations and the use of tax losses. Fundamental assumptions on borrowers and the measurement of participations have been modified as a result of the financial and economic crises.

On each balance sheet date, HGAA 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.

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. In HGAA the following methods for measuring fair value are accepted:

1. Comparison with the fair value of another financial instrument that is essentially identical to the instrument in question
2. Analysis of discounted cash flows
3. Option price models

The measurement of participations in non-consolidated entities relates primarily to special purpose entities (SPEs). The intrinsic value of these SPEs is verified annually by way of new expert appraisals.

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 provided for in section 9 of the Austrian Corporate Income Tax Act (Körperschaftsteuergesetz (KStG)).

Compared with the actual – and significantly higher – loss carryforward, however, only the amount whose utilisation in accordance with tax regulations is expected to be possible over ten years – and from 2009 onwards only over five years – was recognised as a deferred tax asset. The assessment of the ability to utilise tax losses carried forward is performed on the basis of the current business plans, which are prepared once a year in autumn. The change of the period in time in which losses can be utilised, from ten to five years, came about as the result of changes in the assumptions regarding planning horizons and economic uncertainties.

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

All entities that are directly or indirectly controlled by Hypo Alpe-Adria-Bank International AG and that are material for the presentation of the financial situation and earnings position of the Group are included in the consolidated financial statements. The full list of included subsidiaries is found in note (117).

These consolidated financial statements comprise 33 Austrian companies (2008: 32) – including Hypo Alpe-Adria-Bank International AG – and 89 (2008: 86) foreign subsidiaries:

	31.12.2009		31.12.2008	
	Fully consolidated	Equity method	Fully consolidated	Equity method
At the end of previous period	**113**	**5**	**114**	**5**
New included in the period under review	12	-	11	-
Merged in the period under review	−3	-	−10	-
Excluded in the period under review	−5	-	−1	−1
Reclassified	-	-	−1	1
At the end of period	**117**	**5**	**113**	**5**
thereof Austrian enterprises	31	2	30	2
thereof foreign enterprises	86	3	83	3

In accordance with the Austrian Banking Act, the fully consolidated entities comprise nine banks, 41 financial services providers, 26 providers of banking-related services, two securities investment firms, one financial holding and 38 other enterprises.

In the 2009 financial year, the following 12 fully consolidated subsidiaries were included for the first time:

Company	Reg. office	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Reason
HYPO FM Holding GmbH	Klagenfurt	100.00 %	100.00 %	fully consolidated	Materiality
HYPO FACILITY SERVICES DOO BEOGRAD	Beograd	100.00 %	100.00 %	fully consolidated	Foundation
QLANDIA MARKETING d.o.o.	Ljubljana	100.00 %	100.00 %	fully consolidated	Foundation
Alpe Adria Privatbank AG in Liquidation	Schaan	49.00 %	49.00 %	fully consolidated	Full control
EPSILON GRADENJE d.o.o.	Zagreb	100.00 %	100.00 %	fully consolidated	Materiality
SPC SZENTEND Ingatianforgalmazó és Ingatlanfejleszto Kft.	Budapest	100.00 %	100.00 %	fully consolidated	Materiality
SPC ERCS Kft.	Budapest	100.00 %	100.00 %	fully consolidated	Materiality
ERCS 2008 Kft.	Budapest	100.00 %	100.00 %	fully consolidated	Materiality
Hypo Cityimmobilien-Klagenfurt GesmbH	Klagenfurt	100.00 %	100.00 %	fully consolidated	Materiality
HYPO NEPREMICNINE d.o.o.	Ljubljana	100.00 %	100.00 %	fully consolidated	Acquisition
HTC DVA d.o.o.	Ljubljana	100.00 %	100.00 %	fully consolidated	Materiality
TCK d.o.o.	Ljubljana	100.00 %	100.00 %	fully consolidated	Materiality

Because of their minor importance, 62 subsidiaries in total are not included in the consolidated financial statements. These are in the main real estate companies and other companies operating outside the core business segments. Outside the scope of consolidation, HGAA does not maintain any special purpose vehicles within the meaning of Structured Investment Vehicles (SIVs 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 –9.6 m. For the purposes of inclusion or non-inclusion, the criterion of the balance sheet total is of no relevance 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 April 2009 the active search for a buyer for the 49 % stake in Alpe Adria Privatbank AG owned by HGAA together with the 51 % majority shareholder was ended and a resolution was passed to cease banking activities in Lichtenstein and subsequently to put the bank into liquidation. The purchase price paid by the majority shareholder was reimbursed and in return HGAA was granted the right to 100 % of proceeds from liquidation, with the share of capital with voting rights left unchanged at 49 %.

A liquidator was appointed to administer proceedings for the company, which is operating under the name »Alpe Adria Privatbank AG in Liquidation«. The company is expected to be wound up in 2010, or at the latest in 2011, and appropriate provisions have already been created to account for any resulting negative effects on measurements. As the company falls under the control of HGAA it has been included in the consolidated financial statements since the second quarter of 2009, although in accordance with IFRS 5 the value of assets and debts will be shown separately in the balance sheet as assets held for sale, as will any liabilities arising in connection with them.

There were no other changes to the scope of consolidation. The changes to the scope of consolidation, as a whole, do not have any effect on the financial situation and earnings position of the Group.

In the financial year 2009, the following eight fully consolidated subsidiaries have been excluded from the scope of consolidation:

Company	Reg. office	Ownership (direct) interest in %	Ownership (indirect) interest in %	Method of consolidation	Reason
Slavonska Banka d.d. Osijek	Osijek	100.00 %	100.00 %	fully consolidated	Merger
S.P.C. 03 d.o.o.	Ljubljana	67.00 %	67.00 %	fully consolidated	Sale
HYPO TC-BB DOO BEOGRAD	Beograd	100.00 %	100.00 %	fully consolidated	Merger
HYPO 111	Wien	98.54 %	98.54 %	fully consolidated	Liquidation
HYPO Alpe-Adria-Consultants Aktiengesellschaft in Liquidation	Schaan	100.00 %	100.00 %	fully consolidated	Liquidation
HYPO KASINA DOO BEOGRAD	Beograd	100.00 %	75.24 %	fully consolidated	Merger
HTC DVA d.o.o.	Ljubljana	100.00 %	100.00 %	fully consolidated	Sale
HYPO CENTER – 3 d.o.o.	Ljubljana	100.00 %	100.00 %	fully consolidated	Sale

The majority own issue »HYPO 111« fund, which had been fully consolidated in accordance with SIC-12, was dissolved in the course of 2009 and the value of the assets transferred in their entirety to Hypo Alpe-Adria-Bank AG (Austria).

HGAA had been represented in Croatia by two subsidiary banks and these were merged in the first quarter of 2009. As of 28 February 2009, Slavonska banka d.d. Osijek was merged with Hypo Alpe-Adria-Bank d.d., with registered office in Zagreb.

In both cases the financial situation and earnings position of the Group are not affected.

(4) Business combinations

In 2009 one company which falls, in principle, within the scope of application of IFRS 3, was acquired and consolidated for the first time. This company is a Slovenian project development company and is a subsidiary of the Slovenian leasing company.

EUR m

	HYPO NEPREMICNINE d.o.o.
Date of acquisition	01.06.2009
Acquired share (dir.)	100 %
Assets	16.5
Fair value adjustment	2.4
Revalued assets	**18.9**
Liabilities	16.6
Fair value adjustment	0.5
Revalued liabilities	**17.1**
Net assets	**1.8**
Acquisition costs	1.8
Remaining goodwill	**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 the same way as in the previous year, namely in accordance with 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 past business combinations which occurred prior to the transition to IFRS: consequently, the consolidation method set out in the Austrian Enterprise Code (UGB) was applied. With this method, the cost of the interest was 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.

There are in total five companies included in the consolidation which have been accounted for using the equity method. HGAA has not used pro rata consolidation.

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. Intergroup transactions, including income, expenses and dividends are also eliminated in full. Any profit or loss resulting from intergroup transactions, if 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

HGAA 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 EUR 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 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 the two leasing subsidiaries in Serbia EUR, and not the local currency (RSD) is the functional currency because the EUR is the predominant currency in the field of their activities. This is because the International Monetary Fund (IMF) initiated measures in the first quarter of 2009 which are aimed at strengthening the local currency. As the measures agreed were directed in the first instance at credit institutions, the EUR continues to be the functional currency for the two leasing companies.

IAS 29 "Financial reporting in hyperinflationary economies" is not relevant to HGAA and has therefore not been applied.

The following rates published by the ECB and Oesterreichische Nationalbank were used for currency translation of the foreign financial statements:

Rates in units per EUR	Closing Date 31.12.2009	Average 1–12/2009	Closing Date 31.12.2008	Average 1–12/2008
Bosnian mark (BAM)	1.95583	1.95583	1.95583	1.95583
Croatian kuna (HRK)	7.30000	7.34530	7.35550	7.22170
Swiss franc (CHF)	1.48360	1.50590	1.48500	1.57860
Serbian dinar (RSD)	95.88880	93.69530	88.60100	81.90920
Hungarian forint (HUF)	270.42000	280.30380	266.70000	251.04830
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	11.50090	10.89700	10.85550	7.90700
Macedonian denar (MKD)	61.17320	61.28320	61.41230	61.28310

(7) Securitisation

The securitisation of debt portfolios is an established instrument used by HGAA to gain access to additional sources of liquidity through placing asset-backed securities (ABS) with investors or as part of a repo transaction in the international or local capital market. Beyond its main use as a method of refinancing the securitisation method can be deployed as an integrative part of overall management of the bank.

According to IAS 39.17, a financial asset may only be derecognised when either the contractual right to payment streams from a financial asset expire or the financial asset is transferred and that proportion of the risks and rewards of ownership which is transferred is derecognised.

All securitisation transactions continue in accordance with the IFRS to be recognised unchanged in the consolidated balance sheet; there is no derecognition.

HGAA acts both as originator as well as investor and co-arranger in the securitisation of its own debt portfolios. HGAA also conducts additional swap partner and credit enhancement activities for individual transactions.

As at 31 December 2009 there were three issues of securitisation transactions, which were concluded in 2002 (first transaction) and 2009 (second and third transactions). In all three transactions, the Italian banking subsidiary Hypo Alpe-Adria-Bank S.p.A. securitised its leasing portfolios, with the SPE Dolomiti Finance S.r.l. handling the securitisation.

The first transaction, which took place in 2002, includes EUR-linked loans in its portfolio (with a volume of EUR 250 m), which are tied to the 1-month-EURIBOR, the 3-month-EURIBOR or the 3-month-LIBOR (Yen). This is a constantly renewing transaction: this means that disposals and purchases can be made every quarter to maintain the level of credit and thus of the securitisation issued.

The second transaction, which was concluded on 30 April 2009 through Dolomiti Finance S.r.l., securitises a leasing portfolio with a volume of EUR 243.5 m. The portfolio mix consists of real estate, car and equipment leasing contracts. Two ABS tranches were created out of this structure, which were given a "AAA" rating by a rating agency and are listed on the Irish stock exchange. The security can be used as collateral in ECB tenders.

The third transaction was successfully concluded on 10 August 2009, also through Dolomiti Finance S.r.l. A leasing portfolio of the Italian banking subsidiary, with a volume of EUR 408.5 m was securitised. The portfolio mix also comprises real estate, car and equipment leasing contracts. For this transaction, new loans meeting the criteria set can periodically be sold off during the four-year "revolving period". Three ABS tranches were created out of this structure, which were also given a "AAA" rating by a rating agency. The ABS was bought by the European Investment Bank (EIB).

(8) Financial instruments: recognition and measurement (IAS 39)
In accordance with 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.

Fair values are determined using the market parameters available and standard models. If, because of lack of market liquidity, there are no market parameters available, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in standard models to measure the value of the instrument. Care is taken to select similar framework conditions such as similar credit-worthiness, a similar term, similar payment structure or a closely-linked market, in order to arrive at the best possible market benchmark. If one cannot be determined, then the parameters must be estimated by experts on the basis of past experiences with an appropriate risk premium applied.

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 (see note (46)).

Financial investments held to maturity
This category may only include financial assets with fixed or determinable payments and fixed maturity which the Group intends and is 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 in profit or loss and are shown in the item interest and similar income as well as interest and similar expenses.

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 under risk provisions on loans and advances (see notes (18) und (60)).

Financial investments available for sale
This category includes all non-derivative financial assets that are not assigned to any of the aforementioned 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.

(9) Classes of financial instruments according to IFRS 7

In the scope of application of IFRS 7 there are – in addition to the financial instruments as defined by IAS 39 – financial instruments which must be recognised according to other specific standards, as well as financial instruments not recognised in the balance sheet. All of these financial instruments must, in accordance with IFRS, be allocated to specific classes, which are defined according to objective criteria and take into account the characteristics of the individual financial instruments. As a result of the way in which the balance sheet is presented, the characteristics of the financial instruments have already been taken account of. For this reason the classes have been defined and directed at those items in the balance sheet which contain financial instruments.

The following table shows the classes defined by and for HGAA:

Types of classes	Essential valuation standard At fair value through profit or loss	At cost	Other	Category as defined in IAS 39
Asset classes				
Cash and balances with central banks			Nominal value	n/a
Loans and advances to credit institutions		x		LAR / LAC
Loans and advances to customers		x		LAR / LAC
of which: receivables from financing leasing		x		n/a
Trading assets	x			HFT
Positive fair value from hedge accounting derivatives	x			Fair Value Hedge
Financial investments – designated at fair value through profit or loss	x			FVO
Financial investments – available for sale			at fair value through equity	AFS
Financial investments – held to maturity		x		HTM
Investments in companies accounted for at equity				
Other financial investments		x		n/a
Assets held for disposal			Net disposal value	n/a
Other assets				
Liabilities classes				
Liabilities to credit institutions	x	x		LAR / LAC
Liabilities to customers	x	x		LAR / LAC / FVO
Liabilities evidenced by certificates	x	x		LAR / LAC / FVO
Trading liabilities	x			HFT
Negative fair value from hedge accounting derivatives	x			Fair Value Hedge
Liabilities in connection with assets held for disposal			Net disposal value	

(10) Fair Value

Fair value is defined as the amount which can be achieved in a sale transaction between two knowledgeable, willing parties in an arm's length transaction.

Quoted prices in active markets (Level I)

The fair value of financial instruments traded in active markets is best established through quoted prices where these represent market values/prices used in regularly occurring transactions. This applies above all to listed equity securities, debt instruments on exchanges and exchange-traded derivatives.

Value determined using observable parameters (Level II)

If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or recognised valuation models using observable prices or parameters must be used to determine fair value. This level includes the majority of the OTC derivative contracts and non-quoted debt instruments.

Value determined using non-observable parameters (Level III)

This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using valuation models appropriate to the individual financial instrument. This model makes use of management assumptions and estimates which are dependent on the pricing transparency and complexity of the financial instrument.

(11) 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.

HGAA 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 the event 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 (8). Positive market values of derivatives which are used for hedging are stated as financial investments – designated at fair value through profit or loss, while negative market values were stated as other liabilities.

(12) Leasing

The decisive factor 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 HGAA 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.

(13) 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.

Investment properties are reported in other financial investments (see note (25)).

(14) 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 the seller, whereas the buyer recognises a receivable.

(15) Fiduciary transactions
In accordance with IFRS, fiduciary transactions entered into by HGAA 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.

(16) Cash and balances with central banks
This item includes cash and balances due on demand with central banks. These amounts are stated at nominal value.

Treasury bills which are permitted by central banks for refinancing purposes are not shown in this position but, depending on their valuation category, shown as financial assets.

(17) 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 on demand. 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 net interest income. 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 (see note (40)).

(18) Risk provisions on loans and advances

Credit risks are accounted for by specific and portfolio-based risk provisions for loans and advances and by provisions for off-balance-sheet commitments.

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.

As 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.

After taking into account the customer segment and volume involved, HGAA assumes the following LIP factors when calculating portfolio-based risk provisions: for credit institutions and states: 0.1; for corporate and retail customers where there is an exposure greater than EUR 12.5 m: 0.33–0.5; for the others: 0.83–1.0; and for customers with a rating of 5A: 1.0.

Losses identified after the realisation of collateral are charged against an existing provision or written-off against income. Recoveries of loans and advances previously written-off are recorded as income. Additions to and releases from risk provisions on loans and advances and provisions for credit commitments and guarantees are recognised in the income statement in risk provisions on loans and advances.

In addition to loans and advances, financial instruments are valued and subjected to a recoverability test by HGAA as well and the following indicators, which are used throughout the Group, give an objective indication – whether individually or as a whole – of when an allowance should be made for a financial instrument:

For loans and advances in the LaR category this is from that point in time at which the customer exhibits considerable financial difficulties, or at any rate if the customer is more than 90 days in arrears with repayment.

The same indicators apply for investments in debt instruments (AFS) as for loans and advances carried at amortised cost. Here, however, there is an additional objective indication of the existence of impairment, namely, if there is a material reduction in fair value below the amortised cost. HGAA defines a significant reduction as being when the market value is more than 10 % below the amortised cost.

(19) 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.

(20) Positive and 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.

(21) 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' (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.

(22) Financial investments – available for sale

HGAA has classified most bonds, other fixed-interest securities, shares and other variable-rate securities – if they are traded in an active market – as financial investments available for sale. 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.

For investments in equity instruments (AFS) which are recognised at fair value, a significant reduction of the fair value below the cost of acquisition is an indicator of the existence of impairment. A significant factor is taken to be a reduction of the fair value by more than 20 % below the historical acquisition cost or a permanent reduction in the market value for more than nine months below the historical costs of acquisition. If these limits are breached the amount of the difference is recognised as an expense.

(23) 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.

HGAA handles additions to this category very restrictively. Therefore, there are only few financial investments held to maturity.

(24) Investments in companies accounted for at equity

Investments in associated companies and in joint ventures accounted for at equity 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 accounted for at equity.

(25) 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 information in the note (13).

(26) 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 HGAA 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 amortised cost.

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 assets	2–4 %	25–50 yrs
for movable assets	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.

(27) 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 utilised.

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.

(28) Assets held for disposal

According to IFRS 5, an asset held for disposal is defined as an asset whose carrying amount can only be realised through a disposal as opposed to ongoing usage. 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. Detailed information can be found on this in notes (73) and (81)

(29) Other assets

The main items in 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 loans and advances 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 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 utilisation possibilities has resulted in 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 assets not leased out as at the reporting date as well as returned assets awaiting the signing of a new contract or pending sale (remarketing). They are measured at amortised cost less non-scheduled depreciation to reflect any identified impairment. The resulting recognition of the value of the assets is shown in the item interest and other income in the profit statement.

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.

(30) 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.

(31) 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 the active market.

(32) Long-term employee provisions

HGAA 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 payments. 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 2009, of 5.25 % (2008: 6.0 %) as well as the consideration of wage and salary increases – unchanged compared to the previous year – of the active employees at a rate of 3.0 % p.a. and an increase in pay to 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 earliest possible legal retirement age. 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).

Where the closure, and not the sale, of an operations unit has been planned, a provision has been created to cover the administration expense, other operating costs and expected costs of closure that are not covered by income.

(33) Provisions for credit commitments and guarantees

Provisions for credit commitments and guarantees are created for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions. Both specific and portfolio-level provisions are created.

Changes to the provisions for credit commitments and guarantees to be recognised in profit or loss are shown in the income statement at risk provisions for loans and advances.

(34) Provisions for restructuring

Provisions are only recorded for restructuring if the general criteria for creating provisions in accordance with IAS 37.72 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 reported as a separate position under other operating result – see note (49).

(35) 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.

Additions to and releases from other provisions are shown at other operating result.

(36) 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.

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

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 by the issuer 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 coupons are essentially compulsory, hybrid capital is classified as debt and not as equity.

(38) 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 the share of profit to which external parties are entitled.

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

(39) Segment reporting

The basis for segment reporting is provided by IFRS 8 "Operating segments", which must be applied from 2009 onwards. The standard used up until now – IAS 14 "Segment reporting" – on the basis of which HGAA had presented its primary and secondary segments, no longer applies.

The new segment reporting is based on the information provided monthly to the Executive Board in its capacity as primary decision maker in accordance with IFRS 8.7 (the so-called management approach). The segment reporting is based on HGAA's business structure itself. Reports are supplied on a total of nine segments, which consist of the key strategic Group country markets, the category "other markets", the category "other business areas" and Hypo Alpe-Adria-Bank International AG (HBInt.), as the holding company.

In addition to the operating results from the relevant business units, the refinancing costs for the carrying amounts of participations and the overhead costs are also allocated on the costs-by-cause principle to each segment.

Refinancing costs of ultimate parent company participations are allocated as a Group recharge to the segments on the basis of the interest rate for long-term debt-capital, inclusive of average borrowing costs, which are calculated on a rolling basis. The cost rate is set at 4.74 % for the financial year 2009; the comparable rate for the previous year stood at 4.77 %. In addition to the rate for debt capital, the country risk and liquidity costs are also allocated to each segment. The average liquidity costs, which were different from segment to segment, lay between 0.61 % and 1.23 % in 2009 (2008: 0.46 % across the board) and the average country risk costs ranged from 0 % to 2.36 % (2008: 0 % and 2.52 %).

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

The business structure of HGAA in line with IFRS 8 is as follows:

Austria, Italy, Slovenia, Croatia, Bosnian and Herzegovina, Serbia

These six countries represent in terms of scope the largest markets in which the Group, through its banking and leasing units, is present.

Other markets

This segment comprises all the non-core countries which, because of their size, are of subordinate importance for the Group. They each have a banking and/or a leasing unit and comprise the following markets: Montenegro, Macedonia, Ukraine, Hungary, Bulgaria and Germany.

Other business areas

Companies involved in non-core business areas are brought together in this segment, which comprises primarily property and tourism companies.

Holding

The Holding business segment contains the Austrian ultimate holding company Hypo Alpe-Adria-Bank International AG and the sub-holding company Hypo Alpe-Adria-Leasing Holding AG, which it directly controls, as well as the investment and underwriting companies in St. Helier (Jersey) and the activities in the Netherlands.

Consolidation

There are no companies allocated to this area. This area, which is for consolidation processes, also contains those contributions to the results which cannot be directly allocated to an individual segment.

Notes to the Income Statement

Financial period 2009

	Austria	Italy	Slovenia
Net interest income	69.9	109.5	97.0
Net fee and commission income	23.9	10.9	8.1
Result from trading	0.3	−2.8	2.3
Result from hedge accounting	4.2	0.2	0.0
Result from fin. investments – designated at fair value through profit or loss	−5.4	0.2	0.0
Result from fin. investments – available for sale	−8.3	0.0	0.5
Result from fin. Investments – held to maturity	0.0	0.0	0.0
Result from other financial investments	−1.3	0.1	0.4
Other operating result	42.3	−1.3	5.9
Operating income	**125.6**	**116.8**	**114.2**
Risk provisions on loans and advances	−341.6	−56.3	−101.0
Operating income after risk provisions	**−216.0**	**60.5**	**13.2**
Personnel expenses	−42.4	−32.7	−23.7
Other administrative expenses	−25.0	−24.3	−13.4
Depreciation and amortisation of tangible and intangible assets	−4.9	−5.3	−4.4
Operating expenses	**−72.3**	**−62.3**	**−41.5**
Operating result	**−288.3**	**−1.8**	**−28.4**
Result from deconsolidation	0.0	0.0	0.2
Result from companies accounted for at equity	0.0	0.0	−0.2
Result before tax	**−288.3**	**−1.8**	**−28.4**
Taxes on income	16.2	1.3	4.3
Result after tax	**−272.1**	**−0.5**	**−24.2**
Minority interests	0.0	0.0	0.0
Result after tax and minority interests	**−272.1**	**−0.5**	**−24.2**
Share of result prior to tax	20.7 %	0.1 %	2.0 %
Share of result prior after tax	17.6 %	0.0 %	1.6 %
Risk-weighted assets	3,362.2	4,093.3	4,192.8
Average allocated own capital	289.7	322.1	327.0
Average total assets	7,522.9	4,859.7	4,890.2
Total assets	7,240.9	4,623.0	4,963.3
Liabilities	5,023.8	3,443.0	4,612.4
Receivables	6,433.0	4,341.3	3,970.8
Risk provisions on loans and advances	−435.2	−87.3	−136.6
Cost/income ratio	57.54 %	53.36 %	36.36 %
Risk/earnings ratio	489.05 %	51.40 %	104.17 %
Average number of employees	619	552	608

Explanations:
AFVTPL: at fair value through profit or loss (fair value option)
AFS: available for sale
HTM: held to maturity

EUR m

Croatia	B&H	Serbia	Other markets	Other business areas	Holding	Consolidation	Total
184.7	80.3	86.2	51.0	−19.5	218.2	−8.1	869.0
47.4	11.5	14.5	0.6	2.5	1.0	0.9	121.2
26.5	2.2	6.8	−2.9	−0.2	1.0	−4.9	28.3
0.0	0.0	0.0	0.0	0.0	33.6	5.1	43.1
0.0	0.0	0.0	0.0	0.0	−26.4	−5.2	−36.7
2.4	0.3	−1.2	0.0	−14.3	−17.3	−1.9	−40.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
−6.1	−2.3	0.1	−1.5	−11.2	13.3	−1.3	−9.8
−6.6	−1.0	−2.6	−96.4	−3.7	−37.4	−41.1	−141.7
248.3	**91.0**	**103.7**	**−49.3**	**−46.4**	**186.1**	**−56.5**	**833.5**
−253.6	−50.7	−41.7	−187.1	−5.0	−635.3	0.0	−1,672.3
−5.4	**40.4**	**62.0**	**−236.4**	**−51.4**	**−449.2**	**−56.5**	**−838.8**
−52.7	−21.6	−19.1	−9.5	−23.2	−37.7	0.0	−262.6
−53.8	−20.3	−22.4	−14.3	−19.9	−64.7	42.2	−215.8
−18.7	−5.1	−5.2	−2.7	−14.9	−1.8	0.0	−63.0
−125.2	**−47.0**	**−46.6**	**−26.5**	**−58.1**	**−104.2**	**42.2**	**−541.5**
−130.6	**−6.6**	**15.3**	**−262.8**	**−109.5**	**−553.3**	**−14.3**	**−1,380.3**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
0.0	0.0	0.0	0.0	−3.7	−10.4	0.0	−14.3
−130.6	**−6.6**	**15.3**	**−262.8**	**−113.1**	**−563.8**	**−14.3**	**−1,394.5**
−6.7	7.8	−1.7	0.2	−3.2	−176.7	2.7	−155.9
−137.3	**1.2**	**13.6**	**−262.6**	**−116.4**	**−740.5**	**−11.7**	**−1,550.4**
0.0	0.0	0.0	0.0	0.0	−30.5	0.0	−30.5
−137.3	**1.2**	**13.6**	**−262.6**	**−116.3**	**−771.0**	**−11.7**	**−1,580.9**
9.4 %	0.5 %	−1.1 %	18.8 %	8.1 %	40.4 %		100.0 %
8.9 %	−0.1 %	−0.9 %	16.9 %	7.5 %	47.8 %		100.0 %
5,026.3	2,022.7	1,585.4	1,674.8	244.4	3,362.2		29,193.8
422.5	169.0	133.0	140.1	25.4	431.3		2,260.0
6,798.2	2,400.1	1,934.2	1,838.2	480.2	11,515.2	−31.6	42,207.4
6,777.8	2,251.7	1,988.8	1,681.4	461.1	11,194.1	−103.4	41,078.7
5,593.8	1,980.4	1,384.2	1,748.4	382.6	5,796.0	−14,758.1	15,206.4
6,026.0	2,113.8	1,388.6	1,699.7	139.6	23,618.7	−15,528.3	34,203.2
−460.1	−141.8	−91.4	−239.1	−5.7	−852.8		−2,450.1
50.43 %	51.61 %	44.98 %	−53.68 %	−125.08 %	55.99 %		64.97 %
137.35 %	63.13 %	48.43 %	367.02 %	−25.54 %	291.13 %		192.44 %
2,028	1,255	1,010	461	857	413		7,803

Notes to the Income Statement

Financial period 2008

	Austria	Italy	Slovenia
Net interest income	78.8	105.1	62.7
Net fee and commission income	25.3	9.2	7.4
Result from trading	4.2	–2.4	3.2
Result from hedge accounting	–6.9	–0.3	0.0
Result from fin. investments – designated at fair value through profit or loss	–13.2	–1.0	0.0
Result from fin. investments – available for sale	–10.3	0.0	–2.8
Result from fin. Investments – held to maturity	0.0	0.0	0.0
Result from other financial investments	–1.2	0.1	3.0
Other operating result	7.6	5.0	11.0
Operating income	**84.2**	**115.8**	**84.5**
Risk provisions on loans and advances	–198.5	–28.8	–14.1
Operating income after risk provisions	**–114.3**	**86.9**	**70.5**
Personnel expenses	–44.3	–30.9	–22.0
Other administrative expenses	–27.6	–23.7	–13.8
Depreciation and amortisation of tangible and intangible assets	–7.5	–5.3	–3.8
Operating expenses	**–79.3**	**–59.9**	**–39.6**
Operating result	**–193.6**	**27.0**	**30.9**
Result from deconsolidation	0.0	0.0	0.0
Result from companies accounted for at equity	0.7	0.0	–0.2
Result before tax	**–193.0**	**27.0**	**30.7**
Taxes on income	13.0	–9.6	–8.1
Result after tax	**–180.0**	**17.4**	**22.6**
Minority interests	0.0	0.0	–1.3
Result after tax and minority interests	**–180.0**	**17.4**	**21.2**
Share of result prior to tax	40.8 %	–5.7 %	–6.5 %
Share of result prior after tax	34.7 %	–3.4 %	–4.4 %
Risk-weighted assets	4,121.5	4,227.6	4,254.4
Average allocated own capital	286.3	287.9	270.0
Average total assets	7,971.2	5,110.4	4,898.5
Liabilities	5,190.6	3,719.9	4,425.3
Receivables	6,658.3	4,618.2	3,870.5
Risk provisions on loans and advances	–247.9	–53.8	–41.0
Cost/income ratio	94.2 %	51.8 %	46.8 %
Risk/earnings ratio	252.1 %	27.4 %	22.4 %
Average number of employees	627	531	560

Explanations:
AFVTPL: at fair value through profit or loss (fair value option)
AFS: available for sale
HTM: held to maturity

EUR m

Croatia	B&H	Serbia	Other markets	Other business areas	Holding	Consolidation	Total
114.9	63.7	69.1	36.1	−16.7	193.9	−5.3	702.2
44.1	12.0	17.1	0.9	0.9	1.8	−1.2	117.6
5.2	0.6	−20.5	0.1	−5.6	22.5	−44.9	−37.7
0.0	0.0	0.0	0.0	0.0	−43.7	6.8	−44.1
0.0	−9.1	0.0	0.0	1.8	1.3	31.9	11.8
4.0	0.4	−2.6	−1.3	−3.6	−98.1	0.3	−114.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
−12.3	2.4	0.0	−5.9	−16.3	−4.1	−2.4	−36.8
8.8	0.8	0.9	−0.4	53.6	−1.3	−39.6	46.4
164.8	**70.8**	**63.9**	**29.5**	**14.1**	**72.2**	**−54.5**	**645.3**
−83.5	−23.4	−22.3	−70.3	−0.7	−91.6	0.0	−533.3
81.2	**47.4**	**41.6**	**−40.8**	**13.5**	**−19.5**	**−54.5**	**112.1**
−63.9	−21.4	−20.3	−10.0	−23.5	−32.3	0.0	−268.7
−64.5	−27.7	−25.5	−13.8	−24.4	−52.9	55.6	−218.3
−17.3	−4.9	−5.4	−1.9	−27.5	−25.9	0.9	−98.6
−145.7	**−54.1**	**−51.3**	**−25.7**	**−75.4**	**−111.1**	**56.5**	**−585.6**
−64.5	**−6.7**	**−9.6**	**−66.5**	**−61.9**	**−130.5**	**2.0**	**−473.5**
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.6	0.0	0.0	1.1
−64.5	**−6.7**	**−9.6**	**−66.5**	**−61.3**	**−130.5**	**2.0**	**−472.4**
−28.6	−7.8	6.7	2.5	0.2	−16.2	2.1	−45.8
−93.1	**−14.5**	**−2.9**	**−64.0**	**−61.1**	**−146.7**	**4.1**	**−518.3**
0.0	0.0	0.0	0.0	0.0	−0.1	0.0	−1.5
−93.1	**−14.5**	**−2.9**	**−64.0**	**−61.1**	**−146.8**	**4.1**	**−519.7**
13.6 %	1.4 %	2.0 %	14.1 %	13.0 %	27.6 %		100.0 %
18.0 %	2.8 %	0.6 %	12.4 %	11.8 %	28.3 %		100.0 %
5,888.9	2,344.4	1,851.7	1,944.4	410.9	7,779.7		32,823.6
369.9	146.0	112.2	108.8	27.5	485.9		2,094.5
6,846.6	2,584.9	1,911.3	2,022.3	663.7	30,821.3	−19,494	43,336.1
5,580.0	2,269.6	1,341.3	1,976.1	389.9	6,315.6	−15,203	16,004.9
5,804.7	2,371.3	1,289.1	1,733.8	124.2	24,395.7	−15,816	35,049.9
−229.5	−111.1	−51.5	−73.3	−0.7	−277.4		−1,086
88.4 %	76.4 %	80.2 %	87.3 %	533.5 %	153.9 %		90.7 %
72.7 %	36.8 %	32.2 %	194.7 %	−4.0 %	47.3 %		75.9 %
1,937	1,230	996	435	847	392		7,555

Notes to the Income Statement

Austria
The net interest income from the Austrian banking and leasing business segment declined in comparison to the previous year from EUR 78.8 m to EUR 69.9 m, which equates to a reduction of 11.3 %. This reduction is mainly due to the withdrawal of deposits by customers in the final quarter of 2009 as well as lower lending figures. Net fee and commission income also reduced as a result of the low level of loans and advances to customers, by 5.5 % from EUR 25.3 m to EUR 23.9 m.

Total operating income rose to EUR 125.6 m and was thus EUR 41.4 m or 49.2 % over the previous year's sum of EUR 84.2 m. The increase in the risk provision for loans and advances from EUR –198.5 m (2008) to EUR –341.6 m reflects the unchangingly high requirement for risk provisions on account of the cross-border financing transacted, which is principally attributable to the project financing portfolio in Germany and to credit financing in the bioenergy and the timber and wood pulp industry sectors.

The annual result for the Group (after taxes) showed a worsening over the result for the 2008 financial year, by EUR –92.1 m or 51.2 % to EUR –272.1 m. The cost/income ratio stood at 57.5 % (2008: 94.2 %).

Italy
The net interest income from the Italian banking and leasing business segment rose slightly by EUR 4.4 m from EUR 105.1 m to EUR 109.5 m.

Due to the general deterioration in economic conditions, which particularly affected medium-sized, privately-owned businesses – the very group on which HGAA focuses – the risk provision requirement for the Northern Italian banking unit rose significantly, and at EUR –56.3 m was nearly 100 % more than the comparable figure for 2008 (EUR –28.8 m).

This had the effect of significantly reducing the operating result for the segment, from EUR 27.0 m in 2008 to EUR –1.8 m in 2009.

Slovenia
The net interest income from the Slovenian banking and leasing subsidiaries came to EUR 97.0 m in the year under review, up by EUR 34.3 m or 54.7 % on the previous year (2008: EUR 62.7 m). This increase is above all due to increases introduced to customer conditions, accompanied by the average size of financing deals increasing in size.

As a result of the increase in 2009 in risk provisions for loans and advances, by EUR –86.9 m to EUR –101.0 m, which was influenced primarily by the significant decline in GDP and the related decline in consumer spending in Slovenia, the Slovenian business segment was not able to contribute positively to the Group's consolidated result (EUR –24.2 m, as compared to EUR 21.2 m in 2008).

Croatia
The Croatian business segment improved its net interest income for 2009 by 60.7 % over the comparable period for the previous year, to EUR 184.7 m. This improvement came about through an improvement in margins and an increase in financing volume compared to 2008. The higher result from trading (from EUR 5.2 m in 2008 to EUR 26.5 m) resulted primarily from improvements in the currency business. As a result of the merger between the two Croatian banks, which was successfully concluded in the first quarter of 2009, positive effects in the area of operating expenses were already in evidence (from EUR –145.7 m down to EUR –125.2 m).

This positive development with regard to interest income and costs was, however, completely cancelled out by the significant rise in risk provisions on loans and advances in 2009 which had to be created in particular for the areas of real estate, tourism and other project financing in the leasing portfolio. The risk provisions on loans and advances for this segment rose, as a result of the very high level of arrears in the financing portfolio, from the previous year's level of EUR –83.5 m by EUR –170.1 m, or more than 200 %, to EUR –253.6 m.

