HYPO ALPE-ADRIA (JERSEY) II LIMITED

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2008

Ref: 305331
Sims: 2012245

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31st December 2008.

INCORPORATION

The Company is incorporated in Jersey, Channel Islands.

ACTIVITIES

The principal activity of the Company is the issue of Fixed/Floating Rate Non-Cumulative Non-Voting Preferred Securities (the "Preferred Securities"). The proceeds of the Preferred Securities are used to grant Hypo Alpe-Adria-Bank International AG ("HAA") a loan facility of €150,000,000.

As set out in the Offering Circular, the Preferred Securities are only intended for highly sophisticated and knowledgeable investors who are capable of understanding and evaluating the risks involved in investing in them. The Preferred Securities are listed on the Euronext Amsterdam Stock Exchange.

RESULTS AND DIVIDENDS

The result for the year amounted to €nil (2007: €nil).

The Directors are unable to recommend a dividend for the year (2007: €nil).

DIRECTORS

The Directors who held office throughout the year and up to the date of approval of the financial statements were:-

G.P. Essex-Cater	
D.J. Le Blancq	
A. Zois	(resigned 14th October 2008)
F. Pinkelnig	(appointed 14th October 2008)
S. Vardon	
W. Foster	

AUDITORS

Deloitte & Touche LLP have changed their name to Deloitte LLP with effect from 1st December 2008. Deloitte LLP have expressed their willingness to continue in office as auditors.

REGISTERED OFFICE

22 Grenville Street
St. Helier
Jersey, Channel Islands
JE4 8PX

BY ORDER OF THE BOARD

SVardon

Authorised Signatory
Mourant & Co. Secretaries Limited
Secretary
Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

* properly select and apply accounting policies;
* present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
* provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
* make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HYPO ALPE-ADRIA (JERSEY) II LIMITED

We have audited the financial statements of Hypo Alpe-Adria (Jersey) II Limited for the year ended 31 December 2008 which comprise the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as issued by the International Accounting Standards Board, of the state of the company's affairs as at 31 December 2008 and of its result for the year then
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Deloitte LLP

Deloitte LLP
Chartered Accountants
St Helier, Jersey
Date: 23 February 2009

BALANCE SHEET

AS AT 31ST DECEMBER 2008

	Notes	2008	2007
ASSETS			
Non-current assets			
Loans and Receivables	2	150,000,000	150,000,000
Current assets			
Trade and other receivables	3	1,632,400	1,691,200
Cash and cash equivalents	4	2	2
		1,632,402	1,691,202
TOTAL ASSETS		€ 151,632,402	€ 151,691,202
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	2	2
TOTAL SHAREHOLDERS' EQUITY		2	2
Non-current liabilities			
Preferred Securities	6	150,000,000	150,000,000
Current liabilities			
Trade payables	5	1,632,400	1,691,200
TOTAL EQUITY AND LIABILITIES		€ 151,632,402	€ 151,691,202

The financial statements were approved and authorised for issue by the Board of Directors on the 20th day of FEBRUARY 2009 and were signed on its behalf by:

Director:

Director
Gareth Essex-Cater

(The notes on pages 8 to 14 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) II LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2008

	2008	2007
INCOME:		
Loan interest income	7,021,200	6,699,500
EXPENDITURE:		
Interest payable on Preferred Securities	(7,021,200)	(6,699,500)
RESULT FOR THE YEAR	€ -	€ -

Continuing operations

All items dealt with in arriving at the result for the year ended 31st December 2008 and 31st December 2007 relate to continuing operations.

(The notes on pages 8 to 14 form part of these financial statements)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2008

	Stated capital	Total
Balance at 1st January 2008	2	2
Result for the year	-	-
Balance at 31st December 2008	€ 2	€ 2
Balance at 1st January 2007	2	2
Result for the year	-	-
Balance at 31st December 2007	€ 2	€ 2

(The notes on pages 8 to 14 form part of these financial statements)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2008

		2008		2007
Cash flows from operating activities		-		-
Net profit from operating activities		-		-
Decrease / (Increase) in trade and other receivables		58,800		(239,383)
(Decrease) / Increase in trade payables		(58,800)		239,400
Loan interest income		7,021,200		6,699,500
Interest paid on Preferred Securities		(7,021,200)		(6,699,500)
Net cash flow from operating activities		-		17
Net movement in cash and cash equivalents		-		17
Cash and cash equivalents at the beginning of the year		2		(15)
Cash and cash equivalents at the end of year	€	2	€	2

(The notes on pages 8 to 14 form part of these financial statements)

1. ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee. The more significant accounting policies used are set out below.