Overall, therefore, the Croatian segment was regrettably unable to make a positive contribution to the Group's consolidated result (EUR –137.3 m, as compared to EUR –93.1 m in 2008).

Bosnia and Herzegovina

As a result in particular of changes to external conditions in the area of interest and the discontinuation of the negative FVO result of EUR –9.1 m (which was still in the 2008 figures), operating income rose by EUR 20.2 m to EUR 91.0 m in 2009. This positive development was, however, impacted on by the rise in risk provisions for loans and advances from EUR –23.4 m (2008) to EUR –50.7 m (2009). Despite the ongoing crisis and the resulting higher requirement for risk provisions, the segment Bosnia and Herzegovina made a positive contribution to the Group result and recorded a result after tax of EUR 1.2 m (2008: EUR –14.5 m).

Serbia

The Serbian leasing and banking subsidiaries of HGAA increased net interest income from EUR 69.1 m (2008) to EUR 86.2 m in the 2009 financial year, which equates to an increase of EUR 17.1 m or 24.7 %. Risk provisions, at EUR –41.7 m, were significantly higher than the previous year's figure of EUR –22.3 m and reflected the negative economic development, which the stabilisation measures to strengthen the local currency introduced by the International Monetary Fund (IMF) in the first quarter of 2009 sought to counter. Operating expenses in 2009 came to EUR –46.6 m and were thus 9.2 % lower than in the previous year (EUR –51.3 m).

Despite the difficult macroeconomic conditions, the Serbian business segment made a positive contribution of EUR 13.6 m (2008: EUR – 2.9 m) to the Group's result in 2009 and was thus the most successful segment in the Group.

Other markets

The markets summarised in this segment recorded an increase in the financing portfolio back in 2008, which explains the clearly improved figures for net interest income and operating result in 2009. While risk provisions for loans and advances stood at EUR –70.3 m in 2008, there was a dramatic increase in 2009 to EUR –187.1 m, which came almost entirely from Bulgaria and Ukraine, countries particularly hard hit by the economic crisis. The leasing companies in those countries suffered in particular from the drastically reduced market values of the collateral offered, resulting in the increase necessary. In both countries there was a very high level of arrears in the portfolios, and there were also cases of malversation in Bulgaria.

Other business areas

As the property and tourism companies include in the "Other business areas" segment are almost entirely funded with debt capital, there was a clearly negative interest result for both the 2008 and 2009 financial years (EUR –19.5 m and EUR –16.7 m respectively). The negative result in 2009 for financial investments – AFS of EUR –14.3 m (2008: EUR –3.6 m) resulted from writedowns of tourism projects, which are in part in the process of being sold.

Overall this segment, from which HGAA will withdraw in the medium term, again recorded a negative result in 2009. This stood at EUR –116.4 m, which was EUR –55.3 m worse than in 2008.

Holding

The appreciable increase in net interest income from EUR 193.9 m (2008) to EUR 218.2 m is due in particular to the participation capital received in the fourth quarter of 2008 as well as from the increase in capital received during the year from the former majority owner. Moreover, no interest was paid for the investment and underwriting companies in St. Helier (Jersey) as a result of the negative result for Hypo Alpe-Adria-Bank International AG.

The risk provisions for loans and advances were, however, significantly higher in 2009 in the Holding segment: they rose, in comparison to 2008, from EUR –91.6 m to EUR –635.3 m. This was due, on the one hand, to increases in arrears in the portfolio occasioned by the economic crisis; and on the other hand to defaults expected on large individual commitments, in particular in the area of cross-border financing which was run out of Austria.

The reduction of EUR –6.9 m in operating costs was positively influenced mainly as a result of the on-going restructuring project and by the absorption of employees from Hypo Alpe-Adria-Leasing Holding AG in the second half of 2009.

As a result in particular of the additions made in the first half-year to credit risk provisions, the segment has recorded a clearly negative result of EUR –771.0 m (2008: EUR – 146.8 m).

(40) Interest and similar income

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Interest income	**1,637.3**	**1,868.3**
from loans and advances to credit institutions	53.5	142.4
from loans and advances to customers	1,226.2	1,480.4
from bonds, treasury bills and other fixed interest securities	104.8	165.8
from financial instruments, net	232.9	0.0
other interest income	19.9	79.8
Current income	**443.5**	**525.7**
from shares and other non-fixed interest securities	2.0	5.6
from leasing business	405.7	483.9
from investment properties	35.8	36.3
Total	**2,080.8**	**2,394.1**

Interest income also includes unwinding revenue of EUR 46.2 m (2008: EUR 20.3 m) as well as fees and commissions with interest characteristics. A significant part of the other interest income is the interest on the minimum reserve. In 2009, this also includes interest income of EUR 2.5 m (2008: EUR 1.0 m) 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 similar income breaks down as follows according to IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1.–31.12.2009	1.1.–31.12.2008
Interest income		**1,637.3**	**1,868.3**
from loans and advances to credit institutions and customers	LAR	1,259.1	1,621.7
from trading assets	HFT	1.5	2.9
from derivative fin. instruments	HFT/Fair Value Hedges	232.9	0.0
from fin. investments – designated at fair value through profit or loss	FVO	37.8	55.8
from fin. investments – available for sale	AFS	90.6	119.2
from fin. investments – held to maturity	HTM	1.6	1.6
from balances at central banks	Fin. Assets At Cost	11.1	46.0
other interest income	–	2.7	21.2
Current income		**443.5**	**525.7**
from shares and other non-fixed interest securities	AFS	2.0	5.5
from shares and other non-fixed interest securities	HFT	0.0	0.1
from leasing business	LAR/–	405.7	483.9
from investment properties	–	35.8	36.3
Total		**2,080.8**	**2,394.1**

Notes to the Income Statement

(41) Interest and similar expenses

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Interest expenses	**–1,186.0**	**–1,671.4**
for liabilities to credit institutions	–175.0	–283.2
for liabilities to customers	–291.1	–353.9
for liabilities evidenced by certificates	–633.1	–882.5
for subordinated capital	–72.5	–80.8
from derivative financial instruments, net	0.0	–68.3
for other liabilities	–14.4	–2.7
Other interest expenses	**–25.8**	**–20.4**
commissions for statutory guarantee	–18.0	–20.4
commissions for state-guaranteed bond issue	–7.8	0.0
Total	**–1,211.8**	**–1,691.9**

Other interest-like expenses include the commissions paid to the State of Carinthia for the statutory guarantee as well as the commissions due to the Republic of Austria for the 2009 issues underwritten by the state.

This commission is calculated on the actual amounts for which the State of Carinthia is the unlimited deficiency guarantor.

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

EUR m

	IAS 39 Measurement category	1.1.–31.12.2009	1.1.–31.12.2008
Interest expenses		**–1,186.0**	**–1,671.4**
for trading liabilities	HFT	0.0	–68.3
for fin. liabilities – designated at fair value through profit or loss	FVO	–59.1	–74.1
for fin. liabilities – at cost	Fin. Liabilities At Cost	–1,113.0	–1,528.4
for fin. liabilities to central banks	Fin. Liabilities At Cost	–9.8	–0.4
other	-	–4.1	–0.2
Other interest expenses		**–25.8**	**–20.4**
commissions for statutory guarantee	-	–18.0	–20.4
commissions for state-guaranteed bond issue	-	–7.8	0.0
Total		**–1,211.8**	**–1,691.9**

(42) Fee and commission income

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Credit business	61.6	52.5
Securities and custodian business	18.5	21.0
Bank transfers incl. payment transactions	37.2	42.0
Other financial service business	30.1	29.6
Total	**147.4**	**145.1**

(43) Fee and commission expenses

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Credit business	–3.6	–2.9
Securities and custodian business	–7.0	–9.3
Bank transfers incl. payment transactions	–9.0	–10.0
Other financial service business	–6.7	–5.4
Total	**–26.2**	**–27.6**

(44) Result from trading

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Interest related transactions	2.5	–48.5
Shares and index related transactions	0.5	2.9
Foreign exchange transactions	25.3	8.0
Total	**28.3**	**–37.7**

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.

(45) Result from hedge accounting

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Valuation result from secured underlying transactions	–163.1	–764.3
Valuation result from hedging derivatives	206.2	720.2
Total	**43.1**	**–44.1**

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.

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

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Result from FVO financial assets and related derivatives	**18.0**	**17.7**
from loans and advances (to customers and credit institutions)	–2.4	28.9
from equity instruments	13.2	–13.5
from debt instruments	7.4	2.3
from treasury bills	–0.3	0.0
Result from FVO long-term financial liabilities and related derivatives	**–54.7**	**–5.9**
from liabilities evidenced by certificates	–30.5	118.2
from subordinated capital	–19.2	0.0
from other liabilities	–5.1	–124.2
Total	**–36.7**	**11.8**

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 segregation of hedging instruments is avoided.

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

Changes in the fair value of financial liabilities which are attributable to a change in the bank's own credit spreads or to the widening of the liquidity spread amounted cumulatively to EUR 74.9 m in the year under review (2008: EUR 84.7 m – prior year figure has been modified), which led to a negative effect of EUR 9.8 m on the income statement (2008: positive effect of EUR 84.7 m – prior year figure has been modified).

The positive changes in fair value of own, third-party liabilities which are recognised in profit or loss came to EUR 7.8 m on a cumulative basis in 2009 (2008: EUR 46.7 m – prior year figure has been modified), which led to a negative effect of EUR 39 m on the income statement (2008: positive effect of EUR 46.5 m – prior year figure has been modified).

(47) Result from financial investments – available for sale

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Income from financial investments available for sale	**28.2**	**18.1**
Capital gains	21.1	16.8
Income from write-up	7.1	1.3
Expenses from financial investments available for sale	**–68.2**	**–132.1**
Losses from disposal	–25.1	–11.5
Expenses from impairment	–43.1	–120.6
Total	**–40.0**	**–114.0**

(48) Result from other financial investments

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Result from investment properties (IP)	**–14.0**	**–22.2**
Other income	2.9	5.6
Other expenses	–16.9	–27.8
Result from operating leasing assets	**–4.3**	**–9.9**
Other income	11.3	18.5
Other expenses	–15.5	–28.4
Remaining result from financial investments	**8.5**	**–4.7**
Total	**–9.8**	**–36.8**

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

EUR –15.9 m (2008: EUR –26.9 m) of other expenses from investment properties in 2009 relate to impairment, of which more than half relates to properties in Croatia.

Other expenses from operating leasing of EUR –6.9 m in 2009 (2008: EUR –17.1 m) result from impairments on operating leasing assets, the majority of which relate to the Croatian leasing unit.

(49) Other operating result

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Other rental income	**4.2**	**10.1**
Net capital gains/losses from	**3.5**	**6.6**
sale of tangible and intangible assets	1.5	2.3
sale of real estate projects (assets)	3.8	3.4
sale of property development companies	0.0	0.9
repossessed assets	–1.8	0.0
Result from allocation/retransfer of other provisions	**4.5**	**4.8**
Other tax expenses (except corporate income tax)	**–6.9**	**–5.4**
Expenses from complete or partial sale of consolidated companies	**0.1**	**0.0**
Impairment of goodwill	**–3.5**	**0.0**
Impairment loss for vacant assets	**–92.0**	**–2.0**
Damages "DAB" case	**0.0**	**–9.0**
Restructuring expenses	**–24.4**	**–8.5**
Result from non-current assets and disposal groups, not qualifying as discontinued operations	**–41.0**	**0.0**
Remaining other result	**13.9**	**49.7**
remaining other income	113.0	148.8
remaining other expenses	–99.1	–99.1
Total	**–141.7**	**46.4**

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

The entries in remaining other result refer to other income and expenses from non-banking activities. The income includes the sales revenue of the packaging manufacturer Aluflexpack d.o.o. of EUR 78.2 m (2008: EUR 93.9 m); expenses include the related cost of manufacture of EUR –61.5 m (2008: EUR –66.3 m). Furthermore, the sales and the direct other expenses of Schlosshotel Velden are also reported in this item.

The item impairment expenses for unrented leasing items results from expenses of EUR –85.9 m (2008: EUR –0.5 m) in relation to leases to go and from returns in the leasing business (remarketing) with a value of EUR –6.1 m (2008: EUR –1.5 m).

Detailed information on restructuring expenses can be found in note (99).

(50) Risk provisions on loans and advances

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

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Allocation to	**–1,855.4**	**–682.8**
risk provisions for loans and advances	–1,780.3	–633.4
provisions for commitments and guarantees	–75.1	–49.4
Releases from	**195.8**	**163.3**
risk provisions for loans and advances	183.2	158.9
provisions for commitments and guarantees	12.6	4.4
Recoveries of loans and advances previously written-off	**7.9**	**3.2**
Direct write-offs of loans and advances	**–20.6**	**–17.0**
Total	**–1,672.3**	**–533.3**

Detailed information on the risk provisions for loans and advances is given in note (60).

(51) Personnel expenses

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Personnel cost from core business	–250.8	–256.2
Personnel cost from non-core business	–11.8	–12.5
Total	**–262.6**	**–268.7**

(52) Other administrative expenses

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Premises expenses	–35.4	–32.9
IT expenses	–27.7	–25.7
Office costs	–7.5	–9.6
Advertising costs	–22.6	–35.6
Communication expenses	–12.9	–11.6
Legal and advisory costs	–61.1	–43.2
Insurance	–4.1	–6.8
Vehicle and fleet cost	–3.7	–4.2
Staff training cost	–4.0	–4.5
Other general administrative expenses	–36.8	–44.2
Total	**–215.8**	**–218.3**

Notes to the Income Statement

(53) Depreciation and amortisation of tangible and intangible assets

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Buildings	–18.8	–39.5
Plant and equipment	–29.6	–46.1
Intangible assets	–14.6	–13.0
Total	**–63.0**	**–98.6**

In financial year 2009, impairment writedowns of EUR –7.5 m (2008: EUR –38.9 m) 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.

(54) Result from companies accounted for at equity

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Share of profits	0.0	1.4
Share of losses	–14.3	–0.3
Total	**–14.3**	**1.1**

(55) Taxes on income

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
Current tax	–43.8	–65.8
Deferred tax	–112.2	19.9
Total	**–155.9**	**–45.8**

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

EUR m

	31.12.2009	31.12.2008
Profit before tax	**–1,394.6**	**–472.4**
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 %	**348.7**	**118.1**
Tax effects arising from		
divergent foreign tax rates	–10.1	–2.9
previous years	–2.6	4.1
foreign income and other tax-exempt income	3.6	2.1
equity participations and other tax-exempt income	17.1	19.3
non-tax deductible expenses	–31.4	–62.9
the non-recognition of deferred taxes on losses carried forward	–305.1	–128.6
the impairment writedown of deferred taxes on losses carried forward	–138.8	–19.0
other tax effects	–37.3	24.1
Effective tax burden	**–155.9**	**–45.8**
Effective tax rate	**–11.2 %**	**–9.7 %**

(56) Minority interests

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

EUR m

	1.1.–31.12.2009	1.1.–31.12.2008
HBInt. Credit Management Limited	**15.6**	**–13.0**
share in interest income	7.3	19.1
share in measurement gains / losses	8.3	–32.0
Norica Investments Limited	**14.9**	**10.6**
share in interest income	14.4	10.6
share in measurement gains / losses	0.5	0.0
Hypo Alpe-Adria-Leasing Holding AG	**0.0**	**2.5**
Minority interests of other co-owners	**0.0**	**1.4**
Total	**30.5**	**1.5**

At HBInt. Credit Management Limited, the total 2009 result stemming from the measurement of asset-backed securities (ABS) and other investments amounted to EUR 17.2 m (2008: EUR –65.4 m). In the consolidated financial statements, EUR 8.3 m (2008: EUR –32.0 m) thereof is assigned to the 49 % minority shareholder as a loss covered by the equity contribution.

Notes to the Income Statement

The minority interest in Norica Investments Limited stemmed from the formation of the company at the end of June 2008 with a co-investor taking a 49 % stake. The amount shown for this minority interest includes a standard special dividend and the share of the result.

As a result of the notice given to exercise the call option on preferential shares issued by the Group company Hypo Alpe-Adria-Leasing Holding AG in December 2009, the preference shares were reclassified as borrowings (liabilities evidenced by certificates) in the consolidated financial statements as at 31 December 2008. The reclassification and resulting capital reduction of EUR 200 m took place in the second quarter of 2009. The sum of EUR 2.5 m shown for the 2008 financial year results from additional dividends paid out in April 2008 to the preference shareholders.

Notes to the Balance Sheet

(57) Cash and balances with central banks

EUR m

	31.12.2009	31.12.2008
Cash on hand	134.1	113.8
Balances with central banks (due on demand)	885.8	885.4
Total	**1,019.9**	**999.2**

Balances with central banks only include those balances that are due on demand. Balances that are not due on demand 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 minimum reserve held that was due on demand amounted to EUR 425.1 m (2008: EUR 494.1 m).

(58) Loans and advances to credit institutions

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

EUR m

	31.12.2009	31.12.2008
Minimum reserve (not daily due)	532.3	502.2
Giro and clearing business	738.8	341.4
Money market placements	2,310.1	3,013.7
Loans	417.0	595.1
Finance lease receivables	0.5	0.6
Other receivables	87.9	30.2
Total	**4,086.6**	**4,483.3**

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

EUR m

	31.12.2009	31.12.2008
Austria	1,952.8	607.5
Central and Eastern Europe (CEE)	745.5	873.4
Other countries	1,388.3	3,002.4
Total	**4,086.6**	**4,483.3**

(59) Loans and advances to customers

(59.1) Loans and advances to customers – by product

EUR m

	31.12.2009	31.12.2008
Current account credits	1,288.3	1,831.7
Bank loans	11,691.2	11,765.0
Mortgage loans	5,041.3	4,434.0
Municipal loans	2,406.5	2,803.1
Finance lease receivables	7,085.9	7,344.6
Other receivables	2,603.5	2,388.3
Total	**30,116.6**	**30,566.7**

Hire purchase contracts (EUR 494.7 m) which in 2008 were shown in the item other loans and advances have been reassigned in 2009 in their entirety to the item receivables from financing leasing.

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

EUR m

	31.12.2009	31.12.2008
Public sector	5,213.2	5,033.9
Corporate clients	18,224.9	18,813.5
Retail clients	6,678.5	6,719.2
Total	**30,116.6**	**30,566.7**

(59.3) Loans and advances to customers – by regions

EUR m

	31.12.2009	31.12.2008
Austria	4,865.8	5,256.7
Central and Eastern Europe (CEE)	18,504.8	18,230.0
Other countries	6,746.0	7,080.0
Total	**30,116.6**	**30,566.7**

(60) Risk provisions on loans and advances

(60.1) Risk provisions on loans and advances – movement during the year

EUR m

	On 01.01.2009	Exchange differences	Allocation	Release	Use	On 31.12.2009
Specific risk provisions	**–964.6**	**–6.3**	**–1,603.2**	**172.3**	**196.1**	**–2,205.7**
Loans and advances to credit institutions	–8.2	0.1	–16.3	0.9	0.0	–23.6
Loans and advances to customers	–951.0	–6.4	–1,586.1	169.0	194.2	–2,180.3
to public sector	–2.5	0.0	–2.1	2.2	0.0	–2.4
to corporate clients	–859.7	–5.5	–1,484.9	144.5	187.5	–2,018.0
to retail clients	–88.8	–1.0	–99.1	22.3	6.7	–159.9
Other financial assets	–5.3	0.0	–0.7	2.4	1.9	–1.7
Portfolio-based risk provisions	**–121.6**	**1.2**	**–181.1**	**57.1**	**0.0**	**–244.4**
Subtotal	**–1,086.2**	**–5.1**	**–1,784.3**	**229.4**	**196.1**	**–2,450.1**
Provisions for credit commitments and guarantees	**–57.3**	**–0.1**	**–75.1**	**12.6**	**0.0**	**–119.9**
Individual provisions	–49.7	–0.1	–47.5	10.9	0.0	–86.5
Portfolio provisions	–7.6	0.0	–27.6	1.7	0.0	–33.5
Total	**–1,143.6**	**–5.1**	**–1,859.4**	**242.0**	**196.1**	**–2,570.0**

The releases from allowances include the unwinding effect in the sum of EUR 46.2 m (2008: EUR 20.3 m).

(60.2) Risk provisions on loans and advances – by regions

EUR m

	31.12.2009	31.12.2008
Austria	–339.8	–201.1
Central and Eastern Europe (CEE)	–1,747.5	–706.3
Other countries	–362.8	–178.9
Total	**–2,450.1**	**–1,086.2**

(61) Trading assets

EUR m

	31.12.2009	31.12.2008
Bonds and other fixed interest securities	17.7	38.8
Shares and other non-fixed interest securities	34.5	61.3
Positive market value of derivative financial instruments (trading)	20.7	79.0
Total	**72.9**	**179.2**

(62) Positive fair value from hedge accounting

EUR m

	31.12.2009	31.12.2008
Positive market values of fair value hedge instruments	933.3	581.7
Total	**933.3**	**581.7**

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

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

EUR m

	31.12.2009	31.12.2008
Loans and advances to customers and credit institutions	597.4	577.2
Bonds and other fixed interest securities	277.6	352.1
Shares and other non-fixed interest securities	44.7	51.8
Positive market value of derivative financial instruments at fair value option (FVO)	119.9	139.4
Total	**1,039.6**	**1,120.5**

(64) Financial investments – available for sale

EUR m

	31.12.2009	31.12.2008
Bonds and other fixed interest securities	2,570.1	2,379.5
Shares and other non-fixed interest securities	73.3	86.0
Participations without intention for sale (< 20 %)	8.6	11.3
Other participations (associated companies 20 % – 50 %)	34.6	43.2
Shares in affiliated, non-consolidated companies (> 50 %)	27.6	45.5
Total	**2,714.2**	**2,565.5**

(65) Financial investments – held to maturity

EUR m

	31.12.2009	31.12.2008
Bonds and other fixed interest securities	42.1	41.9
Total	**42.1**	**41.9**

(66) Investments in companies measured at equity

EUR m

	31.12.2009	31.12.2008
Shares in other associated companies	1.7	5.4
Total	**1.7**	**5.4**

The list of companies accounted for at equity is shown in note (117).

(67) Other financial investments

EUR m

	31.12.2009	31.12.2008
Investment properties	725.8	718.5
Assets used for operating leases (moveable assets)	362.8	471.3
Total	**1,088.5**	**1,189.8**

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

The downpayments for assets under construction (investment properties) shown in the previous year in the item other assets have been reclassified in full to the item property held as financial investments (investment properties).

(68) Development of financial assets and other financial investments

	Costs of acquisition 01.01.2009	Foreign exchange – differences	Additions
Financial investments – held to maturity	**41.9**	**0.0**	**3.1**
Bonds, treasury bills and other fixed interest securities	41.9	0.0	3.1
Financial investments – available for sale	**108.2**	**–0.5**	**3.8**
Shares in affiliated, non-consolidated companies (>50 %)	49.5	–0.1	0.4
Other participations in associated companies (20 % – 50 %)	47.3	–0.3	2.7
Participations without intention for sale (under 20 %)	11.4	0.0	0.7
Companies accounted for at equity	**5.5**	**0.0**	**10.4**
Investment properties	**789.6**	**0.8**	**204.4**
Operate lease assets (moveables)	**589.5**	**–0.7**	**75.5**
Total	**1,534.8**	**–0.3**	**297.2**

The downpayments for assets under construction (investment properties) shown in the previous year in the item other assets have been reclassified in full in the item property held as financial investments (investment properties).

(69) Intangible assets

EUR m

	31.12.2009	31.12.2008
Goodwill	0.0	3.5
Software	32.8	33.8
Other intangible assets	22.9	27.7
Prepayments for intangible assets	7.9	1.7
Total	**63.6**	**66.7**

The reported goodwill (2008: EUR 3.5 m) which still refers to the takeover of the RBB Bank Aktiengesellschaft Wolfsberg business by Hypo Alpe-Adria-Bank AG, Klagenfurt in 2001, was written off in its entirety in 2009, as the impairment test using the calculation of the branch's result indicated an impairment.

(70) Tangible assets

EUR m

	31.12.2009	31.12.2008
Land and buildings	397.9	468.4
Plant and equipment	86.9	114.8
Total	**484.8**	**583.2**

The reduction is primarily attributable to the fact that, as a result of the planned disposal of Schlosshotel Velden, there has been a reclassification to assets held for disposal, in accordance with IFRS 5.

EUR m

Disposals	Other changes	Costs of acquisition 31.12.2009	Cumulative depreciation 31.12.2009	Carrying amount 31.12.2009	Carrying amount 31.12.2008
–2.9	**0.0**	**42.1**	**0.0**	**42.1**	**41.9**
–2.9	0.0	42.1	0.0	42.1	41.9
–0.6	**–16.3**	**94.6**	**–23.8**	**70.8**	**100.0**
–0.3	–13.2	36.3	–8.7	27.6	45.5
0.0	–3.2	46.5	–11.9	34.6	43.2
–0.3	0.0	11.8	–3.2	8.6	11.3
–0.2	**–3.1**	**12.5**	**–10.9**	**1.7**	**5.4**
–175.1	**3.9**	**823.7**	**–97.9**	**725.8**	**716.5**
–131.9	**–2.7**	**529.7**	**–166.9**	**362.8**	**471.3**
–310.7	**–18.3**	**1,502.6**	**–299.5**	**1,203.1**	**1,335.1**

Notes to the Balance Sheet

(71) Development of fixed assets

(71.1) Development of acquisition costs and carrying amounts

	Costs of acquisition 01.01.2009	Exchange differences	Additions
Intangible assets	**114.8**	**–0.5**	**21.8**
Goodwill	7.5	0.0	0.0
Software	65.3	–0.6	11.3
Other intangible assets	40.3	0.1	2.2
Prepayments for intangible assets	1.7	0.0	8.3
Tangible assets	**810.2**	**–1.2**	**42.7**
Land and buildings	**551.1**	**0.4**	**26.2**
Land	57.0	0.1	2.1
Buildings	453.4	0.6	0.5
Assets under construction	40.7	–0.3	23.6
Plant and equipment	**259.2**	**–1.5**	**16.4**
Total	**925.1**	**–1.7**	**64.5**

(71.2) Development of fixed assets depreciation

	Cumulative depreciation 01.01.2009	Exchange differences	Disposals
Intangible assets	**–48.1**	**–0.1**	**7.3**
Goodwill	–4.0	0.0	7.0
Software	–31.5	0.0	0.2
Other intangible assets	–12.6	–0.1	0.1
Prepayments for intangible assets	0.0	0.0	0.0
Tangible assets	**–227.1**	**0.4**	**13.8**
Land and buildings	**–82.7**	**–0.2**	**1.3**
Land	–0.3	0.0	0.0
Buildings	–82.2	–0.2	2.1
Assets under construction	–0.2	0.0	–0.8
Plant and equipment	**–144.3**	**0.6**	**12.4**
Total	**–275.2**	**0.3**	**21.1**

The category other changes largely contains reclassifications in accordance with IFRS 5.

EUR m

Disposals	Other changes	Costs of acquisition 31.12.2009	Cumulative depreciation 31.12.2009	Carrying amount 31.12.2009	Carrying amount 31.12.2008
–8.8	**–3.4**	**124.0**	**–60.3**	**63.6**	**66.7**
–7.0	0.0	0.5	–0.5	0.0	3.5
–0.6	0.8	76.2	–43.4	32.8	33.8
–1.2	–2.8	38.6	–15.7	22.9	27.7
0.0	–1.3	8.6	–0.7	7.9	1.7
–49.3	**–96.9**	**705.5**	**–221.1**	**484.4**	**583.2**
–33.1	**–79.4**	**465.2**	**–67.6**	**397.6**	**468.4**
–0.5	–15.5	43.3	–0.6	42.8	56.7
–13.0	–35.8	405.6	–66.0	339.6	371.1
–19.6	–28.1	16.3	–1.1	15.2	40.5
–16.2	**–17.6**	**240.3**	**–153.5**	**86.8**	**114.8**
–58.1	**–100.3**	**829.5**	**–281.4**	**548.0**	**649.9**

EUR m

Depreciation charge for the year	Impairment	Other changes	Write-ups	Cumulative depreciation 31.12.2009
–14.6	**–4.2**	**–0.6**	**0.0**	**–60.3**
0.0	–3.5	0.0	0.0	–0.5
–12.0	0.0	–0.1	0.0	–43.4
–2.6	0.0	–0.5	0.0	–15.7
0.0	–0.7	0.0	0.0	–0.7
–41.0	**–7.4**	**39.9**	**0.2**	**–221.1**
–12.4	**–6.4**	**32.7**	**0.0**	**–67.6**
0.0	–0.9	0.6	0.0	–0.6
–12.4	–2.1	28.8	0.0	–66.0
0.0	–3.4	3.3	0.0	–1.1
–28.6	**–1.0**	**7.2**	**0.2**	**–153.5**
–55.6	**–11.6**	**39.3**	**0.3**	**–281.4**

(72) Tax assets

EUR m

	31.12.2009	31.12.2008
Current tax assets	49.4	32.2
Deferred tax assets	586.0	527.7
Total	**635.4**	**559.9**

Of the indicated carrying amount for deferred tax assets, EUR 47.6 m (25 % of EUR 190.3 m) refers to tax losses carried forward by Hypo Alpe-Adria-Bank International AG including its Austrian group taxation members (2008: EUR 180 m; 25 % of EUR 720 m). Compared with the actual loss carried forward of some EUR 2.1 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 five 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. The time frame used in planning for this assessment was reduced in the year under review from 5 to 10 years to 5 years. In this respect, reference is made to note (2). Legally valid tax assessment notices for Hypo Alpe-Adria-Bank International AG have been issued for the years up to and including 2003. The assessment for corporation tax due in 2004 and 2005 pursuant to section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature, the returns for 2006 and 2007 have not yet been assessed.

(73) Assets held for disposal

EUR m

	31.12.2009	31.12.2008
Cash and balances with central banks	11.4	0.0
Loans and advances to credit institutions	18.1	0.0
Loans and advances to customers	23.0	0.0
Risk provisions on loans and advances	–5.4	0.0
Trading assets	0.3	0.0
Financial investments – available for sale	9.7	0.0
Investments in companies accounted for at equity	1.3	10.2
Intangible assets	0.6	0.0
Tangible assets	46.7	0.0
Other assets	32.6	0.0
Total	**138.3**	**10.2**

The position assets held for disposal, which must be shown separately in accordance with IFRS 5, contains the assets of Alpe Adria Privatbank AG in Liquidation (see note (3)), a large leased fixed asset in Germany, as well as the participations in the Austrian tourism companies, an Austrian specialist leasing company and a Serbian financial services company.

The active search for a purchaser for the participations in the Austrian tourism companies was formally started in the final quarter of 2009. As a result of this fact and the need to meet the requirements of IFRS, the assets were moved to Assets held for disposal. Further details are given in note (118).

(74) Other assets

EUR m

	31.12.2009	31.12.2008
Prepaid expenses	**210.1**	**83.5**
Other assets	**842.2**	**1,312.4**
shares in property development companies, short-term	0.0	0.0
assets under construction (project development), short-term	83.0	100.1
finished property projects held as current assets	54.2	62.1
leases to go (lease assets not yet leased out)	416.1	653.4
remaining receivables and other assets, not specific to banking	91.5	65.1
other assets	151.1	358.4
value-added taxes and other tax assets	46.2	73.4
Positive market values of hedging instruments of economic hedges (banking book)	**38,9**	**73.1**
Total	**1,091.2**	**1,469.1**

(75) Liabilities to credit institutions

(75.1) Liabilities to credit institutions – by product

EUR m

	31.12.2009	31.12.2008
To central banks	**885.3**	**32.3**
To credit institutions	**6,671.2**	**7,255.7**
due on demand	244.0	73.9
time deposits	2,763.6	4,026.0
loans from banks	2,218.4	2,257.6
money market liabilities	889.9	189.1
other liabilities	555.4	709.1
Total	**7,556.6**	**7,288.0**

(75.2) Liabilities to credit institutions – by regions

EUR m

	31.12.2009	31.12.2008
Austria	1,174.0	1,267.2
Central and Eastern Europe (CEE)	1,590.3	1,612.9
Other countries	4,792.3	4,407.9
Total	**7,556.6**	**7,288.0**

(76) Liabilities to customers

(76.1) Liabilities to customers – by customer type

EUR m

	31.12.2009	31.12.2008
Saving deposits	**1,456.8**	**1,645.2**
Sight and time deposits	**6,193.0**	**7,071.7**
from public sector	542.1	939.3
from corporate clients	3,240.7	3,690.2
from retail clients	2,410.2	2,442.3
Total	**7,649.8**	**8,716.9**

(76.2) Liabilities to customers – by regions

EUR m

	31.12.2009	31.12.2008
Austria	1,395.4	2,190.3
Central and Eastern Europe (CEE)	3,715.4	3,901.9
Other countries	2,539.1	2,624.7
Total	**7,649.8**	**8,716.9**

Liabilities to customers include liabilities designated at fair value through profit or loss of EUR 423.5 m (2008: EUR 43.1 m) – see note (102).

(77) Liabilities evidenced by certificates

EUR m

	31.12.2009	31.12.2008
Issued bonds	**18,464.1**	**18,638.4**
mortgage-linked bonds and municipal bonds	1,325.3	1,367.1
bonds	17,138.8	17,123.0
other certificates of deposit and money market papers	0.0	148.3
Liabilities issued via "Pfandbriefstelle"	**2,183.0**	**2,564.8**
Other liabilities evidenced by certificates	**114.0**	**212.2**
Total	**20,761.0**	**21,415.3**

Liabilities to customers evidenced by certificates include liabilities designated at fair value through profit or loss of EUR 928.4 m (2008: EUR 1,450.9 m – see note (102).

(78) Trading liabilities

EUR m

	31.12.2009	31.12.2008
Negative market value of derivative financial instruments (trading)	4.8	27.9
Total	**4.8**	**27.9**

(79) Negative fair value from hedge accounting derivatives

EUR m

	31.12.2009	31.12.2008
Negative market values of fair value hedge instruments	126.7	107.4
Total	**126.7**	**107.4**

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

(80) Provisions

(80.1) Provisions – detail

EUR m

	31.12.2009	31.12.2008
Pensions	9.6	9.5
Severance payments	17.6	15.6
Provisions for anniversary payments	1.7	1.5
Provisions for credit commitments and guarantees	119.9	57.3
Restructuring provisions (IAS 37.72)	25.2	7.5
Other provisions	41.8	16.2
Total	**215.9**	**107.6**

HGAA has created restructuring provisions as a result of the restructuring plan for the Group, which will be have been implemented by 2014.

Provisions for legal costs and miscellaneous other provisions are included in item other provisions. The increase over the prior year is connected to the conditions set out in the participation capital agreements.

(80.2) 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 m

		31.12.2009	31.12.2008
Provisions at end of previous period		**25.1**	**24.9**
+	current service costs	1.4	1.2
+	interest cost	1.2	1.1
+/–	actuarial gains/losses	0.3	–0.5
–	payments in reporting year	–1.8	–1.6
+	past service cost	0.0	0.1
+/–	other changes	1.2	0.0
Provisions as at the end of period		**27.4**	**25.1**

(80.3) Provisions – development of other provisions

Other provisions during the year under review developed as follows:

EUR m

	On 01.01.2009	Exchange differences	Additions	Utilisation	Releases	Other changes	Carrying amount 31.12.2009
Provisions for anniversary payments	1.5	0.0	0.3	–0.1	0.1	0.0	1.7
Restructuring provisions (IAS 37.72)	7.5	0.0	23.4	–1.2	–4.4	0.0	25.2
Remaining provisions	16.2	0.0	35.3	–4.0	–4.5	–1.1	41.8
Total	**25.2**	**0.0**	**59.0**	**–5.3**	**–9.1**	**–1.1**	**68.7**

The development of provisions for credit commitments and guarantees is shown in the table showing movements in risk provisions for loans and advances – see note (60).

(81) Liabilities in conjunction with assets held for disposal

EUR m

	31.12.2009	31.12.2008
Liabilities to customers	33.3	0.0
Liabilities evidenced by certificates	0.9	0.0
Tax liabilities	0.4	0.0
Other liabilities	10.2	0.0
Total	**44.9**	**0.0**

(82) Other liabilities

EUR m

	31.12.2009	31.12.2008
Deferred income	**462.5**	**498.0**
Accruals and other obligations	**242.8**	**329.3**
Negative market values of hedging instruments	**273.3**	**345.1**
of economic hedges (banking book)	90.6	122.6
of derivatives which were designated at fair value option (FVO)	182.7	222.5
Total	**978.6**	**1,172.4**

(83) Subordinated capital

EUR m

	31.12.2009	31.12.2008
Subordinated liabilities	948.0	949.3
Supplementary capital	128.9	523.8
Hybrid capital	130.2	117.3
Total	**1,207.1**	**1,590.4**

Subordinated liabilities and supplementary capital include liabilities designated at fair value through profit or loss of EUR 133.2 m (2008: EUR 138.6 m) (see also note (102)).