Basis of accounting

These financial statements have been prepared under the historical cost convention.

Going Concern

To date HAA has continued to meet all its obligations under the Loan Agreement and, given the current measures taken to strengthen its position in the current economic climate, the Company has no reason to believe it will not continue to do so in the foreseeable future. In turn, the Company has been able to honour its own obligations under the Preferred Securities and the Directors have no reason to believe it will not be able to do so in the foreseeable future. Given the limited recourse non petition provisions of the Preferred Securities, also backed by a support agreement with HAA, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Use of estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the year. Actual results could differ from those estimates. Details of such estimates are stated in Note 9 to the financial statements.

New standards and interpretations not yet adopted

In November 2006, the IASB issued IFRS 8 – "Operating Segments" which is effective for annual periods beginning on or after 1st January 2009. The standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. This "management approach" differs from IAS 14, which currently requires the disclosure of two sets of segments, business and geographical segments, based on a disaggregation of information contained in the financial statements. Under IFRS 8 operating segments become reportable based on threshold tests related to revenues, results and assets. The Company will apply IFRS 8 for its accounting period commencing 1st January 2009.

The Company has not applied IAS 1 revised (on 6th September 2007) in these financial statements. The revised standard mainly introduces the concept of "total comprehensive income". This is applicable for financial periods starting on or after 1st January 2009.

The Company has not applied IAS 32 amended (on 14th February 2008) in these financial statements. The amended standard addresses the classification of puttable financial instruments and obligations arising on liquidation which currently meet the definition of a financial liability being classified as equity because they represent the residual interest in the net assets of the entity. This is applicable for financial periods starting on or after 1st January 2009.

Other standards and interpretations in issue but not yet effective will not have a significant impact on the financial statements of the Company.

1. ACCOUNTING POLICIES (CONTINUED)

Loans and Receivables
The Company designates its investments as Loans and Receivables following adoption of IAS 39 (amended 2004). Investments are recognised at amortised cost less any impairment in value. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Preferred Securities
Preferred Securities are recognised at amortised cost. The scheduled redemption amount of the Preferred Securities at the scheduled maturity dates will be the lesser of (i) the nominal amount invested; or (ii) the amount received by the Company in respect of the redemption of the Investments held by the Company. The Directors have considered the characteristics of the Preferred Securities, and the requirements of "Financial Instruments: Presentation" ("IAS 32"), and consider that the most appropriate classification of these securities is debt.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments/overdrafts with original maturities of three months or less.

Share capital
Ordinary shares are not redeemable and are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Loan interest income and interest payable on Preferred Securities
Loan interest income and interest payable on Preferred Securities are recognised in the income statement for all instruments using the effective interest rate method.

Dividend distributions
Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Segmental reporting
In the Directors' opinion there are no reportable business segments or geographical segments as the Company's activities are limited to one main business and geographic segment.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2008

2. LOANS AND RECEIVABLES	2008	2007
Loan facility to Hypo Alpe-Adria-Bank International AG	€ 150,000,000	€ 150,000,000

The net proceeds from the issue of the Preferred Securities were used by the Company to grant a loan facility (the "Loan") of €150,000,000 to Hypo Alpe-Adria-Bank International AG ("HAA").

The Loan was granted on 7th October 2004 under the terms and conditions, detailed in the Facility Agreement between the Company and HAA. The Loan bore interest initially at a fixed rate of 6.50% per annum, with the first coupon being receivable in arrears on 7th October 2005. Thereafter the facility pays interest at a rate equal to the relevant Reference Rate plus a margin of 0.15%, subject to a cap of 8%, payable semi-annually in arrears every 7th April and 7th October following the fixed payment. Payment of interest shall only be made if the amount of interest due is available from annual profits of HAA's previous fiscal year (before movement of reserves). The relevant Reference Rate is the 10-year mid swap rate in euro versus 6M EURIBOR.

The Loan has no fixed repayment date, however HAA has the right to repay the Loan in full on 7th October 2011, and on any interest payment date thereafter, subject to giving the Company 30 days prior notice.