(84) Equity

EUR m

	31.12.2009	31.12.2008
Shareholders' equity	**1,465.6**	**2,020.7**
issued capital	1,023.2	962.5
additional paid-in capital	1,742.8	881.1
available for sale-reserves	–59.0	–161.5
foreign currency translation	–16.7	–0.6
retained earnings (incl. net consolidated income)	–1,224.7	339.3
Minority interests	**524.5**	**509.1**
Total	**1,990.1**	**2,529.8**

The item foreign currency translation also includes, from 1 January 2009, the effects of foreign currency translation from the capital consolidation of the banking subsidiary in Serbia. This is because the International Monetary Fund (IMF) initiated measures in the first quarter of 2009 which are aimed at strengthening the local currency which has led to the RSD gaining in importance for the Serbian banking subsidiary. As a result of continuingly mixed indicators for the functional currency of this Group company, the Executive Board exercised its right to choose under IAS 21.12 and elected to adopt the RSD as the functional currency for this unit in place of the EUR.

As the measures agreed are only directed in the first instance at credit institutions, the EUR continues to be the functional currency for the two leasing companies.

The subscribed capital as at 31 December 2009 of EUR 1,023.2 m (2008: EUR 962.5 m) represents the equity capital of Hypo Alpe-Adria-Bank International AG. It is divided into 7,809,276 (2008: 7,809,276) 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 (106)).

In accordance with the agreements reached in conjunction with the Republic of Austria becoming sole shareholder in the Group, it has committed to provide core capital of at least EUR 450 m by 30 June 2010. Furthermore, a former shareholder has committed to provide EUR 150 m of capital to HGAA by the end of June.

With the acquisition of the shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria on 30 December 2009, a guarantee agreement of limited duration was concluded with the latter. On the basis of this agreement, Hypo Alpe-Adria-Bank International AG and its Austrian subsidiary bank Hypo Alpe-Adria Bank AG are entitled to avail themselves of guarantees from the Republic of Austria for certain loans and advances. The guarantee can only be exercised for loans and advances which may be included in the basis for assessment in accordance with section 22 (2) of the BWG and which are classified by the banks in accordance with the Financial Service Authority's (FMA) Ordinance on the Audit Report Schedules BGBI No. 310/2008 as amended in section IV(10) (c) and is limited to a maximum sum of EUR 100 m. If this guarantee is exercised, in accordance with the terms of the agreement a guarantee commission of 10 % p.a. of the loans and advances guaranteed must be paid. The guarantee is for a limited time period and expires at the latest on 31 March 2011.

Supplementary Information

(85) Breakdown of remaining contractual maturities

Breakdown of remaining contractual maturities as at 31 December 2009

	Due on demand or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	363.3	2,618.3
Loans and advances to customers	2,338.2	2,144.7
Trading assets	56.8	1.5
Positive fair value from hedge accounting derivatives	0.0	2.3
Financial investments – designated at fair value through profit or loss	46.8	1.7
Financial investments – available for sale	907.2	184.8
Financial investments – held to maturity	0.0	1.2
Other assets	339.2	192.5
Liabilities to credit institutions	834.4	988.2
Liabilities to customers	1,866.9	1,608.0
Liabilities evidenced by certificates	19.7	178.5
Trading liabilities	1.4	3.2
Negative fair value from hedge accounting derivatives	0.0	0.0
Other liabilities	67.5	148.3
Subordinated capital	0.0	0.0

Breakdown of remaining contractual maturities as at 31 December 2008

	Due on demand or unlimited lifetime	up to 3 months
Loans and advances to credit institutions	465.1	2,691.8
Loans and advances to customers	1,969.8	1,596.5
Trading assets	135.7	31.0
Positive fair value from hedge accounting derivatives	0.0	2.5
Financial investments – designated at fair value through profit or loss	51.8	19.2
Financial investments – available for sale	589.7	153.9
Financial investments – held to maturity	0.0	1.2
Other assets	354.2	235.4
Liabilities to credit institutions	499.2	622.3
Liabilities to customers	2,324.7	1,943.6
Liabilities evidenced by certificates	16.0	716.2
Trading liabilities	10.7	13.3
Negative fair value from hedge accounting derivatives	0.0	0.0
Other liabilities	76.1	163.5
Subordinated capital	0.0	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. The breakdown of remaining contractual maturities is made according to the discounted cash flow.

EUR m

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	**Total**
349.5	620.6	134.8	**4,086.6**
4,427.7	10,300.6	10,905.4	**30,116.6**
3.2	6.5	4.9	**72.9**
7.0	−559.7	1,483.7	**933.3**
0.6	128.2	862.3	**1,039.6**
268.4	999.3	354.4	**2,714.2**
5.8	4.0	31.2	**42.1**
105.0	450.8	3.7	**1,091.2**
900.6	3,216.2	1,617.2	**7,556.6**
1,251.2	1,140.6	1,783.1	**7,649.8**
999.8	9,793.4	9,769.5	**20,761.0**
0.2	0.0	0.0	**4.8**
0.0	84.5	42.1	**126.7**
135.6	−69.3	696.4	**978.6**
0.0	533.0	674.1	**1,207.1**

EUR m

over 3 months up to 1 year	over 1 year up to 5 years	over 5 years	**Total**
341.9	873.9	110.7	**4,483.3**
3,811.7	10,849.6	12,339.1	**30,566.7**
5.4	3.1	3.9	**179.2**
0.1	190.0	389.0	**581.7**
19.0	95.3	935.2	**1,120.5**
222.5	1,077.4	522.0	**2,565.5**
0.0	5.8	35.0	**41.9**
281.4	560.9	37.2	**1,469.1**
781.0	3,151.2	2,234.3	**7,288.0**
1,507.1	1,202.9	1,738.6	**8,716.9**
1,342.4	8,164.0	11,176.8	**21,415.3**
3.9	0.0	0.0	**27.9**
0.3	79.0	28.0	**107.4**
173.8	153.0	606.0	**1,172.4**
20.1	153.5	1,416.9	**1,590.4**

(86) Deferred taxes

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

(86.1) Deferred tax assets – tax amount

EUR m

	31.12.2009	31.12.2008
Loans and advances to credit institutions	27.5	6.9
Loans and advances to customers	11.6	10.2
Risk provisions on loans and advances	98.4	15.6
Trading assets	0.0	7.9
Financial investments	23.8	27.7
Intangible assets	0.5	0.3
Tangible assets	0.3	0.4
Other assets	117.8	110.1
Tax losses carried forward	55.1	196.7
Liabilities to credit institutions	0.5	0.5
Liabilities to customers	0.6	0.6
Liabilities evidenced by certificates	129.7	0.0
Trading liabilities	0.0	0.1
Provisions	2.6	1.3
Other liabilities	110.7	149.3
Subordinated capital	6.7	0.0
Total	**586.0**	**527.7**

Of the reported deferred taxes, EUR 55.1 m (2008: EUR 196.7 m) result from the capitalisation of tax claims due to utilisable losses carried forward. Deferred tax assets of EUR 483.9 m (2008: EUR 240.3 m) from tax losses carried forward and valuation differences (in each case tax amount) were not capitalised as there is no possibility of utilisation 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 equity. In financial year 2009, the change of equity including deferred taxes not affecting net income amounts to EUR 2.0 m (2008: EUR 0.3 m). The deferred tax resulting from the initial consolidation of the subsidiaries listed in note (3) was also considered in the consolidated financial statements without affecting net income.

(86.2) Deferred tax liabilities – tax amount

EUR m

	31.12.2009	31.12.2008
Loans and advances to credit institutions	0.0	0.0
Loans and advances to customers	28.3	11.2
Risk provisions on loans and advances	10.2	14.1
Trading assets	1.0	2.3
Financial investments	285.0	52.9
Intangible assets	1.1	2.5
Tangible assets	2.3	1.6
Other assets	128.4	76.0
Liabilities to credit institutions	43.8	14.0
Liabilities to customers	0.3	2.3
Liabilities evidenced by certificates	0.0	112.6
Trading liabilities	0.0	0.0
Provisions	1.5	1.4
Other liabilities	7.7	40.3
Subordinated capital	4.3	12.8
Total	**513.7**	**344.0**

(87) Finance leases

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

EUR m

	31.12.2009	31.12.2008
Gross investment value	**8,871.3**	**8,774.6**
Minimum lease payments	8,870.8	8,765.1
up to 1 year	1,620.5	1,556.4
from 1 year up to 5 years	3,944.0	3,992.6
over 5 years	3,306.3	3,216.1
Unguaranteed Residual Value	0.5	9.5
Unrealised financial income	**1,756.1**	**1,924.1**
up to 1 year	302.2	368.9
from 1 year up to 5 years	780.5	875.2
over 5 years	673.5	680.0
Net investment value	**7,115.2**	**6,850.6**

The cumulated risk provision for uncollectible outstanding minimum leasing payments for 2009 is EUR –104.6 m (2008: EUR –40.5 m).

Supplementary Information

EUR m

	31.12.2009	31.12.2008
Minimum lease payments	8,870.8	8,765.1
Unguaranteed Residual Value	0.5	9.5
Gross investment value	8,871.3	8,774.6
Unrealized financial income	1,756.1	1,924.1
Net investment value	7,115.2	6,850.6
Net present value of non-guaranteed residual values		
Net present value of min. lease payments	**7,115.2**	**6,850.6**

The net investments from finance leases also include the cash value of the residual value that is not guaranteed.

Assets let under finance leases broke down as follows:

EUR m

	31.12.2009	31.12.2008
Real estate leases	4,058.0	3,772.3
Vehicle leases	1,377.8	1,659.6
Boat leases	356.8	214.1
Other movables	1,322.7	1,204.6
Total	**7,115.2**	**6,850.6**

(88) 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 m

	31.12.2009	31.12.2008
up to 1 year	135.8	125.3
from 1 year to 5 years	321.5	333.1
more than 5 years	175.4	334.1
Total	**632.7**	**792.5**

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

EUR m

	31.12.2009	31.12.2008
Real estate leases	376.7	440.4
Vehicle leases	199.4	285.2
Boat leases	56.7	66.9
Total	**632.7**	**792.5**

(89) Borrowing costs

HGAA capitalises borrowing costs for qualified assets according to IAS 23. Essentially, qualified assets comprise buildings under construction, properties held as investment properties or properties used by third parties 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:

		31.12.2009	31.12.2008
Borrowing costs capitalised during the period	EUR m	3.8	6.0
Financing cost rates	in %	3.3	4.4

(90) Development costs

HGAA capitalises development costs for software written in-house, as defined in IAS 38 – Intangible assets

		31.12.2009	31.12.2008
Development costs capitalised in the period	EUR m	1.1	5.5

(91) Assets/liabilities in foreign currencies

The following amounts are included in foreign currencies in the total assets:

EUR m

	31.12.2009	31.12.2008
Assets	14,016.9	19,620.7
Liabilities	11,782.8	11,319.6

(92) Fiduciary transactions

The sum of fiduciary transactions – which are not shown in the balance sheet – as at the balance sheet date was as follows:

EUR m

	31.12.2009	31.12.2008
Loans and advances to customers	130.6	169.3
Fiduciary assets	**130.6**	**169.3**
Liabilities to credit institutions	130.6	169.3
Fiduciary liabilities	**130.6**	**169.3**

(93) Repurchase agreements

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

EUR m

	31.12.2009	31.12.2008
Liabilities to credit institutions	546.5	270.9
Liabilities to customers	80.0	13.1
Repurchase agreements	**626.5**	**284.0**

EUR m

	31.12.2009	31.12.2008
Loans and advances to credit institutions	29.8	51.6
Loans and advances to customers	7.2	6.1
Reserve repurchase agreements	**37.0**	**57.6**

(94) Assets given as collateral

Assets with a value of EUR 1,767.7 m (2008: EUR 1,161.8 m) were transferred to third parties as collateral for own debts. These assets continue to be shown in the balance sheet of HGAA.

EUR m

	31.12.2009	31.12.2008
Liabilities to credit institutions	835.5	513.4
Liabilities to customers	1.6	0.0
Securities	930.6	648.4
Total	**1,767.7**	**1,161.8**

(95) Subordinated assets

The following assets are shown in the balance sheet as subordinated assets:

EUR m

	31.12.2009	31.12.2008
Liabilities to customers	25.6	22.7
Financial investments – designated at fair value through profit or loss	0.0	4.9
Financial investments – available for sale	36.2	39.4
Total	**61.8**	**67.0**

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

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

EUR m

	31.12.2009	31.12.2008
Contingent liabilities	**887.6**	**1,154.1**
credit guarantees	561.7	709.0
letters of credit	43.2	65.7
other guarantees	253.5	298.4
other contingent liabilities	29.2	81.0
Other liabilities	**1,765.8**	**2,506.5**
irrevocable credit commitments	1,552.7	2,298.0
other liabilities	213.1	208.5
Total	**2,653.4**	**3,660.6**

Other obligations include obligations from the acquisition and/or construction of investment properties and tangible assets totalling EUR 210.4 m (2008: EUR 205.9 m).

(97) Liability for commitments issued through the "Pfandbriefstelle"

As members of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG are, in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other members for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association for the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003 or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at EUR 9.7 bn as of the reporting date 31 December 2009. This equates to almost the entire sum of the Pfandbriefstelle's liabilities as at 31 December 2009. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to the institutions already referred to, in the amount of EUR 2.3 bn, the resulting amount which must be reported in accordance with section 237 (8a) of the Austrian Enterprise Code comes to EUR 7.4 bn.

Supplementary Information

(98) Breakdown of securities admitted to stock exchange trading

EUR m

	31.12.2009	31.12.2008
Trading assets		
Bonds and other fixed interest securities	**17.7**	**38.8**
thereof listed	17.7	38.8
thereof unlisted	0.0	0.0
Shares and other non-fixed interest securities	**34.5**	**61.3**
thereof listed	22.9	49.4
thereof unlisted	11.6	11.9
Financial investments – designated at fair value through profit or loss		
Bonds and other fixed interest securities	**277.6**	**352.1**
thereof listed	271.3	294.4
thereof unlisted	6.3	57.8
Shares and other non-fixed interest securities	**44.7**	**51.8**
thereof listed	2.9	13.5
thereof unlisted	41.8	38.4
Financial investments – available for sale		
Bonds and other fixed interest securities	**2,570.1**	**2,379.5**
thereof listed	1,757.7	1,937.4
thereof unlisted	812.4	442.1
Shares and other non-fixed interest securities	**73.3**	**86.0**
thereof listed	55.3	46.7
thereof unlisted	18.0	39.3
Financial investments – held to maturity		
Bonds and other fixed interest securities	**42.1**	**41.9**
thereof listed	42.1	41.9
thereof unlisted	0.0	0.0

(99) Restructuring expenses

The restructuring costs comprise the following elements:

EUR m

	31.12.2009	31.12.2008
Restructuring provisions	–23.4	–7.5
Other restructuring costs	–1.0	–0.9
Total	**–24.4**	**–8.5**

Restructuring provisions were created in the 2009 financial year for severance payments (EUR –19.5 m), removal costs following closure of a location (EUR –2.4 m) and for other restructuring expenses (EUR –1.5 m).

Restructuring expenses have been incurred in the sum of EUR 18.5 m in Austria, EUR 2.4 m in Croatia, EUR 2.2 m in Bosnia and Herzegovina and EUR 1.4 m in Serbia in 2009.

(100) Audit expenses

The following fees were incurred by the auditing company Deloitte in the period under review:

EUR m

	31.12.2009	31.12.2008
Audit fees for the annual financial statements	**–1.8**	**–2.7**
expenses for current year	–1.6	–2.0
expenses relating to previous year	–0.2	–0.7
Expenses for other services	**–1.1**	**–0.9**
other assurance services	–0.8	–0.5
tax consultancy	–1.1	–0.2
other services	–0.1	–0.2
Total	**–2.9**	**–3.6**

The auditing expenses incurred in the 2009 financial year include the net audit fee (excluding value-added tax) as well as expenses incurred in connection with the audit. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Deloitte Audit Wirtschaftsprüfungs GmbH (Wien), services rendered directly by other companies within the Deloitte group to Hypo Alpe-Adria-Bank International AG or to its subsidiaries have been included in the total sum.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the annual financial statements of the subsidiaries by Deloitte, as well as the costs of the consolidation itself.

The other auditing/certification services mainly comprise the annual costs in conjunction with the Hypo Alpe-Adria-Bank International AG‘s Debt Issuance Program, as well as the costs incurred for the audit check of the interim report of HGAA at the level of Hypo Alpe-Adria-Bank International AG and of the Group companies involved.

It should be noted that the local auditing company used by subsidiaries for their annual financial statements belongs to the PriceWaterhouseCoopers network in about half of all cases.

Supplementary Information

(101) Balance sheet in accordance with IAS 39 – measurement categories

Balance sheet according to IAS 39 – measurement categories

EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	financial assets / liabilities at (amortised) costs	31.12.2009
Cash and balances with central banks							1,019.9	**1,019.9**
Loans and advances to credit institutions	3,554.3						532.3	**4,086.6**
Loans and advances to customers	30,116.6							**30,116.6**
Risk provisions on loans and advances	–2,450.1							**–2,450.1**
Trading assets		72.9						**72.9**
Positive fair value from hedge accounting derivatives						933.3		**933.3**
Financial investments – afvtpl			1,039.6					**1,039.6**
Financial investments – afs				2,714.2				**2,714.2**
Financial investments – htm					42.1			**42.2**
Investments in companies accounted for at equity							1.7	**1.7**
Other assets/banking book derivatives		1,088.5						**1,088.5**
Other financial assets							265.3	**265.3**
Total financial assets	**31,220.8**	**1,161.4**	**1,039.6**	**2,714.2**	**42.1**	**933.3**	**1,819.2**	**38,930.6**
Liabilities to credit institutions	7,556.6							**7,556.6**
Liabilities to customers	7,226.4		423.5					**7,649.8**
Liabilities evidenced by certificates	19,832.7		928.4					**20,761.0**
Trading liabilities		4.8						**4.8**
Negative fair value from hedge accounting derivatives						126.7		**126.7**
Subordinated capital	1,073.8		133.2					**1,207.1**
Other liabilities/banking book derivatives		90.6						**90.6**
Other liabilities/FVO derivatives			182.7					**182.7**
Other financial liabilities							705.3	**705.3**
Total financial liabilities	**35,689.4**	**95.4**	**1,667.8**	**0.0**	**0.0**	**126.7**	**705.3**	**38,284.6**

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

Balance sheet according to IAS 39 – measurement categories

EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	Fair Value Hedge	financial assets / liabilities at (amortised) costs	31.12.2008
Cash and balances with central banks							999.2	**999.2**
Loans and advances to credit institutions	3,981.1						502.2	**4,483.3**
Loans and advances to customers	30,566.7							**30,566.7**
Risk provisions on loans and advances	−1,086.2							**−1,086.2**
Trading assets		179.2						**179.2**
Positive fair value from hedge accounting derivatives						581.7		**581.7**
Financial investments – afvtpl			1,120.5					**1,120.5**
Financial investments – afs				2,565.5				**2,565.5**
Financial investments – htm					41.9			**41.9**
Investments in companies accounted for at equity							5.4	**5.4**
Other assets/banking book derivatives		1,135.0						**1,135.0**
Other financial assets							140.0	**140.0**
Total financial assets	**33,461.5**	**1,314.1**	**1,120.5**	**2,565.5**	**41.9**	**581.7**	**1,646.8**	**40,732.1**
Liabilities to credit institutions	7,288.0							**7,288.0**
Liabilities to customers	8,673.8		43.1					**8,716.9**
Liabilities evidenced by certificates	19,964.5		1,450.9					**21,415.3**
Trading liabilities		27.9						**27.9**
Negative fair value from hedge accounting derivatives						107.4		**107.4**
Subordinated capital	1,451.8		138.6					**1,590.4**
Other liabilities/banking book derivatives		122.6						**122.6**
Other liabilities/FVO derivatives			222.5					**222.5**
Other financial liabilities							827.3	**827.3**
Total financial liabilities	**37,378.1**	**150.5**	**1,855.0**	**0.0**	**0.0**	**107.4**	**827.3**	**40,318.4**

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

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

HGAA uses the fair value option primarily to avoid accounting mismatches for securities and loans which are hedged with interest rate and credit derivatives.

This applies equally for bonds issued with long-term fixed interest rates. Based on the management strategy, the interest sums are switched from fixed to variable-rate using interest rate swaps. Over and above this, the fair value option is used for financial instruments with embedded derivatives.

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

EUR m

	31.12.2009	31.12.2008
FVO – loans and advances to customers and credit institutions	597.4	577.2
FVO – bonds and other fixed interest securities	277.6	352.1
FVO – shares and non-fixed interest securities	44.7	51.8
Total assets	**919.7**	**981.2**
FVO – liabilities to customers	423.5	431.9
FVO – liabilities evidenced by certificates	928.4	1,062.0
FVO – subordinated capital	133.2	138.6
Total liabilities	**1,485.1**	**1,632.6**

The valuation result from the application of the fair value option comes to EUR –36.7 m (2008: EUR +11.8 m) in total (see note (46)).

As of 31 December 2009, the maximum potential default risk for loans and advances designated at fair value affecting income statement is EUR 597.3 m (2008: EUR 577.2 m). The change in the fair value that is attributable to changes in the credit risk is EUR 3.3 m in financial year 2009 (2008: EUR –6.5 m); since the designation the cumulated change amounts to EUR –3.6 m (2008: EUR –6.7 m). 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.

The fair value of a financial liability takes into account the credit risk of this financial liability.

The table below shows the change in fair value of financial liabilities valued at fair value attributable to credit risk.

EUR m

	31.12.2009	31.12.2008
Cumulative change in fair value	82.6	131.5
Fair value change 2009/2008	–48.8	131.5

The fair value of the issued liabilities takes into account the credit risk of the Group. The fair value of these financial liabilities is determined with the help of a valuation method, which takes account of the credit risk through discounting the contractually determined payment flows of the liability using a risk-adjusted interest rate curve which shows the interest rate level at which the Group could issue similar instruments as at the balance sheet date.

The negative effects of the liabilities designated at fair value on the income statement in the year under review result from the improvement in the calculation of the credit spreads for HGAA, which can be attributed to the new ownership structure.

For all financial liabilities designated at fair value, the contractual repayment sum due to be paid by the Group on maturity was EUR 187.3 m higher than the amount shown in the balance sheet as at 31 December 2009 (2008 EUR: 252.7 m: previous year's figure has been modified).

The contractual repayment sum due to be paid by the Group on maturity equates to the sum that the Group must repay at the earliest possible due date set down in the contracts. If the amount due to be repaid has not been determined, the amount to be repaid as set down in the contract will be determined with reference to the provisions applying at the balance sheet date.

(103) Fair value of financial instruments

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.

Where available, quotations or prices on other representative markets (Reuters, Bloomberg, etc.) for the corresponding financial instruments have been 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 non-fixed 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 value was not estimated separately.

Within the scope of hedge accounting, HGAA 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, HGAA established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data

Supplementary Information

(103.1) Fair value of financial instruments carried at fair value
The table below shows the allocation of financial instruments carried at fair value according to their level in the fair value hierarchy (see note (10)).

EUR m

	Level I – from active market	Level II – based on market assumptions	Level III – not based on market assumptions	Total
Assets				
Trading assets	41.3	9.0	22.7	72.9
Positive fair value from hedge accounting derivatives	0.0	933.3	0.0	933.3
Financial investments – designated at fair value through profit or loss	7.4	1,032.2	0.0	1,039.6
Financial investments – available for sale	2,355.0	323.1	36.0	2,714.2
Positive market value from derivatives (banking book)	30.0	9.0	0.0	38.9
Total	**2,433.7**	**2,306.5**	**58.7**	**4,798.9**
Liabilities				
Liabilities to customers	0.0	423.5	0.0	423.5
Liabilities evidenced by certificates	69.5	858.8	0.0	928.4
Trading liabilities	0.0	4.8	0.0	4.8
Negative fair value from hedge accounting derivatives	0.0	126.7	0.0	126.7
Negative fair value from financial instruments derivatives	1.7	275.5	1.0	278.2
Subordinated capital	0.0	133.2	0.0	133.2
Total	**71.3**	**1,822.6**	**1.0**	**1,894.8**

The reconciliation of the category Level III financial instrument is shown here. The column “Total gains/losses” contains both income and expenses for financial instruments which were held as at 31 December 2009, as well as for financial instruments which were held as at 31 December 2009, as well as for financial instruments which are no longer on the books as at 31 December 2009. There is income of EUR 2.3 m from the outgoing financial instruments as at 31 December 2009.

The bonds designated at fair value are still held as at 31 December 2009, however, there is no carrying amount for them.

EUR m

	On 1.1.2009	Total gains/ losses	Purchases	Sales	Other	On 31.12.2009
Assets						
Trading assets						
shares and other non-fixed interest securities	12.8	0.0	26.7	−28.5	0.0	11.0
positive market value of derivative financial instruments	15.1	−2.8	0.0	0.0	−0.6	11.6
Financial investments – afvtpl						
bonds and other fixed interest securities	5.4	−5.4	0.0	0.0	0.0	0.0
Financial investments – afs						
bonds and other fixed interest securities	17.4	−0.6	2.9	−8.5	0.0	11.3
shares and other non-fixed interest securities	7.0	−0.1	0.0	−2.1	−0.2	4.5
other participations	22.7	−2.9	1.3	−0.4	−0.5	20.2
Total	**80.4**	**−11.9**	**31.0**	**−39.5**	**−1.3**	**58.7**

(103.2) Fair value of financial instruments not measured at fair value in the balance sheet

In the following table the fair values are shown for the carrying amounts of financial instruments not shown at fair value in the balance sheet:

EUR m

	31.12.2009			31.12.2008		
	Fair value	Carrying amount	Difference	Fair Value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	4,062.7	4,062.7	−0.0	4,474.8	4,474.8	0.0
Loans and advances to customers	27,718.3	27,692.7	25.6	29,539.5	29,494.2	45.4
Financial investments – held to maturity	41.7	42.1	−0.4	42.0	41.9	0.0
Other financial investments (investment properties)	1,044.9	976.5	68.4	1,199.5	1,135.0	64.6
Total	**32,867.7**	**32,774.0**	**93.7**	**35,255.8**	**35,145.8**	**110.0**
Liabilities						
Liabilities to credit institutions	7,562.7	7,556.6	6.1	7,295.1	7,288.0	7.1
Liabilities to customers	7,248.0	7,226.4	21.6	8,731.0	8,716.9	14.1
Liabilities evidenced by certificates	19,875.5	19,832.7	42.9	21,514.4	21,415.3	99.0
Subordinated capital	1,107.6	1,073.8	33.7	1,600.1	1,590.4	9.7
Total	**35,793.8**	**35,689.4**	**104.3**	**39,140.6**	**39,010.6**	**129.9**

Explanations:
AFVTPL: at fair value through profit or loss (Fair Value Option)
AFS: available for sale
HTM: held to maturity

Supplementary Information

(104) Derivative financial instruments

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

EUR m

	31.12.2009			31.12.2008		
	Nominal amounts	Fair values Positive	Negative	Fair values	Fair values Positive	Negative
a) Interest-related business						
OTC products:	**18,166.2**	**999.0**	**207.5**	**17,524.5**	**673.6**	**238.9**
interest rate swaps	18,017.6	998.3	206.1	17,466.7	673.6	236.3
forward rate agreements	100.0	0.2	0.2	0.0	0.0	0.0
interest options	0.0	0.0	0.0	0.0	0.0	0.0
caps, floors	3.4	0.0	0.0	3.8	0.1	0.0
other interest derivatives	45.1	0.4	1.1	54.0	0.0	2.6
b) Currency-related business						
exchange traded products:	**3.2**	**1.4**	**0.0**	**23.1**	**8.3**	**0.0**
foreign exchange future	3.2	1.4	0.0	23.1	8.3	0.0
OTC products:	**5,479.7**	**110.4**	**192.5**	**5,204.2**	**166.1**	**230.8**
currency swaps	2,007.2	67.4	187.0	1,710.3	77.2	200.8
cross currency swaps	2,894.9	29.8	1.6	2,304.0	46.2	10.3
forward exchange contracts – purchase contracts	223.9	2.4	0.9	533.5	8.4	8.1
forward exchange contracts – sales contracts	157.2	0.6	2.8	423.4	26.7	11.1
currency swaptions	196.6	10.3	0.2	233.0	7.5	0.4
c) Transactions linked to share prices & other indices						
exchange traded products:	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
share-/indices linked options	0.0	0.0	0.0	0.0	0.0	0.0
d) Credit linked derivatives						
OTC products:	**30.0**	**0.0**	**4.0**	**35.0**	**0.0**	**4.4**
credit default swaps	30.0	0.0	4.0	35.0	0.0	4.4
total return swaps	0.0	0.0	0.0	0.0	0.0	0.0

Positive market values are contained in trading assets in the amount of EUR 20.7 m (2008: EUR 79 m); financial assets – designated at fair value through profit or loss in the amount of EUR 119.9 m (2008: EUR 138.6 m); as well as in other assets in the amount of EUR 38.9 m (2008: EUR 72.9 m) and positive market values from hedging accounting in the amount of EUR 933.3 m (2008: EUR 581.7 m).

Negative market values are contained in trading liabilities in the amount of EUR 4.8 m (2008: EUR 27.3 m); other liabilities in the amount EUR 273.3 m (2008: EUR 345.2 m); and negative market values from hedge accounting in the amount of EUR 126.6 m (2008: EUR 107.3 m).

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 (8) and (11).

(105) Related party disclosures

The business relations with related parties as at 31 December 2009 are disclosed for the balance sheet as follows:

EUR m

Balance as of 31.12.2009	Sole owner	Affiliated companies	Associated companies	Joint ventures	Key management personnel
Assets					
loans and advances to customers	153.4	93.4	331.3	85.1	2.5
risk provisions	0.0	−30.7	−112.9	−4.0	0.0
other assets	54.1	73.3	38.0	0.0	0.0
Total	**207.5**	**136.0**	**256.3**	**81.1**	**2.5**
Liabilities					
liabilities to customers	0.0	3.5	10.1	0.0	4.4
provisions	10.0	0.0	0.0	0.0	0.0
other financial liabilities	7.1	0.0	0.0	0.0	0.0
subordinated capital	0.0	0.3	0.0	0.0	0.0
Total	**17.1**	**3.9**	**10.1**	**0.0**	**4.4**

On 30 December 2009 (the closing day), the Republic of Austria acquired all shares in Hypo Alpe-Adria-Bank International AG; as a result, the Bayerische Landesbank (BayernLB) no longer has a controlling interest in HGAA. For this reason, there are no business relationships shown with companies in the BayernLB group in 2009.

Within the framework of the takeover by the Republic of Austria in December 2009, capital measures were agreed upon, as part of which BayernLB waived claims on Hypo Alpe-Adria-Bank International AG and also waived rights on subscribed subordinate capital. There continues to be an intact business relationship between BayernLB and HGAA.

As the shares held by Hypo-Bank Burgenland AG (or rather, its ultimate holding company, Grazer Wechselseitige Versicherung AG), Kärntner Landes- und Hypothekenbank-Holding and Hypo Alpe Adria Mitarbeiter Privatstiftung were also transferred to the Republic of Austria on the 30 December 2009, the business relationships with these entities no longer meet the definition as set out in IAS 24 and therefore no information is supplied.

Affiliated companies are those direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG, which are not included in the consolidation 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.

Allocations to the risk provisions on loans and advances with impact on the income statement relating to loans to affiliated but not consolidated subsidiaries amount to EUR –26.2 m (2008: EUR –5.9 m). In the 2009 financial year, the expenses associated with the provision on loans and advances to affiliated companies amount to EUR –73.0 m (2008: EUR –23.3 m) and to joint ventures amount to EUR –1.0 m (2008: EUR 0 m).

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

The relationships with members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (114).

EUR m

Balance as of 31.12.2008	Parent owners	Companies with a substantial interest	Affiliated companies	Associated companies	Joint ventures	Key management personnel
Assets						
loans and advances to credit institutions	1,527.1	16.3	0.0	1.2	0.0	0.0
loans and advances to customers	0.0	0.0	164.3	330.5	55.4	3.5
risk provisions	0.0	0.0	–32.3	–51.2	–3.0	0.0
other receivables and assets	0.0	16.9	1.2	0.0	0.0	0.0
Total	**1,527.1**	**33.1**	**133.2**	**280.5**	**52.4**	**3.5**
Liabilities						
liabilities to credit institutions	3,134.0	16.3	0.0	60.4	0.0	0.0
liabilities to customers	0.0	16.7	5.2	3.3	0.0	4.3
other financial liabilities	0.0	18.9	0.0	0.0	0.0	0.0
subordinated capital	314.4	0.0	0.4	0.0	0.0	0.0
Total	**3,449.0**	**51.9**	**5.6**	**63.7**	**0.0**	**4.3**

(106) Participation capital

On 29 December 2008, the Republic of Austria subscribed to EUR 900 m (18,000 participation shares each at EUR 50,000) of Tier 1 eligible participation capital in Hypo Alpe-Adria-Bank International AG, which is set up in such a way that there is no obligation to pay dividends in arrears in accordance with section 23 (3) (8) of the Austrian Banking Act (BWG).

In accordance with the subscription agreement, and applying section 102 of the BWG, the Republic of Austria is entitled to convert all participation certificates held into ordinary shares at a conversion price to be agreed in accordance with the conditions attached to the investment 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 % and 9.0 % p.a. in the 6th and 7th year, and to 9.75 % and 10.75 % p.a. for the 8th and 9th year respectively. This dividend payment is capped at a rate equivalent to the 12-month EURIBOR rate plus 10.0 % p.a. In the event of apportionment of the issued participation capital up until and including the tenth year following subscription to the participation capital, the repayment value is measured at 110.0 % of nominal value (thereafter 150.0 %) provided that this increase of

50 % is also covered by a corresponding increase in the company value of HGAA. Repayment is ruled out if the repayment amount sinks below 110 % of the nominal amount.

On 30 December 2009 the Republic of Austria acquired all shares in Hypo Alpe-Adria-Bank International AG from the previous shareholders Bayerische Landesbank (BayernLB), BVG Beteiligungs- und Verwaltungsgesellschaft mbH (a member of the GRAWE Group), Kärntner Landes- und Hypothekenbank-Holding and Hypo Alpe Adria Mitarbeiter Privatstiftung. The shares in Hypo Alpe-Adria-Bank International AG have therefore been solely owned by the Republic of Austria since 30 December 2009.

In the course of the change in ownership of Hypo Alpe-Adria-Bank International AG, Hypo Alpe-Adria-Bank International AG bought back and redeemed supplementary capital with a nominal value of EUR 50.0 m which had been subscribed to by a previous investor, who subscribed in place of this to Tier 1 eligible participation capital totalling EUR 30,772,982 (615 participation shares with face value of EUR 50,000 each and one participation share with face value of EUR 22,982) (”conversion”).

On 30 December 2009 two further former shareholders subscribed to Tier 1 eligible, non-convertible participation capital in Hypo Alpe-Adria-Bank International AG with no obligation to pay dividends in arrears, one paying EUR 30.0 m in total (600 participation shares each at EUR 50,000), the other agreeing to pay a total of EUR 150 m (3,000 participation shares each at EUR 50,000) by 30 June 2010 at the latest.

According to the provisions for subscribing to the participation capital, the holders of participation capital will be entitled to a dividend of 6.0 % p.a. for the first time in the 2013 financial year, provided that the net income for the year has covered changes in reserves and payment of dividends on the EUR 900.0 m of participation capital subscribed to by the Republic of Austria and that the relevant resolution has been passed by the Boards.

The participation capital is shown in 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 and not as Interest expense. The separate financial statements of Hypo Alpe-Adria-Bank International AG prepared in accordance with the UGB/BWG will be taken as the basis for assessment and the existence of sufficient net income after changes in reserves.

(107) Breaches of financial covenants

There were no breaches of financial covenants, which could have led to a reclassification in line with IFRS 7.18 of the liability involved on the grounds of maturity, in 2009.

(108) Statutory guarantee

The guarantee of the State 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 (ABGB).

The European Commission considered that the original guarantee of the State, 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 State 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 State of Carinthia provides a statutory guarantee to the extent that the term of the commitment does not extend beyond 30 September 2017. The State does not offer any guarantee for liabilities entered into after 1 April 2007.