The obligations under the Loan constitute unsecured and subordinated obligations of HAA ranking pari passu among themselves and pari passu with all other subordinated obligations of HAA. In the event of the dissolution, liquidation or bankruptcy of HAA, the obligations under the Loan may be satisfied only after the non-subordinated claims of creditors have been satisfied, so that in any such event no amounts shall be payable in respect of the Loan until the claims of all unsubordinated creditors of HAA shall have been satisfied in full.

During 2008 HAA strengthened its financial position by an increase in its capital through both its shareholders and the Austrian Government. From the information available, the Directors understand that the Austrian National Bank has confirmed that HAA is not currently a distressed bank according to the definitions of the EU Commission and that throughout 2008 there were no capital requirement limit breaches. Consequently, the Directors have no reason to believe that HAA has any intention, nor will it be forced by economic or financial reasons, to breach its contractual obligations. Therefore, in the Directors' opinion, no impairment should be recognised against the loan receivable.

3. TRADE AND OTHER RECEIVABLES	2008	2007
Interest receivable on loan agreement	€ 1,632,400	€ 1,691,200

4. CASH AND CASH EQUIVALENTS	2008	2007
Cash in hand	€ 2	€ 2

5. TRADE PAYABLES	2008	2007
Interest payable on Preferred Securities	€ 1,632,400	€ 1,691,200

6. PREFERRED SECURITIES

	2008	2007
150,000 Fixed/Floating Rate Non-Cumulative Non-Voting Preferred Securities of €1,000 each	€ 150,000,000	€ 150,000,000

The Fixed/Floating Rate Non-Cumulative Non-Voting Preferred Securities (the "Preferred Securities"), in the amount of €150,000,000, were issued by the Company on 7th October 2004 under the terms of the Offering Circular.

The Preferred Securities pay interest initially at a rate of 6.50% per annum, with the first interest amount payable in arrears on 7th October 2005. Thereafter the Preferred Securities pay interest at a rate equal to the prevailing reference rate plus a margin of 0.15% per annum, subject to a cap of 8%, payable semi-annually in arrears every 7th April and 7th October following the fixed payment. The prevailing reference rate is the 10-year mid swap rate in euro versus 6M EURIBOR.

The Support Agreement was entered into on 7th October 2004 between the Company and HAA as the Support Provider. Under this Agreement HAA undertakes to provide the Company with financial support, but HAA is not obliged to make any payment to the Company to the extent that such a payment would exceed HAA's distributable funds for the prior fiscal year or to the extent that such a payment would exceed HAA's annual surplus pursuant to HAA's own financial statements as at the balance sheet date immediately preceding the interest payment date. HAA is also not obliged to make any payment to the Company to the extent that such a payment would impair HAA's ability to make payments on preference shares or preferred securities under applicable Austrian Banking regulations.

The Preferred Securities are redeemable at the option of the Company, in whole but not in part, from and including 7th October 2011 and on any dividend payment date thereafter, upon giving the holders not less than 30 days' notice. The Company may only redeem the Preferred Securities with the prior consent of HAA. In the event of the winding-up of the Company or the dissolution or winding-up of HAA, holders of the Preferred Securities will be entitled to receive for each Preferred Security a liquidation preference of €1,000 plus any accrued and unpaid dividends.

The Preferred Securities are limited in recourse to the Loan.

7. STATED CAPITAL

	2008	2007
AUTHORISED:		
Unlimited number of Ordinary Shares of no par value	€ -	€ -
ISSUED AND FULLY PAID:		
2 Ordinary Shares issued at €1 each	€ 2	€ 2

The Company has issued 2 ordinary shares at €1 each. These shares entitle holders to voting rights at any general meeting of the Company, to ordinary dividends as may be declared by the Directors from time to time, and to participate in the winding up of the Company.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2008

8. TAXATION

The Company has been granted exempt company status under Article 123A of the Income Tax (Jersey) Law 1961 for the 2008 year of assessment. In order to hold exempt status an annual fee of £600 is payable. The fee has not been included in these financial statements because it is met by HAA. Exempt company status will be abolished and a general zero rate of Jersey corporate income tax will be introduced as from 1 January 2009. This rate will first apply to any accounting periods ending on or after this date.

9. FINANCIAL INSTRUMENTS

The principal activity of the Company is the issue of Preferred Securities, the proceeds of which have been used to grant a Loan to HAA. The role of financial assets and financial liabilities, therefore, is central to the activities of the Company; the financial liabilities provided the funding to purchase the Company's financial assets. Financial assets and liabilities provide the majority of the assets and liabilities of the Company.