The State of Carinthia guarantees certain commitments entered into by Hypo Alpe-Adria-Bank International AG and the Hypo Alpe-Adria Bank AG (Austria) prior to 1 April 2007. For the commitments covered by the guarantee, the State of Carinthia is paid a guarantee commission of 1 per mille p.a. of the outstanding amount. In the years 2004 and 2005, the State of Carinthia was paid guarantee commission advances for the periods 2004 to 2007 and 2005 to 2010 respectively, namely EUR 50.9 m in total, the relevant amounts having been estimated on discounted basis applying the then applicable interest curves. As at 31 December 2009, the amount of the capitalised advance payments was EUR 10.7 m (2008: EUR 13.9 m) and is shown in the balance sheet in the item Other assets.

The remaining payment from the annual settlement for guarantor's liability, which is liable for payment on 31 January of the year following at the latest, amounts to EUR 14.3 m (2008: EUR 17.0 m).

On the balance sheet date, the total volume for which the State of Carinthia acted as guarantor was as follows:

EUR m

	2009	2008
Hypo Alpe-Adria-Bank International AG	17,804.4	19,400.1
Hypo Alpe-Adria-Bank AG	1,568.1	2,091.8
Total	**19,372.5**	**21,491.9**

The guarantee commissions paid to the State of Carinthia which were recognised in profit or loss in 2009, are shown in the table below:

EUR m

	2009	2008
Hypo Alpe-Adria-Bank International AG	16.7	18.7
Hypo Alpe-Adria-Bank AG	1.3	1.7
less advance payments	–3.7	–3.4
Total	**14.3**	**17.0**

(109) Important proceedings

At the beginning of December 2008, Hypo Alpe-Adria-Bank International AG received an increase in capital of EUR 700.0 m, primarily subscribed to by its majority shareholder, the Bayerische Landesbank (BayernLB). In addition, at the end of December 2008, the Republic of Austria made available participation capital with a value of EUR 900.0 m, as part of the Austrian banking package (see also notes (106)).

Against the background that the majority shareholder in Hypo Alpe-Adria-Bank International AG, BayernLB, also received financial assistance in the form of a EUR 10.0 bn capital injection and a guarantee of its ABS portfolio to a maximum sum of EUR 4.8 bn, on 12 May 2009 the Commission citing Art. 88 II of the EC Treaty ordered an examination of the restructuring plan of BayernLB as well as of the profitability plan for HGAA, to be delivered to the Commission by the German and Austrian governments.

As a result of the substantial losses of the Banking Group in 2009, the complete acquisition of all shares by the Republic of Austria was agreed between the previous owners of Hypo Alpe-Adria-Bank International AG and the Republic of Austria on 14 December 2009, which was completed on 30 December 2009. The previous owner made contributions towards the restructuring as part of its disinvestment. Moreover, the Republic of Austria took on commitments with regard to future capital injections.

The European Commission provisionally approved the measures put forward by the Republic of Austria on 23 December 2009 for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan for HGAA in the first half of 2010, to enable it to judge whether the aid measures are consistent with EU laws on state aid.

The Commission will check whether the measures planned can return HGAA to long-term profitability, whether support from the state is kept to the required minimum, whether the own contribution made will be appropriate and whether sufficient measures have been undertaken, to limit the distortions to competition caused by the financial assistance given. The Commission has also announced that it will examine whether the previous owner has contributed sufficiently to the restructuring costs.

HGAA will be redimensioned on the basis of this restructuring plan and this will also lead to a significant number of Group companies being relinquished. The current business plan for 2010–2014 has calculated in high restructuring and exit costs in connection with this, which could have a negative effect on results for future periods, depending on when a given market is exited and the market conditions prevailing at the time. In accordance with IFRS, these expenses can only be accounted for when the specific criteria of IFRS 5 – in particular the probable exit within a period of 12 months – are met. As at 31 December 2009 these criteria existed for one significant unit only, which has accordingly been shown and valued separately, in line with IFRS 5.

At the time of writing, it cannot be estimated with any degree of certainty when the EU proceedings will be concluded and whether the European Commission will accept the restructuring plan for HGAA. As the subject of the inspection process, Hypo Alpe-Adria-Bank International AG has declared its willingness to cooperate fully with the Commission.

(110) Use of subordinated capital

(110.1) Supplementary capital

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

According to the restrictions laid down in Section 23 (7) (2), interest can only be paid out »if it is covered by the annual profits before movements in reserves«. As neither the separate financial statements of Hypo Alpe-Adria-Bank International AG nor of Hypo Alpe-Adria-Bank AG (Austria) as at 31 December 2007, 31 December 2008 or at 31 December 2009 meet this criterion, and following formal adoption of the financial statements, interest on the supplementary capital issues of both credit institutions cannot be paid out.

According to the specific legal provisions, payment of interest may only be resumed when subsequent financial statements for Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) respectively establish that sufficient annual profits prior to movements in reserves have been shown. Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) assume that there will be an obligation to make back payments of interest for the preceding periods of non-payment; these sums, therefore, continue to be shown and accrued as interest expenses in the consolidated income statement, but not paid out.

(110.2) Hybrid capital

HGAA has in the past made two issues of subordinated hybrid capital, with no obligation to remargin missed interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75 m and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150 m). Both issues are essentially for an unlimited term, although the issuer has a unilateral right to terminate, which is not granted to the investor.

The primary criterion for interest being paid on these hybrid capital issues is sufficient »distributable funds«, as defined in the issue conditions; the secondary criterion is that there is no short-fall on the limits set for the Group's own capital funds.

As the separate financial statements in accordance with UGB/BWG for Hypo Alpe-Adria-Bank International AG as of 31 December 2009 show a significant loss for the year (prior to movements in reserves), the main condition for the ongoing payment of interest on the hybrid capital is essentially not met and may therefore not be undertaken.

The annual financial statements are to be approved in the Supervisory Board meeting of 24 March 2010, and as a result, subsequent payments of coupons cannot be covered. HGAA may therefore not undertake to pay out interest on hybrid capital until such time as the separate financial statements adopted for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG show annual profits, which then require the servicing of the hybrid capital in accordance with the issue conditions with regard to »distributable funds«.

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

(110.3) Subordinated liabilities

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

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

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

EUR m

	31.12.2009	31.12.2008
Core capital (Tier 1)	**2,018.4**	**2,746.5**
Paid-in capital	1,023.2	962.5
Reserves (incl. minority interests in equity and hybrid capital)	1,039.3	1,627.8
Fund for general banking risks	0.7	200.7
Intangible assets	–44.8	–44.5
Supplementary elements (Tier 2)	**995.5**	**1,430.0**
Supplementary capital	88.9	493.2
Revaluation reserve for real estate (45% weighted)	0.0	30.7
Subordinated liabilities	906.6	906.1
Deductions pursuant to Section 23 (13) BWG	**–14.1**	**–23.3**
Tier 3 (reclassified Tier 2 capital)	**0.0**	**20.0**
Own capital funds as defined by BWG	**2,999.8**	**4,173.2**
Own capital funds requirement acc. to BWG	**2,425.8**	**2,796.8**
Surplus capital	**574.1**	**1,376.4**
Coverage	123.7%	149.2%

	31.12.2009	31.12.2008
Risk-weighted basis for assessment in. acc. with section 22 BWG (banking book)	**27,907.9**	**32,831.6**
thereof 8% minimum own funds requirement	2,232.6	2,626.5
own funds requirement in. acc. with section 22 BWG (securities trading book)	1.3	4.7
own funds requirement in. acc. with section 26 BWG (open foreign exchange position)	42.3	30.1
own funds requirement – operational risk	149.6	135.5
Total own capital funds requirement	**2,425.8**	**2,796.8**

	31.12.2009	31.12.2008
Assessment basis banking book (risk-weighted)	**27,907.9**	**32,831.6**
Tier 1 ratio	7.2%	8.3%
own capital funds ratio	10.7%	12.7%
Assessment basis incl. market and operational risk	**30,322.3**	**34,960.0**
Tier 1 ratio	6.6%	7.8%
own capital funds ratio	9.9%	11.9%

In the year under review Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of HGAA, was in compliance with the minimum capital requirements according to the Austrian Banking Act.

Supplementary Information

(112) Employee data

	31.12.2009	31.12.2008
Employees at closing date	**7,735**	**8,114**
thereof in Austria	1,266	1,328
thereof abroad	6,469	6,786
Employees average	**7,970**	**7,867**
thereof in Austria	1,306	1,332
thereof abroad	6,664	6,535

Not including apprentices and employees on unpaid leave

(113) Severance pay, pension payments

The outlay of the parent company for severance pay and pension payments in 2009 is shown in the table below:

EUR k

	2009	2008
Senior employees	374	99
Other employees	813	270
Members of the Boards	859	683
Total	**2,046**	**1,052**

(114) Relationship with members of the management bodies

(114.1) Advances, loans and guarantees in respect of members of the 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 the bank. Please refer to note (114.2) concerning the demand for repayment of bonuses paid out during the year. The sum of EUR 438 thousand was posted as a liability in accordance with the contractual claim with regard to two members of the Executive Board.

The account relationships between the management bodies of the Austrian Group holding company and Hypo Alpe-Adria Bank AG (Austria) are unexceptional.

The financial relationship of HGAA to the members of the Executive Board and Supervisory Board is as follows:

EUR k

	2009	2008
Receivables	**465.2**	**917.0**
Executive Board	302.2	860.0
Supervisory Board	163.2	57.0
Liabilities	**1,484.6**	**964.0**
Executive Board	1,115.1	638.0
Supervisory Board	369.5	326.0

The movement in receivables with regard to members of the management bodies of the bank stood as follows on the balance sheet date:

EUR k

	2009	2008
At the end of previous period	**916.4**	**299.3**
New credit issued during the period	27.9	99.9
Amount owing to bank recorded on the balance sheet	302.0	778.0
Amount received by the bank	–778.0	0.0
Credit repaid during the period	–3.2	–260.8
At the end of period	**465.2**	**916.4**
Interest income	1.4	5.5

The movement in liabilities with regard to members of the management bodies of the bank stood as follows on the balance sheet date:

EUR k

	2009	2008
At the end of previous period	**963.7**	**653.7**
Deposits received during the period	417.4	558.2
Other obligations	438.0	0.0
Deposits paid out during the period	–334.6	–248.2
At the end of period	**1,484.6**	**963.7**
Interest expense on liabilities	16.2	28.4

(114.2) List of the emoluments of members of the parent company management bodies

The emoluments received by the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG for carrying out their functions, received from the latter or from another Group company, are as follows:

EUR k

	2009	2008
Executive Board	**2,142.0**	**2,562.0**
thereof ongoing payments	2,920.0	2,562.0
thereof repayment of variable remunerations from the previous year	–778.0	0.0
Supervisory Board	**158.0**	**125.0**
Remuneration of former members of the Executive and Supervisory Board and their surviving dependents	**1,439.8**	**921.7**
thereof related to termination	1,025.0	479.5
thereof payments after termination	414.8	442.3
Total	**3,739.8**	**3,608.7**

The remuneration for 2009 contains variable elements totalling EUR 302 thousand (2008: EUR 778 thousand) paid out during the year, which as a result of the agreements with the

Republic of Austria, in particular those connected to the issue of the participation capital in 2008, are not permitted in the event of a loss being made for the year. The repayment claim relating to this is shown under Other assets, reimbursement will follow in the coming financial year (2010).

The members of the Executive Board and Supervisory Board acting in this capacity during the year under review are stated in note (115).

(115) Management bodies

Supervisory Board

Chairman:
Michael KEMMER, Munich,
until 14 December 2009

1st Deputy Chairman:
Othmar EDERER, Graz, until 23 April 2009
Siegfried GRIGG, Graz, from 18 May 2009,
previously member of the Supervisory Board

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

Members:
Rudolf HANISCH, Munich,
until 30 April 2009
Siegfried NASER, Munich
Ralph SCHMIDT, Munich
Klaus WEIGERT, Munich, until 18 March 2009
Benedikt HAAS, Munich, from 23 April 2009
Wolfgang HALLER, Haag,
from 23 April 2009
Stefan ERMISCH, Munich from 23 April 2009
Hansjörg CHRISTMANN, Dachau, from 20 August 2009

Appointed by the Works Council:
Erich CLIMA, Chairman of the Works Council,
Klagenfurt am Wörthersee
Edith ENENGEL, Klagenfurt am Wörthersee,
until 29 September 2009
Markus RUSSLING, Klagenfurt am Wörthersee,
until 29 September 2009
Alexandra DOHR, Klagenfurt am Wörthersee,
from 29 September 2009
Gudrun SEZEN-UNTERKOFLER, Krumpendorf,
from 29 September 2009
Mario ZOLLE, Klagenfurt am Wörthersee

Federal Supervisory Authorities

State commissioner:
Angelika SCHLÖGEL, Vienna

Deputy state commissioner:
Monika HUTTER, Vienna

Province – supervisory function

Harald DOBERNIG, Provincial Minister, Maria Saal
Horst FELSNER, Klagenfurt am Wörthersee

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

Deputy Trustee:
Helmut ARBEITER, Judge of the Provincial Court,
Klagenfurt am Wörthersee

Executive Board

Franz PINKL, Chairman of the Executive Board, Ternitz,
from 1 June 2009
Tilo BERLIN, Chairman of the Executive Board, Maria Saal,
until 30 April 2009
Andreas DÖRHÖFER, Deputy Chairman of the Executive
Board, Erding (Deputy Chairman since 23 April 2009)
Paul A. KOCHER,
Member, Vienna, until 31 May 2009
Wolfgang PETER,
Member, Breitenbrunn
Božidar ŠPAN,
Member, Ljubljana
Anton KNETT,
Member, Velden am Wörthersee, from 1 June 2009

As a result of the complete takeover of Hypo Alpe-Adria-Bank International AG by the Republic of Austria, which was completed on 30 December 2009, at the shareholders' meeting on 21 January 2010 new appointments were made for every Supervisory Board positions representing the investors' interests.

Supplementary Information

(116) Material subsidiaries as at 31 December 2009

Hypo Alpe-Adria-Bank International AG

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

- HYPO ALPE-ADRIA-LEASING HOLDING AG Klagenfurt
  - HYPO ALPE-ADRIA-LEASING Gmbh Klagenfurt
  - HYPO ALPE-ADRIA-LEASING S.r.l. Udine
  - HYPO LEASING d.o.o. Ljubljana
  - HYPO-LEASING KROATIEN d.o.o. Zagreb
  - HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo
  - HYPO ALPE-ADRIA-LEASING DOO Beograd
  - HYPO ALPE-ADRIA-LEASING D.O.O. Podgorica
  - HYPO ALPE-ADRIA-LEASING GmbH München
  - HYPO ALPE-ADRIA-LEASING OOD Sofia***)
  - HYPO ALPE-ADRIA-LEASING Zrt. Budapest
  - HYPO ALPE-ADRIA-LEASING DOOEL Skopje
  - HYPO ALPE-ADRIA-RENT DOO Beograd
  - HYPO ALPE-ADRIA-LEASING TOV Kiev
  - HYPO ULAGANJA d.o.o. Zagreb

- HYPO Vermögensverwaltung GmbH Klagenfurt (100 %*) → HYPO ALPE-ADRIA-LEASING HOLDING AG)
  - HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH Klagenfurt
- Hypo Alpe-Adria-Immobilien AG Klagenfurt
  - HYPO Facility Services GmbH Klagenfurt**)
- KÄRNTNER HOLDING BETEILIGUNGS-AG Klagenfurt
- Hypo Alpe Adria IT Holding GmbH Klagenfurt
- Hypo Group Netherlands Holding B.V. Amsterdam

*) 100 % of voting and capital rights as at 31 December 2009 (75.24 % of capital share as at 31 December 2008)

**) 70 % share; 15 % share held by each of the domestic banks

***) Hypo Alpe-Adria-Leasing OOD, Sofia and its subsidiary managed by Hypo Alpe-Adria-Leasing Holding AG; majority share held by Hypo Alpe-Adria-Bank International AG

(117) Scope of consolidation

The consolidated financial statements according to IFRS as at 31 December 2009 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG using the full consolidation method:

Company	Registered office	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1)]
HYPO ALPE-ADRIA-BANK AG	Klagenfurt	100 %	100 %	31.12.09	KI
HYPO ALPE-ADRIA-BANK S.p.A.	Udine	100 %	100 %	31.12.09	KI
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100 %	100 %	31.12.09	KI
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100 %	100 %	31.12.09	KI
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
MAGUS d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
ALPE ADRIA CENTAR d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100 %	100 %	31.12.09	FI
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	100 %	100 %	31.12.09	FI
PROJEKT NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
HYPO ALPE-ADRIA-BANK d.d.	Mostar	99.998 %	99.998 %	31.12.09	KI
HYPO-ALPE-ADRIA-INVEST d.o.o.	Mostar	100 %	99.998 %	31.12.09	FI
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice d.o.o.	Sarajevo	100 %	99.998 %	31.12.09	WP
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	99.600 %	31.12.09	KI
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Beograd	99.917 %	99.917 %	31.12.09	KI
BROKERSKO-DILERSKO DRUŠTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Beograd	100 %	99.918 %	31.12.09	WP
HYPO INVESTMENTS a.d. Beograd	Beograd	100 %	99.918 %	31.12.09	FI
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Beograd	100 %	99.917 %	31.12.09	FI
Alpe Adria Privatbank AG in Liquidation	Schaan	49 %	49 %	31.12.09	KI
Hypo Alpe-Adria Jersey Ltd.	St. Helier	100 %	100 %	31.12.09	FI
Hypo Alpe-Adria (Jersey) II Ltd.	St. Helier	100 %	100 %	31.12.09	FI
HBInt Credit Management Limited	St. Helier	51 %	51 %	31.12.09	FI
Carinthia I Limited	St. Helier	100 %	51 %	31.12.09	FI
Carinthia II Limited	St. Helier	100 %	51 %	31.12.09	FI
NORICA INVESTMENTS LIMITED	St. Helier	51 %	51 %	31.12.09	FI
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	99.86 %	100 %	31.12.09	KI
Hypo Group Netherland Holding B.V.	Amsterdam	100 %	100 %	31.12.09	FI
Hypo Group Netherlands Corporate Finance B.V.	Amsterdam	100 %	100 %	31.12.09	FI
Hypo Group Netherlands Finance B.V.	Amsterdam	100 %	100 %	31.12.09	FI
HYPO ALPE-ADRIA-LEASING HOLDING AG	Klagenfurt	100 %	100 %	31.12.09	FH
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	100 %	100 %	31.12.09	FI
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	100 %	100 %	31.12.09	FI
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H.	Klagenfurt	100 %	100 %	31.12.09	FI
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	100 %	100 %	31.12.09	FI
HYPO Wohnbau GmbH	Klagenfurt	100 %	100 %	31.12.09	FI
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	100 %	100 %	31.12.09	FI

Supplementary Information

Company	Registered office	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO Projektentwicklungs GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-LEASING S.r.l.	Udine	100 %	100 %	31.12.09	FI
HYPO LEASING d.o.o.	Ljubljana	100 %	100 %	31.12.09	FI
MM SIGMA d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
NAGELE NEPREMICNINE d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
HYPO CENTER – 2 d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
HYPO PC d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
HYPO DVA d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
QLANDIA MARKETING d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
HYPO NEPREMICNINE d.o.o.	Ljubljana	100 %	100 %	31.12.09	SU
MM THETA d.o.o	Ljubljana	100 %	100 %	31.12.09	SU
MM ZETA d.o.o	Ljubljana	100 %	100 %	31.12.09	SU
TCK d.o.o.	Ljubljana	100 %	100 %	31.12.09	HI
HYPO-LEASING KROATIEN d.o.o.	Zagreb	100 %	100 %	31.12.09	FI
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100 %	100 %	31.12.09	HI
JADRAN JAHTE d.o.o.	Zagreb	100 %	100 %	31.12.09	FI
ALFA CAR PROJEKT d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
NIVA GRADNJA d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
BETA NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
ALFA NEKRETNINE d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
EPSILON GRAĐENJE d.o.o., Zagreb	Zagreb	100 %	100 %	31.12.09	SU
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	100 %	100 %	31.12.09	FI
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Beograd	100 %	100 %	31.12.09	FI
HYPO ALPE-ADRIA-LEASING D.O.O. – PODGORICA	Podgorica	100 %	100 %	31.12.09	FI
HYPO HOUSE D.O.O. – PODGORICA	Podgorica	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA	Podgorica	100 %	100 %	31.12.09	SU
HYPO ALPE-ADRIA-Objektverwaltung GmbH	München	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-LEASING GmbH	München	100 %	100 %	31.12.09	FI
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	München	100 %	100 %	31.12.09	FI
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	München	100 %	100 %	31.12.09	FI
Verwaltungsgesellschaft HLG Achilles mbH	München	100 %	100 %	31.12.09	FI
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	München	6 %	6 %	31.12.09	FI
Alpe Adria Snow Fun Park Grundstücks GmbH	München	100 %	100 %	31.12.09	FI
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	0 % (VR 51 %)	0 % (VR 51 %)	31.12.09	FI
HYPO Alpe-Adria Leasing Zrt.	Budapest	100 %	100 %	31.12.09	FI
HYPO Alpe-Adria Leasing Kft.	Budapest	100 %	100 %	31.12.09	FI
HYPO INGATLAN Kft.	Budapest	100 %	100 %	31.12.09	SU
ORGOVANYI IMMO Ingatlanforgalmazo Kft.	Budapest	100 %	100 %	31.12.09	SU
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztõ Kft.	Budapest	100 %	100 %	31.12.09	SU
SPC ERCS Kft.	Budapest	100 %	100 %	31.12.09	SU
ERCS 2008 Kft.	Budapest	100 %	100 %	31.12.09	SU
HYPO ALPE-ADRIA-LEASING EOOD	Sofia	100 %	100 %	31.12.09	FI

Company	Registered office	Ownership (direct) interest in %	Ownership (indirect) interest in %	Date of closing	Type [1]
HYPO ALPE-ADRIA-AUTOLEASING EOOD	Sofia	100 %	100 %	31.12.09	FI
HYPO ALPE-ADRIA-LEASING DOOEL	Skopje	100 %	100 %	31.12.09	FI
HYPERIUM DOOEL Skopje	Skopje	100 %	100 %	31.12.09	SU
HYPO ALPE-ADRIA-RENT DOO BEOGRAD	Belgrad	100 %	100 %	31.12.09	SU
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100 %	100 %	31.12.09	FI
HYPO ULAGANJA d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
HYPO Consultants Holding GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-CONSULTANTS S.R.L.	Udine	100 %	100 %	31.12.09	HI
Alpe Adria Venture Fund GmbH & Co KEG	Wien	99.31 %	99.31 %	31.12.09	HI
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	100 %	100 %	31.12.09	HI
SINGULUS d.o.o.	Umag	100 %	100 %	31.12.09	SU
HILLTOP Holding Anstalt	Vaduz	100 %	100 %	31.12.09	SU
PIPER d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
D.S. car d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
ALUFLEXPACK d.o.o.	Zadar	68.89 %	95.78 %	31.12.09	SU
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100 %	100 %	31.12.09	HI
Schlosshotel Velden GmbH	Klagenfurt	100 %	100 %	31.12.09	SU
Schloss Velden Appartementerrichtungs GmbH	Klagenfurt	100 %	100 %	31.12.09	SU
Lamplhof Betriebs GmbH	Klagenfurt	95 %	95 %	31.12.09	SU
TRP Projektentwicklungs GmbH	Klagenfurt	98 %	100 %	31.12.09	SU
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.09	HI
CASTELLUM d.o.o.	Zagreb	100 %	100 %	31.12.09	SU
HYPO Facility Services GmbH	Klagenfurt	70 %	100 %	31.12.09	HI
Alpe-Adria Investments d.o.o.	Zagreb	100 %	100 %	31.12.09	HI
Hypo Cityimmobilien-Klagenfurt GesmbH	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO FM Holding GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
HYPO FACILITY SERVICES DOO BEOGRAD	Beograd	100 %	100 %	31.12.09	HI
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100 %	100 %	31.12.09	HI
ZAJEDNICKI INFORMACIONI SISTEM DOO BEOGRAD	Beograd	100 %	100 %	31.12.09	HI
ZAJEDNICKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100 %	100 %	31.12.09	HI
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	100 %	100 %	31.12.09	HI
WS Liegenschaftsverwaltungs GmbH	Klagenfurt	100 %	100 %	31.12.09	SU

1) Type (according to the Austrian Banking Act):

KI Banking
HI Services
SU Other
FI Financial services
WP Investment firm
FH Fund

Supplementary Information

The following companies are included with their respective financial statements as at 31 December 2009 in the consolidated financial statements using the equity method:

EUR m

Company	Seat	Ownership (direct) interest in %	Ownership (indirect) interest in %	Carrying amount of the participation as of 31.12.2008	Profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.52 %	29.52 %	4.0	0.6
DOSOR d.o.o.	Radenci	50.00 %	50.00 %	0.4	0.0
HYPO-BA Leasing Süd GmbH	Klagenfurt	50.00 %	50.00 %	1.3	0.0
Pramollo S.p.A. – in Liquidazione *)	Udine	48.95 %/34.54 %	59.14 %	0.0	0.0
REZIDENCIJA SKIPER d.o.o. *)	Umag	25.00 %	25.00 %	0.0	–1.2

*) The current shares in the results of Rezidencija Skiper d.o.o. and Pramollo S.p.A. – in Liquidazione are no longer recorded. As of 31 December 2009, the aliquot share in the (negative) equity of the company amounted to EUR –4.1 m (2008: EUR –2.9 m).

(118) Events after the balance sheet date

In the shareholders' meeting of Hypo Alpe-Adria-Bank International AG held on 21 January 2010 it was resolved that there would be new appointments to all Supervisory Board positions appointed by the providers of capital. The Republic of Austria, as sole owner of the bank, passed a resolution appointing Johannes Ditz, Rudolf Scholten, Helmut Draxler and Alois Steinbichler as new members of the Supervisory Board. The Works Council of the bank appointed Erich Clima and Mario Zolle to represent their interests on the Supervisory Board. Following the resignation, in December 2009, of the former Chairman of the Supervisory Board Michael Kemmer, the serving members of the Supervisory Board Siegfried Grigg, Hans-Jörg Megymorez, Ralph Schmidt, Wolfgang Haller, Stefan Ermisch, Benedikt Haas, Hansjörg Christmann, Gudrun Sezen-Unterkofler and Alexandra Dohr also resigned. In its first meeting on 25 January 2010, the Supervisory Board elected Johannes Ditz as its Chairman and Rudolf Scholten as its Deputy Chairman.

On 20 February 2010 it was announced that applications would be invited for four new Executive Board positions; and these positions subjected to an evaluation.

A special commission (called a Sonderkommission and given the name "SOKO HYPO") set up by the Republic of Austria started its work at the beginning of 2010. Hypo Alpe-Adria-Bank International AG announced that it would cooperate fully with the authorities, while pointing out that it must at all times strictly observe its legal obligation to maintain the interests of its bank customers.

In connection with the agreed exit of the previous owner and the complete acquisition of all shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria, the European Commision widened the scope of its ongoing enquiry into the provision of state aid, which it had begun in May 2009, to include these new measures. The European Commission provisionally approved the rescue plan put forward by the Republic of Austria on 23 December 2009 for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan for HGAA in the first half of 2010, to enable it to judge whether the aid measures are in accord with EU laws on state aid. At the time of writing, it cannot be estimated with any degree of certainty when the EU proceedings will be concluded and whether the European Commission will accept the bank's restructuring plan, which is to be finalised in the first half of 2010, and thus retrospectively approve all the measures connected to issues of state aid and their intended compensation.

Klagenfurt am Wörthersee, 16 March 2010
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Franz Pinkl

Andreas Dörhöfer

Wolfgang Peter

Božidar Špan

Anton Knett

Declaration of all Legal Representatives

"We confirm that, to the best of our knowledge, 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, 16 March 2010
Hypo Alpe-Adria-Bank International AG

THE EXECUTIVE BOARD

Franz Pinkl

Andreas Dörhöfer

Wolfgang Peter

Božidar Špan

Anton Knett

Auditors' Report

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of

HYPO ALPE-ADRIA-BANK INTERNATIONAL AG,
Klagenfurt am Wörthersee,

for the fiscal year from January 1, 2009 to December 31, 2009. These consolidated financial statements comprise the consolidated statement of financial position as of December 31, 2009, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2009, and the notes.

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

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit
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 Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements are in accordance with legal requirements and present fairly, in all material respects, the financial position of the Group as of December 31, 2009 and of its financial performance and its cash-flows for the fiscal year from January 1, 2009 to December 31, 2009 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Auditors' Report

Without qualifying our opinion we draw attention to the notes (particularly section "company" as well as note 1 and 109) to the financial statements. Assessing the company's ability to continue as going concern, the management used the same assumptions as in the restructuring plan prepared for the EU approval process for government aid. Due to the actual global financial crisis and the fact that the economic crises has hit the regions where the group is active specifically hard, the uncertainty is specifically high and the assumptions depend on the further capital contribution in the amount of TEUR 600.000 until June 30, 2010, for stabilization of the equity position as included in the restructuring plan.

Comments on the Management Report for the Group

Laws and regulations require us to perform audit procedures to determine 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. The auditor's report has to state whether the consolidated management report for the Group is consistent with the consolidated financial statements and whether the disclosures made according to section 243a para 2 UGB (Austrian Enterprise Code) are appropriate.

In our opinion, the consolidated management report for the Group is consistent with the consolidated financial statements. The disclosures made according to section 243a para 2 UGB (Austrian Enterprise Code) are appropriate.

Vienna, March 16, 2010

Deloitte
Audit Wirtschaftsprüfungs GmbH

Erich Kandler Peter Bitzyk
Certified Public Accountants

The English translation of the Auditor´s Report is for convenience purposes. Only the original German version is legally binding.

Hypo Alpe-Adria-Bank International AG
2009

Management Report 2009 Hypo Alpe-Adria-Bank International AG

The consolidated financial statements published for the financial year ending 31 December 2009 report on the basis of the International Financial Reporting Standards (IFRS) and are published both in written form and on the internet (www.hypo-alpe-adria.com). The separate financial statements for Hypo Alpe-Adria-Bank International AG were drawn up in accordance with Austrian law (as defined in the Austrian Enterprise Code (UGB) and the Austrian Banking Act (BWG)) and these provide the framework for this Management Report.

1. General economic environment

2009 was marked from the outset by the international crisis in the global economy and as such was characterised by extremely strained market conditions. If, throughout 2008, the crisis had largely still been confined to the international financial markets, by 2009 at the latest it reached the real economy. For the first time in over 60 years, in 2009 the global economy was confronted with a reduction in economic output in the region of 1 % to 1.5 %. The European and North American markets were particularly hard hit, with China continuing to grow – albeit at a much reduced rate – and thus acting as a stabiliser. By the beginning of the third quarter of 2009, there were discernible signs of recovery from around the world, with the slimmest of growth rates being recorded. For 2010 the International Monetary Fund (IMF) is expecting a modest recovery in global economic output, with growth rates of around 4 %.

In order to support the financial sector and, in turn, the international global economy, many governments put together comprehensive recovery and economic stimulus packages, which drove national debt to record new highs. A more restrictive fiscal policy is therefore to be expected worldwide in the coming years. The current monetary policies of the industrialised countries will be maintained – in a weakened form – in the future as well: in response to the financial and economic crisis, the ECB, like many other central banks, reduced its base rate significantly, to 1 %. An increase to 1.5 % is expected in the course of 2010.

As a small, export-orientated country, Austria was particularly hit by the global economic crisis – at the beginning of the year, in particular, the Austrian economy was confronted with a massive decrease in economic output; only in the third quarter were the first, slim rates of growth recorded again. For the year as a whole, GDP shrank by 3.8 %; slight growth of 0.3 % is expected for 2010. This was driven by extensive economic stimulus packages from the federal government, which led as a consequence to a significant increase in national debt. Despite the recovery in the economy, Austria – like every country in Europe – is facing continual growth in unemployment.

The Italian economy was even worse hit by the crisis and its economic output fell by 5.1 % in 2009, with investment activity in particular declining steeply by about 13 %. Although trend indicators have again reached the levels recorded prior to the crisis, modest economic growth of 0.2 % is expected for 2010.

In Eastern and South-Eastern Europe as well, after years of rapid growth, a significant decline in economic output of, on average, 5 % was seen in 2009. This development is attributed primarily to the heavy dependence of this region on Western Europe – the process of catching up had been driven in main part by the inflow of capital and the exports to Western Europe, which now reduced significantly as a result of the crisis. While some countries – such as Montenegro, Bulgaria and Hungary – will continue to face recession in 2010, the majority of countries resumed their growth course towards the end of 2009.

Slovenia recorded a reduction in economic output of 4.7 % in 2009 – this resulted above all from the decline in exports and gross fixed capital formation. Inflation was held at a moderate 0.5 % in 2009. Despite a further increase in unemployment, a rise of 0.6 % in economic output is expected for 2010. Croatia, which is planning to conclude EU accession negotiations in 2010, also recorded a significant reduction in GDP of 5.2 % in 2009. As a result of the sharp increase in state spending, far-reaching reforms, including an increase in value-added tax and the introduction of taxes on mobile telephony and a crisis tax on monthly income. As a result of the Croatian National Bank's prudent monetary policy the financial stability of the country was maintained, even in times of crisis, with the result that Croatian kuna was amongst the top performers in the CEE region. A modest recovery of 0.4 % in Croatian economic output is expected in 2010.

Bosnia and Herzegovina, as a small country dependent on its exports, recorded a reduction of 3.0 % in GDP in 2009. This resulted primarily from a decline in consumer spending and from a downturn in levels of investment. In addition to the measures taken by the government to support the economy, the World Bank also initiated an SME financing programme. The country's economy should grow again by about 0.5 % in 2010. Serbia, too, recorded a decline in GDP of 4.0 % in 2009. Although there were clear signs of stabilisation in economic conditions towards the end of 2009, there was a significant devaluation of the Serbian dinar. In comparison to other European countries, inflation in Serbia reached an above-average level of 9.9 %, with a further increase of 7.3 % expected for 2010. A return to economic growth of 1.5 % is forecast for 2010. (Source: IMF)

2. Overview

2.1 Hypo Alpe-Adria-Bank International AG's areas of activity and geographical coverage

As the management and holding company for all the companies in Hypo Group Alpe Adria (HGAA), Hypo Alpe-Adria-Bank International AG manages the activities of – amongst others – eight banks and – since the middle of 2009 – all the group leasing companies held by Hypo Alpe-Adria-Leasing Holding AG.

Through its subsidiaries Hypo Alpe-Adria-Bank International AG is active in two principal segments – banking and leasing – and in twelve countries throughout the extended Alps-to Adriatic region.

The geographical spread of the financial group's activities extends to economic areas with very different political and economic profiles: from countries in the core EU regions (Austria, Germany, Italy) through the "new" EU member countries (Slovenia, Hungary, Bulgaria) to those countries in the future EU enlargement area (Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Ukraine).

2.2 Shareholder structure

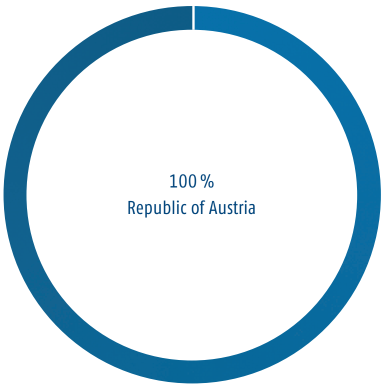
In 2009 HGAA was majority-owned by the Bayerische Landesbank (BayernLB) – which held 67.08 % of the shares in Hypo Alpe-Adria-Bank International AG – and was thus part of the BayernLB group. The other shareholders were Grazer Wechselseitige Versicherung AG (the GRAWE Group), Kärntner Landesholding and the Mitarbeiter Privatstiftung (private staff foundation).

As a result of the worsening economic crisis in 2009, which hit the financing portfolio of HGAA particularly hard, the majority shareholder BayernLB, reacting to pressure from its owner, the Free State of Bavaria, withdrew completely from its equity participation in HGAA as it was not prepared to provide further capital to HGAA.

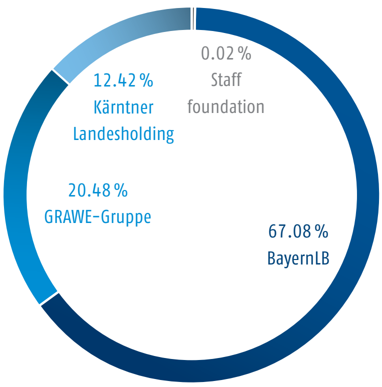
As the other shareholders were also not prepared to take on the emerging requirement for recapitalisation, they too decided to surrender their shares in HGAA and transferred them at the end of December 2009 to the Republic of Austria. As of 30 December 2009, the Republic of Austria therefore became the sole shareholder in Hypo Alpe-Adria-Bank International AG.

Management Report 2009

Shareholder structure 31.12.2009



Shareholder structure 31.12.2008



2.3 EU proceedings/ Restructuring measures

With its decision dated 12 May 2009, the Commission of the European Union instigated joint proceedings regarding BayernLB and Hypo Alpe-Adria-Bank International AG. In these proceedings, the capital measures taken in December 2008 (capital increase of EUR 700 m and the issue of participation capital with a value of EUR 900 m) are to be subject to an in-depth investigation with regard to EU regulations on state aid. In the course of this, the Commission demanded that Hypo Alpe-Adria-Bank International AG, together with its former owner, BayernLB, submit a far-reaching restructuring plan.

The group had thus already agreed on a comprehensive restructuring package ("Hypo Fit 2013") with the dual aims of concentrating the target market area in the Alps-to-Adriatic region and of reducing the cost base permanently and sustainably, in the first half of 2009.

With the acquisition of all shares in Hypo Alpe-Adria-Bank International AG by the Federal Republic of Austria in December 2009, this restructuring project has been intensified, with the objective of restructuring the group extensively and developing the profitable core areas of the business into a bank able to participate in the capital markets again in the medium term. On 23 December 2009 the European Commission provisionally approved the measures put in place by the Republic of Austria for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan for HGAA, to enable it to judge whether the aid measures are in accord with EU laws on state aid.

As part of the strategic realignment, all the markets in which the group is currently active are also being evaluated. The results and the plans for the ongoing restructuring project, which is based on a time horizon of 2010 to 2014, are to be presented to the Commission of the European Union in the first half of 2010.

3. Development of business in Hypo Alpe-Adria-Bank International AG

3.1. Development of the balance sheet

In 2009, for the first time in years, there was a clear reduction in the volume of the loans business of Hypo Group Alpe Adria group companies, which was directly reflected in the development of the total assets of Hypo Alpe-Adria-Bank International AG, as the latter is responsible for the majority of the banking group's gearing.

The bank's total assets reduced by 7.4 % or EUR 2.2 bn in the year to reach EUR 26.9 bn as at the balance sheet date of 31 December 2009. The comparable figure in the previous year was EUR 29.1 bn. The reduction in total assets in 2009 was caused primarily by a significant reduction in new customer loans business as well as higher risk provisions which had become necessary.

Total assets
in EUR bn

The loans and advances to customers, which also include the lines of finance to the group leasing companies, totalled EUR 10.9 bn, which was EUR 1.2 bn or 10.1 % below the comparable figures for the previous year (EUR 12.1 bn).

As a result of the significant increase in arrears in the financing portfolio in the first half of 2009, as well as the large increase in risk provisions in the interim financial statements as at 30 June 2009, the Executive Board of HGAA together with the then majority shareholder BayernLB decided to commission an auditing company to carry out an extensive asset screening exercise. The object of this exercise was to analyse the risk provision potential of individual commitments and at portfolio level throughout the whole group, with the objective of providing greater transparency through a third-party judgement for the owners and for the regulatory authorities against the background of the most difficult economic crisis in decades.

The result of this was that the level of risk provisions for loans and advances rose from EUR 0.3 bn to EUR 1.2 bn. Apart from this, equity measures to help subsidiaries, which led to a reduction in gearing, were the reason for the reduction in loans and advances to customers.

Loans and advances to credit institutions reduced slightly in 2009, from EUR 11.6 bn to EUR 11.3 bn, which equates to a reduction of EUR 0.3 bn or 2.3 %. This reduction was also due to the reduced volumes of financing for the subsidiaries.

Shares in associated companies reduced from EUR 3.3 bn to EUR 2.6 bn in the year under review. Subsidiaries took equity measures totalling EUR 0.6 bn, while large impairment writedowns of the carrying amounts of participations of around EUR 1.4 bn led to a significant reduction in the overall position.

Liabilities to customers and own issues of liabilities evidenced by certificates came to EUR 19.9 bn in the year under review and were thus at the same level as in the previous year. This position therefore represents a 73 % share of the total assets.

In 2009 as in 2008, the refinancing of the bank was in large part achieved with funds provided by BayernLB. The reduction of EUR 0.5 bn in liabilities to credit institutions down to EUR 4.3 bn at year-end was mainly due to a waiver on claims by BayernLB as a consequence of the change in ownership as at 30 December 2009.

The EUR 0.2 bn fund for general banking risks, which had been created for reasons of prudence to cover any future general business risks and was a separate liabilities item on the balance sheet, was released in its entirety as at 31 December 2009.

In conjunction with the transfer of all shares in Hypo Alpe-Adria-Bank International AG at year-end to the Republic of Austria, BayernLB also relinquished supplementary capital in the amount of EUR 0.3 bn. The item also reduced as a result of the apportionment of supplementary capital held by the State of Carinthia. The amount apportioned was in turn transferred to the bank as participation capital.

The total equity for the bank shown on the balance sheet was significantly reduced because of the high level of losses which were recorded during the year. In addition to the waiver of claims in the amount of EUR 0.9 bn by BayernLB, the transfer of participation capital by two former shareholders also had a positive effect. Net equity as at the balance sheet date stood at EUR 0.9 bn as compared to the EUR 2.1 bn it had been the previous year.

Balance sheet structure
in EUR m

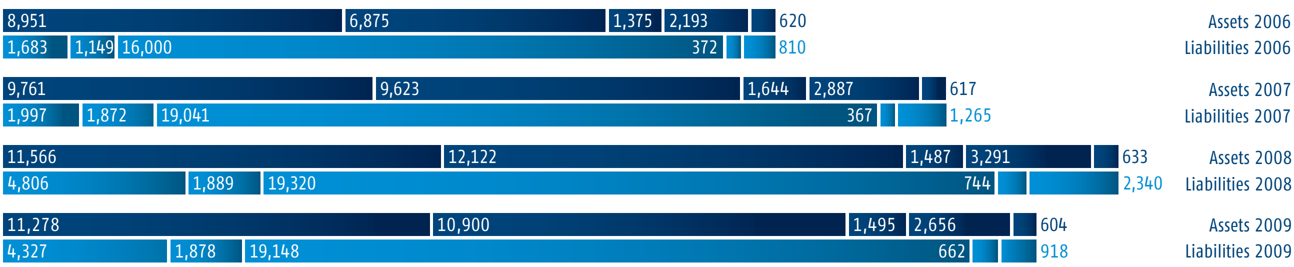
Assets

	2006	2007	2008	2009
Loans and advances to credit institutions	8,951	9,761	11,566	11,278
Loans and advances to customers	6,875	9,623	12,122	10,900
Fixed income securities, shares and investment funds	1,375	1,644	1,487	1,495
Investments in affiliated and associated companies	2,193	2,887	3,291	2,656
Other assets	620	617	633	604
Total assets	20,014	24,532	29,099	26,933

Liabilities

	2006	2007	2008	2009
Equity	810	1,265	2,140	918
Fund for general banking risks	0	0	200	0
Liabilities to credit institutions	1,683	1,997	4,806	4,327
Liabilities to customers	1,149	1,872	1,889	1,878
Debt evidenced by certificates and subordinated capital	16,000	19,041	19,320	19,148
Other liabilities	372	367	744	662
Total equity and liabilities	20,014	24,532	29,099	26,933

Balance sheet structure
in EUR m



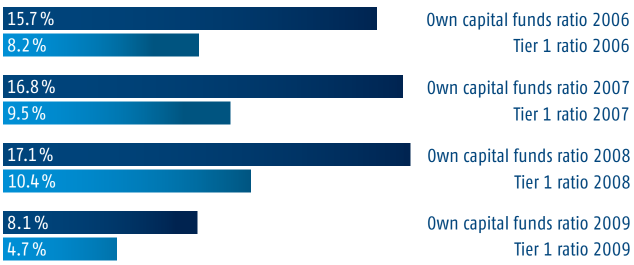
3.2. Own capital funds

At the 31 December 2009 balance sheet date the total eligible own capital funds as per the Austrian Banking Act (BWG) came to EUR 1,591 m, which is a reduction of EUR 2,244 m compared to the previous year's figure (2008: EUR 3,835 m). The legal minimum requirement was for EUR 1,570 m (2008: EUR 1,795 m), therefore a surplus of EUR 21 m (2008: EUR 2,040 m) and coverage of 101.3 % (2008: 213.7 %) was achieved.

The bank's regulatory Tier 1 capital was increased through the subscription to participation capital by two former shareholders and through the waiver of claims by BayernLB, although the ongoing negative result for the financial year 2009 led to a corresponding reduction.

The Tier 1 ratio in relation to the banking book (credit risk) came to 4.8 % as at 31 December 2009. In relation to the total capital base (including market and operational risk), the Tier 1 ratio came to 4.7 % in 2009 and the own capital funds ratio to 8.1 %, which was above the statutory minimum ratio of 8.0 % required in Austria.

Development of the own capital funds ratio and the Tier 1 ratio
in %



Total risk/Credit risk
in EUR bn

3.3. Development of results

The results for Hypo Alpe-Adria-Bank International AG in the financial year under review were marked by major impairment writedowns and provisions for participations as well as significant increases in risk provisions for loans and advances in the bank's own cross-border loans portfolio.

As a result of the equity provided in the fourth quarter of 2008 and significant adjustments to interest margins in loans to group companies and in financing products for customers, the net interest income rose from EUR 29 m in the previous year to EUR 40 m in 2009.

A reduction in income from securities and participations by EUR 52 m to EUR 53 m was recorded in 2009. This was primarily due to the decline in profits for the subsidiaries and the related decline in dividend receipts for Hypo Alpe-Adria-Bank International AG.

Net fee and commission income, as the result of netting fee and commission income (EUR 24 m) against fee and commission expenses (EUR 6 m) came to EUR 18 m in the year and was thus EUR 3 m or 15.9 % lower than the comparable figures for the previous year.

Other operating income stood at EUR 11 m, some EUR 2 m less than the EUR 13 m figure for the previous year and resulted primarily from the invoicing of services rendered to subsidiaries.

In total, operating income reduced from EUR 150 m to EUR 132 m in 2009, which equates to a reduction of EUR 18 m or 12 %.

As a consequence of amalgamating personnel in connection with the “new lending procedures” project as well as the complete reintegration of the employees of Hypo Alpe-Adria-Leasing Holding AG and the outsourced marketing unit, the number of employees at Hypo Alpe-Adria-Bank International AG increased significantly. However, taking all the other Austrian group units together, there was a marked reduction in employees in Austria, from 1,206 (2008) to 1,146 (2009). Hypo Alpe-Adria-Bank International AG’s personnel expenses, part of the operating expenses, were at EUR 42 m well over the figure for the previous year (EUR 27 m). This is because of the increased headcount, on the one hand, and the high one-off charges in connection with the restructuring project, on the other.

Other operating expenses rose in 2009 compared to the prior year figure by EUR 19 m to EUR 86 m. This significant increase is attributable to the legal and consultancy costs incurred as a result of the restructuring project. Furthermore, the liability expenses of EUR 8 m in connection with the issue of a state-guaranteed bond (GGB), which was issued in the second half of 2009, is shown at this position.

The remaining administrative expenses, at EUR 13 m, were at about the same level as in the previous year (2008: EUR 12 m). In 2009 this position includes principally provisions created in connection with the conditions for the participation capital.

The bank’s operating profit, as the balance of operating income and operating expense, deteriorated in 2009 from EUR 42 m to EUR – 11 m. This equates to a reduction of EUR 53 m over the comparable figure for the previous year.

The loss on the valuation and disposal of receivables, contingent liabilities and securities held as current assets came to EUR – 913 m in 2009 (2008: EUR – 220m). This massive deterioration was caused by high risk provisions for loans and advances which were necessary for the cross-border financing portfolio and internal refinancing within the group.

The causes for this can be found in the consequences of the financial and economic crisis. The spread of the crisis to the real economy affected the high-volume corporate portfolios of the bank in particular. In addition to the drastic rise in the volume of loans in arrears, in particular in the second half of 2009, and the average length of time spent in arrears, the significantly lower values for collateral were the main factors behind the dramatic increase in the risk provisions for loans and advances.

The most important drivers behind this increase were the cross-border activities in Croatia, but also the provision of lines of refinancing for the leasing units in Ukraine, Hungary, Germany, Macedonia and Bulgaria. Risk provisions for loans and advances rose by EUR 865 m in total in the year under review, of which EUR 55 m was attributable to portfolio risks.

In contrast to the previous two years, the charges from the securities portfolio classified as current assets in the banking book were relatively low. In total, the charge to the income statement as a result of the measurement of securities classified as current assets came to around EUR 11 m (2008: EUR 82 m).

The loss on the valuation and disposal of securities and investments in associated companies came to EUR – 1,419 m in 2009. Of this, EUR 668 m was attributable to charges connected to the leasing participations. The reason for this were the losses recorded by the leasing companies in Austria and abroad as a result of the economic crisis, which led to the leasing companies concerned requiring capital injections from Hypo Alpe-Adria-Bank International AG to cover their losses. The countries most badly affected were Croatia and Bulgaria, with EUR 286 m in total, and Austria with EUR 50 m. On top of this, the annual valuation of the leasing participations led to an impairment writedown of EUR 332 m.

Charges of EUR 573 m resulted from the banking business, of which more than half was attributable to Hypo Alpe-Adria-Bank AG. The participation valuation exercise for the non-Austrian credit institutions led to impairment writedowns of EUR 304 m.

There were charges of EUR 179 m from the remaining participations portfolio, of which the majority was attributable to property and tourism participations. Impairment writedowns of EUR 11.9 m on Alpe Adria Privatbank AG, the bank in Liechtenstein which is being liquidated, were also included in this figure.

The expenses incurred in connection with banking book securities classified as current assets came to EUR 22 m and were thus EUR 24 m lower than in the previous year (EUR 46 m).

Taking into account all the above mentioned effects, a loss from ordinary activities of EUR –2,343 m (2008: EUR –450 m) was recorded.

The income from the waiver by BayernLB of EUR 862 m in total, as well as the apportionment result of EUR 23 m from buying back supplementary capital in accordance with section 23 (7)(3) BWG are included in the extraordinary earnings of EUR 1,079 m. A further positive impact came from the complete release of the EUR 200 m fund for general banking risks which had been created in 2008 to cover unsubstantiated future business risks.

The extraordinary expenses of EUR 6 m consisted of capital transfer tax resulting from the capital measures taken in December 2009.

After taking into account income tax expenses of EUR 17 m, primarily due to the tax allocations from the domestic tax group and to the foreign withholding tax expense, the loss for 2009 came to EUR –1,162 m (2008: EUR –665 m).

After taking into account the release of revenue reserves totalling EUR 24 m and of appropriated paid-in capital of EUR 906 m, Hypo Alpe-Adria-Bank International AG has recorded a deficit of EUR –352 m.

3.4. Earnings ratios

The cost/income ratio, which shows the ratio of operating costs to operating income, stood at 108.0 % as at the balance sheet date (2008: EUR 72.2 %) and was attributable in particular to the significant decline in income from securities and participations and at the same time to the rise in administrative expenses. As a result of posting a loss for the year, return on equity (ROE) and return on assets (ROA) ratios for the 2009 financial year are not meaningful.

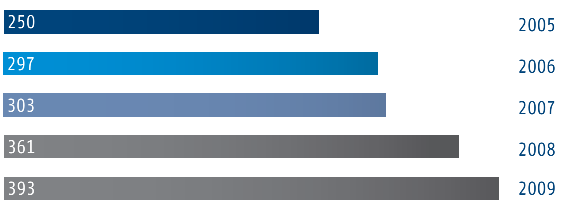
4. Analysis of non-financial key indicators

4.1. Employees

As at 31 December 2009, Hypo Alpe-Adria-Bank International AG employed 393 people, 32 more than a year earlier. The reasons for the increased number of employees are as mentioned in point 3.3: the amalgamation of personnel in connection with the “new lending procedures” project as well as the complete reintegration of the employees of Hypo Alpe-Adria-Leasing Holding AG and the outsourced marketing unit.

International training and development opportunities for employees continued to be a focus of the bank’s training and education programmes in 2009. For the lending operations, a 3-part modular training programme entitled “Holistic business analysis: Business Risk Analysis & Corporate Finance” was developed together with the well-known training company Korn & Korn, Value Creations für Financial Institutions and launched for all employees in the group working in corporate lending. The objective of this training programme is to enable cash flow-orientated analysis of customers and loans. The training programme started in 2009 and will be completed in 2010.

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, a profound knowledge of the customers and markets are critical factors for success. With this in mind, Hypo Alpe-Adria-Bank International AG 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, 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 1.2 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 2009 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 (HGAA) annual report.

5. Risk report

5.1. Risk strategy, control and monitoring

Hypo Alpe-Adria-Bank International AG controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and ensuring the ability to bear risks at any time, thus protecting the bank's creditors. 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 controlling process in Hypo Alpe-Adria-Bank International AG:

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

5.2. Organisation and 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 the Executive Board of Hypo Alpe-Adria-Bank International AG. 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; the reorganisation of problem loans; monitoring the credit-granting process; 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 requirements for own capital funds. Hypo Alpe-Adria-Bank International AG has separated the CFO and CRO roles into two independent functions.

The Audit division is an autonomous function which audits the business activities of Hypo Alpe-Adria-Bank International AG; 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 HGAA. 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 division 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.

The Group Settlement division consisted of the Treasury Middle Office (TMO), Treasury Back Office (TBO) and Settlement Steering departments until 16 November 2009. The duties of Group Settlement were the processing and control of trading transactions at Hypo Alpe-Adria-Bank International level and monitoring of the trade-related activities of Group Treasury (e.g. adherence to limits on positions and volumes). Within the context of the implementation of the "HypoFit 2013" project, the Executive Board of Hypo Alpe-Adria-Bank International AG decided to dissolve the Group Settlement division as of 16 November 2009 and to integrate the functions in other Hypo Alpe-Adria-Bank International and Hypo Alpe-Adria-Bank AG divisions. Treasury Middle Office (provision and maintenance of market data, data quality assurance and hedge accounting) has been allocated to Group Market Risk Control.

External Reporting consisted of the Operative Regulatory Reporting and Capital Management & Processing departments up until 31 December 2009. As part of the "HypoFit 2013" project, the Executive Board of Hypo Alpe-Adria-Bank International AG decided to dissolve the External Reporting division as at 1 January 2010 and to integrate the functions in other Hypo Alpe-Adria-Bank International divisions. The Capital Management & Processing department's functions of own funds planning and provision of data for own funds calculation were allocated to Group Credit Risk Control.

5.3. Reporting

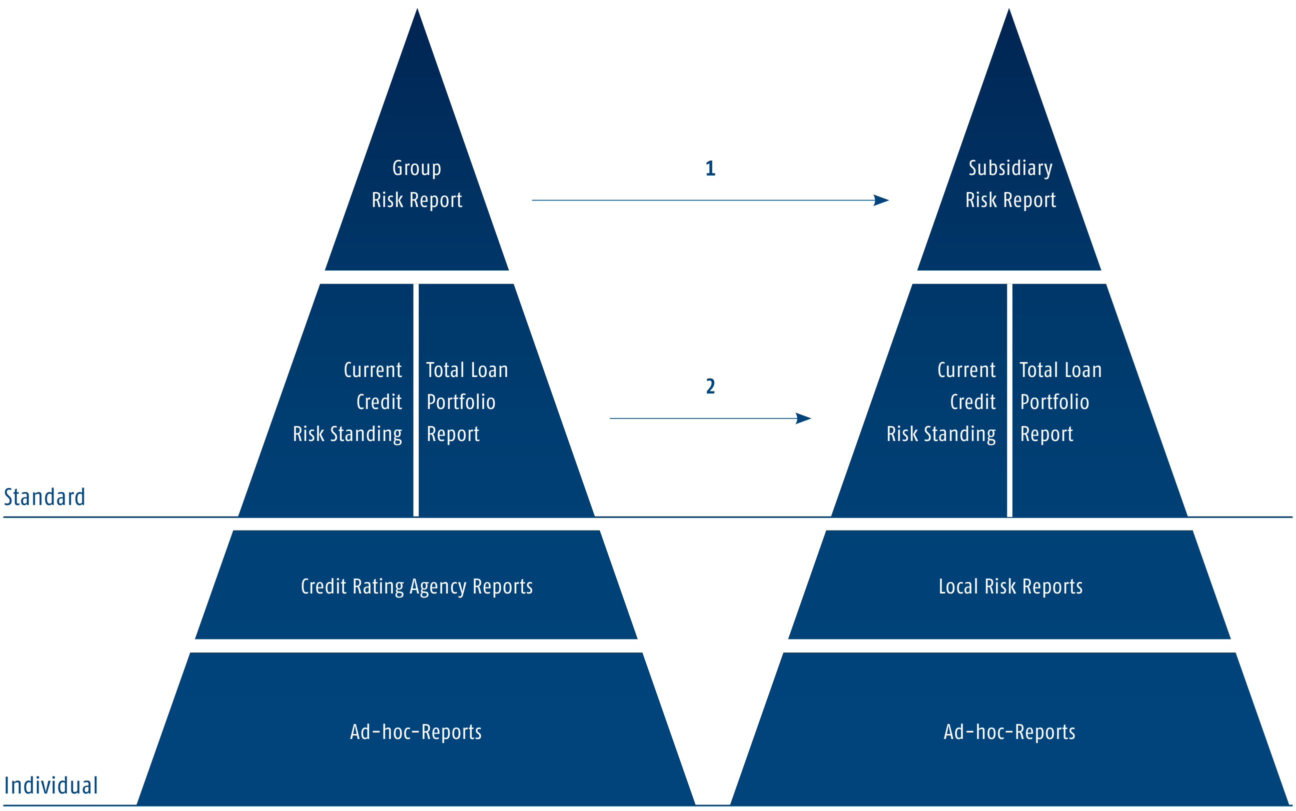
Timely, independent and risk-adequate reporting for decision-makers is guaranteed for all risk types; requests for ad hoc reports are honoured at all times. This is assured through the group risk report.

In the first half of 2009 a new group risk report was developed, which presents all the risk types relevant to the group in a suitable format and gives the Executive Board a comprehensive overview including recommended points for actioning. The risk report is drawn up on a quarterly basis and contains the following sections: Management Summary, Risk-bearing capacity including stress tests, Credit & country risk, Market risk, Liquidity risk, OpRisk and Participations risk.

The risk report was first produced at group level in June 2009 and presented to the relevant committees for information purposes. The roll-out of the report to subsidiaries began in the fourth quarter of 2009. As a result of this, there is now a standardised risk report available to all supervisory committees and management boards for managing risk; and a basis for comparison has been established throughout the group. The risk report for Hypo Alpe-Adria-Bank International AG as an entity was first produced in December 2009.

5.3.1. Credit risk reporting structure

The following ongoing reports are produced for reporting on credit risk:



Group Level

1 Produced by the subsidiary, standard template and data supplied by the Group

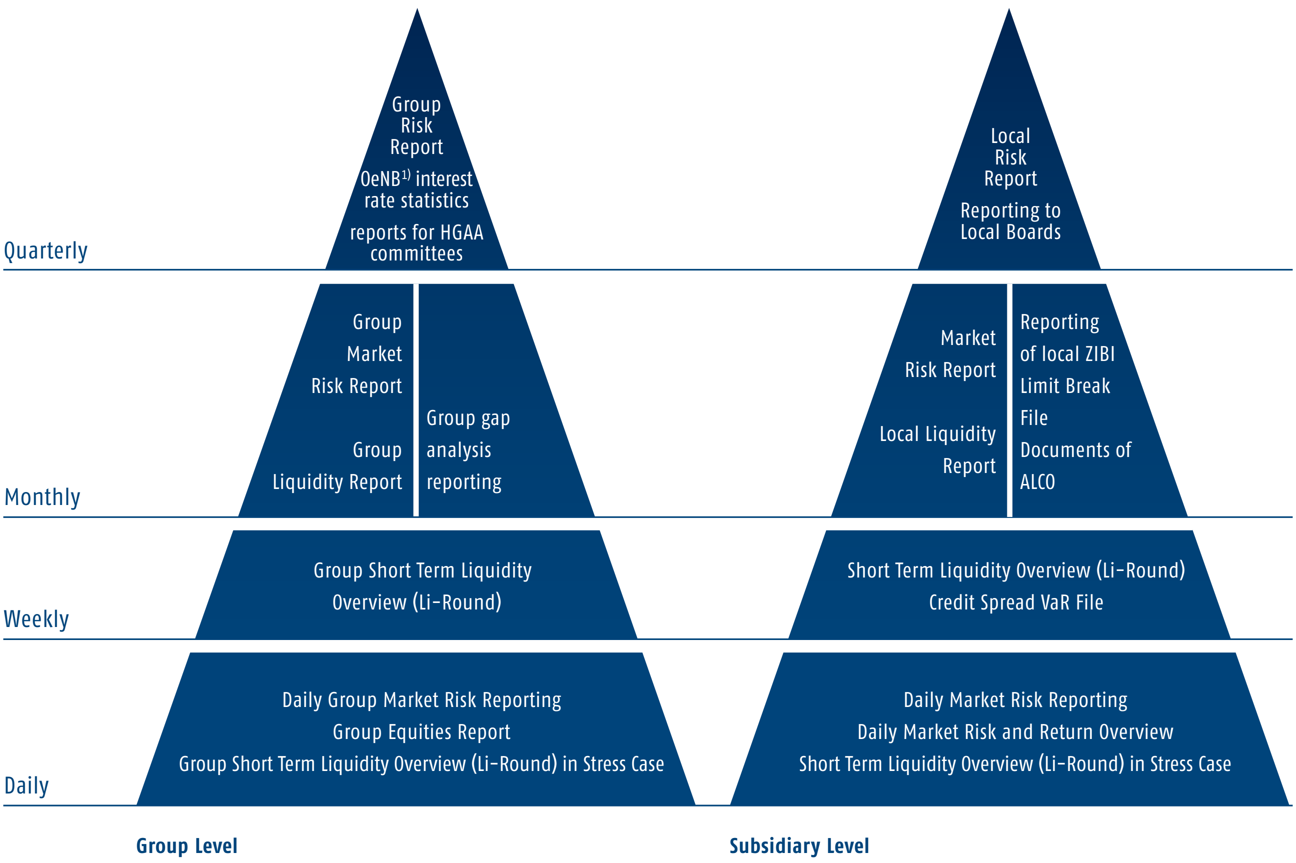
Subsidiary Level

2 Produced in the Group , for transmitting the report to the subsidiary, Management Summary sent by the subsidiary to the Group

The primary objective, apart from standardising reporting, was to standardise the data used for credit risk reporting. Working together with Group Organisation & IT, a group data warehouse was created for this purpose. Every subsidiary will now be obliged, from the second quarter of 2010, to report the data to go to the group using BusinessObjects and to use this for local credit risk reporting as well. As a result of this every credit risk report will be based on uniform data. Work will continue on optimising reporting possibilities and on assimilating local reporting requirements into the group data warehouse in 2010. Hypo Alpe-Adria-Bank International AG, as a stand-alone organisation, will look to exploit the possibilities even more in 2010. Credit risk, country risk and currency risk reports are currently being drawn up to use as local risk reports.

5.3.2. Market and liquidity risk reporting structure

The main risk reports compiled on market and liquidity risk in Hypo Alpe-Adria-Bank International AG are shown below:



[1] Oesterreichische Nationalbank

For stress scenarios the reporting frequency can be increased, if required. In addition to the group reports shown above, there are relevant daily reports produced at local level which are sent to Hypo Alpe-Adria-Bank International AG.

5.4. Capital management

As part of the overall management of risk, capital management for Hypo Alpe-Adria-Bank International AG is based on a multi-dimensional planning process, which consolidates strategic, risk-oriented and regulatory aspects as part of a long-term operational plan.

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

Risk Controlling then prepares a risk limit for Hypo Alpe-Adria-Bank International AG on the basis of the strategy approved, which then, working together with the business segments, is transposed onto the bank's individual operating units. The risk limit covers the framework conditions for the business strategy of the business segments as well as the intended target rating of the bank.

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

5.4.1. Regulatory adequacy of capital (solvency)

Hypo Alpe-Adria-Bank International AG 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. Supplementary 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 internal target for the Tier 1 ratio (ratio of Tier 1 capital to risk assets) and an internally set ratio for the overall indicator (ratio of capital resources to 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.

5.4.2. Economic capital (risk-bearing capacity)

In addition to ensuring regulatory capital requirements are met, securing the group's ability to carry economic risks forms a central part of controlling activities within Hypo Alpe-Adria-Bank International AG.

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

These limits provide a framework within which the decision-makers can act and ensure, in a methodical and procedural manner, that sufficient risk coverage volumes are in place to cover the risks incurred.

Risk coverage volumes are uniformly defined across the group. 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 Alpe-Adria-Bank International AG monitors the risk profile and ensures risk-bearing capacity through comparisons of risk capital and risk capital requirements.

The regulatory requirements and limitations are applied equally to capital components which form part of own funds, such as silent contributions and participation rights. In addition to these, other items such as the projected annual profits for the year in question are included in the determination of the risk coverage volumes. The possible losses identified through economic risk measurement must be set against the actual net asset value to hand.

For the purpose of determining risk capital requirements, both Hypo Group Alpe Adria and its strategic subsidiaries continuously examine the risk types as determined in the risk strategy. 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 99.9 % (at a one-year holding period).

5.5. Credit risk (counterparty default risk)

5.5.1. Definition

In terms of scale, credit risks constitute the most significant risks for Hypo Alpe-Adria-Bank International AG. They originate mainly out of the lending 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.

5.5.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the credit business as well as for the risk control methods to be used, and is supplemented by further policies such as the monitoring policy or problem loan policy, 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 – by the Advisory Board, Executive Board, and Credit Committee, as well as by key staff in the front office and the analysis units of the risk office.

The Credit Committee is a permanent institution of Hypo Alpe-Adria-Bank International AG and the key authority on credit matters below the Executive Board.

The Group Risk Executive Committee (GREC) is responsible for matters relating to the system and methods used in credit risk controlling, unless a decision by the Executive Board is required for matters with far-reaching effects.

5.5.3. Risk measurement

Hypo Alpe-Adria-Bank International AG 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 the group parent company itself, working together with RSU Rating Service Unit GmbH & Co. KG, will ensure that they remain equal to the task of calculating default probabilities in the various customer and/or financing segments.

5.5.4. Internal rating systems

The rating systems currently utilised within HGAA are available to Hypo Alpe-Adria-Bank International AG where required. Authority to assign ratings is regulated as part of the credit process in the relevant policies.

Uniform group procedures are followed in the public finance, banks, special financing, structured products, private clients, SME and corporate segments.

Specific regional modifications are made to the ratings where required.

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.

The back office is responsible for ensuring the completeness and quality of ratings for risk-relevant transactions, while the front office is responsible for the same for non-risk-relevant transactions (four-eyes-principle). Group Credit Risk Control will regularly monitor quality at the portfolio level and report to the Executive Board.

As part of a newly-developed validation system, the performance of the rating systems (subject to the existence of sufficient data) is examined on an annual basis.

5.5.5. Risk mitigation

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

For the banks, limits are set and monitored independently by Risk Controlling. If limits are exceeded, this is communicated immediately to the CRO and reported to Hypo Alpe-Adria-Bank International AG ALCO.

In all other segments, limit control is carried out through a group-wide ruling on authorisation levels ("Pouvoir-Ordnung").

At portfolio level there are country limits to prevent the formation of concentrations; breaches of limits are escalated to Executive Board level, and the operational areas are required to work together with the back office functions to define measures to control these concentrations.

At the level of the individual customer, an upper limit on concentration has been introduced. The instruction states that HGAA will not enter into an exposure greater than EUR 50 m with any customer. The only exceptions are strategic partners, for whom HGAA manages day-to-day refinancing affairs, and certain local government authorities. Exceptions must be approved at least once a year by the Executive Board. For all concentrations falling under the new definition, medium-term strategies to reduce the concentration must be defined by the market units. These will be monitored by the Group Credit Risk Control unit.

In addition there are soft limits (for example, by rating class), the objective of which is to balance out the risk profile of the bank. Any breaches of these limits are reported to the Executive Board by way of the normal risk reporting process.

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

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

5.5.6. Strategy and procedure to assess and manage collateral that has been applied and is eligible for inclusion
The stipulations for the evaluation and processing of collateral are governed by the collateral policy. Ensuring ongoing legal enforceability generally involves the use of standardised contracts and ongoing legal monitoring – in particular of foreign legislation – through cooperation with other institutions.

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

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

A description of all generally accepted collateral is given in the collateral policy.

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

5.5.7. Risk controlling and monitoring
All commitments are monitored using defined early-warning indicators (e.g. days in arrears) and ratings.

The principle goal of all activities is to minimise or prevent potential defaults for Hypo Alpe-Adria-Bank International AG by initiating suitable measures to give intensive customer support or deal with a potential bad debt and – if possible – to guide the customer back to a stable situation requiring standard support.

The formation of individual value adjustments (date and amount) is governed by the problem loan policy.
Group Credit 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.

5.5.8. Portfolio overview – credit risk
There are differences in the treatment of exposure between the accounting and risk controlling functions. Accounting takes the carrying amounts and risk controlling the fair value as the basis for reporting.

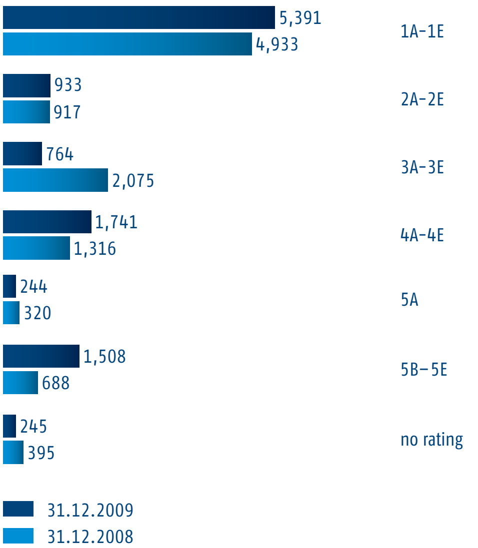
As a result of the changes in principal owner from BayernLB to the Republic of Austria, loans and advances pertaining to BayernLB are no longer shown as consolidated figures. Furthermore, internal guarantees for group subsidiaries with no reference to Austria are also now shown as consolidated. For this reason, the figures for 2008 have been retrospectively modified and can therefore no longer be compared with the previous year's figures. The loans and advances that would be included in HGAA's scope of consolidation in accordance with the Austrian Enterprise Code have been excluded from all credit risk overview reports. As a result lines of refinancing for banking and leasing units are not shown.

In the year under review, Hypo Alpe-Adria-Bank International AG's gross exposure increased by EUR 182 m or 1.7 %. Unless otherwise stated, the amounts in the following tables are in EUR m.

Gross exposure by rating classes within Hypo Alpe-Adria-Bank International AG

Approximately 58.4 % of the Gross exposure is investment grade (rating classes 1A to 2E).

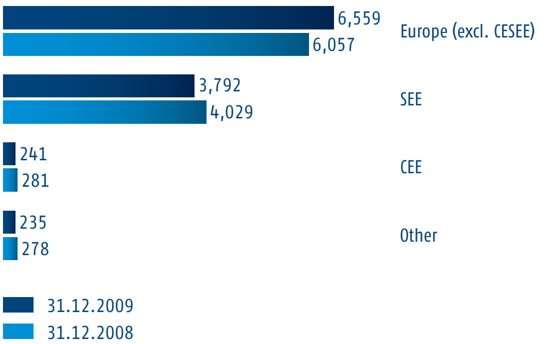
in EUR m



Gross exposure by regions within Hypo Alpe-Adria-Bank International AG

The country portfolio of Hypo Alpe-Adria-Bank International AG is concentrated in the EU and South-Eastern Europe.

in EUR m

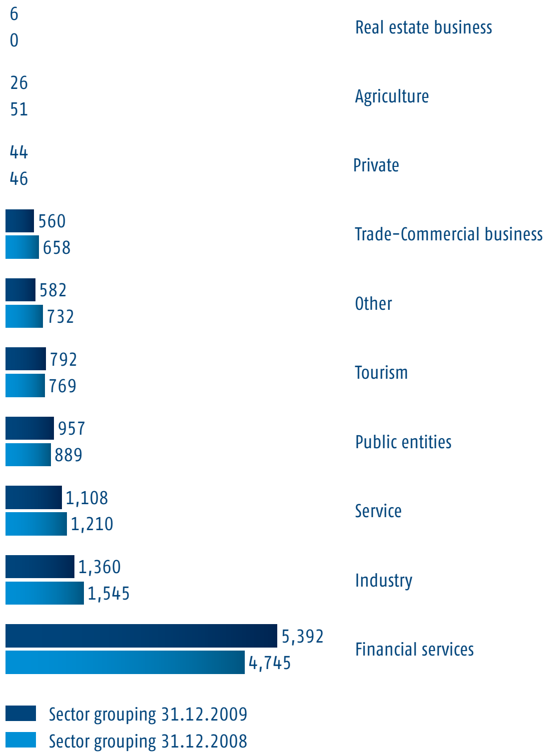


Gross exposure by industry sector within Hypo Alpe-Adria-Bank International AG.