The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the company entered into the transactions. The Company has matched the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mismatches of maturity, interest rate risk and currency rate risk.

All short-term debtors and creditors have been excluded from the following disclosures.

Interest rate risk
The Company finances its operations through the issue of Preferred Securities upon which interest is payable. Interest payments under the Preferred Securities are non-cumulative, and are limited to amounts receivable from HAA under the Loan. Therefore the Directors believe that there is no material interest rate risk to the Company.

	Interest charging basis	Weighted average interest rate		2008	Weighted average interest rate		2007
Financial assets:							
Financial assets:	Fixed	4.681%	€	150,000,000	4.466%	€	150,000,000
Financial liabilities:							
Financial liabilities	Fixed	4.681%	€	150,000,000	4.466%	€	150,000,000

Currency rate risk
As all the Company's assets and liabilities are denominated in Euros the Directors believe that there is no material currency risk to the Company.

Credit risk
The Directors believe that there is no material credit risk to the Company since the Preferred Securities are limited in recourse to the Loan. If there are insufficient distributable funds from the Loan, a support agreement is in place with HAA whereby they agree to provide sufficient funds to the Company to enable it to meet its payment obligations under the Preferred Securities.

9. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The fair values of the Company's assets and liabilities are as follows:

	2008 Book Value	2008 Fair Value	2007 Book Value	2007 Fair Value
Loans and Receivables	€ 150,000,000	€ 60,000,000	€ 150,000,000	€ 105,000,000
Preferred Securities	€ (150,000,000)	€ (60,000,000)	€ (150,000,000)	€ (105,000,000)

The fair values have been obtained from quoted prices on the Euronext Amsterdam Stock Exchange

The fair value reflects the overall worsening trading environment affecting the banking market and not the likely termination value of the Preferred Securities. In an event of not being able to satisfy its obligations under the Preferred Securities, the Company and the holders of the Preferred Securities have the benefit of a support agreement from HAA that provides for dividend and liquidation rights as if the Securities were issued directly by HAA. To date HAA has ensured that sufficient funds have been received by the Company to enable it meet its obligations and there is no reason to believe this will not continue in the foreseeable future.

The Directors continue to consider that the fair value arise from timing differences and that the current market conditions which have affected the fair value of the loan will reverse. Also, the credit rating of HAA remains stable with a positive outlook and the directors believe that HAA have the financial capacity to meet its payment obligations under the loan agreement dated 7 October 2004 as they fall due. Therefore, a permanent diminution in value has not arisen as at the date of preparing the financial statements.

In the opinion of the Directors, there is currently no evidence to indicate that the Company's loan with HAA has been permanently impaired.

Sensitivity analysis

As disclosed above, in the Director's opinion, there is no material difference between the fair value of the Loans and the fair value of the Preferred Securities. From the perspective of the Company, any change in the fair value of the Loans would be matched by an equal and opposite change in the fair value of the Preferred Securities. Consequently the Company is not exposed to market price risk.

Also as disclosed above, in the Directors opinion, there is no material interest rate risk to the Company, nor is there any currency rate risk to the Company

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date."

As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk and market price risk, the Company itself is not exposed to market risk overall. Therefore, in the Directors' opinion, no sensitivity analysis is required to be disclosed.

9. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity of financial assets and liabilities

The expected maturity profile of the Company's financial assets and liabilities is as follows:

	2008 Financial Assets	2008 Financial Liabilities	2007 Financial Assets	2007 Financial Liabilities
In more than five years	€ 150,000,000	€ (150,000,000)	€ 150,000,000	€ (150,000,000)

10. HOLDING COMPANY

The Company's immediate and ultimate holding company is HAA, a company incorporated in Austria.

11. RELATED PARTIES

G.P. Essex-Cater is a shareholder of Mourant Limited. Each of G.P. Essex-Cater, D.J. Le Blancq, S.Vardon and W. Foster is an employee of a subsidiary of Mourant Limited. Affiliates of Mourant Limited provide ongoing administrative services to the Company at commercial rates.

Each of A. Zois and F. Pinkelnig is an employee and officer of Hypo Alpe-Adria Bank International AG and therefore should be regarded as interested in any transaction with Hypo Alpe-Adria Bank International AG and the subsidiaries and affiliates of the same.

Details of the Loan transaction with HAA are disclosed in notes 2 and 3 of the financial statements.

12. EXPENSES

All of the Company's expenses are met by HAA and are therefore not reflected within these financial statements.