So that it can manage industry exposure economically and align it to strategy, Hypo Alpe-Adria-Bank International AG 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 58.6 %.

Gross exposure by industry sector is broken down as follows:

in EUR m



Hypo Alpe-Adria-Bank International AG's industry portfolio – in particular the corporate portfolio – is well-diversified. There is no sector-based concentration risk.

The expansion of the portfolio took place primarily in the areas of financial services and the public sector.

Gross exposure by sector and region

The risk driver in the Hypo Alpe-Adria-Bank International AG credit portfolio is the loans and receivables to customers (private, corporate, public sector etc.). In the year under review, these were broken down as follows (by industry and region):

Sectors

EUR m

Description	Europe (excl. CESEE)	SEE	CEE	Other	Total
Financial services	5,077	122	84	108	5,392
Industry	201	1,157	2	0	1,360
Service	260	753	20	76	1,108
Public entities	711	106	132	9	957
Tourism	72	720	0	0	792
Other	181	370	3	29	582
Trade-Commercial business	56	491	0	13	560
Private	1	43	0	0	44
Agriculture	0	26	0	0	26
Real estate business	0	6	0	0	6
Total	**6,559**	**3,792**	**241**	**235**	**10,826**

The sectors Industry, Service and Trade-Commercial business have a large share of the SEE portfolio.

The breakdown in 2008 was as follows:

Sectors

EUR m

Description	Europe (excl. CESEE)	SEE	CEE	Other	Total
Financial services	4,353	122	141	129	4,745
Industry	218	1,324	3	0	1,545
Service	265	841	20	84	1,210
Public entities	722	28	116	22	889
Tourism	70	698	0	0	769
Other	345	359	0	27	732
Trade-Commercial business	83	561	0	13	658
Private	0	51	0	0	51
Agriculture	1	44	0	1	46
Real estate business	0	0	0	0	0
Total	**6,057**	**4,029**	**281**	**278**	**10,645**

Gross exposure by volume

Approximately 30 % of gross exposure can be found in the large-volume segment (EUR >250 m). The reason therefore is high investment in liquidity reserve at the Austrian National Bank (OeNB).

EUR m

Size classes	31.12.2008	31.12.2009
up to EUR 1 m	1,583	53
> EUR 1 m – 5 m	689	542
> EUR 5 m – 10 m	820	679
> EUR 10 m – 20 m	1,208	1,065
> EUR 20 m – 50 m	2,012	2,162
> EUR 50 m – 100 m	1,899	1,394
> EUR 100 m – 250 m	1,583	1,690
> EUR 250 m – 500 m	850	790
> EUR 500 m – 1 bn	0	518
> EUR 1 bn – 2.5 bn	0	1,934
Total	**10,645**	**10,826**

5.5.9. Impairment of financial assets

Financial assets which are neither overdue nor impaired

EUR m

	31.12.2008		31.12.2009	
Rating class	Gross Exposure	Collateral	Gross Exposure	Collateral
1A–1E	4,921	234	5,391	173
2A–2E	900	104	933	102
3A–3E	2,041	966	749	349
4A–4E	1,225	653	1,455	725
no rating	388	58	234	70
Total	**9,476**	**2,016**	**8,762**	**1,419**

Financial assets which are overdue but not impaired

EUR m

Asset classes	31.12.2008 Gross Exposure	Collateral	31.12.2009 Gross Exposure	Collateral
Financial assets	**0.0**	**0.0**	**0.0**	**0.0**
- 181 to 365 days	0.0	0.0	0.0	0.0
Loans and receivables to credit institutions	**0.0**	**0.0**	**0.0**	**0.0**
- overdue 181 to 365 days	0.0	0.0	0.0	0.0
- overdue more than 1 year	0.0	0.0	0.0	0.0
Loans and receivables to customers	**713**	**257**	**589**	**288**
- overdue 31 to 60 days	11	6	19	4
- overdue 61 to 90 days	54	24	0	0
- overdue 91 to 180 days	308	151	173	122
- overdue 181 to 365 days	330	73	395	162
- overdue more than 1 year	10	3	3	0
Total	**713**	**257**	**590**	**288**

Impaired financial assets

EUR m

Asset classes	31.12.2008 Gross Exposure	Provisions	Collateral	31.12.2009 Gross Exposure	Provisions	Collateral
Financial assets	22	110	0	0	0	0
Loans and receivables to credit institutions	11	7	0	29	23	0
Loans and receivables to customers	422	255	193	1,446	820	575
Gross exposure total	**456**	**372**	**193**	**1,474**	**843**	**575**

Renegotiations

No change in conditions relating to creditworthiness was made to any financial assets as part of any renegotiations in 2009.

Realised collateral

There were no realisations of collateral in 2009.

5.6. Participation risk

5.6.1. 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. letters of comfort) or profit/loss transfer agreements (loss absorption).

5.6.2. General requirements

In previous years, to achieve its business objectives, Hypo Alpe-Adria-Bank International AG (or a subsidiary) invested in companies which either served to expand its business spectrum, provide services for the bank or function as purely financial holdings. 2009, in contrast to the previous years, was characterised more by portfolio rationalisation and in individual cases by disposals.

The handling of participation risks is governed by the group participation policy. The policy governs in particular the differentiation between strategic and non-strategic/quasi-credit/credit-replacing participations. Another objective is to ensure the development of a uniform process for participations at Hypo Group Alpe Adria and at its group-wide strategic or non-strategic participations, 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 participations are monitored for results and risk on a continuous basis. Hypo Group Alpe Adria pursues the objective of generating appropriate and lasting returns following consideration of risk provisions. Over and above the centrally prescribed principles of risk management, each company in the group is responsible for implementing the same principles as part of meeting its statutory obligations.

5.6.3. Risk measurement

The measurement of participation risk is carried out within Hypo Group Alpe Adria for the ICAAP using the standard approach (practical implementation: ICAAP = book value * risk weighting as per SolvaV (always 100%) * statutory capital adequacy 8 %).

5.6.3.1. Risk controlling and monitoring

Hypo Alpe-Adria-Bank International AG has, in the Group Credit Risk Control function, its own independent, central unit with the authority to set guidelines on all methods and processes connected with management of participation risk. 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 participations (risk classification tool). Essential aspects in this regard are the maximum loss potential as well as an estimate of the risk of the participation. The classification of participations 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 participations, and is automatically shown in the risk classification tool.

The risks from participations are presented using the risk classification procedures (RKV) as part of the annual participations report to the Executive and Supervisory Boards. Ad hoc reports are prepared for decision-makers if early warning signals are detected. Critical holdings are monitored as part of the intensive or problem credit processes.

5.7. Country risk

5.7.1. Definition

Country risk is the risk that a business partner in a given country or the government of the country itself, because of sovereign measures taken or economic/political problems, no longer meets its obligations 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, moratoria, embargoes, wars, revolutions, or coups in the respective countries.

5.7.2. General requirements

As part of its business activities and in pursuit of its long-term strategy Hypo Group Alpe Adria knowingly assumes country risks which are limited in size.

5.7.3. Risk measurement

Country risk is measured in relation to the total credit risk exposure per country using the country ratings and the LGD of the former holding company, BayernLB. These will be replaced in 2010.

5.7.4. Risk mitigation

A limitation of country risk 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.

5.7.5. Risk controlling and monitoring

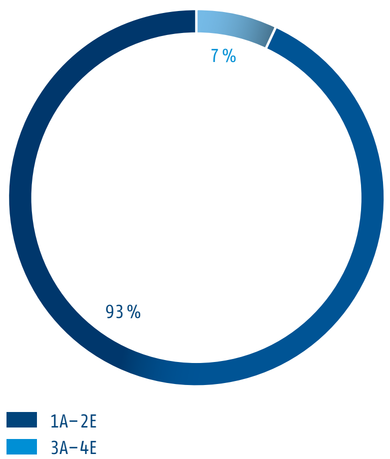
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports can also be prepared as required.

5.7.6. Portfolio overview – country risk

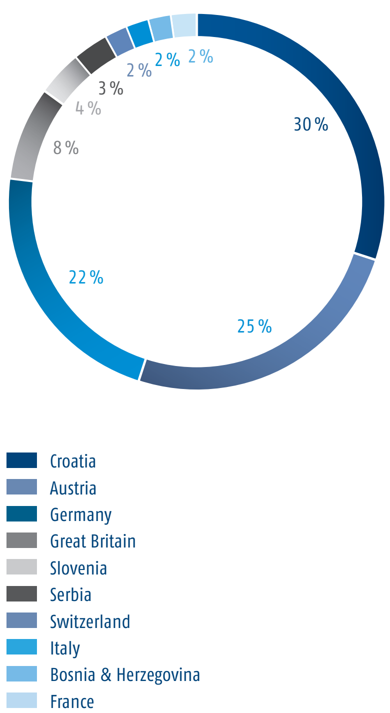
The portion of gross exposure in countries with rating class 1A-2E is 93 %. Approximately EUR 0.7 bn of gross exposure was in countries with a rating worse than 2E at the end of 2009.

The share of the top 10 countries in the overall volume is 86 %. Of this, Croatia and Austria have the largest share.

Gross exposure – country rating distribution



Top 10 countries, by gross exposure
in EUR bn



5.8. Market price risk

5.8.1. Definition
Market risks consist of potential losses due to a change in market prices. Hypo Alpe-Adria-Bank International AG classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility 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 management of assets and liabilities.

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, these are taken into account as part of the risk limitations for market risks.

5.8.2. 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); and at Hypo Alpe-Adria-Bank International AG level by the local Asset Liability Committee.

As part of the daily reporting procedure, the Executive Board receives value-at-risk and performance figures for trading transactions on a daily basis and figures on banking book investments and market risk steering on a weekly basis. There is also a daily report to the Executive Board in which the key risk and performance figures of the subsidiaries are communicated. In these the value-at-risk at the subsidiary level is compared to the defined limits. Limit breaches initiate defined escalation processes up to Executive Board level.

5.8.3. Risk measurement
Hypo Alpe-Adria-Bank International AG calculates its market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99 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 liquidation over a time period of 126 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 Alpe-Adria-Bank International AG. 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 positions are accounted for 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 calculated in relation to the regulatory equity are well below 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.

5.8.4. Risk mitigation

In accordance with the new risk strategy for the group, which was signed off in August 2009, in which a limit of ten per cent of risk capital was set for market risk, a limit was extrapolated for market risk for Hypo Alpe-Adria-Bank International AG. The amount of risk capital set represents the maximum loss that may be incurred for absorbing market risk. Market risk capital is distributed over individual market risk factors (interest rate, currency, shares, credit spread, volatility and alternative investments) by setting risk factor limits. Risk factor limits are also further defined and differentiated through defined partial portfolios.

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

5.8.5. Risk controlling and monitoring

All market risks are centrally monitored by Group Market Risk Control, which is independent of all trading activities. In addition to regulatory requirements, this unit also ensures risk transparency and regular reporting to the Executive Board member responsible for this area. The Board also receives a separate monthly report on the actual market risk situation as well as on back testing and stress test results with a commentary on potentially significant developments.

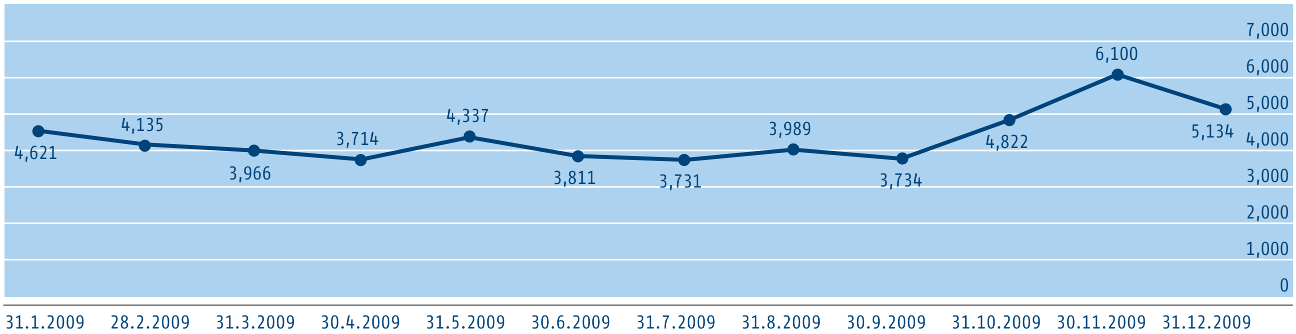
The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Group Asset Liability Committee, which consists of the Hypo Alpe-Adria-Bank International AG Executive Board as well as key staff in Treasury, Risk Control and Financial Controlling, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity controlling

5.8.6. Overview of market risk

The fixed-interest period statement for Hypo Alpe-Adria-Bank International AG 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, with local models for country-specific transactions.

The graph shows the interest rate change risk for Hypo Alpe-Adria-Bank International AG at overall bank level (trading book and banking book).

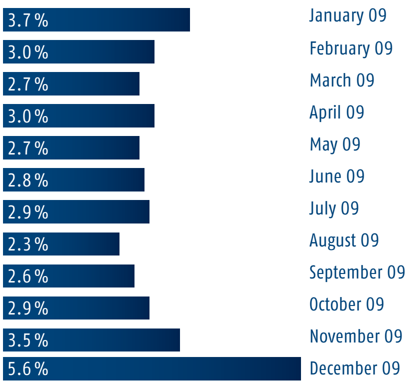
Interest Rate Risk (Trading Book + Bank Book) – VAR (99 %, 1 day)
EUR '000, 31.12.2009



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 Hypo Alpe-Adria-Bank International AG's fixed-interest period statement; a second step calculates the risk equity ratio as a percentage of capital resources.

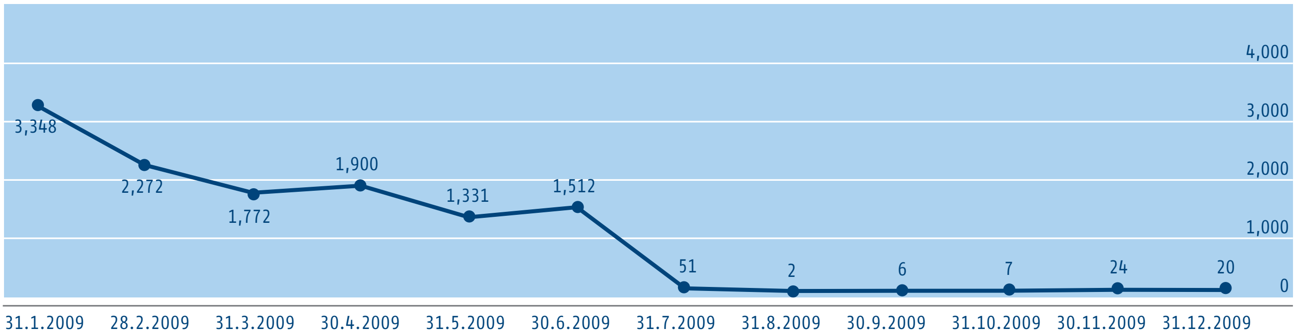
At no point during the year was there any threat that the regulatory limit of 20 %, and the internal limit of 15 %, might be reached or breached.

Interest Risk Equity Ratio in %



The data basis for determining the value-at-risk for open foreign currency positions at Hypo Alpe-Adria-Bank International AG is based on the figures of the OeNB report and contains operational business activities. The value-at-risk for this foreign currency risk was EUR 19,635 per day as at December 31 2009, at a confidence interval of 99 %.

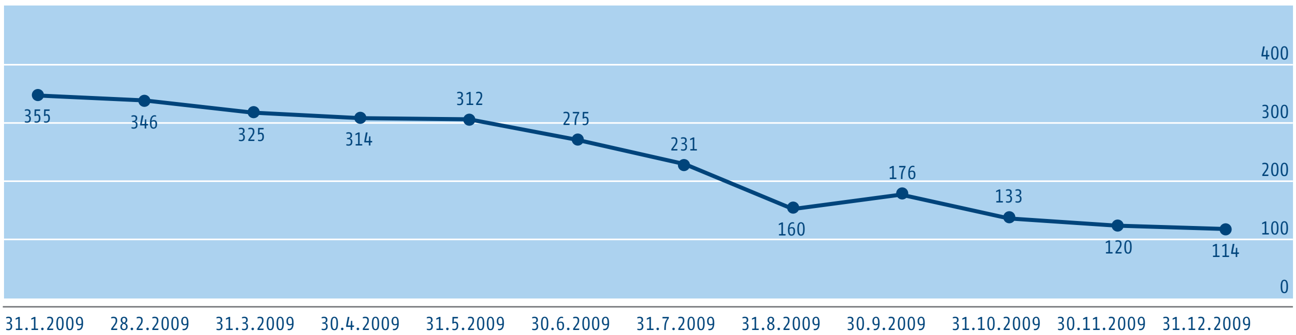
Change in VAR – open foreign currency positions
EUR '000, 31.12.2009



In addition to the foreign currency risk arising from operations, Hypo Alpe-Adria-Bank International AG has an open currency position arising out of the hedging of an open strategic currency position at group level. This has come about as a result of the consolidation of Hypo Alpe-Adria-Bank International AG's strategic investment in Hypo Alpe Adria Bank A.D. Beograd. As at 31 December 2009 the Value at Risk (99 %, 1 day) from this hedging activity by Hypo Alpe-Adria-Bank International AG comes to approximately EUR 1.29 m and compensates the foreign currency risk at group level for the same amount.

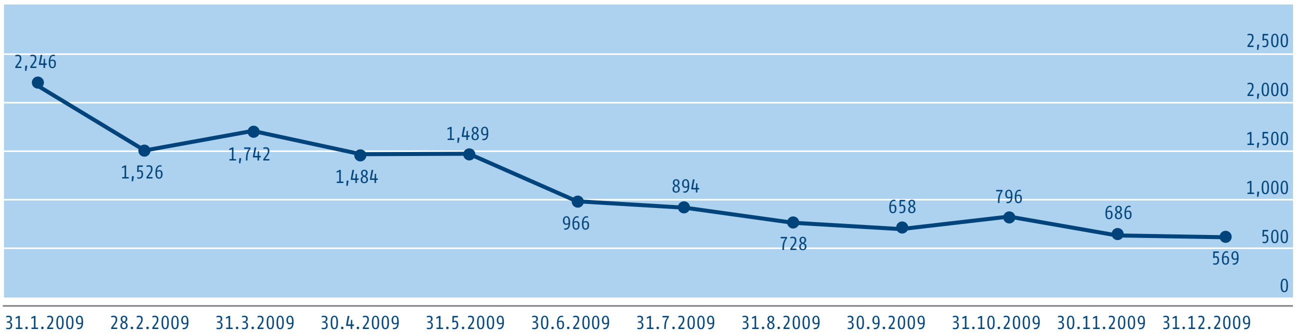
The value-at-risk for share risk at Hypo Alpe-Adria-Bank International AG stands at EUR 114,000 as at 31 December 2009, with a holding period of one day and a confidence level of 99 %.

Change in Equity Risk
EUR '000, 31.12.2009



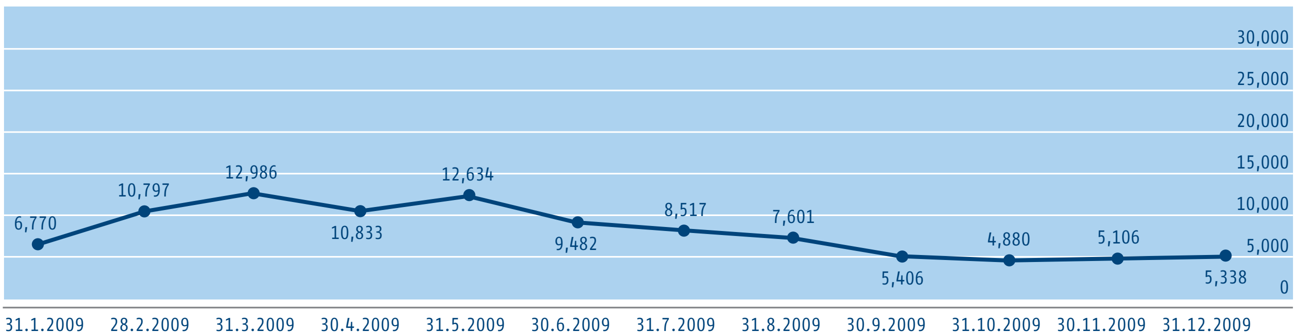
The Alternative Investment risk within Hypo Alpe-Adria-Bank International AG at year-end 2009 stands at EUR 0.57 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in VAR – Alternative Investments
EUR '000, 31.12.2009



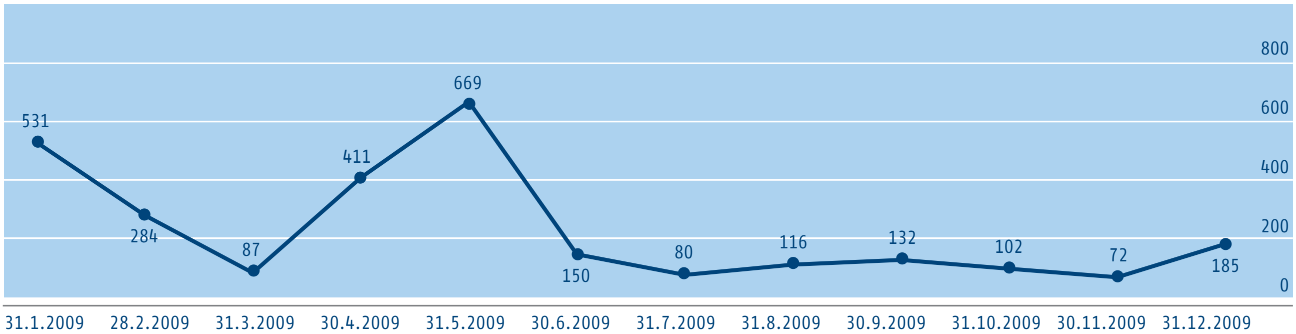
The credit spread risk for Hypo Alpe-Adria-Bank International AG at year-end 2009 stands at EUR 5.34 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in Credit Spread Risk
EUR '000, 31.12.2009



The volatility risk for Hypo Alpe-Adria-Bank International AG at year-end 2009 stands at EUR 0.19 m, with a 1-day value-at-risk and a confidence level of 99 %.

Change in Volatility Risk
EUR '000, 31.12.2009



Volatility risk is defined within Hypo Alpe-Adria-Bank International AG as the risk of changes in the net present value of open positions held by the Treasury unit through the change in implicit volatility.

5.9. Liquidity risk

5.9.1. Definition

Hypo Alpe-Adria-Bank International AG defines liquidity risk as the risk of not being able to meet due payment obligations on time or, in full amount; 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.

5.9.2. General requirements

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

Liquidity steering and management are the responsibility of the Group Treasury division in Hypo Alpe-Adria-Bank International AG. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at group level, takes place. Liquidity risk controlling in Hypo Alpe-Adria-Bank International AG is the responsibility of the Group Market Risk Control and it is here that risk measurement, limitation as well as timely and consistent reporting are carried out.

Hypo Alpe-Adria-Bank International AG 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 event of a liquidity crisis, the priorities of the bank are to rigorously maintain the capacity to pay and to prevent damage to the bank's reputation.

5.9.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe-Adria-Bank International AG 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 time bands.

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

- free access to central bank and interbank funds,
- other available and eligible securities,
- issue potential in cover register
- senior bond issues
- subsidised loans, as well as
- securitisation potential.

In addition to the normal scenario, 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 outflow as well as transfer limits), supplement the risk measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation. Liquidity ratios (showing tightest liquidity position) and "time-to-wall" key figures (showing maximum liquidity time horizon) for up to one year are calculated to evaluate the liquidity situation – although particular importance is attached to the utilisation over the first 4 weeks.

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

5.9.4. Risk steering

A bundle of different liquidity reserves ensures that Hypo Alpe-Adria-Bank International AG 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.

Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-capable securities and/or securities that can be quickly liquidated as well as guaranteed interbank lines of credit.

A cashflow statement composed of deterministic, stochastic and forecast data forms the basis of this process. Short term forecast data is elicited directly from client transactions by the operating units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity 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.

5.9.5. Risk monitoring

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

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at group level and for the individual subsidiaries, and are monitored constantly.

To ensure that existing liquidity gaps can be closed at any time through the mobilisation of the liquidity potential, threshold values are being defined for all scenarios and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board and the controlling units responsible for liquidity risk.

5.9.6. Overview – liquidity situation

At the beginning of 2009, the situation in the international money and capital markets was still heavily influenced by the events in 2008. The markets only functioned in a limited way at the beginning; the situation improved in the course of the year, trust between the banks grew and investors were also prepared to make liquid funds available for longer periods of time. Hypo Alpe-Adria-Bank International AG's situation was made more difficult in this environment, because of the discussions about its shareholder structure and the charges arising on the lending business.

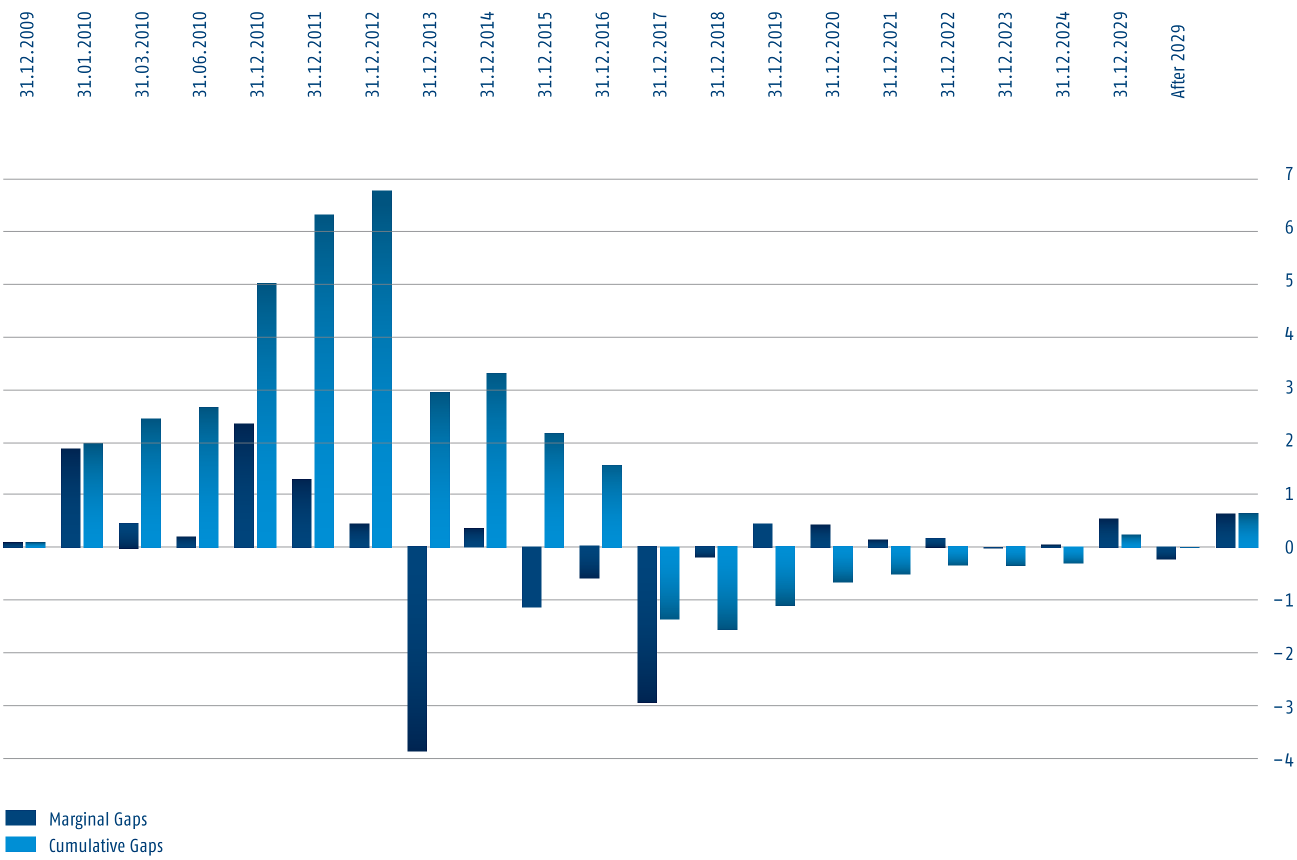
In keeping with the difficult conditions Hypo Alpe-Adria-Bank International AG initiated various measures from its emergency liquidity plan and drew on its liquidity reserves more strongly than before. As a result, the group was able to ensure its ability to pay at all times and, towards the end of the year, also to increase the liquidity coverage for the expected, stressed outflows to over 52 weeks.

When the Republic of Austria became sole shareholder and the existing owners exited the business, measures to secure mid-term liquidity and the own funds situation were agreed.

The illustration below shows a liquidity profile for Hypo Alpe-Adria-Bank International AG as of 31 December 2009, for which liquidity gaps were determined from balance sheet items partly on the basis of their contractual due dates (deterministic cash flow) as well as on the basis of uniform modelling assumptions (stochastic cash flows).

As the illustration shows, the refinancing structure has been configured on a long-term basis: the main due dates for issues go out as far as 2017; the due dates for refinancing by the Bayerische Landesbank have been extended to 2013. These due dates will be taken into account in the planning of future possible funding potential and new business accordingly aligned.

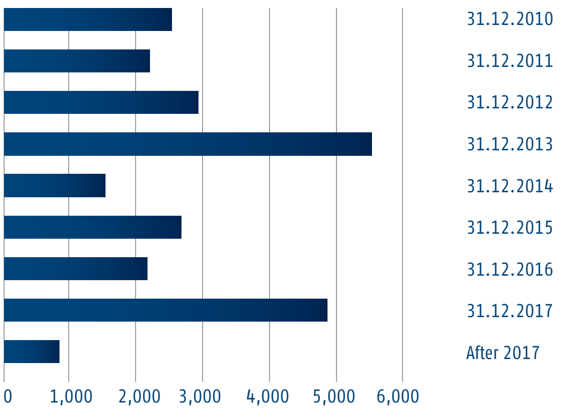
Hypo Group Alpe Adria Liquidity Gap Balance per Time Bucket
in EUR bn



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

- Current accounts, call money and cash collaterals are due on the next working day.
- Cancellable positions are due at the next possible cancellation date
- Equity components and accruals and value adjustments are not represented

Hypo Alpe-Adria-Bank International AG – due dates for financial liabilities
in EUR m



As the graph shows, in addition to the conservative modelling of liabilities in the first maturity band, the main due dates for issues and refinancing stretch out to 2017. This is taken account of in the funding planning, with special focus directed at broadening the liquidity resources and defining measures and a framework for ensuring the finance base for Hypo Alpe-Adria-Bank International AG's business activities.

In the year under review the liquidity controlling and risk measurement systems were audited by the Austrian National Bank working together with the German regulatory authorities. The findings from this extensive audit are being integrated into the ongoing improvements to the systems and rolled out across the group.

5.10. Operational risk

5.10.1. Definition

Die Hypo Alpe-Adria-Bank International AG 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.

5.10.2. General requirements

The objective of operational risk management at Hypo Alpe-Adria-Bank International AG 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 Risk 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.

5.10.3. Implementation

All banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidation, are fully taken into account in the implementation of the operational risk management processes.

Other non-consolidated subsidiaries are required to agree the scope of implementation separately with the group.

OpRisk responsibility at sub-organisations of the subsidiaries is the responsibility of the subsidiary concerned.

In order to ensure synergy effects are achieved, 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.

5.10.4. Responsibilities

Based on the current structure of Hypo Alpe-Adria-Bank International AG, the main areas of responsibility for operational risk are defined as follows:

- 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.
- Operational risk officers in the Group Credit Risk Control division of Hypo Alpe-Adria-Bank International AG are responsible for directing the group and supporting its subsidiaries.

The operational risk officers of the subsidiaries are responsible for the local implementation of operational risks and for reporting to the Group.

- With the support of the decentralised operational risk officer, divisional managers are responsible for the implementation in their areas, as well as quality assurance.
- The decentralised operational risk officer is also responsible for the monitoring and implementation of standards and methods within the divisions and departments.

5.10.5. 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.

The operational risk management software ("Inform") forms the platform for implementing the instruments at Hypo Alpe-Adria-Bank International AG.

The following methods are used to support the strategy:

- loss database for the systematic data capture of operational risks throughout the organisation;
- qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes;
- regular reports as an instrument for communicating material operational risks to the Executive Board.

5.10.6. Thresholds for the data capture of losses

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

5.11. Summary and outlook

Hypo Alpe-Adria-Bank International AG has further expanded its risk controlling and management instruments in 2009. Significant progress has been made in a number of areas. The requirements resulting from the new equity agreement pursuant to Basel II and MaRisk were a major factor in this development. Furthermore, the bank's control systems have been successively adapted to BayernLB standards. Work on improving and optimising these standards will be carried out as part of a larger project in 2010.

Hypo Alpe-Adria-Bank International AG possesses a forward-looking risk management and controlling system, which is being continuously adapted to internal and external requirements. Attention will be paid both to compliance with regulatory requirements and to alignment with the group's strategy in the future development of processes to map and control risk.

A risk reduction strategy has been implemented for all of Hypo Group Alpe Adria's portfolios with the exception of Norica, the Credit Management positions and the liquidity protection portfolios. A continuation of the de-risking strategy for the operative treasury transactions is planned for 2010.

The organisation of Hypo Alpe-Adria-Bank International AG is tailored to its risk profile, and takes into account the complex market conditions in which the bank operates. There is ongoing work on the continual improvement of risk systems and processes. Control and monitoring of all risk types, including all reporting requirements for the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG, constitute the central tasks of risk controlling.

In the year under review, Hypo Alpe-Adria-Bank International AG also focused on rolling out the methods and processes for risk identification and control to its strategic subsidiaries. By focusing on the consistent implementation of requirements and the development of risk instruments within the group as well, Hypo Alpe-Adria-Bank International AG's risk management has made an important contribution towards value-oriented management of the group.

In the area of liquidity risk management, a system giving greater assurance of data quality, liquidity measurement and controlling (Liquidity Ratio Tool LRT 2.0) is on the verge of being completed and rolled out across the group.

Account has been taken of the current difficult market conditions through the introduction of a new credit-granting process.

Hypo Alpe-Adria-Bank International AG views these activities as important factors contributing to the success of the group and giving it a competitive advantage, thereby creating sustained value for shareholders, investors and employees alike.

6. Internal control system for accounting procedures

Hypo Alpe-Adria-Bank International AG has an internal control system (Internes Kontrollsystem or IKS) for accounting procedures, in which appropriate structures and procedures are defined and implemented. As a result of the implementation of the "new lending procedures" in 2009 there have been organisational changes in the credit administration process, whose related accounting processes have not yet been implemented in full. Reference is therefore made to the final part of this section.

The bank's IKS is part of Hypo Group Alpe Adria's (HGAA) internal control system and is based on the COSO (Committee of the Sponsoring Organisations of the Treadway Commission) Framework, although the Executive Board has determined the scope and direction of the IKS on the basis of the specific requirements of the organisation.

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

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

The particular objectives with regard to the accounting procedures are that the IKS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that legal standards, accounting regulations and the HGAA internal group policy on IFRS and accounting reporting in accordance with the Austrian Enterprise Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the group financial results, are upheld.

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

The basic principles of the IKS are, in addition to such defined control activities as automatic and manual reconciliation processes, that of separating out functions and complying with policies, manuals and work instructions. The Group Accounting division, or rather, the Executive Board member responsible for finance to whom this division reports, is responsible for the controlling of the accounting process within Hypo Alpe-Adria-Bank International AG.

The processes, policies and control procedures which are already in place in the group companies are subjected to ongoing evaluation and development. As a result of these efforts to intensify existing systems in a practical way, further qualitative improvements were achieved during the year under review.

Hypo Alpe-Adria-Bank International AG, as the parent company of HGAA, draws up its accounts in accordance with the Austrian Enterprise Code (UGB)/Austrian Banking Act (BWG), transposes them to the IFRS framework and draws up the group financial statements in accordance with IFRS based on the data transmitted to Hypo Alpe-Adria-Bank International AG by the subsidiaries using a group-wide standard reporting tool.

The Executive Board is responsible for the implementation and monitoring of the internal control system, as well as for compliance with the group policies in force and for the correct and timely execution of the accounting processes and systems. The Executive Board uses the Internal Audit and Compliance units to assist it in monitoring compliance. The Audit division check as part of its regular auditing activity the effectiveness of the IKS and the reliability of the accounting function.

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

An on-site audit by the Austrian National Bank (OeNB) focusing on the credit risk management process and credit risk management at Hypo Alpe-Adria-Bank International AG took place in 2009. On the basis of the findings in the report dated 7 December 2009, some weaknesses with regard to the functional capability of the internal control system in the area of credit risk monitoring were identified. The bank is currently working intensively on correcting the problem areas identified, with the assistance of external support. The main findings in the OeNB audit report were already known to the bank, which had taken appropriate measures to address them.

In the wake of the current crisis it became apparent in 2009 that certain of the bank's and of the group's processes and systems were not sufficiently resourced to cope with the crisis-induced deterioration of conditions. The Executive Board therefore set in place appropriate measures to reallocate existing resources in a targeted way.

7. Research and Development

Hypo Alpe-Adria-Bank International AG does not pursue any research and development activities.

8. Events after the balance sheet date

In the shareholders' meeting of Hypo Alpe-Adria-Bank International AG held on 21 January 2010 it was resolved that there would be new appointments to all Supervisory Board positions appointed by the providers of capital. The Republic of Austria, as sole owner of the bank, passed a resolution appointing Johannes Ditz, Rudolf Scholten, Helmut Draxler and Alois Steinbichler as new members of the Supervisory Board. The Works Council of the bank appointed Erich Clima and Mario Zolle to represent their interests on the Supervisory Board. Following the resignation, in December 2009, of the former Chairman of the Supervisory Board Michael Kemmer, the serving members of the Supervisory Board Siegfried Grigg, Hans-Jörg Megymorez, Ralph Schmidt, Wolfgang Haller, Stefan Ermisch, Benedikt Haas, Hansjörg Christmann, Gudrun Sezen-Unterkofler and Alexandra Dohr also resigned as of 21 January 2010. In its first meeting on 25 January 2010, the Supervisory Board elected Johannes Ditz as its Chairman and Rudolf Scholten as its Deputy Chairman.

On 20 February 2010 it was announced that applications would be invited for four new Executive Board positions; and these positions subjected to an evaluation.

A special commission (called a Sonderkommission and given the name "SOKO HYPO") set up by the Republic of Austria started its work at the beginning of 2010. Hypo Alpe-Adria-Bank International AG announced that it would co-operate fully with the authorities, while pointing out that it must at all times strictly observe its legal obligation to maintain the interests of its bank customers.

In connection with the agreed exit of the previous owner and the complete acquisition of all shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria, the European Commission widened the scope of its ongoing enquiry into the provision of state aid, which it had begun in May 2009, to include these new measures. The European Commission provisionally approved the rescue plan put forward by the Republic of Austria on 23 December 2009 for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan in the first half of 2010, to enable it to judge whether the aid measures are in accord with EU laws on state aid. At the time of writing, it cannot be estimated with any degree of certainty when the EU proceedings will be concluded and whether the European Commission will accept the bank's restructuring plan, which is to be finalised in the first half of 2010, and thus retrospectively approve all the measures connected to issues of state aid and their intended compensation.

9. Outlook

Although forecasts for the economy in particular in comparison to the crisis years 2007 to 2009 can be deemed to be cautiously optimistic, economic experts are warning that it cannot yet be safely assumed that the economic and financial crisis will end in 2010. This is evidenced by the volatility of forecasts from renowned economic research institutions in recent months. The Executive Board is therefore assuming that the 2010 financial year will continue to be difficult.

Many of the real economies of CEE/SEE, which prospered greatly in recent years, have in part had to record significant reductions in their economic output in 2009. Economic experts are not, however, in agreement over how long and how deep the economic and financial crisis will last and how deep it will be. The International Monetary Fund's current forecasts assume that the economies of the "old" EU countries will, almost across the board, revive slightly in 2010; but for non-EU countries such as Montenegro or for "new" EU countries such as Hungary or Bulgaria positive economic growth is only forecast for the mid-term. In Croatia and Slovenia, markets which are important for the group because of its property and tourism portfolio, weak but positive stimuli for the economy are expected.

Of all the economies in the countries covered by HGAA, probably Ukraine has been hit the hardest by the financial crisis. In the course of the crisis, the hryvnia (the national currency) came under massive pressure to devalue; the situation was made even more critical by the country's dependence on foreign capital and by the downgrading of its credit rating by the ratings agencies. It must be assumed that there will be no rapid recovery of Ukraine's economy; however, the effects on Hypo Alpe-Adria-Bank International AG, which has a remaining exposure of some EUR 35 m in this country, can be seen as slight.

Hypo Alpe-Adria-Bank International AG is therefore expecting that the main macroeconomic parameters such as the unemployment rate, the number of overnight stays in the tourist industry (in particular in Croatia), the change in GDP and the strength of industrial order books, which are all relatively volatile at the moment, will continue to have a negative effect in 2010.

The bank sees the negative effects of this crisis, which has scarcely left any sector untouched, continuing to impact on its customers for the foreseeable future as well. Falling demand is leading to falling sales and ultimately profits for companies, with a consequent negative influence on their short and mid-term liquidity. Companies and customers, in turn, are increasingly only getting through their financial difficulties by making late payments or late repayments on their loans. As a rapid recovery of those sections of the economy which are important for the group back to the levels prior to the beginning of the crisis in 2007/08 is not evident in the IMF forecasts, a significant easing of the situation is not to be expected in 2010.

The Executive Board is of the opinion that the default risks in the financing portfolio, which became apparent as a result of the asset screening exercise, have been accounted for prudently through the creation of provisions in the financial statements for Hypo Alpe-Adria-Bank International AG for all risks identified. However, depending on how long the current economic crisis lasts and whether there are even stronger repercussions on the real economies of South-Eastern Europe, a further deterioration of the quality of the bank's portfolio, or those of its subsidiaries, cannot be ruled out.

An important factor in 2010 will be the future development of the market prices of those objects which were impaired as a result of failure to honour the financing contracts underpinning them. There was a discernible and general trend to lower market prices for property as well as for second-hand vehicles, ships and equipment in 2009.

Against this background, the bank will continue to push ahead speedily with the efficiency and structural optimisation project started in April 2009, which envisages a far-reaching reorganisation of the bank and group, and a market strategy which has been modified to adapt to current conditions. The year 2010 will be given over to the analysis and evaluation of the markets and business segments in which the group is active. On the basis of the results, the group will focus its future activities on markets in which it has accumulated expertise and which offer the greatest potential for increased value, in order to ensure a healthy business mix for the future.

Following the efforts already made in 2009 to implement the findings of the OeNB 2009 audit report, the focus in 2010 will be on drawing up further measures to take account of the findings.

The high level of losses recorded in 2009 led to a significant reduction in the group's own capital funds, which was in part compensated for by the contributions to restructuring made by the former shareholders. Taking into account a significant reduction in risk-weighted assets of around EUR 2.9 bn for the bank and EUR 4.6 bn for the group, the solvency ratio stood at 8.1 % and 9.9 % respectively as at 31 December 2009. In keeping with the current restructuring measures, the bank is planning a further, incremental reduction in its RWA base in the planning period.

This, together with the injection of EUR 600 m Tier 1 capital planned for the first half of 2010, of which EUR 150 m is to come from the former shareholders and EUR 450 m from the Republic of Austria, will give a sound basis from the regulatory point of view. After the turbulence of recent months the new shareholder structure, with the Republic as a dependable owner, will have a further stabilising effect.

With regard to the result that can be expected for the 2010 financial year, Management cannot give a firm forecast, due to the high degree of uncertainty surrounding the important parameters for economic and exchange rate development in the group's markets. On the basis of the current planning in March 2010, a return to profitability is not expected for 2010; the turnaround is targeted for the year after, in financial year 2011.

In subsequent years, and on the basis of the new restructuring plan, a further, significant reduction in the total assets of the bank and the group is planned. As part of the focus on a much smaller number of core activities and countries, the group will not only withdraw from certain business activities (such as cross-border financing) and forms of financing (such as asset-based lending), but will also look to withdraw completely from certain geographic regions.

In connection with this withdrawal, high restructuring and exit costs must be expected which – dependent on the point in time and state of the market at exit – may depress results in future periods. The exit will be executed in an orderly manner; and the effects of the exit will be felt in places as early as the 2010 financial year.

These far-reaching measures, which will change the composition of the group significantly, are an integral part of the restructuring plan which will be presented to the Commission of the European Union in the first half of 2010. On the basis of the plan the Commission will judge whether the planned measures form the basis for restoring the group to long-term profitability, whether sufficient own funds are being generated and whether sufficient measures are being taken to limit distortions to competition caused by state aid. It cannot be ruled out that the decision of the Commission could have a significant impact on the whole group. The implementation and achievement of the aims of the restructuring plan will be critical to ensuring the continuation of the credit institution.

On the basis of the restructuring measures introduced in the past year, which are already having a positive effect, and of the extensive provisions made for recognisable risks in the financing portfolio as well as the current EU restructuring plan, which goes even further in its measures, the Executive Board believes it has been diligent in playing its part in stabilising the position of the bank, as well as setting out a sustainable strategic direction for the positive future development of the group.

Klagenfurt am Wörthersee, 16 March 2010
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Franz Pinkl

Andreas Dörhöfer

Wolfgang Peter

Božidar Špan

Anton Knett

Balance sheet as of 31 December 2009

			2009 EUR	2008 EUR '000
ASSETS				
1. Cash in hand, balances with central banks			34,207,703.29	33,202
2. Treasury bills and other bills eligible for refinancing with central banks				
Treasury bills and similar securities			287,433,315.59	244,945
3. Loans and advances to credit institutions				
a) Repayable on demand		220,027,216.26		608,640
b) Other loans and advances		11,058,412,261.45		10,958,098
			11,278,439,477.71	11,566,738
4. Loans and advances to customers			11,899,888,570.44	12,122,002
5. Bonds and other fixed income securities				
a) Public sector issuers		71,971,778		72,641
b) Other issuers		1,107,525,991		999,949
thereof: own debt securities	EUR 147,474,391.06		1,179,497,769.11	1,072,590
	(prev. year: EUR '000: 50,498)			
6. Shares and other non-interest-bearing securities			28,133,185.76	168,646
7. Investments in associated companies			10,785,729.34	13,041
thereof: credit institutions	EUR 6,957,090.48			
	(prev. year: EUR '000: 8,678)			
8. Shares in affiliated companies			2,645,748,711.81	3,278,018
thereof: credit institutions	EUR 2,318,145,119.18			
	(prev. year: EUR '000: 1,978,283)			
9. Intangible fixed assets			2,431,806.03	3,033
10. Tangible fixed assets			1,581,718.73	1,568
thereof: Land and buildings used by	EUR 697,594.68			
the company for its own activities	(prev. year: EUR '000: 628)			
11. Other assets			512,041,066.38	540,771
12. Deferred assets			52,954,882.01	54,666
Total assets			**26,933,143,936.20**	**29,099,220**
Below-the-line memo items:				
1. Foreign assets			21,615,695,703.78	24,507,134

		2009 EUR	2008 EUR '000
LIABILITIES			
1. Liabilities to banks			
a) Repayable on demand	1,322,557,024.68		692,696
b) With agreed maturities or periods of notice	3,003,988,721.84		4,113,071
		4,326,545,746.52	4,805,767
2. Liabilities to customers			
a) Savings deposits, thereof:			
aa) Repayable on demand	2.00		54
bb) With agreed maturities or periods of notice	55,527.54	55,529.54	
b) Other liabilities, thereof:			
aa) Repayable on demand	177,266,378.05		93,124
bb) With agreed maturities or periods of notice	1,700,377,163.49		1,795,962
		1,877,643,541.54	1,889,140
3. Debt evidenced by certificates			
Bonds issued		17,977,556,654.71	18,005,836
4. Other liabilities		329,130,064.55	310,111
5. Deferred liabilities		78,498,010.73	88,859
6. Provisions			
a) Provisions for severance payments	3,066,761.00		2,536
b) Provisions for pensions	5,477,033.00		5,241
c) Tax provisions	0.00		12,272
d) Other	246,078,932.91		78,814
		254,622,726.91	98,863
7A. Fund for general banking risks		0.00	200,000
8. Subordinated liabilities		893,968,796.04	915,458
9. Supplementary capital		276,393,633.03	645,429
10. Issued capital		1,023,247,190.00	962,474
11. Appropriated paid-in capital		0.00	905,853
12. Revenue reserves		0.00	24,265
13. Liability reserves under section 23 (6) BWG		247,165,247.42	247,165
14. Retained profit		(351,683,204.79)	0
Total equity and liabilities		**26,933,143,936.20**	**29,099,220**
Below-the-line memo items:			
1. Contingent liabilities, thereof:		1,782,638,448.97	1,643,801
a) Acceptances and endorsements on discounted bills of exchange			
b) Guarantees and other collateral securities (prev. year: EUR '000: 1,643,801)	1,782,638,448.97		
2. Loan exposures		1,825,275,179.47	1,657,059
3. Eligible capital under section 23 (14) BWG		1,590,783,767.86	3,835,482
thereof: capital pursuant to section 23 (14) (7) BWG (prev. year: EUR '000: 11,940)	11,367,567.94		
4. Capital reserve requirements pursuant to section 22 (1) BWG		1,569,723,820.78	1,794,574
thereof: capital pursuant to section 22 (1) (1) and (4) BWG (prev. year: EUR '000: 1,782,634)	1,558,356,255.84		
5. Foreign liabilities		5,465,808,566.99	5,908,536

Income statement for the period from 1 January to 31 December 2009

					2009 EUR	2008 EUR '000
1.	Interest and similar income				1,445,782,886.01	2,068,401
	thereof: fixed-interest securities	EUR 47,118,350.37 (prev. year: EUR '000: 62,461)				
2.	Interest and similar expenses				(1,405,340,851.87)	(2,056,878)
I.	**NET INTEREST INCOME**				**40,442,034.14**	**11,523**
3.	Income from equity interests and investments					
	a) shares, other equity interests and non-interest-bearing securities			5,466,478.54		611
	b) associated companies			81,628.10		2,397
	c) affiliated companies			47,031,183.40		101,874
					52,579,290.04	104,882
4.	Fee and commission income				24.220.708,42	27,729
5.	Fee and commission expenses				(6,433,758.99)	(6,573)
6.	Net income from trading activities				9,470,270.41	(415)
7.	Other operating income				11,408,926.76	12,730
II.	**OPERATING INCOME**				**131,687,470.78**	**149,876**
8.	General administrative expenses					
	a) Staff costs					
	aa) wages and salaries		(24,517,399.20)			(19,793)
	bb) cost of statutory social security contributions and other pay-related contributions		(5,935,186.27)			(5,124)
	cc) other social welfare expenditures		(454,734.06)			(680)
	dd) expenses for pensions and other retirement benefits		(746,894.64)			(501)
	ee) pension provision allocation		(324,753.21)			
	ff) expenses for severance payments and contributions to employee severance funds		(9,907,203.96)			(1,119)
				(41,886,171.34)		(27,217)
	b) Other administrative expenses (operating expenses)			(85,903,597.24)		(67,032)
					(127,789,768.58)	(94,249)
9.	Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)				(1,693,058.47)	(1,744)
10.	Other operating expenses				(12,956,138.52)	(12,271)
III.	**OPERATING EXPENSES**				**(142,438,965.57)**	**(108,264)**
	of which: overheads	EUR 134,776,938.57 (prev. year: EUR '000: 108,264)				

		2009 EUR	2008 EUR '000
IV. OPERATING PROFIT		**(10,751,494.79)**	**41,612**
11./12. +/– net gain/loss on disposal or revaluation of receivables, contingent liabilities, loan exposures and securities held as current assets		(913,110,441.35)	(219,593)
13./14. +/– net gain/loss on disposal or revaluation of securities treated as financial investments and of interests in associated and affiliated companies		(1,419,077,263.19)	(272,172)
V. PROFIT FROM ORDINARY ACTIVITIES		**(2,342,939,189.33)**	**(450,153)**
15. Extraordinary income		1,085,130,733.05	0
of which: Release from the fund for general banking risks	EUR 200,000,000.00 (prev. year: EUR '000: 0)		
16. Extraordinary expense		(6,405,232.66)	(207,000)
of which: Allocation to fund for general banking risk	EUR 0.00 (prev. year: EUR '000: 200,000)		
17. Extraordinary result		1,078,725,500.39	(207,000)
18. Taxes on income		(16,600,596.93)	(8,334)
of which: expenses connected to group taxation arrangement	EUR 13,954,702.04 (prev. year: EUR '000: 11,522)		
19. Other taxes		(986,321.44)	(4)
VI. LOSS FOR THE YEAR		**(1,281,800,617.31)**	**(665,491)**
20. Changes in reserves, thereof:		930,117,712.52	650,991
Release of liability reserve	EUR 0.00 (prev. year: allocation EUR '000: 94,528)		
VII. PROFIT/LOSS CARRIED FORWARD		–351,683,204.79	–14,500
VIII. NET LOSS FOR THE YEAR		**–351,683,204.79**	**0**

Notes to the 2009 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) and the Austrian Stock Corporation Act (AktG), both as amended.

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

The balance sheet and income statement are presented in the form prescribed in Schedule 2 to Section 43 BWG. The option given in section (53)(4) and (54)(2) of the BWG to combine certain items in the income statement has been exercised. Except where otherwise stated, all amounts are shown in EUR thousands. The tables may contain rounding differences.

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. With regard to the continuance of the credit institution as a going concern, the Executive Board has made the same assumptions that underpin the group's restructuring plan drawn up for the purposes of the EU state aid investigation, although the future development of the business is accompanied by a high degree of uncertainty given the current global financial crisis and the economic crisis which is particularly acute in certain regions and is, above all, dependent on the further capital injection of EUR 600 m to strengthen the equity base contained in the restructuring plan and due by 30 June 2010.

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. The basic assumptions used in borrower and participation valuations have been modified as a result of the crisis.

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; risk provisions formed on loans and advances have been deducted. Premiums and discounts on issue are recognised under accrued assets and liabilities respectively and written back over the life of the security.

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

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

Securities forming part of the trading book are included at market value as of the balance sheet date. As a general rule, market values of financial instruments 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.

Investments in associated companies and shares in affiliated companies are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a writedown. The intrinsic value of their carrying amounts is checked as required, and at least once a year immediately prior to the balance sheet date. The securities designated to the banking book assets reflect the value of the two investment companies accordingly. The valuation of material subsidiaries, in particular the banking and leasing subsidiaries, draws on the current business plans and applies the net discounted cash flow method, which is common practice for banks and financial institutions. The underlying base interest rate used as at 31 December 2009 was 4.25%; country-specific market risk premiums were determined using recognised benchmark comparisons; and the Tier 1 ratio for the banking subsidiaries for the medium term of the planning period was taken to be 8.0 % (EU and accession countries) and 12.0 % (non-EU). Any amounts required to cover potentially negative equity in the subsidiaries are provided for in the year in which the loss arises. The basic assumptions used in participation valuations have been modified as a result of the crisis.

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 assets are between 2 and 4 %, for movable assets 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 in the year of acquisition.

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

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 5.25 % (2008: 6.0 %) and an unchanged annual pension increase of 2.0 %.

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 5.25 % (2008: 6.0 %) and assumes an unchanged salary increase rate of 3.0 % p. a., taking into account a deduction of 6.0 % (2008: 6.0 %) to reflect staff turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment.

Other provisions are based on the amounts expected to be required over and above the amounts of known liabilities. The restructuring provisions are also shown in this item; they are created in the relevant item of expense.

Derivative financial transactions (forward transactions, swaps, options) 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. Where derivatives are not being directly used to hedge an underlying transaction and are intended to hedge a risk other than a currency risk, a provision for anticipated losses is shown in the balance sheet for any negative market value existing on the balance sheet date. 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.

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

In order to standardise the risk systems, since the beginning of the 2009 financial year the credit institution has been treating individual value adjustments in the accounts in accordance with the IFRS stipulations, also for the financial statements drawn up in accordance with the UGB/BWG. AS a result of this there has been a one-off charge to the current year's income statement of EUR 12,938 thousand.

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

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

	31.12.2009	31.12.2008
A3. Loans and advances to credit institutions	**11,278,440**	**11,566,738**
of which: to affiliated companies	8,386,382	8,320,670
of which: to associated companies	0	1,175
of which: to non-group companies	2,892,058	3,244,893
A4. Loans and advances to customers	**10,899,889**	**12,122,002**
of which: to affiliated companies	6,808,004	7,479,349
of which: to associated companies	0	0
of which: to non-group companies	4,091,885	4,642,656
P1. Liabilities to credit institutions	**4,326,546**	**4,805,767**
of which: to affiliated companies	265,471	389,380
of which: to associated companies	0	59,664
of which: to non-group companies	4,061,075	4,356,723
P2. Liabilities to customers	**1,877,699**	**1,889,141**
of which: to affiliated companies	328,807	230,490
of which: to associated companies	0	0
of which: to non-group companies	1,548,892	1,658,651
P7. Subordinated liabilities	**893,969**	**915,457**
of which: to affiliated companies	75,000	76,198
of which: to associated companies	0	0
of which: to non-group companies	818,969	839,259

Ranked in order of the largest sums of receivables and payables in respect of affiliated and associated companies, they are as follows:

Loans and advances to affiliated credit institutions:
HYPO ALPE-ADRIA-BANK S.P.A., Italy
HYPO ALPE-ADRIA-BANK d.d., Croatia
HYPO ALPE-ADRIA-BANK AG, Austria
HYPO ALPE-ADRIA-BANK d.d., Slovenia

Liabilities to affiliated credit institutions:
HYPO ALPE-ADRIA-BANK d.d., Croatia
HYPO ALPE-ADRIA-BANK AG, Austria
HYPO ALPE-ADRIA-BANK A.D., Montenegro
HYPO ALPE-ADRIA-BANK d.d., Slovenia

2. Maturities of the balance sheet items

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

EUR '000

	31.12.2009	31.12.2008
A3. Loans and advances to credit institutions	**11,278,439**	**11,566,738**
- payable on demand	220,027	608,641
- up to three months	2,784,188	2,534,809
- three months to one year	921,120	758,046
- one year to five years	4,151,259	4,034,574
- over five years	3,201,845	3,630,668
A4. Loans and advances to customers	**10,899,888**	**12,122,002**
- payable on demand	570,098	379,225
- up to three months	1,340,844	1,242,006
- three months to one year	2,666,159	2,601,293
- one year to five years	4,551,506	5,465,781
- over five years	1,771,281	2,433,697
P1. Liabilities to credit institutions	**4,326,546**	**4,805,767**
- payable on demand	1,322,557	692,696
- up to three months	184,963	233,669
- three months to one year	450,082	401,023
- one year to five years	1,834,385	1,931,313
- over five years	534,559	1,547,066
P2. Liabilities to customers	**1,877,699**	**1,889,141**
- payable on demand	177,266	93,124
- up to three months	140,556	250,353
- three months to one year	0	24,500
- one year to five years	115,011	10,011
- over five years	1,444,866	1,511,153

3. Securities

Information in accordance with section 64 (1)(10) and (11):

EUR '000

	31.12.2009	31.12.2008
2. Treasury bills and other bills eligible for refinancing		
with central banks	**287,433**	**244,945**
of which: listed	287,433	244,945
of which: unlisted	0	0
of which: fixed assets	218,748	219,052
of which: accrued interest	4,716	4,486
of which: current assets	62,987	21,366
of which: accrued interest	982	41
3. Loans and advances to credit institutions (evidenced by certificates)	**4,000**	**4,000**
of which: listed		0
of which: unlisted	4,000	4,000
of which: fixed assets		0
of which: current assets	4,000	4,000
4. Loans and advances to customers (evidenced by certificates)	**43,147**	**112,186**
of which: listed	0	0
of which: unlisted	43,147	112,186
of which: fixed assets	35,907	104,177
of which: accrued interest	7	28
of which: current assets	7,220	7,920
of which: accrued interest	13	61
5. Bonds and other fixed-income securities	**1,179,498**	**1,072,590**
of which: listed	1,178,783	1,023,526
of which: unlisted	715	49,064
of which: fixed assets	694,785	793,583
of which: accrued interest	8,460	11,111
of which: current assets	471,632	264,725
of which: accrued interest	4,621	3,171
6. Shares and other non-fixed interest securities	**28,133**	**168,646**
of which: listed	10,182	42,360
of which: unlisted	17,951	126,286
of which: fixed assets	0	0
of which: accrued interest	0	0
of which: current assets	28,133	168,646
of which: accrued interest	0	0
7. Investments in associated companies	**10,786**	**13,041**
of which: listed	0	0
of which: unlisted	10,786	13,041
8. Shares in affiliated companies	**2,645,748**	**3,278,017**
of which: listed	0	0
of which: unlisted	2,645,748	3,278,017

The composition of the bonds and fixed-rate securities was as follows:

EUR '000

	31.12.2009	31.12.2008
issued by public bodies	**71,972**	**72,641**
from other issuers	**1,107,526**	**999,949**
Own issues	148,021	50,994
Domestic bonds (credit institutions)	89,764	43,204
Foreign bonds (credit institutions)	668,569	729,620
Mortgage bonds and municipal bonds	94,092	123,776
Convertible bonds	0	0
Other bonds	107,080	52,355
Total	**1,179,498**	**1,072,590**

The difference between the value of securities recognised at their higher market value and their acquisition cost (section 56(5) BWG) comes to EUR 5,368 thousand (2008: EUR 6,329 thousand).

In 2010 fixed-income securities from the bank's own holdings shall fall due as follows: an amount of EUR 138,199 thousand (previous-year information affecting 2009: EUR 115,784 thousand) from euro-denominated securities and EUR 14,840 thousand (previous-year information affecting 2009: EUR 0) from foreign-denominated securities.

Fixed-interest securities from private issuers, which were due for refinancing by the Austrian National Bank on the balance sheet date, amount of EUR 704,830 thousand (2008: EUR 581,014 thousand).

As of 31 December 2009, holdings of subordinated securities within the meaning of section 45(3) BWG amounted to EUR 70,260 thousand(2008: EUR 39,606 thousand).

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

Securities which are classified as current assets in either the trading book or the banking book are recognised at their respective market values. Securities which are classified as financial investments are recognised in the accounts at acquisition cost or at a lower repayment amount, less writedowns for permanent impairments.

Financial investments recognised at their market value (section 237(1)(2) UGB) are broken down as follows:

EUR '000

	Carrying amount 31.12.2009	Accounting loss 31.12.2009	Carrying amount 31.12.2008	Accounting loss 31.12.2008
Treasury bills	218,748	–10,513	219,052	–20,322
Loans and advances to credit institutions (fixed-interest securities)	0	0	0	0
Loans and advances to customers (fixed-interest securities)	35,907	–2,658	104,177	–8,169
Bonds and other fixed-interest securities	694,785	–35,326	793,583	–87,747
Interests in associated companies	0	0	0	0
Shares in affiliated companies	0	0	0	0
Total	**949,440**	**–48,497**	**1,116,812**	**–116,238**

The amount of appreciation not written back in accordance with section 208(2) UGB comes to EUR 17,811 thousand (2008: EUR 9,735 thousand).

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.

As at 28 February 2009, the wholly-owned subsidiary Slavonska banka d.d. Osijek was merged with the – equally – wholly-owned HYPO ALPE-ADRIA-BANK d.d., Zagreb. The option relating to section 202(1) and (2)(1) UGB giving the right to continue to carry the carrying amount was exercised and use not made of a revaluation opportunity which arose out of a company valuation conducted by an expert.

In the 2009 financial year, impairment writedowns totalling EUR 1,301,086 thousand (2008: EUR 192,497 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 (2008: EUR 74 thousand).

6. Other assets

The breakdown of other assets is as follows:

EUR '000

	31.12.2009	31.12.2008
Interest income	339,191	216,433
– of which, to be paid after the closing date	266,428	125,526
Offset claims	22,371	11,022
Receivables from dividends paid out in different year to their allocation	32,026	94,157
Receivables arising from the foreign exchange valuation of banking book derivatives	95,442	150,122
Receivables from trading book derivatives	262	0
Trade receivables	22,749	69,037
Total	**512,041**	**540,771**

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 change in present value in 2009 is shown in interest expense. The business relationship with one of the business partners was dissolved in 2009 and as a result receivables totalling EUR 121,698 thousand and liabilities of EUR 118,049 thousand were netted out and a compensation payment of EUR 3,426 thousand made.

The present value remaining unchanged with regard to third parties was discounted using the comparable interest rate for typical transactions and came to EUR 15,625 thousand as at 31 December 2009 (2008: EUR 139,388 thousand).

8. Other liabilities
The breakdown of other liabilities is as follows:

EUR '000

	31.12.2009	31.12.2008
Interest expense	80,807	71,874
– of which, falling due after the closing date	52,981	45,358
Clearing account balances	881	1,014
Fees and levies	33,047	3,497
Liabilities arising from the foreign exchange valuation of banking book derivatives	176,299	194,456
Liabilities from trading book derivatives	213	0
Trade payables	1,179	4,365
Statutory guarantee liabilities	12,979	15,296
Capital increase commitments	10,500	0
Other liabilities	13,225	19,609
Total	**329,130**	**310,111**

Amongst the other liabilities, a sum of EUR 30,864 thousand (2008: EUR 14,709 thousand) is shown for fees and charges: this is in connection with the tax allocation arising from the group taxation arrangement.

9. Deferred assets
This item includes payments which have to be spread over the term of the agreements to which they relate. The sum total of deferred liabilities as at 31 December 2009 was EUR 52,954 thousand (2008: EUR 54,666 thousand).

10. Provisions
The breakdown of other provisions is as follows:

EUR '000

	31.12.2009	31.12.2008
Holidays not taken	2,048	1,827
Long-service bonuses	388	274
Employee performance bonuses	216	1,330
Capital transactions tax	6,405	0
Legal and consultancy fees	20,193	5,828
Risks from the lending business	35,888	12,678
Restructuring provision	7,660	0
Provision for negative fair value from banking book derivatives	3,650	19,199
Letters of comfort/Guarantees for subsidiaries	151,800	34,100
Provisions related to issued participation capital	10,000	0
Other	7,831	3,578
Total	**246,079**	**78,814**

A group-wide restructuring plan with the name of "HypoFit 2013" was drawn up and launched in 2009 together with the former majority shareholder BayernLB: its objectives were, in particular, to bring about a sustained reduction in costs as well as to streamline the internal organisation and implement measures to increase efficiency. In connection with this, expected costs for severance and redundancy payments EUR 7,660 thousand for the period 2010 to 2013 were provided for. The impact of the far-reaching restructuring plan which is to be presented to the EU Commission at the end of March 2010 has not been included in the provisions for lack of substantiation.

The provision of EUR 19,199 thousand for negative fair value from banking book derivatives was in large part applied during the 2009 financial year. A provision of EUR 3,650 thousand was created as at 31 December 2009 for negative fair value from interest derivatives not part of another transaction in the form of a provision for anticipated losses.

From the sum of EUR 34,100 thousand for obligations to subsidiaries, an amount of EUR 10,100 thousand was applied in 2009 to provide an advance and the remaining EUR 24,000 thousand for the impairment writedown of a participation. In 2009 new provisions of EUR 151,800 thousand were formed, to cover two loss coverage allowances planned for subsidiaries in 2010.

11. Information on risk provisions

Risk provisions were created for:

EUR '000

	2009	2008
Loans and advances to credit institutions	**22,811**	**6,955**
Itemised risk provisions/value adjustments	22,811	6,955
Portfolio-based provisions	0	0
Loans and advances to customers	**1,127,893**	**311,792**
Itemised risk provisions/value adjustments	1,074,514	292,630
Portfolio-based provisions	53,379	9,581
Off-balance-sheet risks from the lending business	**35,888**	**12,678**
Itemised risk provisions	24,134	12,000
Portfolio-based provisions	11,754	678
Total	**1,186,592**	**321,844**

For credit defaults existing on the balance sheet date but not yet identified as such, a portfolio value adjustment of EUR 65,134 thousand (2008: EUR 10,259 thousand) was created in 2009. The sharp increase in 2009 reflects the significant rise in loans in arrears and the reduced value of the collateral used in the bank's own cross-border credit portfolio.

12. Deferred liabilities

This item contains income which must be spread over the term of the agreements to which it relates. The sum total of deferred liabilities as at the balance sheet date came to EUR 78,498 thousand (2008: EUR 88,859 thousand) and primarily includes upfront payments received.

Deferred liabilities include an amount of EUR 74,974 thousand (2008: 84,785 thousand) reflecting the recognition in the income statement of the unwinding of swaps forming part of other transactions.

13. Fund for general banking risks

The fund for general banking risks created in the 2008 financial year in accordance with section 57(3)(4) BWG amounted to EUR 200,000 thousand in total. It was reversed in its entirety as at 31 December 2009, as the risks, which at the time were unsubstantiated, were encountered during the course of the financial year.

14. Supplementary and subordinated capital

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.

The carrying amount of supplementary capital (excluding deferred interest) as at 31 December 2009 was EUR 275,652 thousand (2008: EUR 628,577 thousand). The carrying amount of subordinated capital (excluding deferred interest) came to EUR 885,049 thousand (2008: EUR 904,420 thousand). The bank held capital with a nominal value of EUR 28,983 thousand (2008: EUR 2,843 thousand). The carrying amount of the subordinate capital in accordance with the provisions of section 23(8) BWG was EUR 554,049 thousand (2008: EUR 573,420 thousand). The supplementary and subordinated capital has a remaining term ranging from 2 years to over 5 years.

Hypo Alpe-Adria-Bank International AG has in the past issued supplementary capital pursuant to section 23(7) BWG, which in accordance with regulations has been allocated to own capital funds. According to the restrictions laid down in Section 23(7)(2), interest can only be paid out "if it is covered by the annual profits before movements in reserves". As neither the previous financial statements as 31 December 2008 nor the current financial statements as at 31 December 2009 meet this criterion, and following the formal adoption of the financial statements in April 2009, interest on the supplementary capital issues may not be paid out.

According to the specific legal provisions, payment of interest may only be resumed when subsequent financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (prior to movements in reserves) have been shown. Due to the obligation to make back payments that exists, interest for the preceding periods of non-payment must be paid; these sums, therefore, continue to be shown and accrued as interest expenses in the income statement, but not paid out.
As subordinated capital (subordinated liabilities) as defined by section 23(8) BWG is not contractually tied either to the existence of sufficient distributable funds, nor to an annual profit, there are currently no contractual restrictions on servicing the interest payments for these issues.

The total interest expense for supplementary and subordinated capital in 2009 amounted to EUR 57,106 thousand (2008: EUR 63,998 thousand).

There were no subordinated borrowings in the 2009 financial year.

15. Subscribed capital

The issued share capital of Hypo Alpe-Adria-Bank International AG as at the balance sheet date amounts to EUR 62,474 thousand (2008: EUR 62,474 thousand) and is divided into 7,809,276 (2008: 7,809,276) no par value bearer shares.

On 30 December 2008, the Republic of Austria subscribed to EUR 900 m (18,000 participation shares each at EUR 50,000) of Tier-1 eligible participation capital in Hypo Alpe-Adria-Bank International AG, which is set up in such a way that there is no obligation to pay dividends in arrears in accordance with section (23)(3)(8) BWG.

In accordance with the subscription agreement, and applying section 102 BWG, the Republic of Austria is entitled to convert all participation certificates held into ordinary shares in Hypo Alpe-Adria-Bank International AG at a conversion price to be agreed in accordance with the conditions attached to the investment 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 % and 9.0 % p. a. in the 6th and 7th year, and to 9.75 % and 10.75 % p. a. for the 8th and 9th year respectively. This dividend payment is capped at a rate equivalent to the 12-month EURIBOR rate plus 10.0 % p. a. In the event of apportionment of the issued participation capital up until and including the tenth year following subscription to the participation capital, the repayment value is measured at 110 % of nominal value (thereafter 150 %) provided that this increase of 50 % is also covered by a corresponding increase in the company value of HGAA. Repayment is ruled if the repayment amount sinks below 110 % of the nominal amount.

On 30 December 2009 the Republic of Austria acquired all shares in Hypo Alpe-Adria-Bank International AG from the previous shareholders Bayerische Landesbank (BayernLB), BVG Beteiligungs- und Verwaltungsgesellschaft mbH (a member of the GRAWE Group), Kärntner Landes- und Hypothekenbank-Holding and Hypo Alpe Adria Mitarbeiter Privatstiftung. The shares in Hypo Alpe-Adria-Bank International AG have therefore been solely owned by the Republic of Austria since 30 December 2009.

In the course of the change in ownership of Hypo Alpe-Adria-Bank International AG, supplementary capital with a nominal value of EUR 50,000 thousand, which had been subscribed to in 2002 in compliance with the provisions of section 23(7)(3) BWG by a previous investor, was bought back and redeemed, who subscribed in place of this to participation capital totalling EUR 30,772 thousand (615 participation shares with face value of EUR 50,000 each and one participation share with face value of EUR 22,982) ("conversion").

On 30 December 2009 two further former shareholders subscribed to Tier-1 eligible, non-convertible participation capital in Hypo Alpe-Adria-Bank International AG with no obligation to pay dividends in arrears, one paying EUR 30,000 thousand in total (600 participation shares each at EUR 50,000) via a group company, the other agreeing to pay a total of EUR 150,000 thousand (3,000 participation shares each at EUR 50,000) by 30 June 2010 at the latest.

According to the provisions for subscribing to the participation capital, the holders of participation capital will be entitled to a dividend of 6.0 % p. a. for the first time in the 2013 financial year, provided that the net income for the year has covered changes in reserves and that the relevant resolution has been passed by the Boards.

The participation capital is shown in the separate financial statements of Hypo Alpe-Adria-Bank International AG under equity as subscribed capital at its nominal value. In the event of the issuer's liquidation, holders of participation capital have the same rights as holders of similar capital to proceeds from the liquidation balance; no ongoing allocation of income is made during the term. Dividends paid on the participation capital will be shown as Appropriation of net income and not as Interest expense. The basis for assessment is based on the existence of sufficient net income after changes in reserves.

16. Reserves

Changes in capital, revenue and liability reserves were as follows:

EUR '000

	01.01.2009	Additions	Releases	31.12.2009
Capital reserves	905,852	0	–905,852	0
Revenue reserves	24,265	0	–24,265	0
Liability reserve	247,165	0	0	247,165

Appropriated capital reserves of EUR 905,852 thousand as well as the statutory revenue reserves of EUR 24,265 thousand were released in their entirety in 2009 to compensate partially for the deficit.

There were no untaxed reserves as at 31 December 2009.

IV. OFF-BALANCE-SHEET ITEMS

17. Derivative financial instruments

The following transactions were unsettled as at 31 December 2009:

EUR '000

	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
a) interest related business				
OTC products:				
interest rate swaps	20,288,972	20,288,972	1,101,084	258,693
interest swaptions	0	0	0	0
forward rate agreements	50,000	50,000	213	165
Exchange-traded products:	**0**	**10,000**	**179**	**0**
Future Bond	0	10,000	179	0
b) currency related business				
OTC products:				
currency swaps	2,647,430	2,647,430	86,159	187,299
cross currency swaps	2,067,412	2,026,167	37,085	6,874
forward exchange contracts	10,174	10,173	49	48
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	30,000	30,000	0	3,964
total return swaps	0	0	0	0
Exchange-traded products:	**0**	**0**	**0**	**0**

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

The comparative values as at 31 December 2008 were:

EUR '000

	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
a) interest related business				
OTC products:				
interest rate swaps	18,962,029	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**
Future Bond	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**

18. Liability for commitments issued through the Pfandbriefstelle

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG is, in accordance with section 2(1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other members for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1(2) of the articles of association for the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003 or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2(2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at EUR 9.7 bn as of the reporting date 31 December 2009. This equates to almost the entire sum of the Pfandbriefstelle's liabilities as at 31 December 2009. Taking account of the funds of EUR 1.5 bn taken up by the Pfandbriefstelle and passed on to Hypo, the resulting amount which must be reported in accordance with section 237(8a) of the Austrian Enterprise Code comes to EUR 8.2 bn.

19. Other off-balance-sheet financial obligations

The financial positions shown as below-the-line items in the balance sheet are as follows:

EUR '000

	31.12.2009	31.12.2008
Contingent liabilities	**1,782,638**	**1,643,081**
Guarantees and other collateral securities	1,723,296	1,570,958
Letters of comfort	29,343	42,844
Contingent guarantees from credit derivatives	30,000	30,000
Credit risks	**1,825,275**	**1,657,059**

Loan exposures comprise unused credit lines of EUR 1,825,275 thousand (2008: EUR 1,657,059 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 (leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank International AG will amount to EUR 358 thousand in the 2010 financial year (amount for 2009 stated in the previous year's financial statement: EUR 450 thousand) and EUR 792 thousand in total for the years 2010 to 2014 (amount for 2009 to 2013 stated in the previous year's financial statement: EUR 985 thousand).

In addition to the contingent liabilities and loan exposures shown below the line, there are liquidity guarantees and letters of comfort to individual group companies to an extent that is customary for the business.

Nearly all group companies are dependent on the provision of liquid funds and own funds by Hypo Alpe-Adria-Bank International AG for the continuation and maintenance of their business activities. This applies particularly to the group's leasing subsidiaries, which do not have access to their own sources of funding or liquidity and must therefore be financed by the ultimate holding company, as a result of which the risk of material loss also transfers to the bank providing the credit. Where these companies do not have sufficient own funds available, thus placing the servicing of internal lines of refinancing for the group at risk, a recapitalisation of the company in question, which is shown as expense, is carried out by Hypo Alpe-Adria-Bank International AG.

Two letters of comfort ("Support Agreements") were supplied in conjunction with the issue of hybrid capital to the transaction vehicle Hypo Alpe-Adria (Jersey) Limited (nominal value EUR 75 m) HYPO ALPE-ADRIA (JERSEY) II Limited (volume of EUR 150 m) and published in the respective prospectuses. The underlying nominal amounts are shown from the start in Hypo Alpe-Adria-Bank International AG's accounts as liabilities to these group companies.

There are no profit and loss transfer agreements or other obligations on the basis of which Hypo Alpe-Adria-Bank International AG would be obliged to absorb the losses of related group companies.

V. NOTES TO THE INCOME STATEMENT

20. Regional breakdown of income and expense

Interest income and expense is shown as a regional breakdown, with allocation to a region dependent on the location of the registered office of the company.

EUR '000

	31.12.2009	31.12.2008
Loans and advances to credit institutions and customers	**684,725**	**1,212,683**
Austria	55,797	132,892
International	628,928	1,079,791
Fixed-income securities	**47,118**	**62,461**
Austria	5,507	6,309
International	41,611	56,152
aus sonstigen Aktiven	**713,940**	**793,257**
Austria	718,088	793,257
International	-4,148	0

Interest and similar expense was as follows:

EUR '000

	31.12.2009	31.12.2008
Liabilities to credit institutions and customers	**300,886**	**396,888**
Austria	13,446	57,513
International	287,440	339,375
Debt evidenced by certificates	**610,678**	**809,629**
Austria	610,678	809,629
International	0	0
Other liabilities	**493,777**	**850,361**
Austria	489,473	850,361
International	4,304	0

21. Income from participations

Income from participations for the purposes of section 238(4) UGB was as follows:

EUR '000

	31.12.2009	31.12.2008
Dividends recognised in parent's accounts during the year earned, rather than the year of the resolution of the profit distribution:	**32,026**	**94,157**
Norica Investment Ltd., Jersey	7,677	3,621
Hypo Alpe-Adria-Bank S.p.A., Udine	3,369	19,869
Hypo Alpe-Adria-Bank d.d., Ljubljana	0	15,983
Hypo Alpe-Adria-Bank d.d., Zagreb	19,705	38,360
Slavonska banka d.d., Osijek	0	10,512
Hypo Alpe-Adria-Bank a.d., Banja Luka	0	0
HBInt Credit Management Limited, Jersey	1,275	5,812
Dividends received	**20,553**	**20,300**
Slavonska Banka d.d., Osijek	454	0
Hypo Alpe-Adria-Bank d.d., Zagreb	0	4,836
HBInt Credit Management Limited, Jersey	6,910	12,000
Hypo Alpe-Adria-Bank A.D., Banja Luka	7,640	0
Hypo Alpe-Adria-Immobilien-Beteiligungs GmbH, Klagenfurt	4,209	0
Other	1,340	3,464
Total	**52,579**	**114,457**

Impairment writedowns and other expenses connected to participations arising in 2009 are shown under the items "13./14. Net income/expense from disposal and measurement of securities recognised as financial assets, and from shares in affiliated companies".

22. Net fee and commission income

The breakdown of fee and commission income and expenses is as follows:

EUR '000

	31.12.2009	31.12.2008
from the lending business	**18,999**	**21,619**
Fee and commission income	22,735	22,934
Fee and commission expenses	-3,736	-1,315
from the securities business	**236**	**-667**
Fee and commission income	1,029	3,947
Fee and commission expenses	-793	-4,614
from other transactions	**-1,448**	**204**
Fee and commission income	457	848
Fee and commission expenses	-1,905	-644
Total	**17,787**	**21,156**

The fee and commission expenses in 2009 stem mainly from the costs of securing sufficient liquidity reserves.

23. Other administration expenses (operating expenses)

The breakdown of other administration expenses is as follows:

EUR '000

	31.12.2009	31.12.2008
Legal and consultancy costs	38,324	21,531
Liability commission for statutory guarantee (Federal State of Carinthia)	16,679	18,695
Liability costs for government-underwritten issues	7,816	0
Advertising expenses	4,460	8,946
Rental and leasing costs	3,705	2,958
IT costs	2,191	2,251
Data Centre costs	1,650	1,703
Training expenses	1,424	1,351
Issue costs	1,499	796
Travel expenses	1,107	1,860
Fleet costs	839	802
Insurance	730	598
Telephone/postage costs	490	512
Costs in connection with company legal structure	187	92
Office/stationery costs	114	133
Other operating expenses	4,689	4,804
Total	**85,904**	**67,032**

As a result of Hypo Alpe-Adria-Bank International AG's function as a holding company, some of the centrally procured third-party services, in particular the marketing expenses, are charged out to the group companies and the income from this is shown at Other operating income.

24. Extraordinary result

Extraordinary income includes the effects of the waiver of claims by the former owners in the course of the takeover of Hypo Alpe-Adria-Bank International AG by the Republic of Austria. In addition, the result of apportionment in accordance with section 23(7)(3) BWG for the premature redemption of supplementary capital, which was EUR 22,952 thousand, is shown here. The release of the fund for general banking risks, at EUR 200,000 thousand, is also shown here.

The item extraordinary expense concerns the corporation tax expense for the restructuring contributions made by the former owners, which was calculated at EUR 6,405 thousand.

The net result from extraordinary income of EUR 1,085,131 thousand (2008: EUR 0) and extraordinary expense of EUR 6,405 thousand (2008: EUR 207,000 thousand) comes to EUR 1,078,726 thousand (2008: EUR –207,000 thousand).

VI. SUPPLEMENTARY INFORMATION

25. Assets pledged as collateral pursuant to Section 64(1)(8) BWG

Assets classed as other current assets and with a value of EUR 1,041,118 thousand (2008: EUR 765,823 thousand) were pledged as collateral for liabilities to credit institutions, in accordance with Section 64(1)(8) BWG.

EUR '000

	31.12.2009	31.12.2008
Loans and advances to credit institutions	110,502	108,421
Securities	930,616	648,402
Total	**1,041,118**	**756,823**

The loans and advances to credit institutions result from cash collateral which are typical for the sector, pledged in connection with negative fair value from derivatives. Cash collateral received for positive fair value are shown at Liabilities to credit institutions.

26. Debt securities in issue falling due in the following year

Debt securities of Hypo Alpe-Adria-Bank International AG in issue as defined in section 64 (1)(7) BWG and amounting to EUR 793,220 thousand (value for 2009 given in previous year's financial statements: EUR 1,288,024 thousand) shall fall due in 2010.

27. EU proceedings

At the beginning of December 2008, Hypo Alpe-Adria-Bank International AG received an increase in capital of EUR 700,000 thousand, primarily subscribed to by its majority shareholder, the Bayerische Landesbank (BayernLB, shareholding at 31 December 2008: 67.08 %). In addition, at the end of December 2008, the Republic of Austria made available participation capital with a value of EUR 900,000 thousand, as part of the Austrian banking package.

Against the background that the majority shareholder in Hypo Group Alpe Adria, BayernLB, also received financial assistance in the form of a EUR 10 bn capital injection and a guarantee of its ABS portfolio to a maximum sum of EUR 4.8 bn, on 12 May 2009 the Commission citing Art. 88 II of the EC Treaty ordered an examination from the perspective of state aid laws of the restructuring plan of BayernLB as well as of the profitability plan for Hypo Group Alpe Adria (HGAA), to be delivered to the Commission by the German and Austrian governments.

As a result of the substantial losses of the banking group in 2009, the complete acquisition of all shares by the Republic was agreed between the previous owners of Hypo Alpe-Adria-Bank International AG and the Federal Republic of Austria on 14 December 2009, which was completed on 30 December 2009. The previous owners made contributions towards the restructuring as part of their disinvestment. Moreover, the Republic of Austria took on commitments with regard to future capital injections.

The European Commission provisionally approved the measures put forward by the Republic of Austria on 23 December 2009 for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan for HGAA in the first half of 2010, to enable it to judge whether the aid measures are consistent with EU laws on state aid.

The Commission will check whether the measures planned can return HGAA to long-term profitability, whether support from the state is kept to the required minimum, whether the own contribution made will be appropriate and whether sufficient measures have been undertaken, to limit the distortions to competition caused by the financial assistance given. The Commission has also announced that it will examine whether the previous owners have contributed sufficiently to the restructuring costs.

At the time of writing, it cannot be estimated with any degree of certainty when the proceedings will be concluded and whether the European Commission will accept the restructuring plan. As the subject of the inspection process, Hypo Alpe-Adria-Bank International AG has declared its willingness to cooperate fully with the Commission.

28. Statutory guarantee from the State of Carinthia

The guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG and its domestic subsidiary, Hypo Alpe-Adria Bank AG in Klagenfurt, is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code. The European Commission considered that the original guarantee of the State, 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 State of Carinthia continues to act as the guarantor for the commitments of Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria Bank AG 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 from 3 April 2003 until 1 April 2007, the State of Carinthia provides a statutory guarantee to the extent that the term of the commitment does not extend beyond 30 September 2017. The State does not offer any guarantee for liabilities entered into after 1 April 2007.

As at 31 December 2009 the State of Carinthia guaranteed fixed-term and open commitments of Hypo Alpe-Adria-Bank International AG with a total value of EUR 17.8 bn (2008: 19.4 bn).

29. 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 charged in respect of certain shared back office activities. As a result of the implementation of the “new lending process” project in the first half of 2009, duties in the lending business were redistributed and the existing contract modified accordingly.

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.

With the acquisition of the shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria on 30 December 2009, a guarantee agreement of limited duration was concluded with the latter. On the basis of this agreement, Hypo Alpe-Adria-Bank International AG and its Austrian subsidiary bank Hypo Alpe-Adria Bank AG are entitled to avail themselves of guarantees from the Republic of Austria for certain loans and advances. The guarantee can only be exercised for loans and advances which may be included in the basis for assessment in accordance with section 22(2) of the BWG and which are classified by the banks in accordance with the Financial Service Authority's (FMA) Ordinance on the Audit Report Schedules BGBI Nr. 310/2008 as amended in section IV(10)(c) and is limited to a maximum sum of EUR 100,000 thousand. If this guarantee is exercised, in accordance with the terms of the agreement a guarantee commission of 10 % of the loans and advances guaranteed must be paid. The guarantee is for a limited time period and expires at the latest on 31 March 2011.

30. Own capital funds

The breakdown of own capital funds as defined in the Austrian Banking Act (BWG) and the Solvency Ordinance (SolvaV) is as follows:

EUR '000

	31.12.2009	31.12.2008
Core capital (Tier 1)	**916,297**	**2,336,724**
Paid-in capital	1,023,247	962,474
Reserves	247,165	1,177,282
Fund for general banking risks	0	200,000
Intangible assets	–2,432	–3,032
less: net loss	–351,683	0
Supplementary elements (Tier 2)	**671,451**	**1,497,405**
Supplementary capital	213,302	613,342
Subordinated liabilities	458,149	884,063
Deductions pursuant to Section 23 (13) BWG	**–8,332**	**–10,587**
Tier 3 (reclassified Tier 2 capital)	**11,368**	**11,940**
Own capital funds as defined by BWG	**1,590,784**	**3,835,482**
Own capital funds requirement acc. to BWG	**1,569,724**	**1,794,574**
Surplus capital	**21,060**	**2,040,908**
Coverage	101.3 %	213.7 %

EUR '000

	31.12.2009	31.12.2008
Risk-weighted basis for assessment		
in. acc. with section 22 BWG (banking book)	**19,166,316**	**21,956,200**
thereof 8 % minimum own funds requirement	1,533,305	1,756,496
own funds requirement in. acc. with section 22 BWG (securities trading book)	37	6
own funds requirement in. acc. with section 26 BWG (open foreign exchange position)	11,331	11,934
own funds requirement – operational risk	25,051	26,138
Total own capital funds requirement	**1,569,724**	**1,794,574**

EUR '000

	31.12.2009	31.12.2008
Assessment basis banking book (risk-weighted)	**19,166,316**	**21,956,200**
Tier 1 ratio	4.8 %	10.6 %
own capital funds ratio	8.3 %	17.5 %
Assessment basis incl. market and operational risk	**19,621,553**	**22,432,175**
Tier 1 ratio	4.7 %	10.4 %
own capital funds ratio	8.1 %	17.1 %

31. Group structure/owners

Since 30 December 2009 Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria. As at this date, the bank has ceased to belong to the Bayerische Landesbank (BayernLB) and to be included in its consolidated financial statements. .

Hypo Alpe-Adria-Bank International AG is now the ultimate parent company of the whole Hypo Group Alpe Adria (HGAA) group of companies. The consolidated financial statements for the group will be published in the Wiener Zeitung newspaper as well as on the www.hypo-alpe-adria.com (→ Investor Relations → Financial reports) website. Disclosure is made in the trade register as well as at the address of Hypo Alpe-Adria-Bank International AG, at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee.

32. Audit expenses

The breakdown of audit expenses by activity is as follows:

EUR '000

	31.12.2009	31.12.2008
Audit fees for the annual financial statements	**744**	**405**
expenses for current year	679	405
expenses relating to previous year	65	0
Expenses for other services	**1,001**	**932**
other assurance services	778	452
tax consultancy	142	121
other services	81	359
Total	**1,745**	**1,337**

The auditing expenses incurred in the 2009 financial year come to EUR 1,745 thousand in total, of which EUR 1,618 is the fee (excluding value added tax) and EUR 127 thousand is for expenses. In addition to the services invoiced by the appointed auditor, Deloitte Audit Wirtschaftsprüfungs GmbH (Wien), services rendered directly by other companies within the Deloitte group have been included in the total sum.

The expenses for the audit of the financial statements do not include expenses which clearly relate to the audit of the consolidated financial statements.

The other auditing services mainly comprise the annual costs in conjunction with the bank's Debt Issuance Program, as well as the costs incurred for the audit of the consolidated financial statements.

33. Other supplementary information

Liabilities to customers do not include any trustee savings accounts.

There were no interests in the 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 (2008: EUR 0).

Mortgage bond activities pursuant to the Pfandbriefgesetz (PfandG) were as follows:

EUR '000

	Debt evidenced by certificates		Covering loans		Surplus/shortfall in cover	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Public sector mortgage bonds	339,615	339,360	1,296,295	1,389,226	963,410	1,056,600

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

	31.12.2009	31.12.2008
Assets	5,300,778	6,238,357
Liabilities	5,178,482	5,948,264

The greater part of the EUR 122,296 thousand difference (2008: EUR 290,093 thousand) is hedged with currency and cross-currency swaps and forward rate agreements.

There were no transactions concluded with related parties within the meaning of IAS 24, at conditions which were not typical for this sector.

34. Employees

The average number of employees during the year for the purposes of section 239(1)(1) UGB was as follows:

	2009	2008
Salaried employees	388	341
Hourly-paid	0	0
Total	**388**	**341**

Within the context of the incorporation of Hypo Alpe-Adria-Marketing und Advertising GmbH and Hypo Alpe-Adria-Leasing Holding AG, 45 employees in total were taken on by Hypo Alpe-Adria-Bank International AG in 2009.

In conjunction with the restructuring project and as part of the “new lending procedures” project there was a reallocation of individual areas of activity between the holding company, Hypo Alpe-Adria-Bank International AG, and the Austrian banking subsidiary Hypo Alpe-Adria-Bank AG in 2009. These internal restructuring measures led to an increase of 21 in the number of employees; if these special measures are discounted, the number of employees in the bank reduced slightly.

35. Expenses for severance payments and pensions

Expenses for severance payments and pensions within the meaning of section 238(1)(3) UGB break down as follows:

EUR '000

	2009		2008	
	Severance pay	Pension	Severance pay	Pension
Members of management bodies	1,224	0	683	0
Senior employees	8	0	99	0
Other employees	813	0	270	0
Total	**2,045**	**0**	**1,052**	**0**

The expenses for severance payments and payments into the company's employee benefits fund break down into EUR 1,650 thousand (2008: EUR 933 thousand) for expenses for severance payments, EUR 261 thousand (2008: EUR 186 thousand) for payments into the company's employee benefits fund and EUR 134 thousand for payments due to internal employee transfers.

Additionally, a restructuring provision of EUR 7,660 thousand (2008: EUR 0) in connection with planned severance and redundancy payments was created in 2009.

36. Information about members of the management bodies

The management bodies in the year under review are shown in Schedule 2 to the notes.

36.1 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. Liabilities of EUR 438 thousand have been included with regard to two members of the Executive Board, in accordance with their contractual rights.

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.

36.2 Compensation for members of the Executive and Supervisory Boards

The breakdown of sums paid out to members of the Executive and Supervisory Boards during the financial year is as follows:

EUR '000

	2009	2008
Executive Board	**2,142**	**3,471**
– of which, ongoing payments	2,920	3,471
– of which, repayments of prior-year variable elements of remuneration	–778	0
Supervisory Board	**158**	**125**
Remuneration of former members of the Executive and Supervisory Board and their surviving dependends	**1,440**	**1,363**
– of which, payments after termination	415	442
– of which, payments related to termination	1,025	921
Total	**3,740**	**4,959**

The remuneration for members of the Executive Board for 2009 contains variable elements totalling EUR 302 thousand (2008: EUR 778 thousand) paid out during the year, which as a result of the agreements with the Republic of Austria, in particular those connected to the issue of the participation capital in 2008, are not permitted in the event of a loss being made for the year. These amounts have therefore been claimed back by Hypo Alpe-Adria-Bank International AG. The repayment claim relating to this is shown under Other assets, reimbursement will follow in the coming financial year (2010).

Klagenfurt am Wörthersee, 16 March 2010
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Franz Pinkl

Andreas Dörhöfer

Wolfgang Peter

Božidar Špan

Anton Knett

Fixed assets movement schedule Annex 1

Asset	Acquisition costs 01.01.2009	Additions 2009	Disposals 2009
2. Treasury bills			
Financial investments	223,537,398.82	233,834.01	–144,400.00
3. Loans and advances to credit institutions			
Financial investments	0.00	0.00	0.00
4. Loans and advances to customers			
Financial investments	131,785,154.17	0.00	–68,292,133.72
5. Bonds and other fixed income securities			
Financial investments	851,903,466.75	38,127,347.37	–137,617,779.83
7. Investments in associated companies	13,041,316.51	0.00	0.00
8. Shares in affiliated companies	3,552,884,203.22	739,908,539.98	–1,967,354.59
9. Intangible fixed assets	7,670,867.06	838,943.54	0.00
10. Tangible fixed assets	2,785,430.70	555,698.68	–993,725.75
Total	**4,783,607,837.23**	**779,664,363.58**	**–209,015,383.89**

Transfers 2009	Acquisition costs 31.12.2009	Accumulated depreciation	Carrying amount 31.12.2009	Carrying amount 31.12.2008	Depreciation 2009
0.00	223,626,832.83	−163,259.94	223,463,572.89	223,537,398.82	−153,259.94
0.00	0.00	0.00	0.00	0.00	0.00
0.00	63,493,020.45	−27,579,492.48	35,913,527.97	104,205,661.69	0.00
0.00	752,413,034.29	−49,168,087.69	703,244,946.60	804,693,272.93	−1,957,893.87
8,620,189.83	23,181,458.34	−10,875,577.00	10,785,729.34	13,041,316.51	−10,875,777.00
0.00	4,290,825,388.61	−1,645,076,676.80	2,645,748,711.81	3,278,017,470.34	−1,370,209,943.92
0.00	8,509,810.60	−6,078,004.57	2,431,806.03	3,032,468.28	−1,439,605.79
0.00	2,347,403.63	−765,684.90	1,581,718.73	1,568,223.65	−253,452.68
8,620,189.83	**5,362,876,996.75**	**−1,739,706,983.38**	**3,623,170,013.37**	**4,428,095,812.22**	**−1,384,889,933.20**

Management bodies Annex 2 to the notes to the financial statements
1 January 2009 to 31 December 2009

Members of the Supervisory Board

Chairman of the Supervisory Board:
Michael KEMMER, Munich,
until 14 December 2009

First Deputy Chairman of the Supervisory Board:
Othmar EDERER, Graz, until 23 April 2009
Siegfried GRIGG, Graz, from 18 May 2009,
member of the Supervisory Board prior to this

Second Deputy Chairman of the Supervisory Board:
Hans-Jörg MEGYMOREZ, Klagenfurt-Wölfnitz

Members of the Supervisory Board:
Rudolf HANISCH, Munich, until 30 April 2009
Siegfried NASER, Munich
Ralph SCHMIDT, Munich
Klaus WEIGERT, Munich, bis 18 March 2009
Benedikt HAAS, Munich, from 23 April 2009
Wolfgang HALLER, Haag, from 23 April 2009
Stefan ERMISCH, Munich, from 23 April 2009
Hansjörg CHRISTMANN, Dachau,
from 20 August 2009

Delegated by the Works Council:
Erich CLIMA, Chairman of the Works Council,
Klagenfurt am Wörthersee
Edith ENENGEL, Klagenfurt am Wörthersee,
until 29 September 2009
Markus RUSSLING, Klagenfurt am Wörthersee,
until 29 September 2009
Alexandra DOHR, Klagenfurt am Wörthersee,
from 29 September 2009
Gudrun SEZEN-UNTERKOFLER, Krumpendorf,
from 29 September 2009
Mag. Mario ZOLLE, Klagenfurt am Wörthersee

Federal Supervisory Authorities

State Commissioner:
Angelika SCHLÖGEL, Vienna

Deputy State Commissioner:
Monika HUTTER, Vienna

State of Carinthia – supervisory function

Harald DOBERNIG, Maria Saal
Dr. Horst FELSNER, Klagenfurt am Wörthersee

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

Deputy Trustee:
Helmut ARBEITER, Judge of the Provincial Court,
Klagenfurt am Wörthersee

Executive Board:
Franz PINKL, Chairman of the Executive Board,
Ternitz, from 1 June 2009
Tilo BERLIN, Chairman of the Executive Board,
Maria Saal, until 30 April 2009
Andreas DÖRHÖFER, Deputy Chairman of
the Executive Board, Erding, (Deputy Chairman
since 23 April 2009)
Paul A. KOCHER, Member, Vienna, until 31 May 2009
Wolfgang PETER, Member, Breitenbrunn
Božidar ŠPAN, Member, Ljubljana
Anton KNETT, Member, Velden am Wörthersee,
from 1 June 2009

As a result of the complete takeover of Hypo Alpe-Adria-Bank International AG by the Republic of Austria, which was completed on 30 December 2009, at the shareholders' meeting on 21 January 2010 new appointments were made for every Supervisory Board positions representing the investors' interests.

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 %	202,025	−244,783	31.12.2009	Banking
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.00 %	366,688	−936	31.12.2009	Banking
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.00 %	198,195	2,759	31.12.2009	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Zagreb	100.00 %	898,723	3,489	31.12.2009	Banking
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Mostar	99.998 %	130,821	−4,847	31.12.2009	Banking
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.600 %	106,664	1,045	31.12.2009	Banking
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	99.917 %	332,054	16,530	31.12.2009	Banking
NORICA INVESTMENTS LIMITED	St. Helier	51.00 %	524,682	19,954	31.12.2009	Financial services
Hypo Alpe-Adria Jersey Ltd.	St. Helier	100.00 %	0	0	31.12.2009	Financial services
Hypo Alpe-Adria (Jersey) II Ltd.	St. Helier	100.00 %	0	0	31.12.2009	Financial services
HBInt Credit Management Limited (subgroup)	St. Helier	51.00 %	573,511	8,200	31.12.2009	Financial services
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	100.00 %	68,348	−32,831	31.12.2009	Banking
Hypo Group Netherland Holding B.V. (subgroup)	Amsterdam	100.00 %	6,817	1,040	31.12.2009	Financial services
HYPO Consultants Holding GmbH	Klagenfurt	100.00 %	15,759	525	31.12.2009	Services
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	99.31 %	8,704	−2,310	31.12.2009	Services
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	100.00 %	54,216	−4,899	31.12.2009	Services
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	100.00 %	24	−1,761	31.12.2009	Services
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	100.00 %	378	47	31.12.2009	Services
KÄRNTNER HOLDING BETEILIGUNGS-AG	Klagenfurt	100.00 %	48,655	−554	31.12.2009	Services
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	100.00 %	13,280	4,869	31.12.2009	Services
HYPO Facility Services GmbH	Klagenfurt	100.00 %	86	30	31.12.2009	Services
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	100.00 %	−484	−5,798	31.12.2009	Services
Alpe-Adria-Projekt AG	Munich	100.00 %	40	−1	31.12.2008	Other
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt	100.00 %	16	−136	31.12.2008	Other
PURIS VERWALTUNGS- UND BETEILIGUNGS GMBH	Villach	100.00 %	−18,618	−22	31.12.2008	Other
ALUFLEXPACK, D.O.O.	Zadar	95.78 %	20,764	−38,378	31.12.2008	Other
Alpe Adria Privatbank AG in Liquidation	Schaan	49.00 %	16,109	−4,896	31.12.2008	Banking
HYPO ALPE-ADRIA-LEASING OOD (subgroup)	Sofia	100.00 %	−18,271	−119,343	31.12.2009	Financial services
HYPO ALPE-ADRIA-AUTOLEASING OOD*)	Sofia	100.00 %	-	-	31.12.2009	Financial services

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

Scope of consolidation in accordance with UGB/BWG

Hypo Alpe-Adria-Bank International AG has drawn up its official consolidated financial statements as at 31 December 2009 in accordance with 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 2009 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	F	100.00 %	Financial services
HYPO ALPE-ADRIA-ULAGANJE d.o.o.	Zagreb	F	100.00 %	Financial services
HYPO ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	F	100.00 %	Services
ALPE ADRIA CENTAR d.o.o.	Zagreb	F	100.00 %	Services
Alpe-Adria Investments d.o.o.	Zagreb	F	100.00 %	Services
HYPO ALPE-ADRIA-BANK d.d. (subgroup)	Mostar	F	99.998 %	Banking
HYPO-ALPE-ADRIA-INVEST d.o.o.	Mostar	F	99.998 %	Financial services
Brokersko-dilerska kuca Hypo Alpe-Adria-Vrijednosnice d.o.o.	Sarajevo	F	99.998 %	Securities company
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	F	99.600 %	Banking
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	F	99.917 %	Banking
BROKERSKO-DILERSKO DRUSTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD	Belgrade	F	99.918 %	Securities company
HYPO INVESTMENTS a.d. Beograd	Belgrade	F	99.918 %	Financial services
Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd	Belgrade	F	99.917 %	Financial services
Alpe Adria Privatbank AG in Liquidation	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	100.00 %	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	100.00 %	Financial holding

Name of the associated enterprise	Registered office	C	Capital share [1] indirect	Line of business of the company
HYPO ALPE-ADRIA-LEASING GMBH	Klagenfurt	F	100.00 %	Financial services
HYPO-Leasing Kärnten GmbH & Co KG	Klagenfurt	F	100.00 %	Financial services
HYPO Grund- und Bau-Leasing Gesellschaft m.b.H. (subgroup)	Klagenfurt	F	100.00 %	Financial services
HYPO-BA Leasing Süd GmbH	Klagenfurt	AE	50.00 %	Financial services
HYPO Immobilien- und Bauconsult GmbH	Klagenfurt	F	100.00 %	Financial services
HYPO Wohnbau GmbH	Klagenfurt	F	100.00 %	Financial services
HYPO Luftfahrzeuge Leasing GmbH	Klagenfurt	F	100.00 %	Financial services
HYPO Projektentwicklungs GmbH	Klagenfurt	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING S.R.L.	Udine	F	100.00 %	Financial services
HYPO LEASING d.o.o.	Ljubljana	F	100.00 %	Financial services
TCK d.o.o.	Ljubljana	F	100.00 %	Services
HYPO-LEASING KROATIEN d.o.o.	Zagreb	F	100.00 %	Financial services
Alpe-Adria poslovodstvo d.o.o.	Zagreb	F	100.00 %	Financial services
JADRAN JAHTE d.o.o.	Zagreb	F	100.00 %	Financial services
HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo	Sarajevo	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING DOO BEOGRAD	Belgrade	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING D.O.O. – PODGORICA	Podgorica	F	100.00 %	Financial services
HYPO HOUSE D.O.O. – PODGORICA	Podgorica	F	100.00 %	Services
HYPO ALPE-ADRIA-Objektverwaltung GmbH	Munich	F	100.00 %	Services
HYPO-ALPE-ADRIA-LEASING GmbH (Teilkonzern)	Munich	F	100.00 %	Financial services
Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG	Munich	F	100.00 %	Financial services
Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH	Munich	F	100.00 %	Financial services
Verwaltungsgesellschaft HLG Achilles mbH	Munich	F	100.00 %	Financial services
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	F	6.00 %	Financial services
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	F	100.00 %	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	100.00 %	Financial services
HYPO Alpe-Adria Leasing Kft.	Budapest	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING OOD (subgroup)	Sofia	F	100.00 %	Financial services
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING DOOEL	Skopje	F	100.00 %	Financial services
HYPO ALPE-ADRIA-LEASING TOV	Kiev	F	100.00 %	Financial services
HYPO Consultants Holding GmbH	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA CONSULTANTS S.R.L.	Udine	F	100.00 %	Services
Alpe Adria Venture Fund GmbH & Co KEG	Vienna	F	99.31 %	Services
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA-Insurance Services GmbH	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH	Klagenfurt	F	100.00 %	Services

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 %	Services
Hypo Alpe-Adria-Immobilien AG	Klagenfurt	F	100.00 %	Services
HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH	Klagenfurt	F	100.00 %	Services
HYPO Facility Services GmbH	Klagenfurt	F	100.00 %	Services
HYPO FM Holding GmbH	Klagenfurt	F	100.00 %	Services
HYPO FACILITY SERVICES DOO BEOGRAD	Belgrade	F	100.00 %	Services
Hypo Cityimmobilien-Klagenfurt GesmbH	Klagenfurt	F	100.00 %	Services
Hypo Alpe Adria IT Holding GmbH	Klagenfurt	F	100.00 %	Services
ZAJEDNICKI INFORMACIONI SISTEM DOO BEOGRAD	Belgrade	F	100.00 %	Services
ZAJEDNICKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	F	100.00 %	Services
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt	F	100.00 %	Services

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 2009

*) 100 % of voting and capital rights as at 31 December 2009 (75.24 % of capital share as at 31 December 2008)

**) 70 % share; 15 % share held by each of the domestic banks

***) Hypo Alpe-Adria-Leasing OOD, Sofia and its subsidiary managed by Hypo Alpe-Adria-Leasing Holding AG; majority share held by Hypo Alpe-Adria-Bank International AG

Declaration of all legal representatives

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

Klagenfurt am Wörthersee, 24 March 2010
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Franz Pinkl

Andreas Dörhöfer

Wolfgang Peter

Božidar Špan

Anton Knett

Auditors' Report

Report on the Financial Statements
We have audited the accompanying financial statements, including the accounting system, of

HYPO ALPE-ADRIA-BANK INTERNATIONAL AG,
Klagenfurt am Wörthersee,

for the fiscal year from January 1, 2009 to December 31, 2009. These financial statements comprise the balance sheet as of December 31, 2009, the income statement for the fiscal year ended December 31, 2009, and the notes.

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

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

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

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

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG as of December 31, 2009 and of its financial performance for the fiscal year from January 1, 2009 to December 31, 2009 in accordance with Austrian Generally Accepted Accounting Principles.

Auditors' Report

Without qualifying the opinion we draw attention to the notes (especially section II and III.27) to the financial statements. Assessing the company's ability to continue as going concern and impairments of participations and loans to subsidiaries, the management used the same assumptions as in the restructuring plan prepared for the EU approval process for government aid. Due to the actual global financial crisis and the fact that the economic crises has hit the regions where the group is active specifically hard, the uncertainty is specifically high and the assumptions depend on the further capital contribution in the amount of TEUR 600.000 until June 30, 2010, for stabilization of the equity position as included in the restructuring plan.

Comments on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures made according to section 243a para 2 UGB (Austrian Enterprise Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures made according to section 243a para 2 UGB (Austrian Enterprise Code) are appropriate.

Vienna, March 16, 2010

Deloitte
Audit Wirtschaftsprüfungs GmbH

Mag. Erich Kandler   Dr. Peter Bitzyk

Certified Public Accountants

The English translation of the Auditor´s Report is for convenience purposes. Only the original German version is legally binding.